COMPANY RESULTS

Dialog Group (DLG MK)

1QFY23: Results In Line As Thailand Upstream Offset Malaysia's Weakness

Dialog started FY23 with profits in line with expectations. An impressive maiden 1QFY23 JV income from Thailand offset Malaysia's weakness across upstream and EPCC projects. While storage sentiment will benefit from energy security, we were positively surprised by the recent upturn in storage market conditions, though we remain cautiously optimistic assuming earnings inflection may lag behind storage. Retain BUY, and raise target price to RM2.35.

1QFY23 RESULTS

Year to 30 June (RMm)	1Q FY23	qoq (% chg)	yoy (% chg)	Comments
Revenue	711.7	5.3	40.8	Higher revenues mainly on ramp up of EPCC works
- Malaysia	411.1	9.7	45.5	Group EBITDA fell yoy from RM131m to RM118m
- Overseas	300.6	(0.1)	34.8	As certain Malaysia projects face cost overrun
Impairment loss	(-7.1)	nm	nm	Impairment of certain assets in Jubail Supply Base
JV/associates	84.1	54.1	14.5	Malaysia: RM58.9m; Thailand: RM25.1m
Finance costs	(16.4)	(14.9)	129.1	Higher loan base qoq by about RM0.1b
PBT	127.4	0.6	(10.7)	
- Malaysia	90.1	(27.9)	(27.9)	Due to lower EBITDA, JV up qoq from RM54.6m
- Overseas	37.3	Na	109.3	Excluding Thailand, PBT improved qoq from RM2m
PBT margin (%)	*17.9%*	*-0.9%*	*-10.3%*	
Tax	(7.2)	(31.4)	(38.5)	
Net Profit	125.8	(5.5)	(2.4)	Core profit excluded RM7m impairment (Jubail
Core Profit	129.7	(2.3)	4.2	Supply Base) and RM3m forex gain

Source: Dialog (Dialog does not disclose EBIT quarterly breakdown by business segments), UOB Kay Hian

RESULTS

- **1QFY23 core results in line and met 26%/21% of our/consensus FY23 estimates.** This is the maiden quarter of Dialog Group's (Dialog) JV income from the Thailand upstream onshore concession, under its new subsidiary Pan Orient Energy (POEC) acquired in end-Aug 22. Although there are no details like realised oil prices (previous quarter: about US$115/bbl), Thailand's JV income was significant at RM25m. Malaysia's JV storage income saw a slight improvement qoq from RM55m to RM59m, consistent with Vopak's recent disclosure.

- **Group profit still fell qoq.** Despite better JV income and improved overseas PBT (excluding Thailand) qoq, which demonstrated that Dialog is beginning to have greater control on the overseas project outcome, these were still offset by poorer Malaysia EBITDA, on: a) continued challenges/cost overruns in EPCC projects, b) lower production volumes at both Bayan and D35 Production Sharing Contract (PSC) fields, and c) lower profit from Langsat and Pengerang Phase 3 storage terminals due to higher finance costs.

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	580	712	777
Operating profit	307	334	318	428	472
Net profit (rep./act.)	543	508	535	636	673
Net profit (adj.)	500	504	525	636	673
EPS (sen)	7.9	8.0	8.3	10.1	10.7
PE (x)	25.6	25.4	24.3	20.1	19.0
P/B (x)	2.8	2.5	2.4	2.2	2.0
EV/EBITDA (x)	23.6	21.9	21.7	17.7	16.2
Dividend yield (%)	1.4	1.4	1.4	1.7	1.8
Net margin (%)	33.7	21.9	20.4	24.1	25.8
Net debt/(cash) to equity (%)	10.5	10.4	8.7	9.7	10.4
Interest cover (x)	20.2	14.3	14.9	16.9	17.2
ROE (%)	12.4	10.5	10.2	11.3	11.2
Consensus net profit	-	-	589	637	664
UOBKH/Consensus (x)	-	-	0.89	1.00	1.01

Source: Dialog Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.03
Target Price	RM2.35
Upside	+15.9%
(Previous TP	*RM2.25)*

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	DLG MK
Shares issued (m):	5,642.6
Market cap (RMm):	11,454.4
Market cap (US$m):	2,521.4
3-mth avg daily t'over (US$m):	2.6

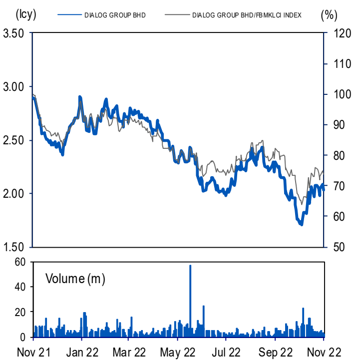
Price Performance (%)

52-week high/low RM2.90/RM1.71

1mth	3mth	6mth	1yr	YTD
15.3	(12.9)	(11.7)	(29.8)	(22.5)

Major Shareholders	%
Ngau Boon Keat	18.3
EPF	14.3
Azam Utama	7.6
FY23 NAV/Share (RM)	0.86
FY23 Net Debt/Share (RM)	0.07

PRICE CHART



Source: Bloomberg

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- **Storage market conditions turned more optimistic.** Last Friday, Vopak upgraded its storage market outlook, and saw a general improvement in occupancy rates. For example, its Asia/Middle East portfolio utilisation jumped qoq from 84% to 88%, which was the level back in 1Q21. The improved storage outlook is very recent and across all product segments like oil and chemicals, unlike Vopak's cautious outlook in 2QFY22. This tallies with our recent view that storage markets had bottomed, and while investors may worry over recent cuts in global oil demand/supply outlook, they should not overlook that storage players do benefit from rising energy security demand from offtakers to hedge against geopolitical tensions/sanctions that disrupt product trade flows.
- **Dialog also sees the same trend for Pengerang Independent Terminal (PITSB),** which saw higher rates of S$6/cbm (from S$5/cbm), and utilisation improving from 80% to 90%. While storage sentiment will not face further downside, the quick timing of the market's recovery is a positive surprise, and we hope that this outlook sustains and helps boost the viability of Dialog's Phase 3 (expansion catalyst).
- In regards to Pengerang Terminals (Two) (PT2SB) which is dedicated to the Pengerang Refinery Complex (PRefChem), Vopak and Platts revealed recently that an explosion incident in Oct 22 had caused the complex to shut down its petrochemical/polymer units production, and likely for a few months until end-Dec 22. Dialog guided that there should be no impact as PT2SB's offtake is under a take-or-pay arrangement. Also, the industry's terminals have similar structure vs Vopak's on storage indexation clauses (72% of Vopak's revenue), to pass down inflation costs to offtakers as energy surcharges. For Vopak's case, the clauses are reviewed based on average CPI of the previous years.
- **Group earnings inflection may lag behind storage, likely in 2HFY23.** As per our recent meeting with management, Dialog is still facing delayed timeline of certain EPCC projects by their clients until material costs normalise, but this also means higher project costs. Also, managing the labour issue is another challenge. Petronas' investigation report on the Pengerang incident will take time to conclude, and we believe there is still a risk of Dialog taking a hit as the EPCC contractor for the N-OSBL project in a worst-case scenario. This is despite our understanding that the explosion occurred at an interconnecting/existing pipeline, which may not be a structure involved in Dialog's project, and also happened at the time where Dialog's employees were working in another adjacent area.
- **Upstream updates.** Dialog hopes to record similar quantum in future quarters for POEC, as it is embarking on drilling campaigns in the Thailand concession. For Malaysia, our channel checks indicate that the new Mobile Production Unit T7Elise already passed all commissioning checks one month ago, and is now installed at the Bayan location, but it is still on standby mode as the client is not ready. This also means the earnings upside from Bayan for Dialog will also be delayed.

EARNINGS REVISION/RISK

- **Upgrade FY23-25 earnings by 4%/3%/3%,** and three-year JV income forecasts materially from RM280m levels, due to better PITSB forecasts from RM40m-43m. We adjusted POEC forecasts to >RM70m, although still conservative vs management's view. These more than offset cuts in EBITDA forecasts by 4% to factor more project costs

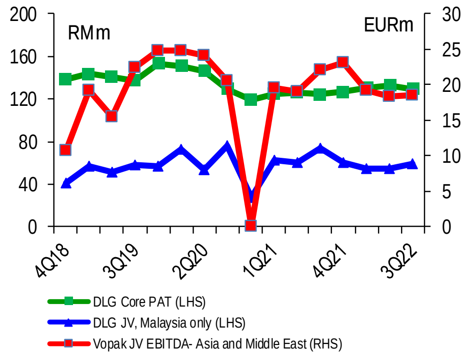
VALUATION/ RECOMMENDATION

- **Retain BUY with adjusted target price of RM2.35 (from RM2.25),** which implies FY23F PE of 28x and within the 10-year mean average. Although we do not foresee near-term catalysts until the global interest rate cycle normalises, our valuation upgrade reflects us turning more cautiously optimistic as value had gradually re-emerged on Dialog, starting with storage's inflection point. Also, Dialog's ESG developments are not to be underestimated. We advise slow accumulation looking towards strong earnings inflection point by 2HFY23.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

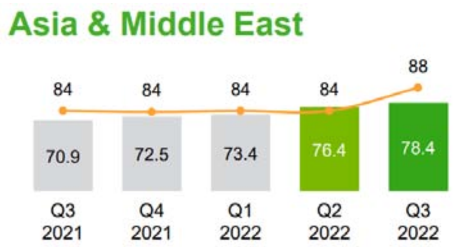
- **Environmental**
  - **Carbon (CO_2) emission reduction.** Although greenhouse gas emissions increased in FY21, Dialog is installing solar power generation assets to offset this.
  - **Safety (HSE).** Nil Lost Time Injury (LTI) frequency in FY22 (FY21: 0.00).
- **Social**
  - **Diversity.** 19% female representation in the management team.
  - **>RM440m 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.

DIALOG'S MALAYSIA INCOME AND VOPAK JV EBITDA (ASIA AND MIDDLE EAST) TREND



Source: Royal Vopak Results presentations, Dialog

PROPORTIONAL UTILISATION AND EBITDA OF VOPAK'S TERMINALS



Note : Line chart : Utilisation (%) ; Bar : EBITDA including JV (EUR Mil)
Source: Royal Vopak Results presentations

SEGMENTAL FORECAST

RMm	FY22	FY23	FY24
JV/associate line	315.5	326.8	329.5
Pengerang Phase 1, JV	56.1	58.3	60.7
Pengerang 2, JV	94.4	105.4	105.7
Other JV and POEC	74.4	72.2	72.0
Pengerang LNG	90.6	90.9	91.1

Source: UOB Kay Hian

SOTP VALUATION (FY23)

Segments	Valuation	RM /share
Diluted shares	*6.3b shares*	
Core business	18x P/E on net profit, ex-associates	0.85
Kertih Terminal	400,000m³, 30% stake, WACC 9%	0.04
Tanjung Langsat 1 and 2	740,000 m³, 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	10-year average mean	28.2x
Implied P/B		2.7x

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	580	712	777
Deprec. & amort.	239	262	283	305
EBIT	334	318	428	472
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	252	315	327	330
Net interest income/(expense)	(40)	(39)	(42)	(45)
Pre-tax profit	550	604	713	757
Tax	(44)	(59)	(69)	(74)
Minorities	2	(10)	(8)	(10)
Net profit	508	535	636	673
Net profit (adj.)	504	525	636	673

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	3,653	3,926	4,178
Cash/ST investment	1,840	1,912	1,979	2,085
Other current assets	956	1,205	1,212	1,194
Total assets	8,847	9,478	10,045	10,603
ST debt	337	735	784	845
Other current liabilities	811	1,074	1,059	975
LT debt	2,027	1,646	1,757	1,892
Other LT liabilities	19	19	19	19
Shareholders' equity	5,054	5,396	5,809	6,247
Minority interest	598	608	616	626
Total liabilities & equity	8,847	9,478	10,045	10,603

CASH FLOW

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Operating	519	882	971	991
Pre-tax profit	550	604	713	757
Tax	(70)	(59)	(69)	(74)
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	(8)	(104)	(86)
Proceeds from borrowings	499	215	161	195
Loan repayment	(40)	(39)	(42)	(45)
Others/interest paid	(307)	(184)	(223)	(236)
Net cash inflow (outflow)	379	74	67	105
Beginning cash & cash equivalent	1,453	1,838	1,912	1,979
Changes due to forex impact	8	0	0	0
Ending cash & cash equivalent	1,840	1,912	1,979	2,085

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	24.7	22.1	27.0	29.8
Pre-tax margin	23.7	23.1	27.0	29.0
Net margin	21.9	20.4	24.1	25.8
ROA	6.0	5.8	6.5	6.5
ROE	10.5	10.2	11.3	11.2
Growth				
Turnover	44.0	12.9	0.7	(1.0)
EBITDA	7.5	1.1	22.7	9.2
Pre-tax profit	(7.5)	9.8	18.0	6.2
Net profit	(6.5)	5.4	18.8	5.8
Net profit (adj.)	0.8	4.3	21.0	5.8
EPS	0.8	4.3	21.0	5.8
Leverage				
Debt to total capital	29.5	28.4	28.3	28.5
Debt to equity	46.8	44.1	43.7	43.8
Net debt/(cash) to equity	10.4	8.7	9.7	10.4
Interest cover (x)	14.3	14.9	16.9	17.2

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