



Company report

DIALOG GROUP

(DLG MK EQUITY, DIAL.KL)

14 Jan 2022

Multiple tank and downstream prospects in Pengerang

BUY

(Maintained)

Alex Goh

alexgoh@ambankgroup.com

03-2036 2280

Rationale for report: Company update

Price	RM2.90
Fair Value	RM3.75
52-week High/Low	RM3.35/RM2.31

Key Changes

Fair value	↕
EPS	↕

YE to Jun	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,609.9	1,690.6	1,924.1	2,076.1
Core net profit (RM mil)	520.4	602.7	667.0	714.2
FD Core EPS (sen)	9.2	10.7	11.8	12.7
FD Core EPS growth (%)	(13.5)	15.8	10.7	7.1
Consensus Net Profit (RM mil)	-	574.1	645.6	678.1
DPS (sen)	3.1	3.1	3.4	3.6
PE (x)	31.4	27.1	24.5	22.9
EV/EBITDA (x)	30.5	31.3	27.6	25.6
Div yield (%)	1.2	1.2	1.3	1.4
ROE (%)	12.5	12.5	12.7	12.4
Net Gearing (%)	21.3	22.3	21.2	19.6

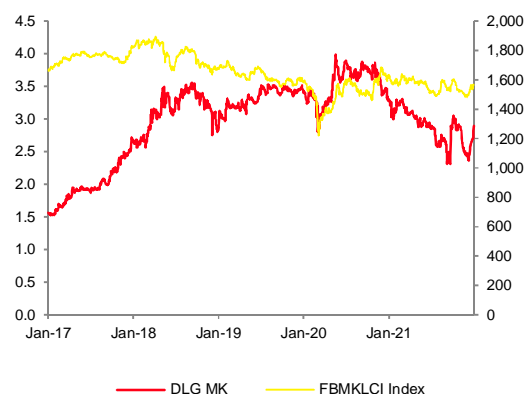
Stock and Financial Data

Shares Outstanding (million)	5,638.3
Market Cap (RM mil)	16,351.1
Book Value (RM/share)	0.82
P/BV (x)	3.6
ROE (%)	12.5
Net Gearing (%)	21.3

Major Shareholders	Ngau Boon Keat(20.9%) EPF(13.2%)
--------------------	-------------------------------------

Free Float	58.7
Avg Daily Value (RM mil)	17.4

Price performance	3mth	6mth	12mth
Absolute (%)	(2.7)	1.4	(12.1)
Relative (%)	(0.8)	(1.8)	(8.4)



Investment Highlights

- We maintain BUY on Dialog Group with an unchanged sum-of-parts-based (SOP) fair value of RM3.75/share, which reflects a neutral ESG rating of 3 stars. This also implies an FY23F PE of 32x, near its 5-year average of 31x.
- Pending the upcoming results next month, we maintain our forecasts for now. Meanwhile, our recent virtual meeting with management provided the following salient highlights:
 - The gradually moderating impact of Covid-19 lockdowns on labour and border restrictions is likely to translate to a stronger 2HFY22. Recall that Dialog's 1QFY22 net profit slid 4% YoY from higher project expenses, principally raw material/logistics costs driven by global supply chain disruptions and delayed execution.
 - The group is still in discussions with clients on recovering some of the Covid-19-related costs incurred in FY21 and 1HFY22, which may include incorporating into the future billings of long-term contracts. In Singapore, Dialog works closely with its clients and partners to mitigate labour constraints via permit and visa approvals for plant maintenance jobs.
 - The 85K m3 additional storage of Dialog's wholly-owned Tanjung Langsat 3 was completed in December 2021, raising the group's total gross capacity by 1% to 5.1mil cubic metres (m3) and effective net capacity by 3% to 2.6mil m3. The group still has 17 acres of land next to Dialog Terminals 1 & 2, which can accommodate an additional 200K m3 or increase the group's Tanjung Langsat capacity by 23% to 1.1mil m3.
 - The completion of the 430K m3 Pengerang Terminal 5 at Phase 3A in March 2021 has raised the group's Pengerang gross capacity by 13% to 3.8mil m3 and net capacity by 36% to 1.6mil m3. The storage of this wholly-owned terminal is dedicated for BP Singapore, which has a long-term storage agreement with Dialog.
 - Terminal 5 covers up to 50 acres of the 300 acres of Pengerang Phase 3 reclaimed land, which can accommodate another 2mil–2.5mil m3 of tank storage capacity. We understand that the group is currently in negotiations with interested off-takers for the additional tank storage expansion given the recovery in global demand for oil.
 - Together with the adjoining buffer land surrounding the Pengerang Phase 3, Dialog still has 500 acres of land which have multi-year development potential, including downstream specialty chemical production in which the group is already discussing with interested multinationals. However, the Covid-19 pandemic has restricted international travel and site inspections, delaying the conclusion of negotiations.

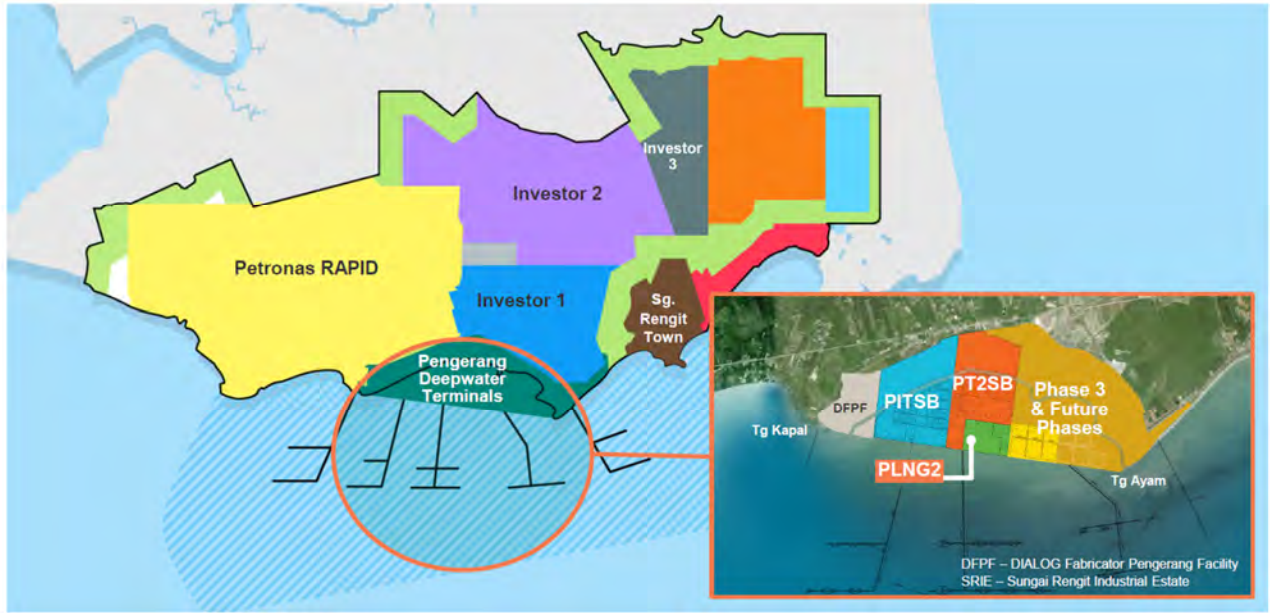
- Pengerang Independent Terminal (PITSB), in which Dialog has an 45.9% effective equity stake, Vopak 44.1% and Johor state 10%, has buffer land in addition to the 150 acres of reclaimed Phase 1 area housing the existing 1.7mil m3 tank storage which cost RM3.2bil. This additional land could accommodate an additional 600K m3 of tank capacity (35% of Phase 1 capacity).
 - Likewise, Dialog's 25%-owned Pengerang Terminal 2 (PT2SB) has additional buffer land which can secure an additional 1mil m3 of tank storage or 77% in addition to the current 1.3mil m3 terminal located on 157 acres of Phase 2 reclaimed land. Recall that the current facilities cost RM6.3bil, in which Dialog undertook EPCC services worth RM5.5bil.
 - Additionally, Pengerang LNG (Two) (PLNG2), in which Dialog has a 25% stake, Petronas Gas 65% and Johor state 10%, has invited prospective contractors to submit non-binding expressions of interest (EoI) to utilise a proposed new liquefied natural gas (LNG) tank with a capacity of 160K–260K m3 on a 20-year commercial lease agreement. The EoI aims to enable PLNG2 to assess the feasibility of constructing a third LNG storage tank at its existing and operational Pengerang LNG import facility in Johor. Subject to achieving final investment decision, the new storage tank, which could add 40%–65% to the current PLNG2 capacity of 400K m3, is expected to be completed by 4Q2025 at the earliest.
 - Besides tank storage projects, the group is exploring renewable energy solutions such as hydrogen, solar and carbon capture storage as part of its ESG commitments. However, management affirms its commitment to adequate returns of investments above its green agenda. Hence, the group's participation in a 51:49 joint venture to build, own and operate a RM20mil food-grade recycled polyethylene terephthalate (PET) pellet production facility in Nilai, Negeri Sembilan is expected to have a payback period of 5 years.
- Dialog currently trades at an attractive FY23F PE of 25x, well below its 5-year peak of 40x. We believe Dialog deserves above-peer premium valuations given its long-term recurring cash flow-generating businesses which are further 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	75.0	20	1,499.4	7.1
Advanced catalyst handling	13.5	20	270.9	1.3
Plant maintenance	30.8	20	616.9	2.9
Tank terminal	268.7	n/a		
EPCC and fabrication	246.8	18	4,442.1	21.0
Total	634.8			
Based on DCF valuation				
DCF from 30%-owned Kertih centralised tankage facility (400k cu m)- WAC of 7%			252.0	1.2
DCF from 100%-owned Tj Langsat tank terminal Phase 1 (400k cu m)			969.9	4.6
DCF from 100%-owned Tj Langsat tank terminal Phase 2 (247k cu m)			359.0	1.7
DCF from 100%-owned Tj Langsat tank terminal Phase 3 (300k cu m)			208.4	1.0
DCF from Pengerang Phase 1 (45.9% stake in 1.3mil cu m tank terminal)			1,371.2	6.5
DCF from Pengerang Phase 2 (25% stake in 1.3mil cu m tank terminal)			2,592.3	12.3
DCF from Pengerang Phase 1 expansion (45.9% stake in additional 1mil cu m tank terminal)			822.7	3.9
DCF from Pengerang Phase 3 (Assume similar storage capacity and equity stake as Phase 2)			2,264.2	10.7
DCF of 60% stake in Jubail Supply Base Phase 1 in Saudi Arabia (3.5ha)			35.7	0.2
DCF of 95%-owned Bayan enhanced oil recovery project (WAC at 7%, project IRR at 15% of cost at US\$1.2bil)			1,963.2	9.3
DCF of 25%-owned LNG Terminal at Pengerang (400k cu m)			225.7	1.1
DCF of 20% in RocOil's production fields of D35, D21 and J4			785.3	3.7
650 acres of industrial and buffer land in Pengerang- assume 65% stake at RM60 psf			1,104.2	5.2
373 acres of reclaimable land in Pengerang - assume at RM60 psf			974.9	4.6
Sub-total			20,757.9	
Holding company shareholders' funds as at 30 June 2020			2,700.9	
Less: Cost of subsidiaries and associates			(2,331.9)	
SOP valuation (RMmil)			21,126.8	
ESG premium (%)			-	
SOP valuation - adjusted for ESG			21,126.8	
No of shares (million)			5,638.3	
ESG-adjusted SOP valuation (RM/share)			3.75	
Implied FY23F PE				32

Source: AmlInvestment Bank

EXHIBIT 2: Pengerang Deepwater Terminal Layout



Source: Dialog Presentation slide

EXHIBIT 3: DIALOG TERMINALS LANGSAT



Source: Dialog Presentation slide

EXHIBIT 4: PB BAND CHART



EXHIBIT 5: PE BAND CHART



EXHIBIT 6: 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

Source: AmInvestment Bank

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	2,303.4	1,609.9	1,690.6	1,924.1	2,076.1
EBITDA	724.2	568.5	557.9	635.0	685.1
Depreciation/Amortisation	(192.8)	(226.7)	(263.9)	(277.0)	(290.9)
Operating income (EBIT)	531.4	341.8	294.0	357.9	394.2
Other income & associates	242.0	227.4	348.6	358.4	374.3
Net interest	(54.6)	3.0	(8.4)	(9.1)	(9.4)
Exceptional items	28.5	23.1	-	-	-
Pretax profit	747.3	595.3	634.3	707.1	759.2
Taxation	(99.2)	(51.9)	(31.7)	(40.3)	(45.0)
Minorities/pref dividends	(17.7)	0.1	0.1	0.1	0.1
Net profit	630.4	543.5	602.7	667.0	714.2
Core net profit	601.8	520.4	602.7	667.0	714.2
Balance Sheet (RMmil, YE 30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	2,563.0	3,371.9	3,626.0	3,819.7	4,006.7
Intangible assets	777.2	835.1	835.1	835.1	835.1
Other long-term assets	1,357.0	1,611.7	1,920.5	2,238.2	2,569.4
Total non-current assets	4,697.3	5,818.6	6,381.5	6,892.9	7,411.2
Cash & equivalent	1,240.4	1,453.4	1,385.0	1,392.5	1,431.5
Stock	84.7	43.7	44.6	45.5	46.4
Trade debtors	1,147.0	620.7	633.2	645.8	658.7
Other current assets	20.7	40.8	40.8	40.8	40.8
Total current assets	2,492.8	2,158.6	2,103.6	2,124.6	2,177.5
Trade creditors	936.2	753.7	761.3	768.9	776.7
Short-term borrowings	457.7	297.7	327.5	334.0	340.7
Other current liabilities	80.5	64.1	64.1	64.1	64.1
Total current liabilities	1,474.4	1,115.5	1,152.9	1,167.1	1,181.5
Long-term borrowings	1,453.5	2,136.9	2,179.6	2,223.2	2,267.7
Other long-term liabilities	18.5	24.9	24.9	24.9	24.9
Total long-term liabilities	1,471.9	2,161.8	2,204.5	2,248.1	2,292.6
Shareholders' funds	4,132.1	4,597.7	5,025.5	5,500.2	6,012.6
Minority interests	111.6	102.3	102.2	102.1	102.0
BV/share (RM)	0.73	0.82	0.89	0.98	1.07
Cash Flow (RMmil, YE 30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	747.3	595.3	634.3	707.1	759.2
Depreciation/Amortisation	192.8	226.7	263.9	277.0	290.9
Net change in working capital	(27.6)	348.2	(5.7)	(5.9)	(6.1)
Others	(243.0)	456.9	249.8	228.5	313.6
Cash flow from operations	669.4	1,627.1	1,142.3	1,206.8	1,357.6
Capital expenditure	(400.0)	(400.0)	(400.0)	(400.0)	(400.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(400.0)	(400.0)	(400.0)	(400.0)	(400.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(174.8)	(174.8)	(174.8)	(192.3)	(201.9)
Others	(54.6)	3.0	(8.4)	(9.1)	(9.4)
Cash flow from financing	(229.4)	(171.8)	(183.2)	(201.4)	(211.2)
Net cash flow	40.0	1,055.3	559.1	605.4	746.4
Net cash/(debt) b/f	1.6	(345.3)	(790.0)	(670.8)	(981.2)
Net cash/(debt) c/f	(345.3)	(790.0)	(670.8)	(981.2)	(1,122.1)
Key Ratios (YE30 Jun)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(3.5)	(30.1)	5.0	13.8	7.9
EBITDA growth (%)	22.2	(21.5)	(1.9)	13.8	7.9
Pretax margin (%)	32.4	37.0	37.5	36.8	36.6
Net profit margin (%)	27.4	33.8	35.6	34.7	34.4
Interest cover (x)	9.7	nm	34.9	39.1	42.1
Effective tax rate (%)	13.3	8.7	5.0	5.7	5.9
Dividend payout (%)	27.7	32.2	29.0	28.8	28.3
Debtors turnover (days)	187	200	135	121	115
Stock turnover (days)	14	15	10	9	8
Creditors turnover (days)	157	192	164	145	136

Source: Company, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.