Deleum Berhad

***Maintain* BUY**

(5132 | DLUM MK) Energy | Energy Infrastructure, Equipment & Services

Higher sector activities pushed 3Q22 earnings up

***Unchanged* Target Price: RM0.98**

KEY INVESTMENT HIGHLIGHTS

- **Deleum Berhad's 3QFY22 earnings increased >100%yoy to RM12m; came in within expectation**
- **High activities in all segments contributed to profit gain**
- **Revenue up +3%yoy to RM141m**
- **No changes to earnings estimates**
- **Maintain BUY with TP of RM0.98 per share**

RETURN STATISTICS	
Price @ 29th November 2022 (RM)	0.80
Expected share price return (%)	+22.5
Expected dividend yield (%)	+3.5
Expected total return (%)	**+26.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	11.2	9.0
3 months	15.2	14.5
12 months	67.4	71.4

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	No
FSGBM Index	Yes
ESG Grading Band	☆☆☆
Issue shares (m)	401.55
Estimated free float (%)	32.96
Market Capitalisation (RM'm)	319.24
52-wk price range	RM0.44 - RM0.83
Beta vs FBM KLCI (x)	1.08
Monthly velocity (%)	0.00
Monthly volatility (%)	17.07
3-mth average daily volume (m)	0.61
3-mth average daily value (RM'm)	0.45
Top Shareholders (%)	
Lantas Mutiara Sdn Bhd	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.78

Earnings surge >100%yoy. Deleum Berhad (Deleum) recorded an upsurge in earnings >100%yoy and +33.2%qoq to RM11.8m from a deficit of -RM0.6m in 3QFY22 and RM8.9m in 2QFY22. For cumulative 9-month period, earnings gained over 5-fold YoY to RM28.8m from RM5.4m a year prior. This came in within our expectation at 75% of full-year earnings estimate but above consensus' at 82%. The increase in profit was due to the better results recorded from all of its three segments.

Revenue added +3%yoy. Deleum's revenue increased +2.6%yoy and +11.8%qoq to RM141.2m. For cumulative 9-month period, revenue marginally rose 0.4%yoy to RM370.3m. The higher revenue was mainly due to higher sales activities in the Oilfield Services and Integrated Corrosion Solution segments; offset by lower sales in the Power and Machinery segment.

Power and Machinery. Revenue slipped -8%yoy but rose +15.5%qoq to RM89.7m. Meanwhile, earnings added +64.1%yoy and +68.6%qoq to RM12.2m. Cumulatively for 9MFY22, revenue dropped -9.5%yoy to RM229.1m, while earnings increased +5.8%yoy to RM26m. The lower revenue was mainly due to: (i) lower exchange engine deliveries, (ii) weaker contribution from the retrofit projects, and (iii) lower sales of turbine parts and repairs. This was mitigated by higher demand for the control and safety valves and flow regulator services, as well as higher services performed for the machinery management system.

Oilfield Services. Revenue was up +35.4%yoy but dropped -16.8%qoq to RM28.8m, while bottom-line improved YoY to -RM1.31m from -RM7.4m in 3QFY21, but worsened QoQ from RM3.5m. Cumulatively for 9MFY22, revenue increased +21.4%yoy to RM91.4m, while profit spiked >100%yoy to RM5.9m from a deficit of -RM7.7m. This was attributable to: (i) higher slickline activities in well intervention and enhancement services, (ii) specialty chemicals, (iii) well simulation activities, and (iv) spillover jobs from the gas lift valve contracts.

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Integrated Corrosion Solution. Revenue increased +21%yoy and +61.5%qoq to RM22.5m, while earnings gained >100% to RM8.3m, from a deficit of -RM0.4m in 3QFY21 and from RM1.2m from 2QFY22. Cumulatively for 9MFY22, revenue surged +31.5%yoy to RM49.4m and profit gained >100%yoy to RM10.7m from a deficit of -RM3.9m. The surge in revenue and earnings were mainly attributable to higher maintenance activity levels for Deleum's Sponge-Jet Blasting (SPJ) business in Indonesia; offset by lower activities in its Maintenance, Construction and Modification services (MCM) projects.

Higher capex amid market volatility. The persistent supply chain issues coupled with market volatilities in Europe and Asia partly caused by the Russia-Ukraine war remains to be the major uncertainties in the oil and gas industry, notably for the upstream subsector. Nevertheless, the increased amount of activities in the sector in 3QCY22 had signalled a boost in capital expenditures by major oil players as energy prices remain stable and elevated. We believe this benefits the group's Power and Machinery segment as the largest contributor to its financial standing, while the Oilfield Services and the Integrated Corrosion Solution segments are expected to continue to improve and contribute positively in the coming quarters. Risks to Deleum's outlook remain to be the uncertainties in the market and interest rate hikes.

No changes earnings estimate. Given that Deleum's 3QFY22 performance is within our expectation, we make no changes to our earnings forecast, and maintain our target price at RM0.98.

Maintain BUY. All in, we maintain our **BUY** call on Deleum with **target price of RM0.98 per share**.

Despite the ambiguity of the market's trajectory on the back of (i) tight global supply, (ii) demand slowdown caused by China's lockdowns, and (iii) increasing global inflation, we remain positive on Deleum's financial performance for the remainder of FY22. The risks to its operations remain to be the inflationary pressures on raw materials prices which will weigh on Deleum's operational costs. Nonetheless, we like the group mainly for its: (i) ample cash flow, (ii) initiatives for the growth and expansion into new markets and product lines, and (iii) successful cost management.

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'M unless stated otherwise)	FY20A	FY21A	FY22E	FY23F	FY24F
Revenue	589.2	560.5	585.4	622.2	659.5
EBIT	110.1	107.7	123.4	125.2	130.5
Pretax Profit	16.3	24.5	46.0	47.6	54.0
Profit After Tax	13.8	22.7	34.0	35.6	42.0
PATAMI	5.8	16.0	38.2	39.8	45.2
EPS (sen)	1.9	4.3	9.5	9.9	11.3
EPS growth (%)	-77.6%	129.7%	124.1%	4.1%	13.7%
PER (x)	23.2	14.2	10.3	9.9	8.7
Dividend per share (sen)	1.0	2.2	2.6	3.4	4.8
Dividend yield (%)	1.0%	2.2%	2.7%	3.5%	4.9%

Source: Company, MIDFR

Table 1: Deleum's 2QFY22 Earnings Result

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	3QFY21	2QFY22	3QFY22	QoQ%	YoY%	9MFY21	9MFY22	YoY%
Revenue	**137.5**	**126.3**	**141.2**	**11.8**	**2.6**	**368.6**	**370.3**	**0.4**
Cost of Sales	(121.0)	(96.6)	(104.6)	8.3	-13.5	(300.0)	(276.7)	-7.8
Gross Profit	**16.6**	**29.7**	**36.5**	**23.1**	**120.7**	**68.7**	**93.6**	**36.4**
Other operating income	0.9	0.9	1.1	17.7	21.2	2.6	4.4	68.2
Selling and distribution cost	(7.4)	(8.4)	(8.5)	1.7	15.3	(22.3)	(24.2)	8.7
Admin expenses	(9.9)	(11.5)	(14.8)	28.3	49.7	(37.3)	(40.3)	8.1
Other operating expenses	(0.5)	0.3	3.9	1241.7	-858.5	(2.2)	6.6	-395.0
Operational profit	**(0.3)**	**11.0**	**18.3**	**65.5**	**-6533.1**	**9.5**	**40.1**	**323.2**
Finance cost	(0.5)	(0.2)	(0.1)	-23.8	-71.2	(1.6)	(0.5)	-66.5
PBT	1.2	12.7	20.1	58.4	1520.3	13.5	44.6	230.1
Income tax	(0.2)	(3.0)	(4.6)	53.7	2370.3	(4.0)	(10.3)	157.4
PAT	1.1	9.7	15.5	59.8	1371.2	9.5	34.3	260.8
Net Profit/Loss	**0.0**	**10.1**	**15.5**	**54.1**	**64533.3**	**7.4**	**34.9**	**371.4**
Minority interest	0.7	1.2	3.7	208.3	469.7	2.0	6.1	208.6
Normalised Profit/Loss	**(0.6)**	**8.9**	**11.8**	**33.2**	**-1986.4**	**5.4**	**28.8**	**431.1**
				+/- ppts				*+/- ppts*
GP margin (%)	18.3	26.7	23.5	-3.2	5.2	22.5	24.9	2.4
PBT margin (%)	2.4	11.5	10.0	-1.5	7.7	5.3	10.7	5.4
PATAMI margin (%)	1.0	9.1	8.0	-1.1	6.9	3.2	8.5	5.3
Normalised PATAMI margin (%)	1.2	7.9	7.0	-0.9	5.9	2.6	7.4	4.8
Effective tax rate (%)	57.1	23.4	23.5	0.0	-33.6	31.2	23.4	-7.7
SEGMENTAL								
Revenue:								
Power and Machinery	97.526	77.665	89.715	15.5	-8.0	253.2	229.1	-9.5
Oilfield Services	21.256	34.585	28.776	-16.8	35.4	75.2	91.4	21.4
Integrated Corrosion Solution	18.623	13.959	22.54	61.5	21.0	37.6	49.4	31.5
Results:								
Power and Machinery	7.416	7.221	12.173	68.6	64.1	24.6	26.0	5.8
Oilfield Services	-7.38	3.468	-1.31	-137.8	-82.2	-7.7	5.9	-176.9
Integrated Corrosion Solution	-0.436	1.238	8.279	568.7	-1998.9	-3.9	10.7	-372.9

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology