

Deleum Berhad

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

Maintain BUY


Acquisition of Indonesian OSA Valve Services to Meet Demand

Target Price: RM1.97

DEVELOPMENT

- Deleum Services (DSSB), a wholly owned subsidiary of Deleum Bhd (Deleum), has entered into a Share Purchase Agreement (SPA) with OSA Industries Pte. Ltd (OSA) to acquire 17,500 shares (70%) of PT OSA Industries Indonesia (OSAII) at a total cash consideration of USD7m (approx. RM31m).

OUR VIEW

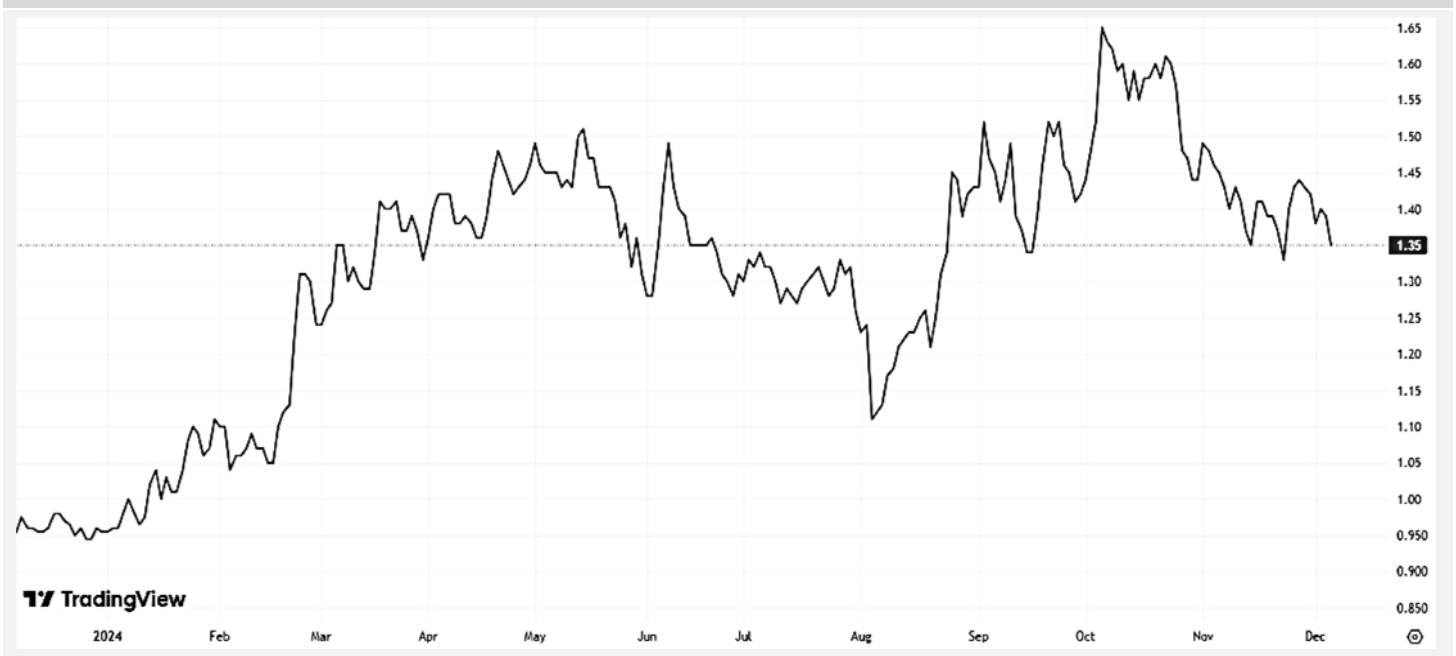
- Expansion of Deleum's regional footprint.** OSAII specialises in supplying valves and providing valve maintenance services, which includes safety and control valves, ball valves and actuators. OSAII had been the sole channel partner for Baker Hughes valves since 2017. The acquisition of 70% stake in OSAII is in line with Deleum's expansion plans across the region. We opine that this will improve the group's technical expertise and capabilities, allowing a better valve management solution, as well as enhanced maintenance and supply of valves, for local and regional oil and gas players. The acquisition also allows Deleum to extend its market coverage into Thailand and Vietnam.
- Meeting rising demand for valves.** The acquisition is also expected to increase Deleum's capacity to meet the rising demand for valve solutions, given the ongoing and planned upstream projects in the region. The market for control and pressure relief valves in Indonesia is significantly larger, with an operating expenditure market size of USD52m - more than double the amount of Malaysia's - thus making the acquisition a good opportunity for Deleum to grow in the Indonesian market within 5 years. Additionally, the benefit of cross-border experience and talent development from this transaction will help in improving workforce capability in both Deleum and OSA.
- Maintain positive on longevity of upstream activities.** All in all, we maintain positive on this acquisition, as it signals the resilience of the upstream division among the major local and regional oil and gas players. With an expansion in valve management solutions market and a combination of technical expertise from Deleum and OSA, we anticipate that a better service quality can be provided for the upstream projects, subsequently making the operations more efficient while adhering to the energy demands in the region. Efficient and reliable valve solutions are crucial for a smooth operation of upstream facilities, which will support the energy sector in the long run.
- We make no changes to our forecast projection for Deleum at this juncture. We maintain our **BUY** call, with a **target price of RM1.97**. 

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'M unless stated otherwise)	FY23A	FY24F	FY25F	FY26F	FY27F
Revenue	792.0	860.8	898.4	930.2	979.3
EBIT	79.4	191.5	193.2	195.3	191.0
Pretax Profit	84.9	111.5	110.4	108.8	110.4
Profit After Tax	63.4	91.5	94.4	97.8	100.4
PATAMI	45.7	76.5	79.4	82.8	86.3
EPS (sen)	11.4	19.0	19.8	20.6	21.5
EPS growth (%)	9.2%	67.4%	3.8%	4.2%	4.3%
PER (x)	17.3	10.3	10.0	9.6	9.2
Dividend per share (sen)	5.7	5.8	6.2	6.5	7.5
Dividend yield (%)	2.9%	2.9%	3.1%	3.3%	3.8%

Source: Company, MIDFR

SHARE PRICE CHART



Source: Company, Tradingview, 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