

COMPANY UPDATE

Dialog Group (DLG MK)

Storage Sentiment Bottoms, But Earnings Inflection To Take Time

Although PITSB's FY22 earnings were worse than expected, DLG believes that storage earnings found a support due to demand for energy security. Earnings inflection will take time as supply chain issues remain, despite incoming POEC upstream earnings. Share price may remain range-bound and we adjusted SOTP for higher WACC, but value will re-emerge, alongside ESG developments and growth catalysts like PIPC's Phase 2. Maintain BUY with a lower target price of RM2.25.

WHAT'S NEW

- **DLG's market cap appears to trade within/below the RM10b mark**, and we note this was its trading range before May 17, ie before investors started to factor in the Pengerang Phase 3 storage expansion. Given there were no major near-term growth catalysts, its PE de-rating can be explained via the sentiment of rising interest rates and discount rates, and appeared similar to its storage partner Vopak, where share value has halved since a year ago. After meeting Dialog Group (DLG) recently, we understand current market condition had reduced the M&A valuations for storage terminals from pre-COVID-19 highs of 16-20x EV/EBITDA, when storage terminals were favoured as an inflation hedge and proxy for long-term offtakes. DLG opines that value propositions for new storage terminals remain strong, and still targets a minimum IRR of high single-digits for new projects.
- **Independent terminal appears to find support from energy security.** Pengerang Independent Terminal (PITSB) is still reporting utilisation of 80% levels and average rates of SG\$5.0-5.5/cbm. As a recap, the utilisation reflects the take-or-pay rented capacities (until renewal periods of between few months to five years), and the contracts are by type of fuel, even if actual product inventories are in different dynamics. For example, crude inventories may rise on the back of reduced global demand, but diesel market remains tight. However, DLG does not foresee further deterioration in storage earnings, or at least the utilisation has found a support, as PITSB also benefitted from rising energy security, ie demand from offtakers that requires security of storage if more geopolitical tensions create further sanctions or disruptions in product trade flows.
- **More patience needed for major earnings inflection**, although we understand that its foreign shareholding level remains at 20%. However, we concluded that the group's earnings inflection point is not yet clear, amid continuous inflationary and supply chain challenges. For example, some of DLG's customers are delaying the timeline of EPCC projects until material costs normalise to a more palatable level. However, this will inevitably mean higher project costs for DLG. Also, managing the labour issue is another challenge due to changing trends after the peak of the pandemic, especially for technical staff.

KEY FINANCIALS

Year to 30 Jun (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,610	2,319	2,619	2,638	2,610
EBITDA	533	574	566	738	803
Operating profit	307	334	304	455	499
Net profit (rep./act.)	543	508	554	618	654
Net profit (adj.)	500	504	504	618	654
EPS (sen)	7.9	8.0	8.0	9.8	10.4
PE (x)	23.0	22.8	22.8	18.6	17.5
P/B (x)	2.5	2.3	2.1	2.0	1.8
EV/EBITDA (x)	21.4	19.9	20.1	15.4	14.2
Dividend yield (%)	1.5	1.5	1.5	1.9	2.0
Net margin (%)	33.7	21.9	21.1	23.4	25.1
Net debt/(cash) to equity (%)	10.5	10.4	8.2	9.5	10.5
Interest cover (x)	20.2	14.3	14.6	17.6	17.9
ROE (%)	12.4	10.5	10.6	11.1	10.9
Consensus net profit	-	-	591	636	664
UOBKH/Consensus (x)	-	-	0.85	0.97	0.99

Source: Dialog Group Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.82
Target Price	RM2.25
Upside	+23.8%
(Previous TP)	RM2.88)

COMPANY DESCRIPTION

Dialog provides engineering, procurement, construction and commissioning services and plant maintenance services. The company also owns tank terminals that store oil and gas while marketing specialty chemicals and equipment.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	DLG MK
Shares issued (m):	5,642.6
Market cap (RMm):	10,269.5
Market cap (US\$m):	2,167.5
3-mth avg daily t'over (US\$m):	2.1

Price Performance (%)

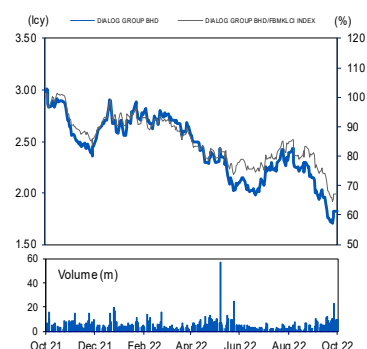
52-week high/low		RM3.01/RM1.71		
1mth	3mth	6mth	1yr	YTD
(15.3)	(15.0)	(31.1)	(38.7)	(30.5)

Major Shareholders

	%
Ngau Boon Keat	18.3
EPF	14.2
Azam Utama	7.6

FY23 NAV/Share (RM)	0.85
FY23 Net Debt/Share (RM)	0.07

PRICE CHART



Source: Bloomberg

ANALYST(S)

Kong Ho Meng
+603 2147 1987
homeng@uobkayhian.com

STOCK IMPACT

- **Potential beneficiary of further expansion of Pengerang Integrated Petroleum Complex (PIPC).** The PIPC mega project in Johor, which already launched the Pengerang Refinery/Chemical Complex (PRefChem) and DLG's storage terminals (RM15b investments combined), is now on Phase 2 expansion (out of four). With the government's approval for special status for this hub, the Johor Corp (representing the state) wishes to capture RM10b committed investments under this phase (until 2026), and this phase should include additional industries, ie chemical players like ChemOne, to build their facilities to expand the whole PIPC ecosystem.

This was meant to be the biggest growth driver for DLG, as it had reclaimed 300 acres of land for Pengerang storage (Phase 3), earmarked for at least 10-year offtake tenures, and can be for any fuels including chemicals or fuels for the emerging energy transition like LNG, ammonia and hydrogen. However, only BP Singapore has committed for 0.4m cbm of storage. We understand that there is no near-term catalyst yet, and one reason cited is political and election risks still slowing the progress of locking in new offtakers, even after borders have fully reopened in April, but we are not ruling out a possibility of DLG securing EPCC projects first before locking in new storage offtake agreements.

- **Brief review of FY22 JV/associate earnings.** DLG released its FY22 Annual Report recently. Based on the latest information, we cut PITSB's forecasts given that the FY22 JV earnings were worse than our original forecast of RM58m, but upgraded Pengerang LNG (PLNG) forecasts as the FY22 associate earnings outperformed our original forecast of RM61m (please refer to RHS table). Like FY21, there is no disclosure of earnings for Pengerang Terminals Two (PT2SB); hence we leave our forecasts unchanged. We boosted other JV forecasts to include the Thailand upstream concession (POEC) earnings, as the acquisition was completed in end-Aug 22, although we may fine-tune the numbers once DLG reveals the project earnings in its mid-Nov 22 quarterly results release.

- **ESG updates.** DLG has released its ESG roadmap - a positive for investors - and we expect the company to slowly unveil the many ESG developments it is embarking on, involving various investments of <US\$10m each. Some of the ESG projects include: a) a US-based sustainable chemical/carbon provider LanzaTech (with Petronas as a joint investor), b) a New Zealand green hydrogen provider Hirlinga Energy (invested in 2022), c) a Singapore robotics solution/drone startup Performance Rotors (invested in 2022), and d) a feasibility study with Shell since 25 May 22, to explore a pyrolysis oil project.

Of these, we see the pyrolysis project to have the highest potential to be monetised. The circular economy project involves building a plant to recycle waste plastics in Malaysia (which can be collected via Shell's station network here), after which the pyrolysis oil is to be used as feedstock for Shell's chemical park in Bukom, Singapore.

EARNINGS REVISION/RISK

- **Adjust 2023-25 earnings by -7%/1%/3%.** Although our JV forecasts are boosted by 20% (largely due to POEC earnings), and revenues are adjusted higher to account for higher oil prices for the upstream division, we cut overall earnings for 2023 to factor in higher project and interest costs, but we expect a net earnings growth from FY24 onwards.

STOCK VALUATION/ RECOMMENDATION

- **Retain BUY with an adjusted target price of RM2.25 (from RM2.88),** which implies FY23F PE of 28x (in line with 10-year mean). Aside from earnings cuts, we also cut valuations due to higher WACC of 9% from 7.7% (upstream: 12%). We believe storage sentiment has bottomed, and although we do not foresee near-term catalysts until the global interest rate cycle normalises, value will re-emerge for DLG once earnings inflection arises by end-FY23, and coincides with potential expansion catalysts (RM0.34/share in our SOTP) for several projects like: a) PLNG2's status of demand for a 3rd LNG storage tank likely by end-22, b) EPCC projects/ new storage offtake terminals related to PIPC, and c) ESG developments.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental	
- Carbon (CO₂) emission reduction. Although greenhouse gas emissions increased in FY21, DLG is installing solar power generation assets to offset this	
- Safety (HSE). Nil Lost Time Injury (LTI) frequency in FY22 (FY21: 0.00)	
• Social	
- Diversity. 19% female representation in the management team	
- >RM440m in donations since inception of MyKasih (set up by the founder)	
• Governance	
- Five out of nine board members are independent with diverse backgrounds, even though there is family representation in the management team.	

JV SEGMENTS AND FORECASTS

RMm	FY20	FY21*	FY22*
JV/associate line	242.0	227.4	251.6
Pengerang Phase 1, JV	44.8	72.0	49.4
Pengerang 2, JV	145.8	39.9	81.0
Other JV	35.1	35.6	35.6
Pengerang LNG	16.3	79.9	85.6

RMm (forecasts)	FY23	FY24	FY25
JV/associate line	309.8	280.4	282.5
Pengerang Phase 1, JV	40.4	42.0	43.7
Pengerang 2, JV	94.4	105.4	105.7
Other JV and POEC	84.4	42.2	42.0
Pengerang LNG	90.6	90.9	91.1

Source: Dialog, UOB Kay Hian *Note: No disclosure of PT2SB JV earnings for FY21/FY22 - they were lumped together with the other JV immaterial JV earnings of RM75m/ RM117m respectively

SHELL'S PROPOSED PYROLYSIS PROJECT



Source: Shell-Dialog Feasibility Study Since 25 May 2022

SOTP VALUATION (FY23)

Segments	Valuation	RM/ share
Diluted shares	6.3b shares	
Core business	18x P/E on net profit, ex-associates (cut from 22x)	0.85
Kertih Terminal	400,000m ³ , 30% stake, WACC 9%	0.04
Tanjung Langsat 1 and 2	740,000 m ³ , 100% stake, WACC: 9%	0.27
Pengerang : Phase 1 and 2	PT2SB recovery offsetting PITSB's weakness	0.77
D35 PSC + Bayan OSC + POEC Thai	Assume O&G price of US\$90-100/bbl, but higher WACC of 12%	0.13
Pengerang Phase 3/ potential expansion	Expansion potential for PLNG2 and Langsat, and a smaller likelihood for Phase 3 expansion	0.34
(-) Net debt	Including warrant proceed	(0.15)
SOTP		2.25
Implied P/E	At 10 year average	28.2x
Implied P/B		2.6x

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Net turnover	2,319	2,619	2,638	2,610
EBITDA	574	566	738	803
Deprec. & amort.	239	262	283	305
EBIT	334	304	455	499
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	252	310	280	283
Net interest income/(expense)	(40)	(39)	(42)	(45)
Pre-tax profit	550	625	693	736
Tax	(44)	(61)	(67)	(72)
Minorities	2	(10)	(8)	(10)
Net profit	508	554	618	654
Net profit (adj.)	504	504	618	654

BALANCE SHEET

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,711	2,709	2,928	3,147
Other LT assets	3,341	3,613	3,886	4,138
Cash/ST investment	1,840	1,938	1,987	2,075
Other current assets	956	1,205	1,212	1,194
Total assets	8,847	9,464	10,012	10,553
ST debt	337	735	782	841
Other current liabilities	811	1,074	1,059	975
LT debt	2,027	1,646	1,752	1,883
Other LT liabilities	19	19	19	19
Shareholders' equity	5,054	5,382	5,783	6,209
Minority interest	598	608	616	626
Total liabilities & equity	8,847	9,464	10,012	10,553

CASH FLOW

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Operating	519	900	953	972
Pre-tax profit	550	625	693	736
Tax	(70)	(61)	(67)	(72)
Deprec. & amort.	239	262	283	305
Working capital changes	(265)	10	(23)	(66)
Other operating cashflows	65	64	67	70
Investing	(293)	(800)	(800)	(800)
Capex (growth)	(290)	(500)	(500)	(500)
Investments	(127)	(300)	(300)	(300)
Others	123	0	0	0
Financing	153	0	(104)	(85)
Proceeds from borrowings	499	215	154	189
Loan repayment	(40)	(39)	(42)	(45)
Others/interest paid	(307)	(176)	(216)	(229)
Net cash inflow (outflow)	379	100	49	88
Beginning cash & cash equivalent	1,453	1,838	1,938	1,987
Changes due to forex impact	8	0	0	0
Ending cash & cash equivalent	1,840	1,938	1,987	2,075

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	24.7	21.6	28.0	30.8
Pre-tax margin	23.7	23.9	26.3	28.2
Net margin	21.9	21.1	23.4	25.1
ROA	6.0	6.0	6.3	6.4
ROE	10.5	10.6	11.1	10.9
Growth				
Turnover	44.0	12.9	0.7	(1.0)
EBITDA	7.5	(1.3)	30.4	8.8
Pre-tax profit	(7.5)	13.5	10.9	6.2
Net profit	(6.5)	9.0	11.6	5.9
Net profit (adj.)	0.8	0.0	22.6	5.9
EPS	0.8	0.0	22.6	5.9
Leverage				
Debt to total capital	29.5	28.4	28.4	28.5
Debt to equity	46.8	44.2	43.8	43.9
Net debt/(cash) to equity	10.4	8.2	9.5	10.5
Interest cover (x)	14.3	14.6	17.6	17.9

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W