Dialog Group Berhad

Maintain **BUY**

(7277 | DLG MK) Energy | Energy Infrastructure, Equipment & Services

Increasing Upstream Capabilities Through RAJA Cluster PSC

Target Price: RM2.72

DEVELOPMENT

- Dialog had signed a Production Sharing Contract (PSC) of the RAJA Cluster Small Field Asset (RAJA SFA) with Petroliam Nasional Berhad (PETRONAS) through Malaysia Petroleum Management (MPM), and Dialog's wholly owned subsidiary, Dialog Resources Sdn Bhd (DRSB).
- Under the 14-year contract, Dialog Resources will assume 100% participating interest and the role of operator for the RAJA SFA, which includes a 2-year pre-development phase to finalise the field development plan and a subsequent 2-year development phase with first commercial production expected by the end of the development phase.
- The PSC includes a minimum work commitment including a technical feasibility study, 3D seismic data reprocessing, and specialised studies, and a field development and abandonment plan to determine the feasibility and commerciality of the asset.

OUR VIEW

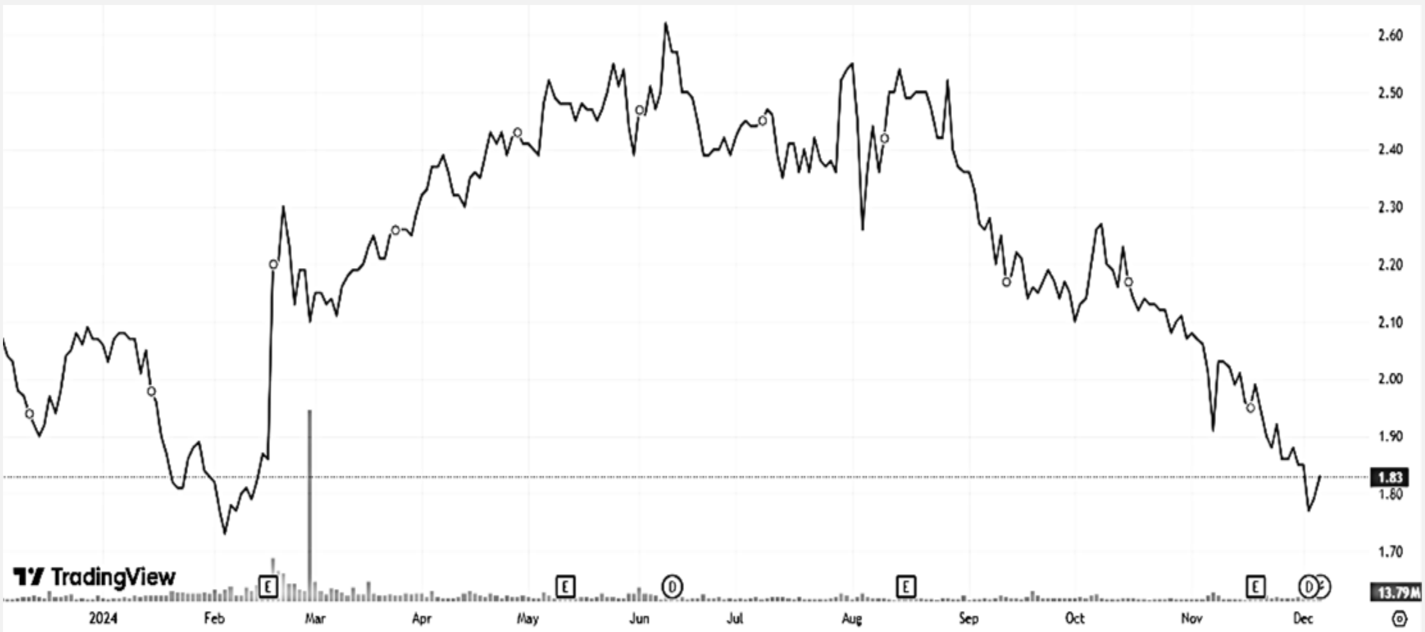
- **Long-term sustainability.** The PSC is in line with Dialog's strategy to grow its upstream business and further develop its upstream capabilities, notably in: (i) new field development, (ii) rejuvenation, and (iii) re-development of mature oil and gas fields. This is expected to create a robust platform for generating long term sustainable revenue from oil and gas production in the block. Furthermore, we anticipate that upstream activities will remain robust, adding into the opportunity for Dialog to strengthen its upstream capabilities.
- **High potential fields but with risls.** RAJA Cluster is located at the East Coast offshore of Peninsular Malaysia, with three major oil and gas fields - Rhu, Ara and Janglau. and proximity to existing oil and gas infrastructures such as refineries and storage units. This allows for a synergistic development and rapid monetization of resources, consequently making the development of the field more efficient, operation- and cost-wise. It should be noted that the cluster is majorly comprising of several layers of hydrocarbon packages, which solidified its PSC status. The block in which the cluster resided holds about 290mbboe of recoverable reserves, indicating that the cluster may have 1-5% of the estimated volume. However, it should be noted that smaller clusters often have complex fault systems which may require costly development and additional anti-leakage measurements. Nevertheless, given Dialog's expertise in technical services, we believe this particular risk could be mitigated.
- **Maintain positive.** All in all, we maintain positive on this PSC, in light of the anticipation that the upstream division will continue to be resilient in the coming years. We believe this strategy to expand into the upstream will reinforce its position as an integrated technical service provider, locally and regionally. Other downside risk to this PSC includes: (i) financial commitments during pre-development phase, (ii) reservoir risks, (iii) labour and expertise risks, (iv) changes in raw material prices, and (v) uncertainties in economic, political and regulatory conditions.
- We make no changes to our forecast projection for Dialog at this juncture, in consideration that financial effects from the PSC will be determined upon the finalisation of the development phase, which will take at least 4 years to be completed. Hence, we maintain our **BUY** call, with a **target price of RM2.72.**

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'M unless stated otherwise)	2023F	2024F	2025F	2026F	2027F
Revenue	3,001.5	3,151.9	3,536.8	3,622.8	3,661.0
EBIT	626.2	434.1	459.8	489.1	512.5
Pretax Profit	553.9	679.1	694.0	724.9	751.2
Profit After Tax	520.5	605.4	635.7	678.9	715.3
PATAMI	**510.5**	**575.0**	**666.1**	**709.5**	**746.2**
EPS (sen)	9.1	10.2	11.8	12.6	13.2
EPS growth (%)	2.0%	12.1%	15.7%	6.5%	5.2%
PER (x)	29.9	26.7	23.1	21.6	20.6
Dividend per share (sen)	3.7	4.3	5.0	5.3	5.3
Dividend yield (%)	1.4%	1.6%	1.8%	1.9%	1.9%

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 *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