Dialog Group Berhad

Maintain BUY

(7277 | DLG MK) Energy | Energy Infrastructure, Equipment & Services

FY23 began with surging revenue, modest earnings

Revised Target Price: RM3.70

(previously RM3.96)

KEY INVESTMENT HIGHLIGHTS

- **Dialog's 1QFY23 earnings slip -2%yoy on higher cost, lower production and increased maintenance activities**
- **Revenue surged +41%yoy on higher activities and stable revenue stream from DTP5 and DTL terminals**
- **Revise FY23-24 earnings forecast down by -2% and -3%**
- **Maintain BUY with revised target price of RM3.70**

Earnings down -2%yoy. Dialog Group (Dialog) reported a decline in earnings by -2.4%yoy but gained +6.4%qoq to RM125.8m, which came in below our expectation at 18% of full year forecast and consensus' at 21%. The lower on-year earnings were due to higher project and operation costs, as well as share of profit from newly acquired joint venture company. Meanwhile, the group reported a surge in revenue by +40.8%yoy and +5.3%qoq to RM711.7m. The higher revenue was attributable to increased activities in local and international operations

Malaysian operations. Malaysian downstream operations remain robust with engineering, construction, fabrication, and plant maintenance projects. For the midstream business, DIALOG Terminals Langsat (DTL) and DIALOG Terminals Pengerang (5) (DTP5) with total capacity of 855,000 cbm and 430,000 cbm, respectively, continued to contribute to a steady revenue stream. However, the profit from these terminals were lower due to higher financing cost. Meanwhile, for the upstream segment, lower production was reported from the group's Bayan and D35/D21/J4 fields due to drilling and maintenance activities, which also added to the lower earnings.

International operations. Higher sales of specialist products and services in various countries contributed to Dialog's international front. The group has successfully completed the acquisition of a joint venture, Pan Orient Energy (Siam) Ltd., (POESL) a concessionaire and operator of Concession L53/48, onshore Thailand. This has contributed to a higher share of joint ventures results for the reporting quarter.

Challenges. The challenges remain to be: (i) the ongoing Russia-Ukraine conflict, (ii) inflationary pressure, and (iii) manpower constraints, which could cause severe supply chain disruption, higher material price and increased labour cost. Nevertheless, Dialog continues to prioritise the completion and delivery of its projects. On the cost overruns and losses, the group had been in ongoing discussions to reimburse and compensate its clients.

RETURN STATISTICS	
Price @ 15th November 2022 (RM)	2.03
Expected share price return (%)	+82.27
Expected dividend yield (%)	+1.10
Expected total return (%)	**+83.37**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	15.3	9.9
3 months	2.0	-10.7
12 months	-29.5	-26

KEY STATISTICS	
FBM KLCI	1,450.54
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band	☆☆☆
Issues shares (m)	5642.50
Estimated free float (%)	31.06
Market Capitalisation (RM'm)	11,454.42
52-wk price range	RM1.71 - RM2.92
Beta vs FBM KLCI (x)	1.28
Monthly velocity (%)	0.00
Monthly volatility (%)	10.02
3-mth average daily volume (m)	5.75
3-mth average daily value (RM'm)	11.62
Top Shareholders (%)	
Ngau Boon Keat	19.12
Employees Provident Fund Board	14.28
Kumpulan Wang Persaraan Diperbadan	9.29

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Future prospects. The economic environment is expected to remain challenging for Dialog. Being an integrated oil and gas company, we remain confident that the group will continue to focus on its long-term strategies and sustainable business model, against the risk of uncertainties on the global economy, crude oil prices and currency movements. The following breakdowns the prospects for each business in Dialog:

TABLE 1: Dialog's 1QFY23 Activities and Prospects

Segment	Activities	Moving Forward
Upstream	In August 2022, Dialog successfully completed the acquisition of POESL, the concessionaire and operator of Concession L53/48 onshore Thailand. The acquisition is in line with the group's strategy of long-term recurring income and further growth on its development and producing assets.	• Actively look for opportunities to increase its development and production services and assets • Incorporating new technologies to manage greenhouse gas emissions
Midstream	• Ongoing development of Pengerang Deepwater Terminals (PDT) into one of the largest petroleum and petrochemical hub for Asia Pacific. Phase 3 of PDT has been designated for the development of petroleum and petrochemical storage terminals for medium to long-term customers within Pengerang Integrated Petroleum Complex. • In addition to DTL's current total capacity of 770,000m3, the group invested RM100m for another 85,000m3 storage capacity which has now been completed.	• Another 500 acres available for development in PDT, providing value proposition to capture demand growth in Asia in the next 30 years • 17 acres of land available, with approximately another 200,000m3 of storage capacity can be added to DTL; which totals the capacity of DTL to over 1 million m3 • Invest in phased capacity expansions
Downstream	Dialog continues to provide Engineering, Procurement, Construction & Commissioning (EPCC), Plant Maintenance & Catalyst Handling Services, and Specialist Products and Services.	Completion of PDT Phase 2, Phase 3A and the refinery projects at RAPID, is followed up with plant maintenance services

Source: Company, MIDFR

Revised earnings forecast. In consideration of Dialog's 1QFY23 results and the current volatility in the oil market, we make slight changes to our FY23 and FY24 earnings estimates downwards by -2% and -2.5% respectively. We also **revise our target price from RM3.96 to RM3.70**; pegging a PER of 31.2x to a revised EPS23 of 11.8sen. The PER is based on the group's 5-year average PER.

Maintain BUY. All in, we maintain our **BUY** call on Dialog with a **target price of RM3.70** per share. Despite the group's lower start on earnings for 1QFY23, we believe its businesses will continue to be resilient amid the challenging economic environment. Considering that a stable oil price trend is expected for CY23, we opine that the group's financial performance is on the right track. We are positive that Dialog will continue to strengthen its competitiveness via its: (i) storage tank farm business, (ii) international upstream operations (iii) engineering and fabrication services, (iv) recycled PET production facility, and (v) technology and digital transformation initiatives.

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue	1,609.9	2,319.0	3,151.8	3,244.0	3,536.8
EBIT	621.4	590.4	802.7	822.0	901.9
Pretax Profit	595.0	550.3	752.7	772.0	851.9
Profit After Tax	543.1	505.9	675.3	692.9	761.9
PATAMI	**543.1**	**508.0**	**668.5**	**684.5**	**754.3**
EPS (sen)	9.6	8.9	11.8	12.1	13.4
EPS growth (%)	-14.0%	-7.3%	32.7%	2.4%	10.2%
PER (x)	41.2	44.4	31.2	30.5	27.7
Dividend per share (sen)	3.1	3.1	4.1	4.2	4.7
Dividend yield (%)	0.8%	0.8%	1.1%	1.1%	1.3%

Source: Company, MIDFR

Table : Dialog Group's 1QFY23 Earnings Summary

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	675.7	711.7	5.3	40.8	1,609.9	2,319.0	44.0	44.0
Operating Expenses	(597.4)	(664.0)	11.2	(20.8)	(1,299.9)	(2,040.9)	57.0	57.0
Other Operating Income	13.1	12.0	(8.0)	(53.4)	83.9	60.7	-27.7	-27.7
JCE	54.6	84.1	54.1	14.5	227.4	251.6	10.6	10.6
Finance Costs	(19.3)	(16.4)	(14.9)	129.1	(26.4)	(40.1)	52.0	52.0
Profit Before Tax	126.7	127.4	0.6	(10.7)	595.0	550.3	-7.5	-7.5
Tax expense	(11.0)	(7.2)	(34.6)	(38.5)	(51.9)	(44.4)	-14.5	-14.5
Profit After Tax	115.7	120.2	3.9	(8.3)	543.1	505.9	-6.8	-6.8
Minority Interests	(2.5)	(5.6)	119.8	(351.5)	(0.1)	(2.1)	2662.3	2662.3
PATAMI	118.2	125.8	6.4	(2.4)	543.1	508.0	-6.5	-6.5
EPS (sen)	2.1	2.2	6.2	(2.2)	9.6	9.0	-6.4	-6.4
DPS (sen)	3.1	3.4	9.7	49.1	9.6	10.0	3.9	3.9
	-	-	-	*+/(-) ppts*		-	-	*+/(-) ppts*
PBT Margin (%)	18.7	17.9	(0.9)	(10.3)	37.0	23.7	-13.2	-13.2
Tax Rate (%)	8.7	5.6	(3.0)	(2.5)	8.7	8.1	-0.7	-0.7
Net Margin (%)	17.5	17.7	0.2	(7.8)	33.7	21.9	-11.8	-11.8

Source: Company, MIDFR

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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