Deleum Berhad

Maintain BUY

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

High demand for OGSEs boosted FY22 earnings

Maintain Target Price: RM1.22

(previously RM0.98)

KEY INVESTMENT HIGHLIGHTS

- **Deleum Berhad's FY22 earnings increased >100%yoy to RM42m; came in above expectations**
- **High activities in all segments and reversal of impairment contributed to profit gain**
- **FY22 revenue up +22%yoy to RM686m**
- **Revise FY23-FY24 earnings forecast up +45% and +47%**
- **Maintain BUY with revised TP of RM1.22 per share**

Earnings gained 31%yoy. In 4QFY22, Deleum Berhad (Deleum) recorded a rise in earnings by +30.6%yoy and +16.5%qoq to RM13.8m. For FY22, earnings gained +162.4%yoy to RM41.9m – which came in above our and consensus expectations at 110% and 114% of respective full-year estimates. The increase in profit was due to the better results recorded from the Power and Machinery business, and reversal of impairment in the Oilfield Services segment; offset by value loss on forward forex contract, as well as provision of slow-moving stocks and inventories written off in Integrated Corrosion Solution.

Revenue added +64%yoy. In 4QFY22, revenue increased +64.4%yoy and +123.5%qoq to RM315.5m. For FY22, revenue added +22.4%yoy to RM685.8m. The higher revenue was mainly due to higher sales activities in the Power and Machinery segment; offset by lower sales in the Oilfield Services and Integrated Corrosion Solution segments.

Power and Machinery. In 4QFY22, revenue surged +90.0%yoy and +193.2%qoq to RM263.1m. Meanwhile, earnings added +25%yoy and +81.6%qoq to RM22.1m. For FY22, revenue rose +29%yoy to RM504.4m, while earnings increased +13.8%yoy to RM48.1m. The higher revenue was mainly due to: (i) higher exchange engine deliveries, (ii) higher sales of turbine parts and repairs, control and safety valves, and (iii) higher flow regulator services and call-out activities.

Oilfield Services. In 4QFY22, revenue was down -3.5%yoy and -2.9%qoq to RM27.8m. Meanwhile, earnings improved to -RM5.6m from -RM7.7m in 4QFY21 but declined from -RM1.3m in 3QFY22. For FY22, revenue added +14.5%yoy to RM119.3m, while earnings surged +102.2%yoy to RM0.3m. This was attributable to higher activities from gas lift valves, well intervention and enhancement services, and slickline activities. The higher earnings were due to reversal impairment of RM3.5m and a gain on disposal of PPE worth RM1.6m.

RETURN STATISTICS	
Price @ 28th February 2023 (RM)	0.95
Expected share price return (%)	28.4%
Expected dividend yield (%)	2.8%
Expected total return (%)	31.2%

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.1	0.0
3 months	5.6	23.3
12 months	68.1	84.6

KEY STATISTICS	
FBM KLCI	1,454.19
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆
Issue shares (m)	401.55
Estimated free float (%)	32.96
Market Capitalisation (RM'm)	381.48
52-wk price range	RM0.51 - RM1.04
Beta vs FBM KLCI (x)	0.99
3-mth average daily volume (m)	0.77
3-mth average daily value (RM'm)	0.71
Top Shareholders (%)	
Lantas Mutiara Sdn Bhd	20.36
Lembaga Tabung Angkatan Tentera	8.62
UBS AG	1.44

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Integrated Corrosion Solution. In 4QFY22, revenue slipped -2.9%yoy but increased +7.7%qoq to RM24.3m, while earnings declined -4.6%yoy and -17.3%qoq to RM6.9m. For FY22, revenue surged +17.7%yoy to RM73.7m and profit surged 5-fold to RM17.5m from RM3.3m in FY21. The surge in revenue and earnings are mainly attributable to higher activity levels for its Sponge-Jet Blasting (SPJ) business in Indonesia and Maintenance, Construction and Modification services (MCM) projects. Higher earnings were also contributed by reversal of impairment of RM0.4m, but offset by higher operating expenses.

Stabilised crude price but uncertainty remains. On the back of higher consumer spending expected in the post-pandemic era, as well as China's economic and travel reopening, we believe the demand for fossil fuels would expand globally in 2023. Coupled with a stabilised crude oil price, upstream activities are projected to continue ramping up. However, rising interest rates and geopolitical uncertainties in many regions of the world continue to pose significant uncertainties for the industry in terms of supply and pricing trends. Deleum is expected to remain vigilant in the current market environment, while continue to offer the best of its services. To date, the group is investing in technologies, systems and processes to integrate all of its services into one solid and seamless foundation, with the aim to expand its operations in the near future to meet demands for its three major segments.

Revised earnings estimates. Given that Deleum's 4QFY22 performance is above our expectation, and considering that the stabilised crude oil will continue to support the upstream subsector, we revise our FY23 and FY24 earnings estimates upward by +45% and +47% respectively. As such, we **revise our target price to RM1.22** (previously RM0.98) by pegging a PER of 8.5x to the revised EPS of 14.4sen. The PER is based on the upstream energy services and equipment's 5-year average.

Maintain BUY. All in, we maintain our **BUY** call on Deleum with revised **target price of RM1.22 per share**.

We continue to see Deleum in a positive light due to the group's: (i) its robust cash flow, (ii) its initiatives to expand into new markets and product lines, and (iii) its attentive operational cost control and management. Hence, we remain optimistic on Deleum's financial performance in FY23 despite market uncertainties on the back of: (i) continuous imbalance between hydrocarbon supply and world demand, (ii) increased interest rates impacting vessel operations and raw material prices, and (iii) rising global inflation affecting customer consumption.

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'M unless stated otherwise)	FY21A	FY22A	FY23E	FY24F	FY25F
Revenue	560.5	685.8	727.0	777.1	818.9
EBIT	107.7	62.1	141.1	150.0	158.4
Pretax Profit	24.5	67.9	65.4	75.3	83.7
Profit After Tax	22.7	51.0	53.4	63.3	71.7
PATAMI	16.0	41.9	57.6	66.5	74.9
EPS (sen)	4.3	10.4	14.4	16.6	18.7
EPS growth (%)	129.7%	145.3%	37.7%	15.4%	12.6%
PER (x)	14.2	11.7	8.5	7.4	6.5
Dividend per share (sen)	2.2	2.6	3.4	4.8	5.8
Dividend yield (%)	1.8%	2.2%	2.8%	3.9%	4.8%

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		
	4QFY21	3QFY22	4QFY22	QoQ%	YoY%	FY21	FY22	YoY%
Revenue	**191.9**	**141.2**	**315.5**	**123.5**	**64.4**	**560.5**	**685.8**	**22.4**
Cost of Sales	(152.9)	(104.6)	(265.4)	153.7	73.6	(452.8)	(542.1)	19.7
Gross Profit	**39.0**	**36.5**	**50.1**	**37.2**	**28.4**	**107.7**	**143.7**	**33.5**
Other operating income	0.8	1.1	1.3	13.4	51.4	3.5	5.7	64.1
Selling and distribution cost	(7.2)	(8.5)	(13.2)	54.7	82.2	(29.5)	(37.4)	26.7
Admin expenses	(12.5)	(14.8)	(11.2)	-24.3	-10.7	(49.8)	(51.5)	3.4
Other operating expenses	(3.8)	3.9	(5.1)	-230.5	35.4	(6.0)	1.5	-125.6
Operational profit	**16.4**	**18.3**	**21.9**	**20.1**	**34.1**	**25.8**	**62.1**	**140.2**
Finance cost	(0.3)	(0.1)	(0.1)	-13.0	-60.1	(1.9)	(0.6)	-65.6
PBT	17.5	20.1	23.3	16.1	33.5	31.0	67.9	119.2
Income tax	(2.5)	(4.6)	(6.6)	44.8	168.7	(6.5)	(16.9)	161.7
PAT	15.0	15.5	16.7	7.7	11.3	24.5	51.0	108.0
Net Profit/Loss	**15.3**	**15.5**	**16.7**	**7.6**	**9.1**	**22.7**	**50.9**	**124.4**
Minority interest	4.8	3.7	2.9	-20.9	-38.4	6.7	9.1	34.4
Normalised Profit/Loss	**10.5**	**11.8**	**13.8**	**16.5**	**30.6**	**16.0**	**41.9**	**162.4**
				+/- ppts				*+/- ppts*
GP margin (%)	20.3	25.9	15.9	-10.0	-4.5	19.2	21.0	1.7
PBT margin (%)	9.1	14.2	7.4	-6.8	-1.7	5.5	9.9	4.4
PATAMI margin (%)	8.0	11.0	5.3	-5.7	-2.7	4.0	7.4	3.4
Normalised PATAMI margin (%)	5.5	8.4	4.4	-4.0	-1.1	2.8	6.1	3.3
Effective tax rate (%)	14.1	22.8	28.4	5.6	14.3	20.9	24.9	4.0
SEGMENTAL								
Revenue:								
Power and Machinery	137.768	89.715	263.061	193.2	90.9	391.0	504.4	29.0
Oilfield Services	28.949	28.776	27.938	-2.9	-3.5	104.2	119.3	14.5
Integrated Corrosion Solution	24.999	22.54	24.269	7.7	-2.9	62.6	73.7	17.7
Results:								
Power and Machinery	17.684	12.173	22.11	81.6	25.0	42.3	48.1	13.8
Oilfield Services	-7.727	-1.31	-5.58	326.0	-27.8	-15.4	0.3	-102.2
Integrated Corrosion Solution	7.179	8.279	6.846	-17.3	-4.6	3.3	17.5	437.4

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