Deleum Berhad

***Maintain* BUY**

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

Upbeat Upstream Push 1QFY23 Earnings Up

***Revised* Target Price: RM1.26**
(previously RM1.22)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with revised TP: RM1.26 as Demand for oil and gas services expected to be high in CY23**
- **Earnings up 13%yoy but came in below expectations**
- **Higher earnings due to higher sales in Power and Machinery, offset by lower activities in other segments**
- **Lower earnings projections are overcome by attaching higher valuation as the group realign itself to the upstream sector**

Maintain BUY, TP: RM1.26. Deleum Berhad (Deleum)'s 1QFY23 earnings came in below our yearly earnings estimates, and as such we adjusted our forecast accordingly. Nevertheless, we still maintain a **BUY** call as we remain upbeat on the group's sustainable operations in the upstream oil and gas. Hence, we tweaked our **target price** up slightly to **RM1.26** (previously RM1.22) as we revised our valuation.

Earnings up 13%yoy. Deleum's 1QFY23 earnings gained +12.5%yoy but dropped -33.7%qoq to RM9.1m. Revenue was up +20.1%yoy but down -60.9%qoq to RM123.4m.

The higher earnings and revenue were due to higher sales activities in the Power & Machinery segment which is offset by lower revenue in the Oilfield Services and Integrated Corrosion Solution segments.

Power & Machinery. 1QFY23 earnings surged nearly 3-fold, but slipped -26%qoq to RM16.4m. Revenue was up +58.2%yoy but down -62.9%qoq to RM97.6m.

The increase in earnings was attributable to: (i) higher number of exchange engines delivered, (ii) increased retrofit projects, and (iii) higher activities from the control and safety valves and flow regulator services.

Oilfield Services. 1QFY23 loss contracted by earnings slipped nearly 2-fold but added +60.7%qoq to a deficit of RM2.2m. Revenue was down -18.5%yoy and -18.3%qoq to RM22.8m.

The lower earnings and revenue were due to lower activities in the slickline services and its gas lift valve services in West Malaysia.

Integrated Corrosion Solution. 1QFY23 earnings slipped -96.4%yoy and -99.4%qoq to RM11,000. Revenue also dropped -77.9%yoy and -88.2%qoq to RM2.9m.

The decreased revenue was due to lower maintenance activities from the Sponge-Jet Blasting (SPJ) business in Indonesia and its Maintenance, Construction and Modification (MCM) projects. Loss on foreign exchange also affected the revenue.

RETURN STATISTICS	
Price @ 30th May 2023 (RM)	0.93
Expected share price return (%)	+35.5
Expected dividend yield (%)	+2.7
Expected total return (%)	**+38.2**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.5	0.8
3 months	3.3	1.9
12 months	46.5	61.8

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	724	770	812
Operating Profit	134	149	157
Profit Before Tax	59	74	82
Core PATAMI	51	65	74
Core EPS	12.6	16.2	18.3
DPS	3.4	4.8	5.8
Dividend Yield	2.7%	3.8%	4.6%

KEY STATISTICS	
FBM KLCI	1,396.91
Issue shares (m)	401.6
Estimated free float (%)	29.8
Market Capitalisation (RM'm)	373.4
52-wk price range	RM0.54-RM1.04
3-mth average daily volume (m)	0.3
3-mth average daily value (RM'm)	0.3
Top Shareholders (%)	
LANTAS MUTIARA SDN BHD	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.78

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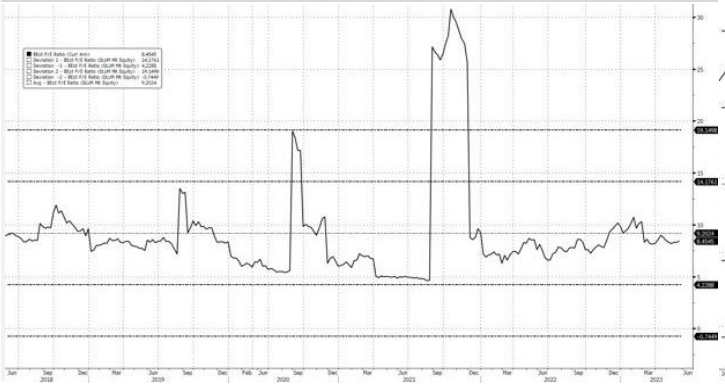
Prospects still bright. We are keeping an optimistic outlook on the upstream oil and gas in general, as we expect the capital expenditure will remain high in light of the stabilization of oil prices within the USD75pb to USD85pb range. Deleum is expected to benefit from this positive sentiment as demand for retrofit and maintenance services on platform rigs and floating production vessels is anticipated to be high.

Cautious on challenges. We also acknowledge potential challenges, which includes: (i) the possibility of a looming recession, (ii) ongoing geopolitical tensions, (iii) rising interest rates, and (iv) inflationary pressures. These factors have the potential to hinder the current economic recovery and impact the demand for O&G services. Nevertheless, Deleum's business model in integrating all its services effectively had been making great progress in its growth strategies.

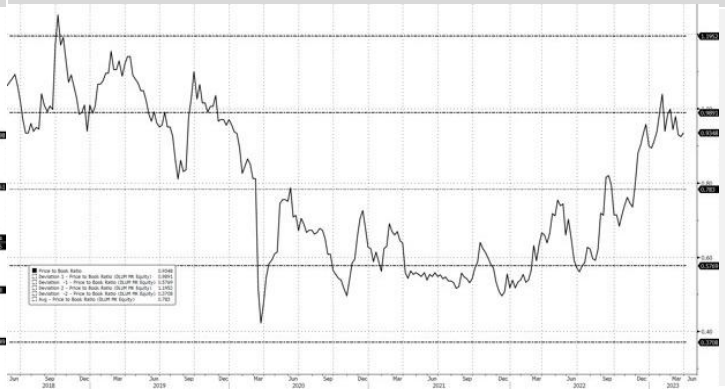
Revised earnings estimates. In consideration of Deleum's 1QFY23 results, we are adjusting our earnings forecast for FY23 and FY24 slightly downwards by -12% and -4% respectively as we assume higher operating expense. However, we are revising our **TP** upwards to **RM1.26** from RM1.22. This is based on pegging a PER of 10.0x (previously 9.0x) to an EPS of 12.6sen. The PER is based on a 5-year average for the upstream energy sector. Note that we attached a higher valuation multiple to reflect the group's strategy to be more align to the upstream sector from a general oil & gas services and equipment provider.

FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

Table 1: Deleum's 1QFY23 Financial Summary

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	1QFY22	4QFY22	1QFY23	QoQ%	YoY%	3MFY22	3MFY23	YoY%
Revenue	**102.8**	**315.5**	**123.4**	**-60.9**	**20.1**	**102.8**	**123.4**	**20.1**
Cost of Sales	(75.4)	(265.4)	(94.2)	-64.5	24.9	(75.4)	(94.2)	24.9
Gross Profit	27.4	50.1	29.3	-41.6	6.8	27.4	29.3	6.8
Other operating income	2.4	1.3	1.4	14.6	-39.8	2.4	1.4	-39.8
Selling and distribution cost	(7.4)	(13.2)	(9.4)	-29.0	27.2	(7.4)	(9.4)	27.2
Admin expenses	(14.1)	(11.2)	(11.7)	4.5	-16.9	(14.1)	(11.7)	-16.9
Other operating expenses	2.4	(5.1)	3.8	-175.4	57.6	2.4	3.8	57.6
Operational profit	10.8	21.9	13.5	-38.4	24.9	10.8	13.5	24.9
Finance cost	(0.2)	(0.1)	(0.1)	-26.3	-62.0	(0.2)	(0.1)	-62.0
Share of PAT of joint venture	0.3	0.3	0.3	31.3	6.8	0.3	0.3	6.8
Share of PAT of associates	0.9	1.2	1.5	23.5	66.7	0.9	1.5	66.7
PBT	11.8	23.3	15.3	-34.4	29.3	11.8	15.3	29.3
Income tax	(2.8)	(6.6)	(3.1)	-53.1	12.0	(2.8)	(3.1)	12.0
PAT	9.1	16.7	12.2	-27.1	34.5	9.1	12.2	34.5
Net Profit/Loss	9.3	16.7	12.2	-27.0	30.4	9.3	12.2	30.4
Minority interest	1.2	2.9	3.1	4.3	148.8	1.2	3.1	148.8
Normalised Profit/Loss	8.1	13.8	9.1	-33.7	12.5	8.1	9.1	12.5
				+/- ppts				*+/- ppts*
GP margin (%)	26.7	15.9	23.7	7.8	-3.0	26.7	23.7	-3.0
PBT margin (%)	11.5	7.4	12.4	5.0	0.9	11.5	12.4	0.9
PATAMI margin (%)	9.1	5.3	9.9	4.6	0.8	9.1	9.9	0.8
Normalised PATAMI margin (%)	7.9	4.4	7.4	3.0	-0.5	7.9	7.4	-0.5
Effective tax rate (%)	23.4	28.4	20.3	-8.1	-3.1	23.4	20.3	-3.1
SEGMENTAL								
Revenue:								
Power and Machinery	61.7	263.1	97.6	-62.9	58.2	61.7	97.6	58.2
Oilfield Services	28.0	27.9	22.8	-18.3	-18.5	28.0	22.8	-18.5
Integrated Corrosion Solution	12.9	24.3	2.9	-88.2	-77.9	12.9	2.9	-77.9
Results:								
Power and Machinery	6.6	22.1	16.4	-26.0	146.8	6.6	16.4	146.8
Oilfield Services	3.8	-5.6	-2.2	-60.1	-159.1	3.8	-2.2	-159.1
Integrated Corrosion Solution	1.2	6.8	0.0	-99.4	-96.4	1.2	0.0	-96.4

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	560.5	685.8	723.7	770.3	811.7
EBITDA	107.7	62.1	134.2	148.6	157.0
D&A	37.3	36.1	33.5	32.8	35.1
EBIT	24.5	67.9	58.5	74.0	82.3
Profit before tax	22.7	51.0	46.5	62.0	70.3
Core PATAMI	16.0	41.9	50.7	65.2	73.5

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	134.5	110.3	104.0	117.6	132.9
Intangible assets	0.3	0.2	0.2	0.2	0.2
Non-current assets	**195.9**	**177.4**	**167.1**	**181.7**	**198.0**
Cash	192.7	174.3	215.5	283.2	283.6
Trade debtors	76.4	120.3	96.9	97.1	102.4
Current assets	**413.0**	**536.4**	**562.6**	**627.2**	**735.2**
Trade creditors	143.2	221.1	181.8	185.0	195.0
Short-term debt	25.9	7.6	8.4	9.2	10.1
Current liabilities	**210.6**	**283.2**	**231.1**	**233.2**	**244.1**
Long-term debt	4.4	1.2	1.3	1.4	1.6
Non-current liabilities	**19.6**	**16.0**	**16.5**	**16.6**	**16.8**
Share capital	201.8	201.8	201.8	201.8	202.2
Retained earnings	208.5	238.6	267.5	300.7	338.2
Equity	**378.8**	**414.5**	**437.7**	**471.3**	**509.2**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT					
Depreciation & amortisation	37.3	36.1	33.5	32.8	35.1
Changes in working capital	111.32	73.1	93.5	96.2	106.7
Operating cash flow	**98.4**	**57.5**	**75.9**	**83.50**	**94.1**
Capital expenditure	-26.9	-12.7	-10.0	-10.0	-10.0
Investing cash flow	**-31.7**	**9.9**	**9.2**	**10.2**	**11.3**
Debt raised/(repaid)	-25.2	-28.2	-28.6	-27.6	-26.5
Dividends paid	-23.9	-16.1	-18.0	-20.0	-20.0
Financing cash flow	**-34.8**	**-63.5**	**-55.1**	**-56.1**	**-59.8**
Net cash flow	**31.9**	**3.9**	**30.0**	**37.6**	**45.6**
Beginning cash flow	**147.5**	**179.3**	**183.4**	**305.6**	**415.5**
Ending cash flow	**179.2**	**183.4**	**305.6**	**415.5**	**483.2**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	19.2%	9.1%	18.5%	19.3%	19.3%
PBT margin	4.4%	9.9%	8.1%	9.6%	10.1%
PAT margin	4.0%	7.4%	6.4%	8.0%	8.7%
Core PAT margin	2.9%	6.1%	7.0%	8.5%	9.1%

Source: 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