Quick Thoughts | Thursday, 06 April 2023

Deleum Berhad

***Maintain* BUY**

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

Contract for Slickline E&S awarded by Exxonmobil

Target Price: RM1.22

DEVELOPMENT

- Exxonmobil Exploration and Production Malaysia awarded a contract to Deleum for its Slickline Equipment and Services for the duration of 4 years.
- Risks to contract include execution risks and unforeseen changes in politics, economy and regulations.

OUR VIEW

- **Contract awarded.** Deleum Bhd (Deleum)'s wholly-owned subsidiary, Deleum Oilfield Services Sdn Bhd (DOS) received a Letter of Award from ExxonMobil Exploration and Production Malaysia Inc. (EMEP) to provide Slickline Equipment and Services. The contract commenced in mid-March of CY23, and is expected to last for 4 years.
- **Similar contract in 2018.** The contract value was not stated. However, Deleum had previously won a similar contract from EMEP in 2018. At the time, the group mentioned that the value of the contract depended on agreed rates and work orders issued by EMEP during the contract tenure.
- **Execution risks remain.** Challenges to the contract include, but not limited to: (i) execution risks in terms of availability of skilled workers and changes to costs, and (ii) changes in political, economic and regulatory conditions. Nevertheless, in consideration of Deleum's experience and expertise in the services requested, we believe the aforementioned risks can be mitigated.
- While we expect the contract to contribute positively to Deleum's financial performance moving forward, we make no changes to our earnings estimates in this early stage of the contract, pending its 1QFY23 results in May.
- We reiterate our positive view on Deleum and its prospects in the upstream. We also maintain our **BUY** call with the **target price of RM1.22**, by pegging a PER of 8.5x to EPS23 of 14.4sen. The PER is based on the upstream energy services and equipment's 5-year average.

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%

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 *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