

Dialog Group Berhad

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

Maintain BUY


Renewable Fuel Storage Launched in DTL3

Target Price: RM3.28

DEVELOPMENT

- In line with its ESG initiatives, Dialog expanded its storage facilities for renewable fuel feedstocks and products in DTL3, which will start its full operation in 2024.
- The 24,000m³ storage tanks are planned to house renewable fuel including used oil, tallow, effluents and biodiesel.

OUR VIEW

- **Storage facility expansion.** Dialog Group Bhd (Dialog) launched the expansion into storage facilities for renewable fuel products at its terminal in Tanjung Langsat, Johor; operated by Dialog Terminals Langsat (3) Sdn. Bhd. (DTL3). The facility is expected to commence operations by end-2024.
- **Specific for renewable energy.** The storage facility consists of storage tanks with a capacity of 24,000m³ for renewable fuel feedstocks and products, which include used cooking oil, tallow, pyrolysis oil, palm oil mill effluent as well as biodiesel made from used cooking oil methyl ester (UCOME) and fatty acids methyl ester (FAME). The development is also connected to truck loading bays and existing marine facilities.
- **Catering interest in low-carbon fuel.** This signals Dialog's first venture into renewable fuel product storage operations. This is in line with growing investor interest in low-carbon fuel alternatives. In support of the ESG agenda and Dialog's Climate Change Strategy, this venture will serve primarily biofuel production companies, energy trading houses and multinational energy companies, among others.
- **Integration and synergy.** The expansion creates opportunities for Dialog to explore the integration and collaboration of both renewable and conventional fuel operations. We believe this is a right move in initiating a clean and orderly energy transition that could potentially assist in the call for better energy security locally and regionally in the long term.
- **Reforming energy transition.** Energy transition initiatives had been convoluted since CY22, in light of the loss of Russian natural gas in the energy market and extreme weather expectations due to climate change, which triggered a disorder in the renewables sector. Nevertheless, divestment from premature renewables to conventional fossil fuel is anticipated to create a balance in both energy security and sustainability. Dialog's expansion for renewable fuel and potential integration between renewable and conventional fuels is believed to be a right step moving forward to reform the energy transition into a more methodical and workable approach for the midstream and downstream oil and gas industry.
- **No changes to earnings forecast.** We make no changes to our earnings estimates upon this announcement, as we believe this update in line with our trajectory for Dialog in FY23, with additional consideration that the facilities will only commence in 2024.
- **Maintain BUY.** We maintain our **BUY** call for Dialog with a **target price of RM3.28**, by pegging a PER of 30.6x to an EPS23 of 10.7 sen. 

INVESTMENT STATISTICS

Financial year ending 30 th June (in RM'm unless otherwise stated)	2021A	2022A	2023F	2024F	2025F
Revenue	1,609.9	2,319.0	3,151.8	3,339.0	3,536.8
EBIT	621.4	590.4	932.3	939.7	961.8
Pretax Profit	595.0	550.3	672.9	685.0	706.7
Profit After Tax	543.1	505.9	610.9	620.5	635.2
PATAMI	543.1	508.0	605.9	615.5	630.2
EPS (sen)	9.6	8.9	10.7	10.9	11.2
EPS growth (%)	-14.0%	-7.3%	20.3%	1.6%	2.4%
PER (x)	41.2	44.4	30.6	30.1	29.4
Dividend per share (sen)	3.1	3.1	3.8	3.8	3.9
Dividend yield (%)	0.8%	0.8%	1.1%	1.2%	1.2%

Source: Company, MIDFR

SHARE PRICE CHART



Source: Company, Bloomberg, 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 <i>rise</i> 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 <i>fall</i> 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