AmInvestment Bank

Company report

DELEUM

(DLUM MK EQUITY, DLEU.KL)

14 April 2022

Grossly undervalued O&G cash generator

BUY

(Initiation)

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Rationale for report: Initiation

Price	**RM0.60**
Fair Value	**RM0.90**
52-week High/Low	RM0.65/RM0.45

Key Changes

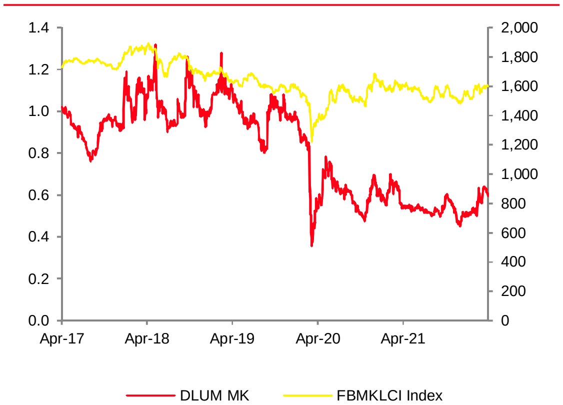
Fair value	**Initiation**
EPS	**Initiation**

YE to Dec	**FY21**	**FY22F**	**FY23F**	**FY24F**
Revenue (RM mil)	558.4	583.2	612.3	642.9
Core net profit (RM mil)	26.2	30.0	34.5	37.4
FD Core EPS (sen)	6.5	7.5	8.6	9.3
FD Core EPS growth (%)	(37.8)	14.4	14.9	8.4
Consensus Net Profit (RM mil)		n/a	n/a	n/a
DPS (sen)	2.2	2.2	2.2	2.2
PE (x)	9.1	8.0	6.9	6.4
EV/EBITDA (x)	1.1	0.7	0.3	-
Div yield (%)	3.6	3.6	3.6	3.6
ROE (%)	4.8	8.1	8.8	8.9
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	401.6
Market Cap (RM mil)	241.0
Book Value (RM/share)	0.89
P/BV (x)	0.7
ROE (%)	8.1
Net Gearing (%)	-
Major Shareholders	Lantas Mutiara (20.4%) Hartapac (12.0%) Datuk Vivekananthan (10.8%)
Free Float	40.0
Avg Daily Value (RM mil)	0.3

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	16.7	-	11.2
Relative (%)	14.2	(0.8)	12.0



Investment Highlights

- **We initiate coverage on Deleum, assigning a fair value of RM0.90/share, pegged to FY22F PE of 12x together with a 3% discount to our ESG rating of 2 stars given that one of its core operations is still blacklisted from Petronas' tenders. Our earnings multiple is based on the average Malaysian oil & gas operators' CY22F PE.**
- **Following the decimation of multiple O&G operators during the 2015–2017 oil price collapse and Serba Dinamik's accounting issues, the few remaining peers to Deleum's business include Dialog Group's specialist product and chemical services.**
- **Deleum's business venture has progressed from merely an agent of equipment/services providers to joint ventures, partnerships and self-operated operations, classified into 3 main segments: power & machinery (P&M), which accounts for 70% of FY21 revenue, oilfield services at 19% and integrated corrosion solution 11%.**
- **Deleum plans to ramp up its niche chemical solutions business, supported by a new CEO with a long working experience with Halliburton, to target offshore brownfield and mature upstream assets in Southeast Asia.**
- **Currently, Deleum is appealing against Petronas' suspension on its anti-corrosion operations and hopes to be lifted from the blacklist by the end of this year, having implemented the necessary measures to prevent a recurrence.**
- **QoQ, the group's 4QFY21 core net profit of RM19mil was a turnaround from a slight loss of RM1mil in 3QFY21, underpinned by higher Indonesia-based operations which are unaffected by the ban.**
- **For Deleum to generate a FY21 core net profit, albeit a 38% YoY drop, during a ban on one of the group's core business amid an unprecedented downturn during the Covid-19 pandemic is commendable given that major EPCIC players such as Malaysia Marine & Heavy Engineering Holdings and Sapura Energy suffered substantive FY20–FY21 losses.**
- **From a dampened FY21 earnings base, we are projecting a robust FY21–FY24F compounded average EPS growth of 12.5% vs 10.2% for Dialog, which has a much larger service revenue base positioned in a more integrated value chain.**
- **Deleum's end-FY21 net cash balance of RM162mil already accounts for 66% of its current market cap. Based on the group's earnings trajectory, we estimate that its cash balance will almost rival its current market cap by end-FY24F.**
- **Deleum is currently trading at an unjustified FY22F PE of 8.2x, 35% below the average sector's 12.6x. Stripping out the group's net cash from the market cap, the stock trades at a bargain FY22F PE of only 3x while offering a compelling dividend yield of 3.6%.**

BACKGROUND

❑ *Servicing the oil & gas sector*

Deleum started its oil & gas service services in 1982 with wholly-owned Deleum Services (formerly known as Delcom Services) and was subsequently incorporated in November 2005 and a public limited company in 2006, assuming its present name. The company was listed on 1 June 2007 on Bursa Malaysia's Main Board (renamed as Main Market).

Over the years, Deleum Group's business venture has progressed from merely an agent of equipment/services providers to joint ventures, partnerships and self-operated operations.

The group's business is classified into 3 main segments: power & machinery (P&M), which accounts for 70% of FY21 revenue, oilfield services at 19% and integrated corrosion solution 11%.

❑ *P&M bread and butter*

P&M focuses on the provision of a complete life cycle support of Solar Turbines Inc' gas turbine generators and compressor packages, turnkey solutions for combined heat and power plants; Heatric's printed circuit heat exchanger; Gasco's process (heat) and thermal engineering solutions; and electrical and mechanical equipment repairs and services (MRO).

Solar Turbines is wholly owned by Caterpillar Inc, the world's largest construction equipment manufacturer, and is renowned for manufacturing mid-range power turbines generating between 1MW and 23MW.

As an agent to Solar Turbines, Deleum offers power generation, gas compression and pumping systems, as well as gas compressors for pipeline and production to the oil & gas and multiple industrial sectors.

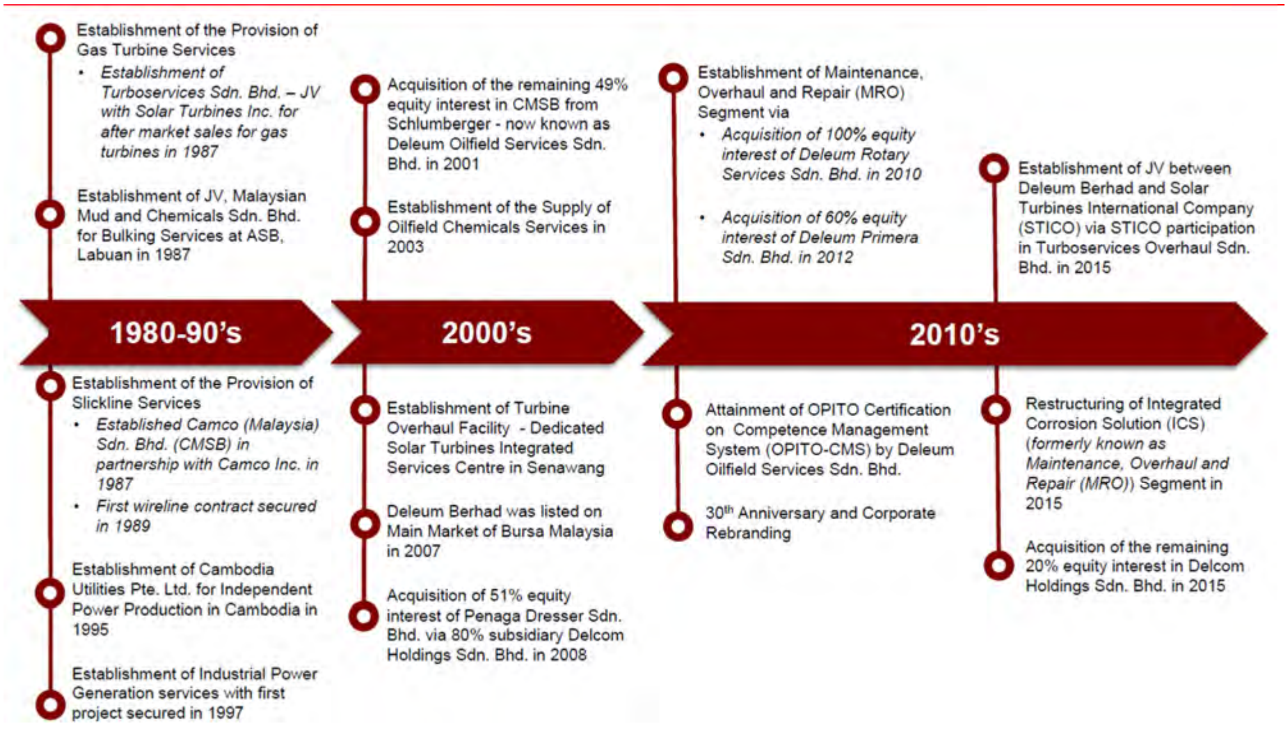
Heatric is a division of Meggitt, a pioneer in diffusion bonded printed circuit heat exchanger (PCHE). PCHEs are used in the processing of gas and light hydrocarbon liquids, which involves dischargers, inlet/after/Co2 coolers, dewpoint exchangers, fuel gas pre-heaters, feed water cooling and dehydration units.

As an agent for Gasco, a leading combustion and process engineering provider, Deleum supports oil and gas, power generation, environmental, refining and petrochemical sectors with water bath heaters, thermal oxidizers, fired heaters, thermal oil heaters, flares, waste heat recovery systems, heat recovery steam generator boilers, burner management systems and gas conditioning skids.

Deleum has an integrated facility in Senawang that provides gas turbine overhaul and repair services. It oversees the supply, installation, repair and maintenance of motors, generators, transformers, pumps, valves, flow regulators and provides composite repair integrity for pipeline and structure for oil and gas together with rotating equipment installed at customers' asset base, onshore and offshore.

The regional factory pre-commissioning tests for package system upgrades are undertaken in this facility. It also

EXHIBIT 1: DELEUM'S CORPORATE MILESTONES



Source: Deleum's presentation slide

EXHIBIT 2: DELEUM'S OPERATONAL CENTRES

Source: Deleum's Investor Slides

serves as the regional training centre, equipped with simulators and training skids.

As the authorised service centre for original equipment manufacturers (OEM), the group also has service facilities in Kajang and Bintulu to execute both workshop activities as well as field works.

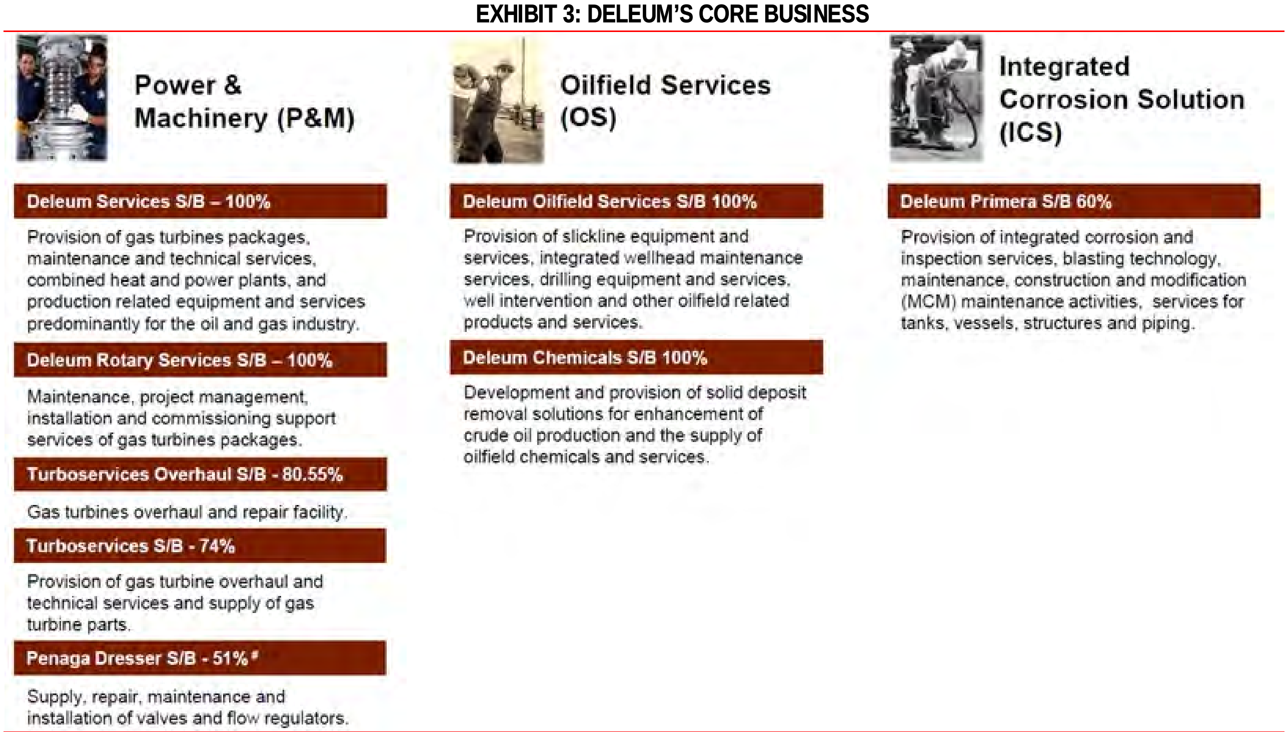
Deleum provides complete solutions for cogeneration plants development ranging from equipment supply, complete project turnkey to build-own-operate(BOO)/build-own-transfer(BOT)/energy service company (ESCO). These include feasibility and economic analysis in terms of cash flow analysis, analysis return on investment (ROI), payback and cost savings for cogeneration plants.

- ***Largest slickline operator***

Oilfield services, which focus primarily on upstream activities in the sub-surface sector, is helmed by Deleum Oilfield Services (DOS) and Deleum Chemicals Sdn Bhd (DC).

The segment comprises slickline and well services (SWS), specialty chemical and well stimulation (SCWS) and asset integrated solutions (AIS).

EXHIBIT 3: DELEUM'S CORE BUSINESS



Source: Deleum's Investor Slides

SWS is this segment's core business and the largest operator of slickline packages in Malaysia. The group currently supplies over 49% of Malaysia's total requirements, providing slickline equipment and services for production and drilling operations of production sharing contractors (PSCs) in Peninsular and East Malaysia.

SCWS provides integrated chemical solutions, flow assurance management, integrated pipeline cleaning, tank cleaning and pumping services.

AIS supports the rest of the division by addressing specific customer needs ranging from simple maintenance services to more complex design and management projects.

❑ *What is slickline?*

Slickline is a single-strand wire, used to run a variety of tools down into the wellbore during well drilling operations in the oil and gas industry.

Slickline looks like a long, smooth, unbraided wire, often shiny, silver/chrome in appearance. Varying lengths according to the depth of wells in the area, it can be rolled up to 35,000 feet in length. This is used to lower and raise downhole tools for oil and gas well maintenance to the required depth of the drilled well.

❑ *Providing integrated corrosion solutions*

The integrated corrosion solution (ICS) segment offers corrosion inspection and mitigation for the oil and gas industry through 60%-owned Deleum Primera, in which the balance ownership is equally shared among 3 Malaysian individuals.

ICS penetrated the industry by securing surface preparation contracts, from which the group expands the scope of related services such assets maintenance, modification and construction contracts and riser maintenance works.

Core services include surface preparation works, corrosion prevention, protection and mitigation. The services offered by DP has expanded to include passive fire protection, cold and hot insulation, thermal spray aluminium, pipeline integrity and riser maintenance, composite repair, fabrication and maintenance and oil spill response services to serve the oil and gas industry as well as general industries.

The group has a 32%-owned JV venture company between Deleum Services, Sabahebat Sdn Bhd and Baker Hughes Operations France SAS called 2MC. Incorporated in 1985, 2MC provides dry and liquid bulking services to the oil companies involved in drilling operations in Malaysia from an established bulking facility located at the Asian Supply Base, Labuan.

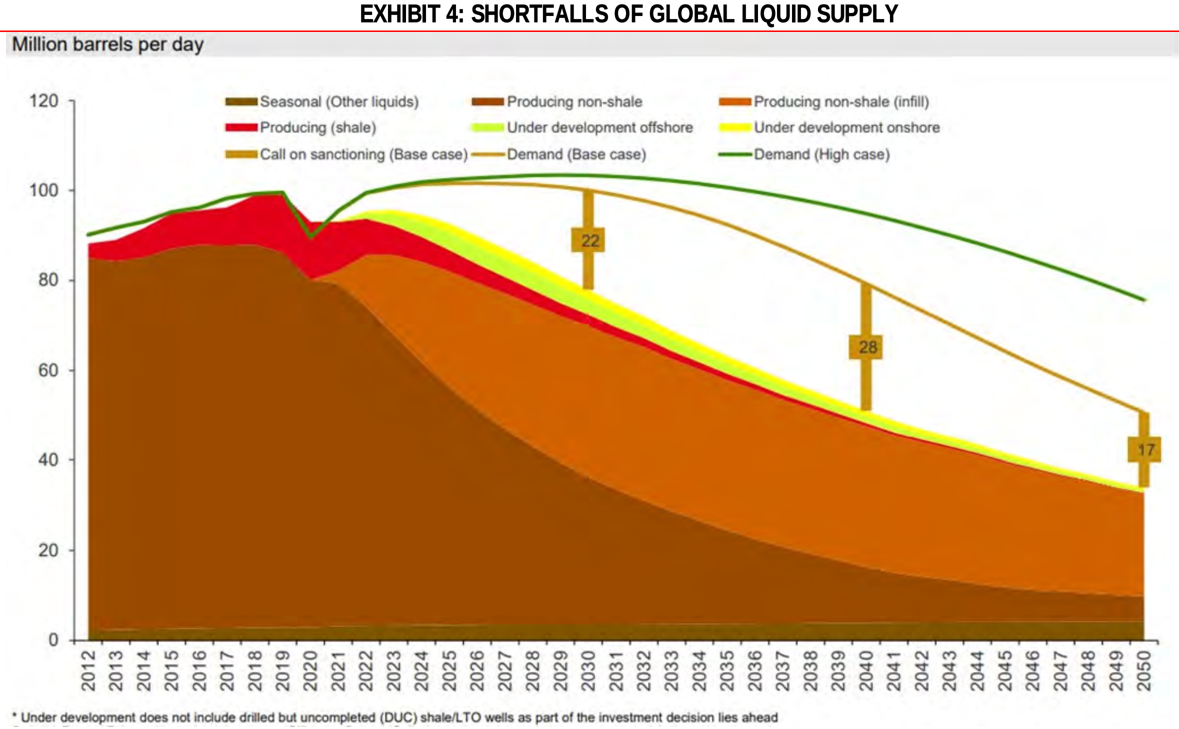
Bulking services provided by 2MC cover handling, storage, pumping and transportation of materials or powders for drilling operations such as cement, barite and bentonite.

❑ *Moving into niche chemical business*

Given the increasingly competitive well-intervention space, Deleum plans to ramp up its niche chemical solutions business, supported by an in-house research and development (R&D) facility.

With the new CEO's former working experience with Halliburton, these new product lines aim to target offshore brownfield and mature upstream assets in Southeast Asia.

EXHIBIT 4: SHORTFALLS OF GLOBAL LIQUID SUPPLY



Source: Rystad Energy

This is underpinned by an expectation of higher upstream activities, particularly in Asean's substantial proven gas reserves which will supply increasing energy and natural gas consumption in the Asia Pacific.

INDUSTRY OUTLOOK

❑ *Stagflation impact from Ukraine crisis*

Stagflation from higher oil prices. Following Russia's invasion of Ukraine which triggered a series of sanctions, crude oil prices have soared towards a precarious US$130/barrel threshold in last month before correcting and consolidating below US$100/barrel, subsequently staging a recovery to US$120/barrel currently.

Together with rising commodity prices amid another supply chain disruption as global markets appear to be emerging from Covid-19 pandemic movement restrictions, speculations of stagflation have dampened economic recovery optimism.

❑ *Upcoming global oil supply shortfall…*

Unlikely to offset global supply shortfalls. Our economist expects slower global economic growth together with elevated inflation which could translate to a series of US Federal Reserve rate hikes.

However, even on a slower economic growth scenario, we remain convinced that an impending global supply crunch from years of chronic underinvestment will sustain elevated oil prices, eventually catalysing increased spending by oil majors as highlighted in our Thematic Report on 25 June last year.

Further underpinning our outlook, the International Energy Agency's (IEA) March report estimated that the global oil market could lose 3mil barrels per day (bpd) of supply from Russia starting in April, as sanctions on banks and buyers' reluctance to purchase Russian oil could result in the biggest oil supply crisis in decades.

❑ *… even with slower demand growth*

Inadequate supply even with slower demand growth expectations. Although the IEA cut its global oil demand forecast by 1.3mil bpd to 99.7mil bpd in 2022 (+2.1mil bpd YoY), the supply-demand balance remains in a deficit from the loss of Russian supply if the shunning of Russian oil accelerates and continues throughout the year.

Based on a base case demand scenario premised on projects likely to be sanctioned, Rystad Energy expects global liquids supply shortfalls of 22mil bpd (22%) by 2030 and 28mil bpd (35%) by 2040 (Exhibit 6). This outlook assumes conventional production, shale and onshore/offshore projects being developed.

Recall that since Russia invaded Ukraine at the end of February, the US has banned imports of Russian energy while the UK is working to phase out its Russian supply by the end of the year.

❑ *Russia sanctions and chronic underinvestment*

Even though Europe has not sanctioned Russian oil and gas, a growing number of European buyers are joining the wave of condemnation of Russia's war and pledge not to buy its oil. Currently, 66% of Russian seaborne spot cargoes are struggling to find a buyer.

Production needs time to gather momentum given the time lag of up to 12 months between drilling and first oil for onshore shale producers and 3–4 years for offshore developments.

EXHIBIT 5: BRENT OIL PRICE FORECAST

Source: Rystad Energy

This is also compounded by years of underinvestment, capital discipline, discouraging federal policies toward the oil industry, manpower shortages and supply chain bottlenecks.

- ***Better prospects of selected segments***

We expect selected segments in the value chain to be better positioned to benefit from higher oil prices and projects sanctioned by national oil companies.

Operators directly exposed to upstream production such as Hibiscus Petroleum and the floating production storage and offloading (FPSO) sub-sector stand to benefit given the decimated number of operators during the previous downturn in 2015–2017.

For service providers such as Deleum, we expect growing momentum of demand for support services as the industry needs to maintain capex rollouts to avert natural production declines in tandem with declining offshore well pressures.

- ***Sustainable oil price at elevated levels***

We are projecting Brent oils to average at US$100–US$110/barrel for 2022 and US$90–100/barrel for 2023. As Brent oil prices have averaged at US$97/barrel to date and remain above US$100/barrel despite recent corrections, we expect crude oil prices to remain heightened from the uncertain geopolitical impact from Russia's Ukraine invasion that has triggered cascading sanctions, voluntary shunning of investments by international oil companies, substantive global supply chain disruptions and elevated risk premiums for commodities.

As US inventories have tumbled 17% from the YTD peak of 502mil barrels on 26 March 2021 to below pre-pandemic levels at 416mil barrels presently (7% below 2019 average of 448mil barrels), our Brent crude oil price projections are currently higher than the EIA's *Short-Term Energy Outlook* which recently raised average forecasts to US$105/barrel for 2022 and US$89barrel for 2023.

Downside risks stem from an amicable resolution to the Russia-Ukraine conflict, the emergence of new vaccine-resistant viral variants, the possibility of Iranian crude re-entering the global market and significant rebound in US shale production.

EARNINGS OUTLOOK

- ***4QFY21 results review***

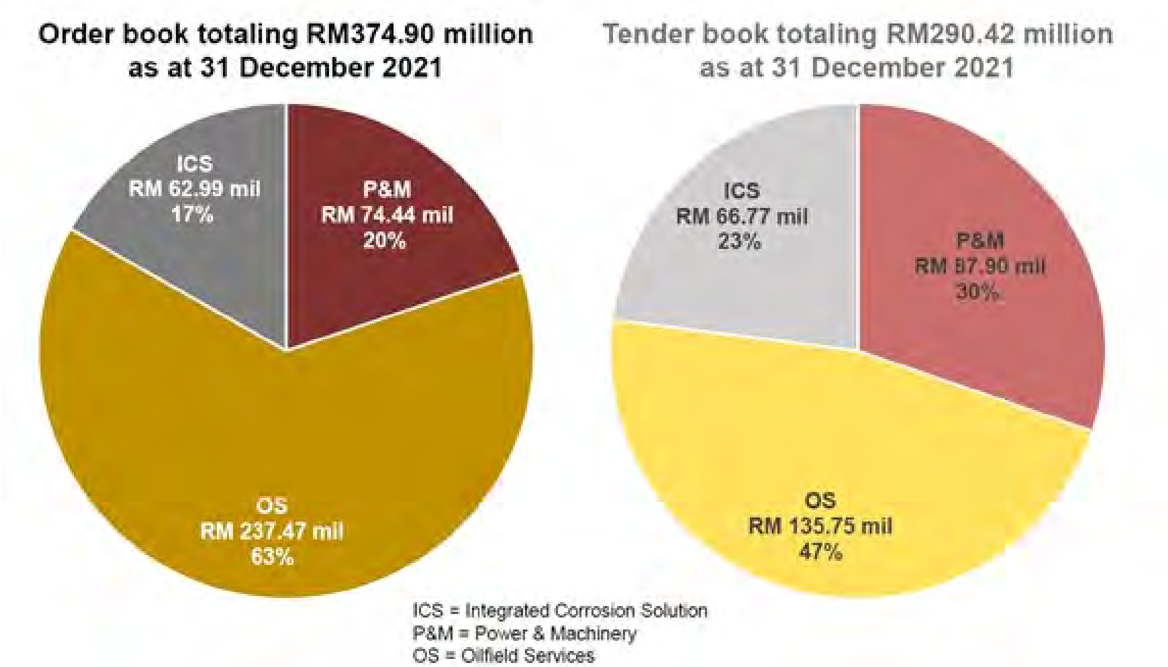
Deleum's 4QFY21 core net profit rose 63% YoY to RM19mil (excluding oilfield impairments of RM8mil) in tandem with a 23% increase in revenue to RM192mil, driven by stronger P&M margin and an ICS turn around to a pretax profit of RM7mil.

QoQ, the group's 4QFY21 core net profit was a turnaround from a slight loss of RM1mil in 3QFY21, partly supported by a 34% increase in ICS revenue, underpinned by higher Indonesia-based services.

For FY21, Deleum's core net profit fell by 38% YoY to RM26mil in tandem with a 5% revenue decline, largely from a 43% drop in ICS revenue following Petronas' suspension of Deleum Primera's licence.

For Deleum to generate an FY21 core profit, albeit at a contraction, during a ban on one of its core business amid an unprecedented downturn during the Covid-19 pandemic is commendable given that major EPCIC players such as

EXHIBIT 6: ORDER & TENDER BOOK

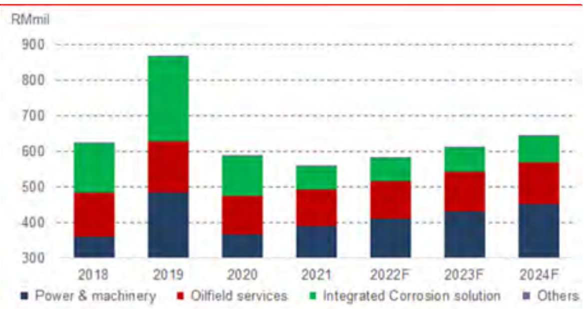


Source: Deleum's Investor slides

Malaysia Marine & Heavy Engineering Holdings and Sapura Energy suffered huge FY20–FY21 losses.

Meanwhile, the growth in associate/JV contribution stemmed from increased revenue from engine disassembly together with lower direct operating expenses and higher throughput from 2MC's liquid mud and dry bulk businesses.

EXHIBIT 7: REVENUE BREAKDOWN



Source: Annual Report/AmInvestment Bank

❑ Short-term order book can be supported by tenders

Deleum currently has an order book of RM374.9mil as at 31 Dec, in which oilfield services account for 63%, P&M 20% and ICS 17%.

While this accounts for only 64% of FY22 revenue, we note that these contracts are short-term in nature and tend to be recurring.

Including the group's tenders of RM290.4m, the potential revenue recognition could reach 1.4x our FY22F revenue assumption.

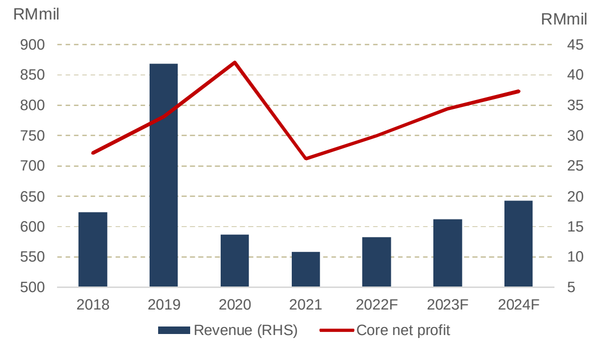
❑ Projecting compounded core EPS growth of 12.5%

From the low FY21 earnings base impacted by Petronas' ban, we project the group's earnings to turn around this year and gradually gather momentum over the next 2 years.

This is premised on a conservative 4%–5% revenue growth on all 3 divisions, which will support a group EBIT margin improvement of 0.1% –0.9% point in FY22F–FY24F from 6.1% in FY21.

All in, we are projecting a compelling FY21–FY24F compounded average EPS growth of 12.5% vs. 10.2% for Dialog Group, which has a much larger service revenue base positioned in a more integrated value chain.

EXHIBIT 8: REVENUE & PROFIT FORECAST



Source: Annual Report/AmInvestment Bank

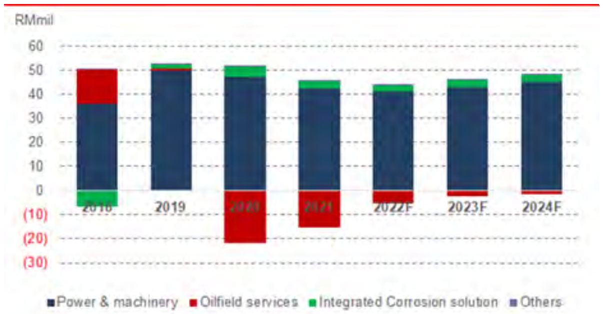
❑ High earnings sensitivity due to thin margins

The group's EBIT margins are currently low at only 6% given its agency arrangement with principals. Hence, our sensitivity analysis indicates that margins have a much larger impact on Deleum earnings compared to revenue growth.

We estimate that a 1% increase in revenue will only raise FY22F earnings by 1.3% based on unchanged EBIT assumptions.

However, assuming a more aggressive FY22F EBIT assumption by 1% point to 6.3%, Deleum's earnings can increase more substantively by 16%.

EXHIBIT 9: EBIT BREAKDOWN



Source: Annual Report/AmInvestment Bank

❑ Net cash balance to rise further

Deleum's net cash balance of RM162mil as at 31 Dec 2021 already translates to 66% of its current market cap of RM245mil.

Based on our FY21–FY24F compounded earnings growth of 12.5% and capex/dividend assumptions, we estimate that the group's net cash will rival the company's current market cap by end-FY24F.

EXHIBIT 10: SWOT ANALYSIS

STRENGTHS	WEAKNESSES
Recurring need for operation & maintenance services in all 3 major divisions provides earnings consistency.	Delays in project execution could lead to higher costs, liquidated ascertained damages and loss of future contracts.
Multiple brands catering to different customers segments within Oil Well Services & Equipment segment.	Petronas' ongoing suspension on Deleum Primera's licence due to ongoing concerns on procurement policies.
Diversified earnings stream outside of the energy sector cushion slowdown or unexpected disruption in the value chain.	Loss in distribution rights to supplier products could heighten project execution risks.
Extensive dealer and associate networks supporting the Oil Well Services & Equipment industry.	Low principal loyalty in dealership network in niche markets.
Strong net cash position of RM162mil which alone accounts for 72% of market value.	Difficulty in recruiting and retaining skilled workforce.

OPPORTUNITIES	THREATS
Elevated crude oil prices will catalyse a new cycle of global project rollouts, driving demand for higher levels of support services.	Regulatory risk as Petronas may liberalise its vendor development programme to encourage more competition.
Upliftment by Petronas' suspension on Deleum Primera will raise the group's order book prospects in all 3 major divisions from more tender invitations by the industry.	Discovery of additional bribery and scams perpetrated by its employees which leads to Petronas' suspension on other segments.
Cross-selling power machinery and oilfield services to other types of industrial plant/maintenance jobs.	Changing technological expertise of local players in power generation, oil slick and corrosion services.
Merger and acquisition prospects given that the stock is trading at a significant discount to net book value.	High geopolitical risks in Middle East and Europe which could lead to supply disruptions.
Coming global oil and gas supply shortfall from chronic underinvestment could lead to a super bullish cycle.	Stagflationary risks from Russia-Ukraine crisis could dampen demand for oil and support services.

Source: AmInvestment Bank

MANAGEMENT

- ***Helmed by professionals with extensive banking and O&G experience***

The group is helmed by a sizeable number of professionals involved in the oil & gas industry. Deleum's co-founders, who have extensive banking and O&G track records, are Dato' Izham bin Mahmud and Datuk Vivekananthan a/l M.V. Nathan who hold an equity stake of 40% in Deleum.

The company's board members also include Datuk Ishak bin Imam Abas and Datuk Manharlal a/l Ratilal, who both held senior executive positions in Petronas.

- ***Chairman from banking and government sectors***

Izham, aged 80 with a direct equity stake of 2.8% and indirect 6.1% in Deleum, joined the Federal Treasury in 1965, rising to Principal Assistant Secretary and seconded to the Melaka State Development Corporation as general manager in 1972.

In 1974, Izham joined Aseambankers Malaysia (now Maybank Investment Bank) as general manager and was promoted to managing director in 1979, a position held until retirement in 1996. During this period, he served as a director of various subsidiaries of the Maybank Group and Cagamas Bhd.

Izham joined Deleum Services as its chairman upon retirement and was subsequently appointed executive chairman in 2000. He was the executive chairman of Deleum until his retirement on 31 May 2010 and subsequently became the non-executive chairman.

- ***Deputy chairman from ESSO***

Vivekananthan, also aged 80, has a direct equity stake of 10.8% and indirect stake of 20.4%. He joined ESSO Malaysia in the Instrumentation and Electrical Engineering Services Department in 1962 and undertook assignments at ESSO refineries in Malaysia and Thailand.

He then worked for Mobil Refinery, Singapore and subsequently was the project engineer with Avery Laurence (S) Pte Ltd on offshore projects in Brunei, Thailand and Indonesia.

In 1982, together with his founding partner, Vivekananthan successfully spearheaded Deleum Services' venture into the oil and gas industry and was appointed as the managing director, and subsequently re-designated as president.

He was the deputy executive chairman of Deleum until his retirement on 31 May 2010 and became its non-executive deputy chairman.

- ***CEO from Halliburton***

The group chief executive officer (CEO), Ramanrao bin Abdullah, who replaced former group managing director Nan Yusri Nan Rahimy on 1 July 2021, has built a career in the oil and gas industry spanning more than 25 years with Halliburton.

His various roles in the company included finance, business development and operation workstreams before assuming the position of CEO of Halliburton Asia Pacific in 2014.

Subsequently, Ramanrao was appointed as the vice-president of business development for Asia Pacific and Asian national oil companies for Halliburton's global operations in 2018.

Prior to his career in the energy sector, he was a practising accountant in an audit firm in Bath, England for 6 years.

ENVIRONMENT, SOCIAL & CORP GOVERNANCE

- ***Petronas' ban on Deleum Primera's ICS tenders***

Petronas suspended Deleum's 60%-owned Deleum Primera from participating in the national oil company's tenders and contracts in March 2021. This stemmed from the discovery of unethical and integrity issues linked to Deleum Primera's work under the operations of Petronas Carigali.

Hence, Petronas has suspended Deleum Primera's licence for all standardised work and equipment categories (SWEC) for future tender and any new award, which remains in effect today.

Throughout this suspension period, Deleum Primera will not be invited nor allowed to participate in any future tender issued by Petronas, including its subsidiaries and Petroleum arrangement contractors (PACs).

Deleum Primera was allowed to continue and complete its existing and ongoing contracts with Petronas, including its subsidiaries and PACs while overseas businesses which do not require Petronas' licence are not impacted.

The ongoing contracts include the provision of maintenance, construction and modification services, the provision of alternative blasting and painting as well as provision of river corrosion prevention system and maintenance.

The suspension came after two senior executives working for Deleum Primera were interviewed by the Malaysian Anti-Corruption Commission (MACC) in December 2020 over an alleged illegal scheme involving the company and Petronas Carigali.

- ***RM20mil legal suit against executives***

In Aug 2021, Deleum accepted an MACC compound offer of RM1mil for the illegal scheme, which was discovered by the company's auditors PricewaterhouseCoopers during a forensic investigation.

Deleum subsequently initiated a RM20mil civil suit against 4 Primera executives, which included 2 Primera shareholders with a 13.3% stake each, 2 executives of Petronas Carigali and 3 Primera subcontractors.

While the 2 former executives – former Primera CEO Mazrin Ramli and senior general manager Khairulazmin Mohamad Karudin – are no longer directors, they remain as shareholders at this stage.

Then in July 2021, Ramanrao joined the group as the new CEO and replaced former group managing firector Nan Yusri Nan Rahimy.

- ***ESG rating of 2 stars***

At this stage, Deleum has appealed against Petronas' suspension and hopes that the ban will be lifted by the end of this year, having implemented the necessary internal controls and centralised key functions to prevent a recurrence.

We also note that the group has only recently begun to meet investors following the discontinuation of its investor relations engagement last year amid the Petronas corruption scandal and top management changes.

Hence, we have rated Deleum with an ESG rating of 2 stars (Exhibit 14) given that the suspension of Petronas' licence remains in effect until now. This means that our valuation on Deleum incorporates a fair value discount of 3%.

If the company could secure the lifting of Petronas' ban on Deleum Primera's licence and continue the restoration of investor-friendly engagements, we would be open to raising the company's ESG ratings.

VALUATION

❑ ***Trading at a great bargain***

Deleum is currently trading at an unjustified FY22F PE of 8.2x, 33% below the average sector's 12.6x (Exhibit 11).

Stripping out the group's net cash of RM162mil from the market cap, the stock trades at a bargain FY22F PE of only 3x.

Besides highly attractive valuations, the stock also offers a compelling dividend yield of 3.6%.

❑ ***Fair value at RM0.90***

We assign a fair value to Deleum at RM0.90/share, pegged to FY22F PE of 12x together with a 3% discount to our ESG rating of 2 stars. Our earnings multiple is based on the average Malaysian oil & gas operators' CY22F PE.

Given the decimation of multiple O&G operators during the 2015–2017 oil price collapse and Serba Dinamik's accounting issues, we note that there are few operators which can be directly compared to Deleum at this juncture.

However, we believe Dialog's specialist product and chemical services to upstream operators are the closest rival to the group, even though Deleum is not involved in mid-stream tank terminal operations nor in production sharing arrangements for enhanced oil recovery projects.

We highlight that Dialog currently trades at much higher FY22F PE of 24x given the recurring nature of its services, underpinned by the group's strategically located tank terminal projects in Pengerang, Johor.

Hence, we believe that Deleum's valuations have much wider room for future expansion if the company manages to restore its relationship with Petronas, successfully expand its networks into the Asean region and deliver faster-than-projected earnings growth.

EXHIBIT 11: PEER COMPARISON

Stocks	Mkt Cap RMmil	FYE	EPS growth (%) CY22F	EPS growth (%) CY23F	PE CY22F	PE CY23F	P/BV (x) CY21F	ROE (%) CY22F	CY22F Div Yield (%)	Net gearing (%) CY21
Bumi Armada	2,610.5	Dec	5.9	5.4	4.3	4.1	0.7	14.3	0.0	154.5
Deleum	240.9	Dec	14.4	14.9	8.0	7.0	0.7	8.1	3.7	(40.2)
Dialog Group	14,659.6	Jun	11.8	(23.5)	23.7	30.9	3.1	12.3	1.2	22.0
Hibiscus Petroleum	7,193.6	Jun	149.1	7.2	4.8	4.5	1.2	7.1	1.2	(5.1)
MISC	34,148.1	Dec	15.2	10.7	16.8	15.2	2.0	5.7	4.3	19.3
Petronas Chemicals	82,080.0	Dec	(3.4)	(0.4)	11.8	11.8	3.0	19.1	4.6	(34.5)
Petronas Gas	33,480.1	Dec	(10.0)	1.0	18.4	18.2	4.1	13.9	5.4	2.6
Yinson Holdings *	2,715.0	Jan	(32.0)	10.6	6.3	5.7	0.7	11.2	2.4	(10.2)
* *assume 1 year*										
Average			**18.9**	**3.2**	**11.8**	**12.2**	**1.9**	**11.5**	**2.5**	**13.5**
Average for market cap above RM10bil			**3.4**	**(3.1)**	**17.7**	**19.0**	**3.0**	**12.8**	**3.9**	**2.3**

Source: AmInvestment Bank

EXHIBIT 12: PB BAND CHART

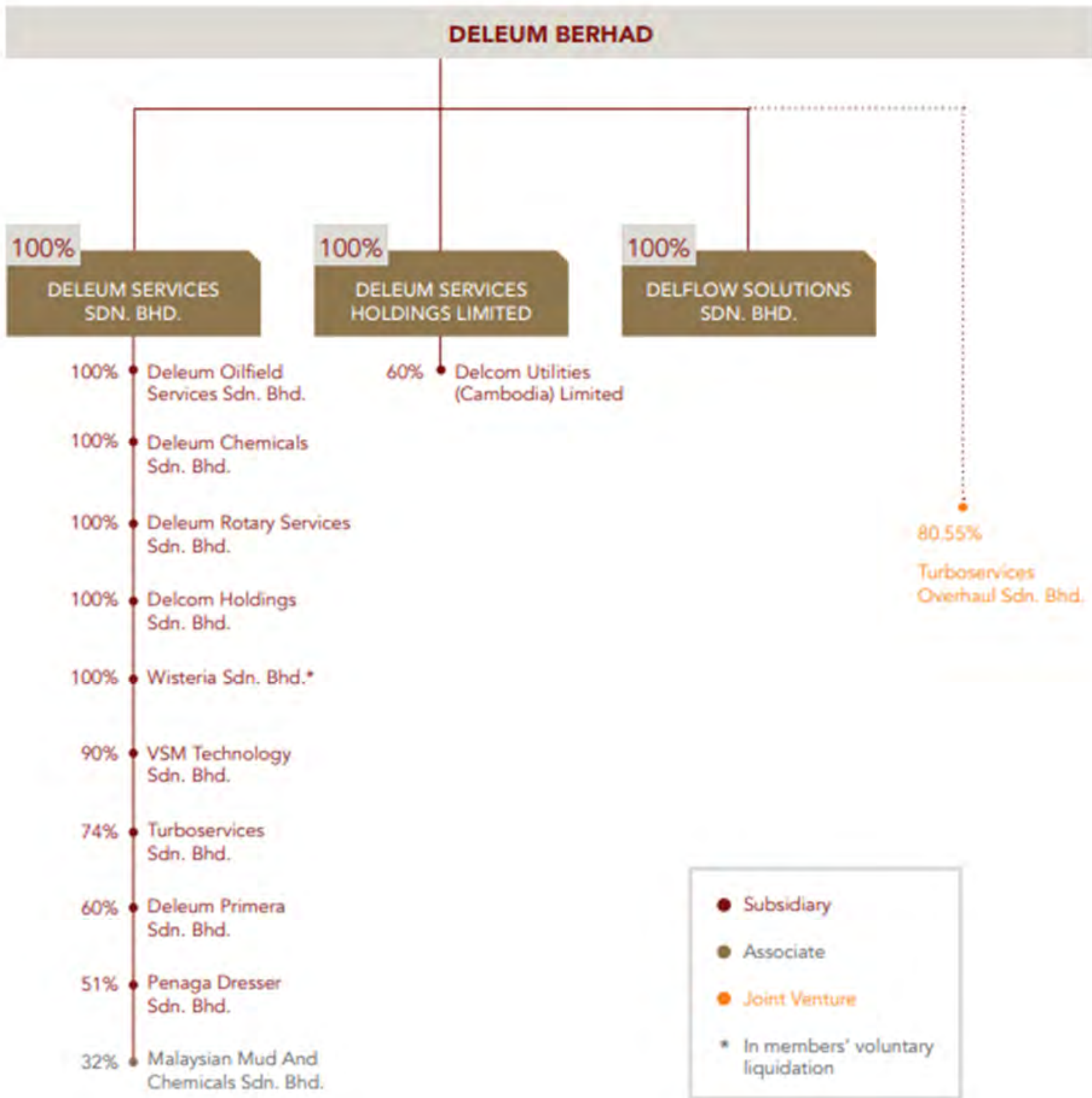
EXHIBIT 13: PE BAND CHART

EXHIBIT 14: ESG RATING

Overall	★	★			
Zero-carbon initiatives	★	★	★		
Health & safety compliance	★	★	★		
Shareholder accountability	★	★			
Social responsibility	★	★			
Pollution control	★	★	★		
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★			
Accessibility & transparency	★				

*We accord a discount/premium of **-6%, -3%, 0%, +3%** and **+6%** on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star*

EXHIBIT 15: CORPORATE STRUCTURE



Source: Deleum's Annual Report

EXHIBIT 16: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	587.4	558.4	583.2	612.3	642.9
EBITDA	93.5	66.7	72.4	78.0	81.7
Depreciation/Amortisation	(37.1)	(35.4)	(35.9)	(36.3)	(36.7)
Operating income (EBIT)	56.4	31.3	36.4	41.7	45.1
Other income & associates	5.5	7.0	7.3	7.7	8.1
Net interest	0.1	1.1	1.4	1.6	1.9
Exceptional items	**(34.7)**	**(9.1)**	**-**	**-**	**-**
Pretax profit	27.3	30.2	45.2	51.0	55.0
Taxation	(12.0)	(6.5)	(8.1)	(9.2)	(9.9)
Minorities/pref dividends	**(7.9)**	**(6.7)**	**(7.0)**	**(7.4)**	**(7.8)**
Net profit	7.4	17.1	30.0	34.5	37.4
Core net profit	42.1	26.2	30.0	34.5	37.4

Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	154.3	134.5	135.9	137.2	138.6
Intangible assets	0.3	0.3	0.3	0.3	0.2
Other long-term assets	**67.5**	**61.1**	**66.4**	**72.0**	**77.8**
Total non-current assets	222.1	195.9	202.6	209.5	216.6
Cash & equivalent	219.6	192.7	218.7	244.0	272.2
Stock	30.4	32.0	33.2	34.9	36.6
Trade debtors	158.7	164.6	169.1	177.6	186.5
Other current assets	**17.7**	**23.7**	**24.2**	**24.7**	**25.2**
Total current assets	426.4	413.0	445.3	481.2	520.5
Trade creditors	173.2	148.5	157.5	165.3	173.6
Short-term borrowings	55.7	25.9	26.4	26.9	27.5
Other current liabilities	**7.7**	**36.2**	**36.7**	**37.2**	**37.7**
Total current liabilities	236.6	210.6	220.5	229.4	238.7
Long-term borrowings	22.7	4.4	4.4	4.5	4.6
Other long-term liabilities	**18.8**	**15.2**	**15.9**	**16.7**	**17.6**
Total long-term liabilities	**41.5**	**19.6**	**20.4**	**21.3**	**22.2**
Shareholders' funds	349.1	358.3	379.4	405.0	433.5
Minority interests	21.2	20.5	27.6	34.9	42.7
BV/share (RM)	0.87	0.89	0.94	1.01	1.08

Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	27.3	30.2	45.2	51.0	55.0
Depreciation/Amortisation	37.1	35.4	35.9	36.3	36.7
Net change in working capital	52.0	(2.4)	3.6	(1.8)	(1.9)
Others	**(67.7)**	**34.9**	**(54.3)**	**5.8**	**(1.4)**
Cash flow from operations	48.7	98.1	30.4	91.4	88.3
Capital expenditure	(8.6)	(15.6)	(37.3)	(37.6)	(38.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	**-**	**-**	**-**	**-**	**-**
Cash flow from investing	(8.6)	(15.6)	(37.3)	(37.6)	(38.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(4.0)	(8.8)	(8.8)	(8.8)	(8.8)
Others	**(3.0)**	**3.0**	**(1.7)**	**(1.7)**	**(1.6)**
Cash flow from financing	**(7.0)**	**(5.8)**	**(10.6)**	**(10.5)**	**(10.4)**
Net cash flow	**33.1**	**76.6**	**(17.5)**	**43.2**	**39.9**
Net cash/(debt) b/f	**147.1**	**180.3**	**256.9**	**239.4**	**282.6**
Net cash/(debt) c/f	180.3	256.9	239.4	282.6	322.5

Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(32.3)	(4.9)	4.4	5.0	5.0
EBITDA growth (%)	11.5	(28.7)	8.6	7.8	4.8
Pretax margin (%)	4.7	5.4	7.7	8.3	8.6
Net profit margin (%)	1.3	3.1	5.1	5.6	5.8
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	43.8	21.4	18.0	18.0	18.0
Dividend payout (%)	54.1	51.8	29.5	25.6	23.6
Debtors turnover (days)	132	106	104	103	103
Stock turnover (days)	23	20	20	20	20
Creditors turnover (days)	131	105	96	96	96

Source: Company, AmInvestment Bank estimates

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