



Company report

DIALOG GROUP

(DLG MK EQUITY, DIAL.KL)

3 June 2020

Counter-cyclical growth momentum

BUY

(Maintained)

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Rationale for report: Company update

Price	RM3.88
Fair Value	RM4.85
52-week High/Low	RM3.99/RM2.70

Key Changes

Fair value	↕
EPS	↔

YE to Jun	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	2,618.2	2,826.7	3,100.7	3,291.1
Core net profit (RM mil)	522.9	621.6	680.0	743.2
FD Core EPS (sen)	9.3	11.0	12.1	13.2
FD Core EPS growth (%)	17.6	18.9	9.4	9.3
Consensus Net Profit (RMmil)	-	585.7	625.6	701.2
DPS (sen)	3.8	4.0	4.4	4.8
PE (x)	41.8	33.6	32.2	29.4
EV/EBITDA (x)	46.5	38.4	34.7	32.3
Div yield (%)	1.0	1.0	1.1	1.2
ROE (%)	14.3	16.2	15.3	15.2
Net Gearing (%)	20.8	22.2	25.0	27.1

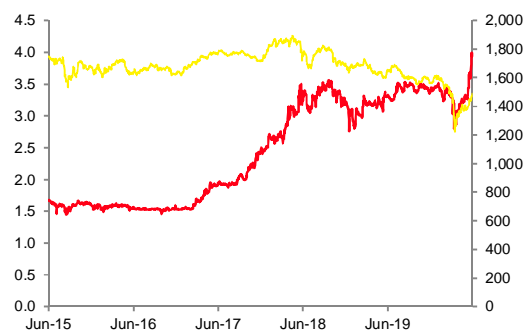
Stock and Financial Data

Shares Outstanding (million)	5,638.3
Market Cap (RM mil)	22,158.5
Book Value (RM/share)	0.67
P/BV (x)	5.8
ROE (%)	14.3
Net Gearing (%)	20.8

Major Shareholders	Ngau Boon Keat(20.9%) EPF(9.0%)
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Free Float	58.7
Avg Daily Value (RM mil)	35.0

Price performance	3mth	6mth	12mth
Absolute (%)	17.7	17.3	18.4
Relative (%)	17.1	23.0	31.1



— DLG MK — FBMKLCI Index

Investment Highlights

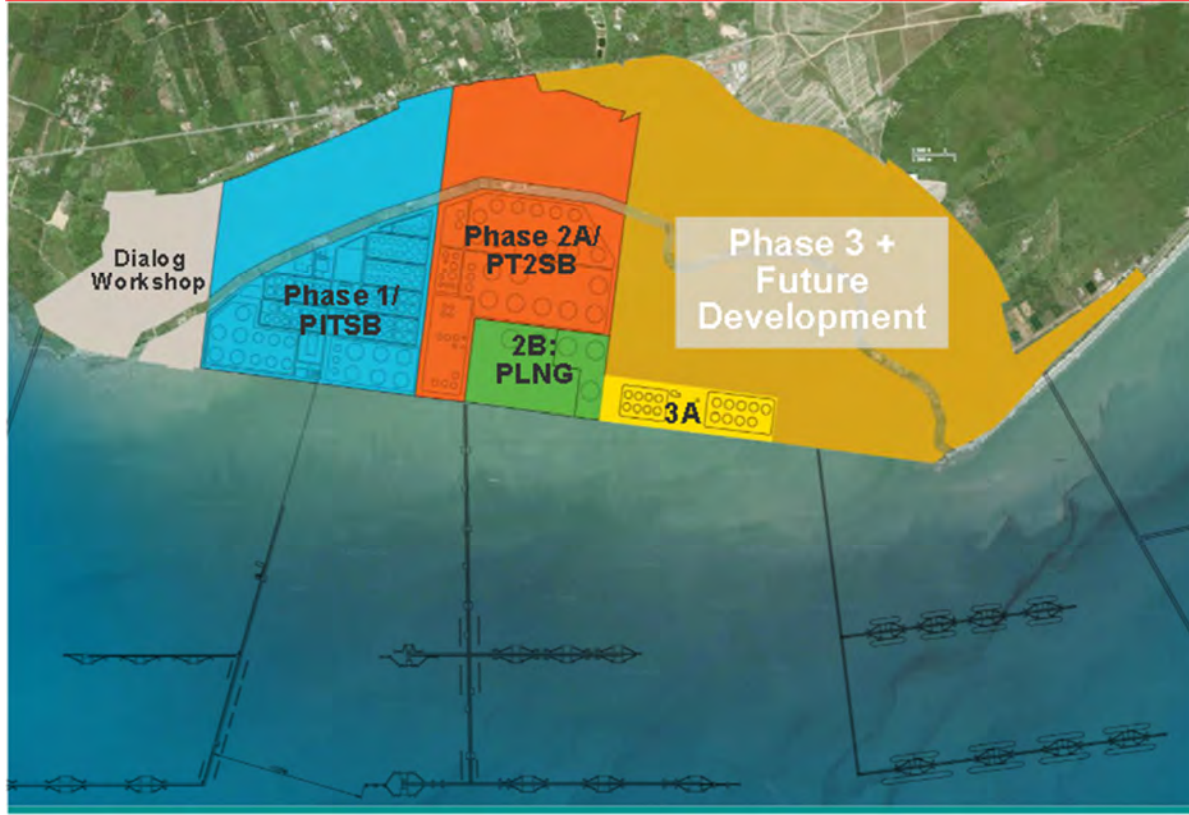
- We maintain BUY on Dialog Group with a higher sum-of-parts-based (SOP) fair value of RM4.85/share (from RM3.80/share), by raising our target PE multiples for the group's recurring specialist/maintenance services to 25x from 20x while rolling forward to FY22F. This implies an FY22F PE of 37x – 1 standard deviation above its 5-year average of 32x. Our SOP maintains the 650-acre Pengerang buffer land valuation at RM80 psf.
- Against the backdrop of strong demand for storage facilities driven by the current oil glut, we maintain our forecasts, which are 6%-9% above consensus, underpinned by the full-year contribution of the fully utilised 1.3mil m3 storage facilities in Pengerang Phase 2, additional 430,000 m3 capacity from Phase 1, and Tanjung Langsat 3's 120,000 m3 tanks.
- The group's maintenance services have not been substantively impacted by the ongoing movement control order which has slightly constrained workers' activities for around 2 weeks without incurring any additional expenses. We understand that refineries and chemical plants have not delayed scheduled maintenance activities, even though utilisation rates may be lowered by reduced offtake amid the Covid-19 pandemic.
- For the group's integrated technical services, Dialog's expanded plant turnaround and maintenance work scope from Petronas' 5-year master service agreement will provide the longer term earnings momentum.
- Notwithstanding the low oil price regime, Dialog's 95%-owned Bayan enhanced oil recovery and 20% stake in the production sharing contracts for the matured D35, D21 and J4 in the Balingian province, off Sarawak, continue to remain in production. While future development plans are being reviewed, we understand that these upstream operations may be able to break even during the worst oil price drop in 2Q2020.
- However, Dialog's main earnings growth prospects stem from the full-year contribution of Pengerang Phase 2's 1.3mil m3 storage which commenced operation in 3Q2019 and Tanjung Langsat 3 terminal's initial 120,000 m3 capacity, of which half commenced in October 2019 and the rest in January 2020.
- In another 12–15 months, Tanjung Langsat 3's balance 85,000 m3 will be operational while an additional 100,000m3 will commence in 2022. Besides the initial income from Pengerang Phase 3A's 430,000m3 upon completion by mid-2021, the group still has ample acreage to double its Pengerang storage capacity with a remaining 500-acre zone comprising further reclaimable land and the adjoining buffer zone.
- Dialog currently trades at a FY22F PE of 29x – below its 5-year peak of 39x. We view its higher-than-peer premium as justified given Dialog's long-term recurring cash flow-generating businesses, further underpinned by the Pengerang development's multi-year value re-rating bonanza and a healthy cash balance.

EXHIBIT 1: SUM-OF-PARTS BREAKDOWN

	FY22F Net profit (RMmil)	PE (x)	RMmil	% SOP contribution
Technical services & products	105.6	25	2,640.3	9.7
Advanced catalyst handling	8.0	25	199.2	0.7
Plant maintenance	52.1	25	1,302.4	4.8
Tank terminal	132.5	n/a		
EPCC and fabrication	445.0	20	8,945.4	32.7
Total	743.2			
Based on DCF valuation				
DCF from 30% -owned Keritih centralised tankage facility (400k cu m) - WAC of 7%			252.0	0.9
DCF from 80% -owned Tj Langsat tank terminal Phase 1 (400k cu m)			775.9	2.8
DCF from 80% -owned Tj Langsat tank terminal Phase 2 (247k cu m)			287.2	1.1
DCF from 100% -owned Tj Langsat tank terminal Phase 3 (300k cu m)			208.4	0.8
DCF from Pengerang Phase 1 (45.9% stake in 1.3mil cu m tank terminal)			1,246.5	4.6
DCF from Pengerang Phase 2 (25% stake in 1.3mil cu m tank terminal)			2,160.2	7.9
DCF from Pengerang Phase 1 expansion (45.9% stake in additional 1mil cu m tank terminal)			623.3	2.3
DCF from Pengerang Phase 3 (Assume similar storage capacity and equity stake as Phase 2)			2,452.9	9.0
DCF of 60% stake in Jubail Supply Base Phase 1 in Saudi Arabia (3.5ha)			35.7	0.1
DCF of 95% -owned Bayan enhanced oil recovery project (WAC at 7% , project IRR at 15% of cost at US\$1.2bil)			2,181.3	8.0
DCF of 25% -owned LNG Terminal at Pengerang (400k cu m)			225.7	0.8
DCF of 20% in RocOil's production fields of D35, D21 and J4.			872.5	3.2
650 acres of industrial and buffer land in Pengerang- assume 65% stake at RM80 psf			1,472.3	5.4
373 acres of reclaimable land in Pengerang - assume at RM70 psf			1,137.4	4.2
Sub-total			27,018.6	
Holding company shareholders' funds as at 30 June 2019			2,354.9	
Less: Cost of subsidiaries and associates			(2,043.9)	
SOP valuation (RMmil)			27,329.6	
No of shares (million)			5,638.3	
SOP valuation-basic (RM/share)			4.85	
Implied FY22F PE			37	

Source: AmInvestment Bank

EXHIBIT 2: PENERANG DEVELOPMENT



Source: Dialog's Corporate Presentation slide

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART

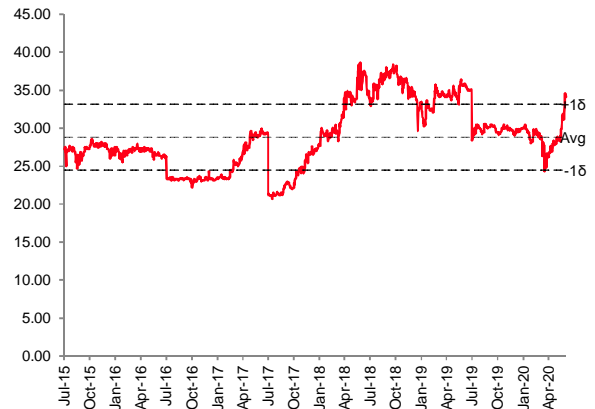


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	3,110.6	2,618.2	2,826.7	3,100.7	3,291.1
EBITDA	523.9	493.5	601.9	671.7	727.9
Depreciation/Amortisation	(104.1)	(100.8)	(141.1)	(169.4)	(194.8)
Operating income (EBIT)	419.9	392.7	460.8	502.3	533.2
Other income & associates	129.1	222.2	272.5	303.1	348.6
Net interest	13.5	(22.7)	(34.5)	(41.9)	(51.0)
Exceptional items	65.6	-	28.5	-	-
Pretax profit	628.1	592.2	727.3	763.5	830.8
Taxation	(99.8)	(59.4)	(66.8)	(72.5)	(76.1)
Minorities/pref dividends	(17.9)	(9.9)	(10.4)	(10.9)	(11.5)
Net profit	510.4	522.9	650.1	680.0	743.2
Core net profit	444.8	522.9	621.6	680.0	743.2
Balance Sheet (RMmil, YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	1,603.0	1,936.0	2,753.6	3,135.9	3,523.2
Intangible assets	288.4	364.2	364.2	364.2	364.2
Other long-term assets	2,106.6	2,194.4	1,940.6	2,211.4	2,518.7
Total non-current assets	3,998.0	4,494.6	5,058.5	5,711.5	6,406.1
Cash & equivalent	1,265.0	884.4	873.0	719.8	571.1
Stock	92.4	95.6	97.5	99.5	101.4
Trade debtors	997.5	1,217.2	1,241.5	1,266.3	1,291.7
Other current assets	12.3	18.0	18.0	18.0	18.0
Total current assets	2,367.2	2,215.2	2,230.0	2,103.7	1,982.2
Trade creditors	1,074.8	1,050.0	1,060.5	1,071.1	1,081.8
Short-term borrowings	377.5	356.2	463.0	509.3	560.3
Other current liabilities	74.9	72.8	72.8	72.8	72.8
Total current liabilities	1,527.2	1,478.9	1,596.3	1,653.2	1,714.8
Long-term borrowings	1,232.8	1,318.2	1,344.5	1,371.4	1,398.9
Other long-term liabilities	5.8	5.0	5.0	5.0	5.0
Total long-term liabilities	1,238.6	1,323.2	1,349.5	1,376.4	1,403.8
Shareholders' funds	3,500.9	3,791.2	4,215.8	4,647.8	5,120.3
Minority interests	98.5	116.5	126.9	137.8	149.3
BV/share (RM)	0.62	0.67	0.75	0.82	0.91
Cash Flow (RMmil, YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	628.1	592.2	727.3	763.5	830.8
Depreciation/Amortisation	104.1	100.8	141.1	169.4	194.8
Net change in working capital	186.7	(255.4)	(15.8)	(16.2)	(16.6)
Others	269.1	21.9	(155.1)	169.5	201.5
Cash flow from operations	1,188.0	459.5	697.5	1,086.2	1,210.5
Capital expenditure	(816.9)	(107.8)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(816.9)	(107.8)	(400.0)	(400.0)	(400.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(180.4)	(214.3)	(225.5)	(248.1)	(270.6)
Others	13.5	(22.7)	(34.5)	(41.9)	(51.0)
Cash flow from financing	(166.9)	(237.0)	(260.0)	(290.0)	(321.6)
Net cash flow	204.1	114.7	37.5	396.2	488.9
Net cash/(debt) b/f	7.4	69.3	1.6	(345.3)	(790.0)
Net cash/(debt) c/f	69.3	1.6	(345.3)	(790.0)	(934.6)
Key Ratios (YE30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	(8.3)	(15.8)	8.0	9.7	6.1
EBITDA growth (%)	33.7	(5.8)	22.0	11.6	8.4
Pretax margin (%)	20.2	22.6	25.7	24.6	25.2
Net profit margin (%)	16.4	20.0	23.0	21.9	22.6
Interest cover (x)	nm	17.3	13.4	12.0	10.5
Effective tax rate (%)	15.9	10.0	9.2	9.5	9.2
Dividend payout (%)	35.4	41.0	34.7	36.5	36.4
Debtors turnover (days)	131	154	159	148	142
Stock turnover (days)	10	13	12	12	11
Creditors turnover (days)	130	148	136	125	119

Source: Company, AmInvestment Bank Bhd estimates

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