Dialog Group Berhad

***Maintain* BUY**

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

Looking into Sarawak basin for Upstream growth

***Maintain* Target Price: RM3.70**

KEY INVESTMENT HIGHLIGHTS

- **Dialog Resources signed Small Field Asset Production Sharing Contract with Petronas and Petros**
- **Dialog participation interest 70%, 30% to Petros**
- **14-year contract timeline, with 4-year development phases**
- **No changes to earnings estimates**
- **Maintain BUY with target price of RM3.70**

14-year asset production contract signed. Dialog Group Berhad (Dialog) recently reported the signing of Baram Junior Cluster Small Field Asset Production Sharing Contract (BJCC) between Petroliam Nasional Berhad (Petronas), Dialog Resources Sdn Bhd (DRSB) and Petroleum Sarawak Exploration and Production (PSEP), a wholly owned subsidiary of Petroleum Sarawak Berhad (Petros). DRSB will take on 70% participating interest including the operatorship of the BJCC while PSEP will take on the remaining 30% participating interest. The contract's timeline is 14 years, with a 2-year pre-development phase that allows DRSB and PSEP to finalise the field development plan and move into another 2-year development phase with first commercial production expected by the end of the phase. The production phase will continue for the remaining 10 years or up to the expiry of the contract, whichever is earlier. The BJCC includes feasibility studies during the pre-development phase, including 3D seismic data reprocessing, specialized studies, and resource assessment. Based on the outcome, a field development and abandonment plan will be developed to determine the feasibility and commerciality of the asset. Dialog will make subsequent announcement once a field development and abandonment plan has achieved final investment decision.

Contract in line with Upstream growth. Dialog plans to expand its upstream assets and develop its upstream competences in the O&G sector, which includes new field development, rejuvenation, and re-development of mature oil and gas fields, with expectation that long-term revenue from production activities remain sustainable. The robust Upstream activities gives the group opportunities to participate in the provision of services, subsequently reinforces its position as a leading integrated technical services provider. BJCC is in line with such strategy, while also increasing the synergy within the group's operations. Moving forward, Dialog will remain focused on diversification to aid in weathering economic and oil price risks in the long term.

RETURN STATISTICS	
Price @ 17th January 2023 (RM)	2.58
Expected share price return (%)	+43.4
Expected dividend yield (%)	+1.1
Expected total return (%)	**+44.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	12.2	10.6
3 months	5.3	38.5
12 months	-3.4	-0.6

KEY STATISTICS	
FBM KLCI	1,499.38
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band	☆☆☆
Issues shares (m)	5642.50
Estimated free float (%)	30.39
Market Capitalisation (RM'm)	14,557.83
52-wk price range	RM1.71 - RM2.92
Beta vs FBM KLCI (x)	1.42
Monthly velocity (%)	5.85
Monthly volatility (%)	12.45
Top Shareholders (%)	
Ngau Boon Keat	19.12
Employees Provident Fund Board	14.50
Kumpulan Wang Persaraan Diperbadan	9.73

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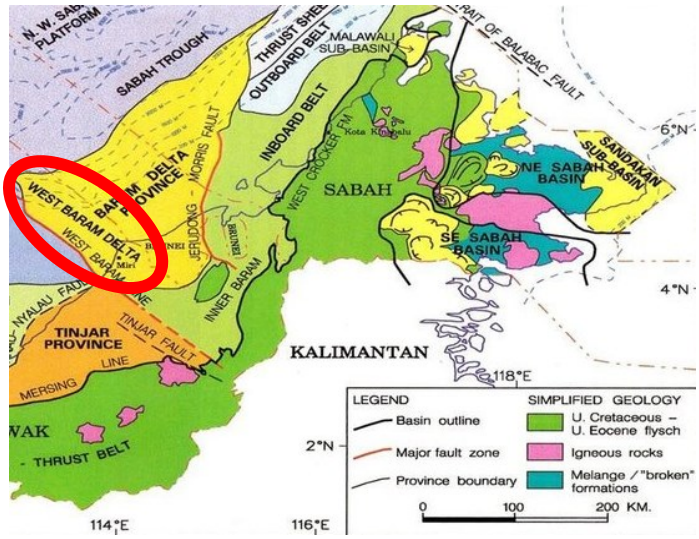
Risks on field and execution of operations. The BJCC comes with risks that include, but not limited to: (i) complex subsurface geology, (ii) availability of skilled workers, experts and materials, (iii) price volatility of raw materials, and (iv) changes in politics, economy and regulations. Nevertheless, we believe Dialog is well versed with Upstream operations, in terms of exploration, appraisals, special technical services and asset management, hence has the capability to mitigate the risks to BJCC.

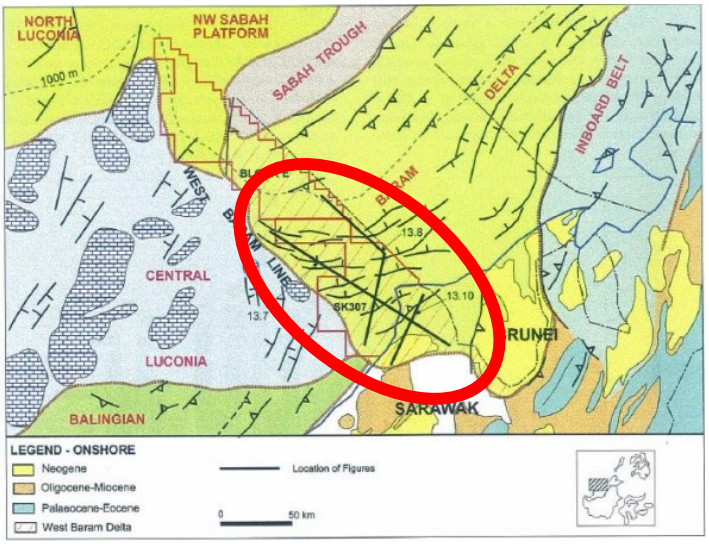
Baram Delta a very feasible prospect. The Baram Junior Cluster, which is located within the Western Baram Delta in offshore Miri, Sarawak, had been studied for decades. The block is known for complex structural geology, formed by paleo-regressions of clastic sediments in a deltaic environment. However, the complex structure opens to high opportunities for hydrocarbon traps in fault-dependent and stratigraphic closures, which makes most of the proven discoveries in the area and its surrounding blocks. Additionally, the Baram Junior Cluster has the frontier potential for deep water plays. To date, the Sarawak Basin had produced over 160,000bpd of oil and 4bscf of gas, with an estimated unexplored prospect of 11 Bboe worth of hydrocarbon. The Baram Province also has many more unexplored plays both onshore and offshore, hence, we believe the contract timeline of 14 years is fair and reasonable.

FIGURE 1: Baram Delta Province and location of Baram Junior Cluster



Source: GSM, MIDFR

FIGURE 2: Structural Geology of Baram Junior Cluster



Source: Petronas, GSM, MIDFR

No changes in earnings forecast. Considering that the effect of BJCC on Dialog's financial performance will be determined after the end of the development phase, we make no changes to our earnings estimates at this juncture and maintain our **target price at 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. We opine that Dialog's continued ventures in the upstream will add more value into its revenue stream, subsequently benefit its financial performance in the near future. Given that we are expecting a stable but elevated crude oil prices for years to come, engaging in the Upstream business is a positive way to diversify within the volatile energy market in the long run. While BJCC is still in its infant stages, we are positive of its development stages and despite the risks, we believe Dialog is capable of undergoing the phases for the Baram Junior Cluster.

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

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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