



AmInvestment Bank

Company report

DIALOG GROUP

(DLG MK EQUITY, DIAL.KL)

6 Apr 2021

Strong execution in Pengerang Phase 3A launch

BUY

(Maintained)

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Rationale for report: Company update

Price	RM3.06
Fair Value	RM4.80
52-week High/Low	RM3.99/RM2.94

Key Changes

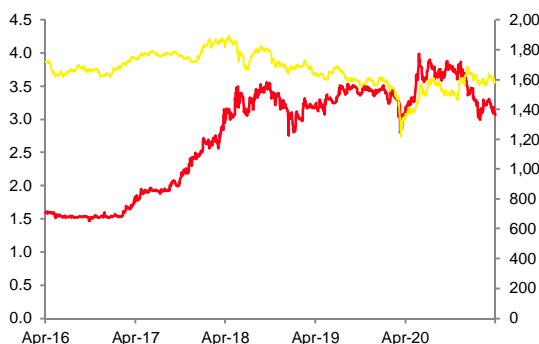
Fair value	↔
EPS	↔

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	2,303.4	2,276.3	2,788.8	3,087.7
Core net profit (RM mil)	601.8	614.7	710.3	776.1
FD Core EPS (sen)	10.7	10.9	12.6	13.8
FD Core EPS growth (%)	12.3	2.1	15.6	9.3
Consensus Net Profit (RM mil)	-	575.3	672.4	716.2
DPS (sen)	3.1	4.4	4.8	5.8
PE (x)	28.7	28.1	24.3	22.2
EV/EBITDA (x)	24.8	27.3	24.2	21.6
Div yield (%)	1.0	1.4	1.5	1.8
ROE (%)	15.9	14.2	15.1	15.0
Net Gearing (%)	16.2	18.7	19.6	18.5

Stock and Financial Data

Shares Outstanding (million)	5,638.3
Market Cap (RM mil)	17,253.2
Book Value (RM/share)	0.73
P/BV (x)	4.2
ROE (%)	15.9
Net Gearing (%)	16.2
Major Shareholders	Ngau Boon Keat(20.9%) EPF(10.7%)
Free Float	58.7
Avg Daily Value (RM mil)	27.8

Price performance	3mth	6mth	12mth
Absolute (%)	(8.7)	(19.5)	(1.3)
Relative (%)	(7.3)	(23.1)	(17.1)



— DLG MK — FBMKLCI Index

Investment Highlights

- We maintain BUY on Dialog Group with an unchanged sum-of-parts-based (SOP) fair value of RM4.80/share, which reflects a neutral ESG rating of 3 stars. This also implies a CY22F PE of 36x – below its 5-year peak of 39x. This is partly based on our valuation of the 650-acre Pengerang buffer land at RM80 psf.
- In a ceremony officiated by Johor Menteri Besar Datuk Hasni Mohammad, Dialog launched Phase 3A of Pengerang Deepwater Terminals (PDT) development yesterday, which had already received its first vessel, oil/chemical tanker MT High Fidelity, on 19 March 2021.
- Operated by Dialog Terminals Pengerang (5) Sdn Bhd, recall that this is the first parcel of PDT's Phase 3 consisting of storage tanks with a capacity of 430,000 cubic metres for clean petroleum products, common tankage facilities which includes shared infrastructure and deepwater marine facilities for Jetty 3.
- Phase 3A, which began after the signing of the long-term storage agreement with BP Singapore in December 2018, covers an initial investment of RM1.6bil or 64% of the indicative preliminary cost of RM2.5bil for the Phase 3 being developed on 300 acres of reclaimed land.
- In our view, Dialog's strong execution capability is demonstrated by Phase 3A being completed ahead of schedule from an earlier mid-2021 target and also within budget despite the various degrees of the MCO since March last year.
- Besides the storage offtake from BP, Dialog is also targeting medium to long-term oil traders, multinational oil companies, refineries and petrochemical plants for the next phases. These support various downstream operations including those of the refinery and petrochemical plants within the Pengerang Integrated Petroleum Complex.
- Since the first MoU with the Johor state government in June 2009, Dialog and its joint-venture partners have invested over RM13.5bil in Phases 1, 2 and 3 to date. Anchored by the strategically located Johor hub near the congested east-west shipping routes in Singapore, the group is still looking at petrochemical joint venture partners.
- Hence, we expect an ample pipeline of fresh projects and investments given that the group still has 500 acres remaining for developments beyond Phase 3A. Our forecasts are maintained as we have incorporated Phase 3A's earnings contribution, which largely drives FY22F 16% net profit growth.
- Dialog currently trades at a FY22F PE of 24x – well 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 underpinned by the Pengerang development's multi-year value re-rating bonanza and low net gearing levels.

EXHIBIT 1: SUM-OF-PARTS BREAKDOWN

	CY22F Net profit (RMmil)	PE (x)	RMmil	% SOP contribution
Technical services & products	103.9	25	2,596.4	9.6
Advanced catalyst handling	15.7	25	391.8	1.4
Plant maintenance	53.7	25	1,341.7	5.0
Tank terminal	268.7	n/a		
EPC and fabrication	301.4	25	7,624.5	28.1
Total	743.2			
Based on DCF valuation				
DCF from 30%-owned Kertih centralised tankage facility (400k cu m)- WAC of 7%			252.0	0.9
DCF from 100%-owned Tj Langsat tank terminal Phase 1 (400k cu m)			969.9	3.6
DCF from 100%-owned Tj Langsat tank terminal Phase 2 (247k cu m)			359.0	1.3
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)			1,371.2	5.1
DCF from Pengerang Phase 2 (25% stake in 1.3mil cu m tank terminal)			2,592.3	9.6
DCF from Pengerang Phase 1 expansion (45.9% stake in additional 1mil cu m tank terminal)			822.7	3.0
DCF from Pengerang Phase 3 (Assume similar storage capacity and equity stake as Phase 2)			2,264.2	8.4
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	8.1
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			26,719.0	
Holding company shareholders' funds as at 30 June 2020			2,700.9	
Less: Cost of subsidiaries and associates			(2,331.9)	
SOP valuation (RMmil)			27,088.0	
ESG premium (%)			-	
SOP valuation - adjusted for ESG			27,088.0	
No of shares (million)			5,638.3	
ESG-adjusted SOP valuation (RM/share)			4.80	
Implied CY22F PE			36	

Source: AmInvestment Bank

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG RATING

Overall	★	★	★	★	
Zero-carbon initiatives	★	★	★		
Health & Safety	★	★	★		
Independent BOD	★	★	★		
Corporate social	★	★	★	★	★
Pollution control	★	★	★		
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★	★	
Accessibility &	★	★	★		

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

Source: AmInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	2,386.5	2,303.4	2,276.3	2,788.8	3,087.7
EBITDA	592.7	724.2	663.9	754.1	846.3
Depreciation/Amortisation	(128.6)	(192.8)	(231.4)	(266.1)	(306.0)
Operating income (EBIT)	464.1	531.4	432.5	488.0	540.3
Other income & associates	180.1	242.0	293.1	348.6	358.4
Net interest	8.8	(54.6)	(30.2)	(36.1)	(19.3)
Exceptional items	-	28.5	-	-	-
Pretax profit	653.0	747.3	695.4	800.6	879.4
Taxation	(100.7)	(99.2)	(62.1)	(70.7)	(82.8)
Minorities/pref dividends	(16.5)	(17.7)	(18.6)	(19.5)	(20.5)
Net profit	535.8	630.4	614.7	710.3	776.1
Core net profit	535.8	601.8	614.7	710.3	776.1
Balance Sheet (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	1,936.0	2,563.0	2,839.1	3,101.9	3,273.3
Intangible assets	364.2	777.2	777.2	777.2	777.2
Other long-term assets	2,194.4	1,357.0	1,620.2	1,926.5	2,241.6
Total non-current assets	4,494.6	4,697.3	5,236.5	5,805.7	6,292.1
Cash & equivalent	884.4	1,240.4	1,145.9	1,100.4	1,109.0
Stock	95.6	84.7	86.4	88.1	89.9
Trade debtors	1,217.2	1,147.0	1,169.9	1,193.3	1,217.2
Other current assets	18.0	20.7	20.7	20.7	20.7
Total current assets	2,215.2	2,492.8	2,423.0	2,402.6	2,436.7
Trade creditors	1,050.0	936.2	945.6	955.1	964.7
Short-term borrowings	356.2	457.7	503.5	553.8	564.9
Other current liabilities	72.8	80.5	80.5	80.5	80.5
Total current liabilities	1,478.9	1,474.4	1,529.5	1,589.4	1,610.1
Long-term borrowings	1,318.2	1,453.5	1,482.5	1,512.2	1,542.4
Other long-term liabilities	5.0	18.5	18.5	18.5	18.5
Total long-term liabilities	1,323.2	1,471.9	1,501.0	1,530.6	1,560.9
Shareholders' funds	3,791.2	4,132.1	4,498.7	4,938.4	5,387.5
Minority interests	116.5	111.6	130.2	149.8	170.3
BV/share (RM)	0.67	0.73	0.80	0.88	0.96
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	653.0	747.3	695.4	800.6	879.4
Depreciation/Amortisation	128.6	192.8	231.4	266.1	306.0
Net change in working capital	(255.4)	(27.6)	(15.2)	(15.6)	(16.0)
Others	(30.0)	(238.2)	181.7	221.8	237.3
Cash flow from operations	496.1	674.2	1,093.2	1,272.9	1,406.7
Capital expenditure	(135.5)	(400.0)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(135.5)	(400.0)	(400.0)	(400.0)	(400.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(214.3)	(174.8)	(248.1)	(270.6)	(327.0)
Others	8.8	(54.6)	(30.2)	(36.1)	(19.3)
Cash flow from financing	(205.5)	(229.4)	(278.3)	(306.7)	(346.3)
Net cash flow	155.1	44.8	414.9	566.1	660.3
Net cash/(debt) b/f	69.3	1.6	(345.3)	(790.0)	(670.8)
Net cash/(debt) c/f	1.6	(345.3)	(790.0)	(670.8)	(840.0)
Key Ratios (YE30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(23.3)	(3.5)	(1.2)	22.5	10.7
EBITDA growth (%)	13.1	22.2	(8.3)	13.6	12.2
Pretax margin (%)	27.4	32.4	30.5	28.7	28.5
Net profit margin (%)	22.5	27.4	27.0	25.5	25.1
Interest cover (x)	nm	9.7	14.3	13.5	28.0
Effective tax rate (%)	15.4	13.3	8.9	8.8	9.4
Dividend payout (%)	40.0	27.7	40.4	38.1	42.1
Debtors turnover (days)	169	187	186	155	142
Stock turnover (days)	14	14	14	11	11
Creditors turnover (days)	162	157	151	124	113

Source: Company, AmlInvestment Bank Bhd estimates

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