Deleum Berhad

***Maintain* BUY**

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

3Q24 Earnings Buoyed by Robust Upstream Activities

***Revised* Target Price: RM1.97**
(Previously RM1.64)

KEY INVESTMENT HIGHLIGHTS

- **9MFY24 normalised earnings up +88%yoy, revenue up +19%yoy on improved P&M, OIS segments; offset by liquidation, higher opex**
- **Earnings came in above expectations**
- **Robust outlook on upstream, prompts higher demand for OGSE operations despite lower YTD24 average Brent**
- **Maintain BUY with a revised target price of RM1.97**

Maintain BUY, revised TP: RM1.97. Deleum Bhd (Deleum)'s 3QFY24 earnings came in above our yearly earnings estimates at 91%. As such, we maintain our **BUY** call and **revise our target price to RM1.97** (previously RM1.64). This is premised on a positive outlook in the upstream OGSE in CY24, in line with the feasible Brent crude price range and the higher upstream capex in CY24.

9MFY24 normalised earnings up +88%yoy. Deleum's 9MFY24 revenue gained +18.7%yoy to RM656.5m, while normalised earnings surged +88%yoy to RM58.4m. The higher performance was contributed by: (i) better results from P&M and OIS segments, (ii) higher net foreign exchange gain of RM5.3m, and (iii) reversal of impairment made on its trade receivables of RM1.0m in OIS. This was however partially offset by liquidation of a subsidiary of RM1.4m and higher other opex incurred.

Power & Machinery. 9MFY24 revenue added +12.7%yoy to RM524.8m, while earnings gained +50%yoy to RM97.3m. The increase in revenue was mainly due to the higher activities from: (i) control and safety valves and flow regulator services, (ii) retrofit project, (iii) sales of parts and repairs, (iv) commission income from mechanical and processes business, and (v) machinery management system services. However, this was offset by lower activities from delivery of exchange engines, freight income and lower call out for field service representatives' activities. Meanwhile, higher earnings were attributable to higher net forex gain of RM5.5m (+175%yoy); offset by lower reversal of impairment on trade receivables by RM0.1m and higher opex incurred.

Oilfield Integrated Services. 9MFY24 revenue gained +50.6%yoy to RM131.3m, while earnings surged nearly 2-fold to RM9m from a deficit of -RM7.2m in 9MFY23. The higher revenue was due to the higher activities in: (i) slickline activities in East Malaysia, (ii) asset integrated solutions, (iii) solid control services, (iv) specialty chemicals, (v) well stimulations activities, and (vi) MCM projects. However, the increase was offset by lower activities from its slickline activities in West Malaysia region and gas lift valve services. Meanwhile, the surge in earnings was contributed to a higher reversal of impairment made on its trade receivables of RM1.0m; offset by the higher opex.

RETURN STATISTICS	
Price @ 25th Nov 2024 (RM)	1.40
Expected share price return (%)	+40.7
Expected dividend yield (%)	+3.1
Expected total return (%)	**+43.8**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-8.4	-7.1
3 months	0	17.1
12 months	46.4	31.4

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	861	898	930
Operating Profit	105	104	102
Profit Before Tax	112	110	109
Core PATAMI	77	79	83
Core EPS	19.1	19.8	20.6
DPS	10.5	10.9	11.3
Dividend Yield	2.9%	3.1%	3.3%

KEY STATISTICS	
FBM KLCI	1,597.45
Issue shares (m)	401.55
Estimated free float (%)	33.23
Market Capitalisation (RM'm)	570.21
52-wk price range	RM0.94-RM1.69
3-mth average daily volume (m)	0.89
3-mth average daily value (RM'm)	1.31
Top Shareholders (%)	
LANTAS MUTIARA SDN BHD	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.84

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Sanguine upstream continues to support OIS segment. Despite Brent crude oil price coming down to a YTD24 average of USD80pb, the range remain within the group's estimations, in tandem with the concerns over global oil demand trajectory, as well as the declining oil inventories in the US and OPEC+'s decision to delay production increases until Dec CY24. Malaysia's oil and gas O&G upstream capex remain strong, with YTD24 to be around RM31.2b, subsequently benefiting local OGSE such as Deleum. In addition to the recently secured major contracts from Petronas Carigali, we opine that the group's MCM portfolio and orderbook in OIS will continue to be improved in the near to mid-term. OIS is expected to drive Deleum's performance alongside with P&M, providing a balanced contribution moving forward.

Revised earnings estimates. Considering Deleum's 9MFY24 results coming in above our expectations, we take this opportunity to revise upwards our earnings estimates for FY24-26 upward by +19/+21%/+19% respectively. In line with the revised forecast, we change our TP to **RM1.97,** pegging a PER of 10x to a revised EPS25 of 19.8sen. The PER is based on the company's 3-Y PER average. We maintain our **BUY** call for the group, as we anticipate robust upstream O&G activities moving forward, despite the volatile Brent crude oil prices. Deleum also has the advantage of being resistant from seasonal factors as it operated predominantly in the local front and under mid-to-long-term contractual basis.

Table 1: Deleum's 3QFY24 Financial Summary

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results				Yearly Results			
	3QFY23	2QFY24	3QFY24	QoQ%	YoY%	9MFY23	9MFY24	YoY%
Revenue	**241.8**	**225.9**	**269.2**	**19.2**	**11.3**	**553.3**	**656.5**	**18.7**
Cost of Sales	(193.0)	(165.3)	(192.0)	16.2	-0.5	(436.7)	(480.7)	10.1
Gross Profit	48.8	60.6	77.2	27.4	58.3	116.7	175.8	50.7
Other operating income	1.8	2.0	2.7	32.1	46.8	5.0	6.8	35.9
Selling and distribution cost	(10.0)	(11.1)	(12.8)	15.7	27.8	(28.5)	(33.1)	16.1
Admin expenses	(14.8)	(18.0)	(20.2)	12.5	36.6	(39.7)	(52.5)	32.1
Other operating expenses	(1.6)	2.0	(0.0)	-102.2	96.9	1.6	0.9	-44.8
Operational profit	24.2	35.6	46.9	31.5	93.5	55.0	97.9	78.0
Finance cost	(0.0)	(0.1)	(0.2)	55.2	409.4	(0.2)	(0.3)	80.2
Share of PAT of joint venture	0.3	0.2	0.2	7.2	-12.1	0.9	0.7	-19.5
Share of PAT of associates	0.9	1.8	1.6	-8.4	85.2	3.2	5.0	56.7
PBT	25.3	37.5	48.6	29.4	91.7	59.0	103.4	75.3
Income tax	(6.6)	(9.8)	(11.9)	21.7	81.2	(15.2)	(26.2)	72.6
PAT	18.8	27.8	36.7	32.1	95.3	43.8	77.1	76.2
Net Profit/Loss	18.8	27.8	36.7	32.1	95.3	43.7	78.8	80.2
Minority interest	6.6	5.4	11.6	115.7	76.8	12.7	20.5	61.2
Normalised Profit/Loss	**12.2**	**22.4**	**25.1**	**12.0**	**105.3**	**31.1**	**58.4**	**88.0**
				+/- ppts	*+/- ppts*			*+/- ppts*
GP margin (%)	20.5	23.5	26.8	3.3	6.3	21.8	25.5	3.7
PBT margin (%)	9.8	10.7	16.6	5.9	6.9	10.8	14.1	3.4
PATAMI margin (%)	6.8	8.9	12.3	3.4	5.5	8.0	10.9	2.9
Normalised PATAMI margin (%)	5.2	6.8	9.9	3.1	4.7	6.0	8.6	2.6
Effective tax rate (%)	30.1	26.4	26.0	-0.4	-4.1	25.7	26.1	0.5

SEGMENTAL								
Revenue:								
Power and Machinery	212.8	176.6	218.7	23.8	2.8	465.7	524.8	12.7
Oilfield Services	28.9	49.1	50.4	2.5	74.3	87.2	131.3	50.6
Results:								
Power and Machinery	31.2	30.6	44.9	46.9	43.9	64.9	97.3	50.0
Oilfield Services	-5.7	6.9	5.5	-21.2	196.5	-7.2	9.0	225.0

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024E	2025F	2026F	2027F
Revenue	792.0	860.8	898.4	930.2	979.3
EBITDA	52.0	75.8	73.6	67.8	65.9
D&A	32.9	35.7	36.8	41.0	44.5
EBIT	84.9	111.5	110.4	108.8	110.4
PAT	63.4	91.5	94.4	97.8	100.4
Core PATAMI	45.7	76.5	79.4	82.8	86.3

Balance Sheet (RM'm)	2023A	2024E	2025F	2026F	2027F
Fixed assets	91.1	94.2	110.3	123.0	133.4
Intangible assets	58.1	59.3	57.9	58.2	58.4
Non-current assets	**159.8**	**163.2**	**176.9**	**189.0**	**201.4**
Cash	215.9	272.1	309.2	349.9	362.7
Trade debtors	115.0	107.6	112.3	116.3	138.8
Current assets	**460.9**	**476.0**	**506.3**	**537.3**	**558.1**
Trade creditors	97.1	150.8	177.5	192.2	198.2
Short-term debt	1.5	1.7	1.8	2.0	2.2
Current liabilities	**160.6**	**212.7**	**232.0**	**250.7**	**260.5**
Long-term debt	0.9	1.0	1.1	1.2	1.3
Non-current liabilities	**13.6**	**14.2**	**15.3**	**16.4**	**18.5**
Share capital	201.8	201.8	201.8	201.8	202.8
Retained earnings	263.3	297.8	333.6	370.9	409.8
Equity	**446.5**	**467.6**	**503.4**	**540.7**	**581.6**

Cash Flow (RM'm)	2023A	2024E	2025F	2026F	2027F
PBT	**84.9**	**111.5**	**110.4**	**108.8**	**110.4**
Depreciation & amortisation	32.9	35.7	36.8	41.0	44.5
Changes in working capital	-3.60	23.37	-30.76	-43.97	-83.60
Operating cash flow	**78.80**	**130.5**	**84.2**	**83.6**	**51.0**
Capital expenditure	-12.1	-12.9	-6.1	-4.9	-4.5
Investing cash flow	**-1.0**	**-3.5**	**3.5**	**4.8**	**6.1**
Debt raised/(repaid)	-6.8	-24.5	-23.3	-22.2	-19.3
Dividends paid	-31.4	-26.7	-25.5	-23.6	-24.2
Financing cash flow	**-47.7**	**-52.7**	**-50.2**	**-47.3**	**-44.9**
Net cash flow	**30.1**	**74.3**	**37.5**	**41.1**	**12.2**
Beginning cash flow	**168.5**	**198.2**	**272.1**	**309.2**	**349.9**
Ending cash flow	**198.2**	**272.1**	**309.2**	**349.9**	**362.7**

Profitability Margins	2023A	2024E	2025F	2026F	2027F
EBITDA margin	6.6%	8.8%	8.2%	7.3%	6.7%
PBT margin	10.7%	13.0%	12.3%	11.7%	11.3%
PAT margin	8.0%	10.6%	10.5%	10.5%	10.3%
Core PAT margin	5.8%	8.9%	8.8%	8.9%	8.8%

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