

## COMPANY RESULTS

### Dialog Group (DLG MK)

1HFY23: Results In Line, Storage Expansion Catalysts Slowly Materialising

1HFY23 core profit is in line. Stronger PITSB storage metrics outweighed the sequentially weaker Thailand upstream income and other Malaysia projects (weaker EBITDA qoq). We retain our forecasts which assume lacklustre near-term group earnings growth. However, with Vopak reiterating positive storage sentiment, and Dialog securing its first ESG venture into renewable fuel storage, we still see potential expansion catalysts. Maintain BUY and target price of RM2.85.

#### 2QFY23 RESULTS

Year to 30 June (RMm)	2Q FY23	qoq % chg	yoy % chg	YTD FY23	yoy% chg
Revenue	797.0	12.0	46.4	1,508.7	43.7
- Malaysia	446.2	8.5	53.0	857.3	49.3
- Overseas	350.8	16.7	38.7	651.4	36.9
Impairment loss	nm	nm	nm	nm	nm
JV/associates	97.4	15.8	60.1	181.5	(20.2)
Finance costs	(17.5)	6.5	509.4	-33.9	28.4
PBT	139.9	9.8	0.3	267.3	(5.3)
- Malaysia	97.2	7.9	(29.6)	187.3	(28.8)
- Overseas	42.7	14.6	3,036.3	80.0	317.3
PBT margin (%)	17.6%	-0.3%	-8.1%	17.7%	-9.2%
Tax	(8.8)	23.1	(40.9)	-16.0	(69.2)
Net Profit	127.2	1.1	(0.6)	252.9	(1.5)
Core Profit	128.8	(0.6)	1.8	258.5	3.0

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

#### RESULTS

- **1HFY23 core profit in line at 49% of our estimate.** This excludes the RM9m impairment from Middle East operations. However, earnings may be deemed a miss, meeting only 44% of street estimates. As expected, the improved metrics for storage, especially for Pengerang Independent Terminal (PITSB), were the key earnings driver for 2QFY23, contributing to JV income of RM79m (1QFY23: RM59m). Thailand's upstream JV earnings declined qoq to RM19m (1QFY23: RM25m), in tandem with the lower oil price and volume. Middle East earnings improved to RM10m (1QFY23: nil).
- **Core profit was flattish qoq, as 2QFY23 EBITDA remains weak at RM114m** (1QFY23: RM118m; 1HFY22: RM262m). Based on our back-of-envelope analysis, Malaysia's EBITDA declined qoq from RM89m to RM77m, despite higher qoq revenue. This implies that the local EPCC projects have gained traction, but are still too early to benefit from cost recovery, alongside lower upstream margins from local fields.

#### KEY FINANCIALS

Year to 30 Jun (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,610	2,319	2,605	2,638	2,610
EBITDA	533	574	580	714	779
Operating profit	307	334	318	431	475
Net profit (rep./act.)	543	508	541	629	665
Net profit (adj.)	500	504	531	629	665
EPS (sen)	7.9	8.0	8.4	10.0	10.5
PE (x)	32.5	32.3	30.6	25.8	24.5
P/B (x)	3.5	3.2	3.0	2.8	2.6
EV/EBITDA (x)	29.3	27.2	26.9	21.9	20.1
Dividend yield (%)	1.1	1.1	1.1	1.4	1.4
Net margin (%)	33.7	21.9	20.8	23.8	25.5
Net debt/(cash) to equity (%)	10.5	10.4	8.6	9.7	10.6
Interest cover (x)	20.2	14.3	14.9	17.0	17.3
ROE (%)	12.4	10.5	10.3	11.2	11.0
Consensus net profit	-	-	584	634	680
UOBKH/Consensus (x)	-	-	0.91	0.99	0.98

Source: Dialog Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM2.58
Target Price	RM2.85
Upside	+10.6%

#### COMPANY DESCRIPTION

Dialog provides engineering, procurement, construction and commissioning services (EPCC) 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):	14,557.8
Market cap (US\$m):	3,305.6
3-mth avg daily t'over (US\$m):	2.7

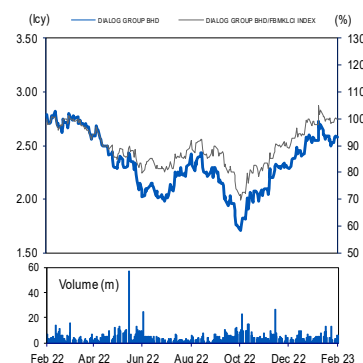
#### Price Performance (%)

52-week high/low			RM2.82/RM1.71	
1mth	3mth	6mth	1yr	YTD
2.0	24.0	8.4	(8.2)	5.3

#### Major Shareholders

	%
Ngau Boon Keat	18.3
EPF	14.5
Azam Utama	7.6
FY23 NAV/Share (RM)	0.86
FY23 Net Debt/Share (RM)	0.07

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Royal Vopak's recent outlook reinforced our view on positive storage sentiment.** Dialog's key storage partner saw its terminal portfolio in the Asia and Middle East charting multi-year highs of 90% utilisation. The region's JV terminals saw EBITDA improving materially qoq from €19m to €23m in 4QCY22. Vopak expects storage demand to remain favourable in the 1H FY23 horizon, and its management took a view that due to more Russian sanctions, the oil rebalancing/normalisation is getting harder than before, with transit times and freight rates for product movements increasing dramatically (by 4x). Hence, this will require a lot more tankers and storage tanks. To recap, PITSB rates and utilisation had improved to S\$6/cbm and 90% respectively, but we still see more upside on rates, as the previous storage upcycles saw rates peaked as high as S\$7-9/cbm.
- **However, PT2SB is not spared from liquidity concerns.** We expected some projects like Pengerang Terminals (Two) (PT2SB) are still facing earnings risks. Vopak's 2022 Annual Report expressed similar concerns. Despite being a take-or-pay terminal dedicated to the Pengerang Complex (PRefChem), we think the delayed ramp-up (after the Dec 22 restart) had caused Vopak to have a bearish expectation for the full restart only in 1H23. PT2SB's net receivables (on gross basis) surged yoy from €88m to €173m. If there is no end to this liquidity risk, we are not ruling out worst-case scenarios of: a) impairment risk, or b) Vopak exiting the project. For the latter scenario, we are unsure if Dialog is keen and financially capable to absorb Vopak's stake.
- **New storage terminal project materialising.** Dialog announced that its Tanjung Langsat Terminal (DTL3), which has 17 acres of land to build an equivalent capacity of 0.2m cbm of storage, will begin the EPCC of a new 0.024m cbm of storage capacity. Earmarked for renewable fuels with target completion by end 2024, this is a positive on the ESG agenda, as it will mark Dialog's official sustainability venture within its storage portfolio.
- Without further details given, we estimate the investment cost to be roughly RM35m (vs RM100m for 0.085m cbm in an earlier Langsat expansion project). We speculate this project may likely relate to the Sep 22 partnership signed between Johor Corp and Japan's Sojitz – for the development of a clean ammonia bunker receiving terminal and supply base with ammonia power plant, and Tanjung Langsat Port is the study site. Otherwise, it may be related to other renewable fuels like Sustainable Aviation Fuel or Biodiesel.

### EARNINGS REVISION/RISK

- **No change to overall group earnings forecasts, implying near-term earnings growth is not yet obvious.** We still expect PITSB to remain strong on positive storage drivers. Moreover, Vopak's storage contracts typically have inflation indexation clauses that are renegotiated in Jan 23. Hence, overall JV income may exceed our forecasts, although the other Malaysia projects are not likely to see an earnings inflection in the near term (on the EBITDA level).

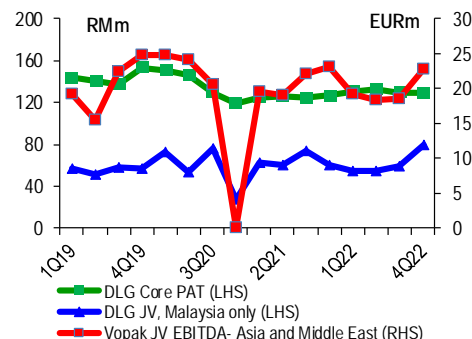
### STOCK VALUATION/ RECOMMENDATION

- **Maintain BUY with target price of RM2.85**, which implies FY23F PE of 32x. Our target price does not reflect any near-term earnings catalysts, but rather reflect a prolonged positive sentiment for storage. Based on higher fuel security demand, and Pengerang's development (including the entry of new chemical players like ChemOne), we still expect a high viability for more long-term storage terminals to materialise in Pengerang Phase 3, and this may still be a near-term event catalyst. Our target price maintains the expansion catalyst worth RM0.60/share in our SOTP. Hence, our current BUY call is a trade on sentiment, and we advise investors to accumulate on weakness.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

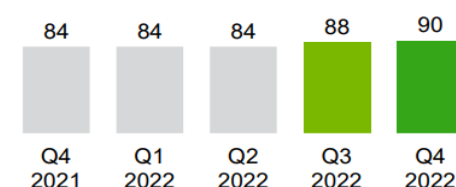
<b>• Environmental</b>	
- <b>Carbon dioxide (CO<sub>2</sub>) emission reduction.</b> Although greenhouse gas emissions increased in FY21, DLG is installing solar power generation assets to offset this.	
- <b>Safety (HSE).</b> Nil Lost Time Injury (LTI) frequency in FY22 (FY21: 0.00).	
<b>• Social</b>	
- <b>Diversity.</b> 19% female representation in the management team.	
- >RM440m donations since inception of MyKasih (set up by the founder).	
<b>• Governance</b>	
- Five out of nine board members are independent with diverse backgrounds, even though there is family representation in the management team.	

### DIALOG INCOME AND VOPAK JV EBITDA (ASIA AND MIDDLE EAST) TREND



Source: Royal Vopak Results presentations, Dialog

### PROPORTIONAL UTILISATION (%), ASIA / MIDDLE EAST TERMINALS (VOPAK)



Source: Royal Vopak Results presentations

### JV SEGMENTS AND FORECASTS

RMm (forecasts)	FY23	FY24	FY25
JV/associate line	321.2	316.8	318.2
Pengerang Phase 1, JV	77.0	65.4	66.4
Pengerang 2, JV	85.0	94.9	95.1
Other JV and POEC	79.2	77.8	78.0
Pengerang LNG	80.1	78.7	78.6

Source: Dialog, 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 (cut from 22x)	0.92
Kertih Terminal	400,000m <sup>3</sup> , 30% stake, WACC 9%	0.05
Tanjung Langsat 1 and 2	740,000 m <sup>3</sup> , 100% stake, WACC: 9%	0.30
Pengerang : Phase 1 and 2	PT2SB recovery offsetting PITSB's weakness	1.04
D35 PSC + Bayan OSC + POEC Thai	Assume O&G price of US\$90-100/bbl, but higher WACC of 12%	0.15
Pengerang Phase 3/ potential expansion	Expansion potential for PLNG2 and Langsat, and a smaller likelihood for Phase 3 expansion	0.60
(-) Net debt	Including warrant proceed	(0.15)
SOTP		2.85
Implied P/E	+1SD of 10 year average	32.8x
Implied P/B		3.2x

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Net turnover	2,319	2,605	2,638	2,610
EBITDA	574	580	714	779
Deprec. & amort.	239	262	283	305
EBIT	334	318	431	475
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	252	321	317	318
Net interest income/(expense)	(40)	(39)	(42)	(45)
<b>Pre-tax profit</b>	<b>550</b>	<b>610</b>	<b>705</b>	<b>748</b>
Tax	(44)	(59)	(69)	(73)
Minorities	2	(10)	(8)	(10)
<b>Net profit</b>	<b>508</b>	<b>541</b>	<b>629</b>	<b>665</b>
Net profit (adj.)	504	531	629	665

**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	1,915	1,979	2,077
Other current assets	956	1,198	1,212	1,194
<b>Total assets</b>	<b>8,847</b>	<b>9,475</b>	<b>10,044</b>	<b>10,595</b>
ST debt	337	735	785	844
Other current liabilities	811	1,067	1,057	974
LT debt	2,027	1,646	1,758	1,891
Other LT liabilities	19	19	19	19
Shareholders' equity	5,054	5,399	5,808	6,240
Minority interest	598	608	616	626
<b>Total liabilities &amp; equity</b>	<b>8,847</b>	<b>9,475</b>	<b>10,044</b>	<b>10,595</b>

**CASH FLOW**

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>519</b>	<b>886</b>	<b>964</b>	<b>983</b>
Pre-tax profit	550	610	705	748
Tax	(70)	(59)	(69)	(73)
Deprec. & amort.	239	262	283	305
Working capital changes	(265)	10	(23)	(66)
Other operating cashflows	65	64	67	70
<b>Investing</b>	<b>(293)</b>	<b>(800)</b>	<b>(800)</b>	<b>(800)</b>
Capex (growth)	(290)	(500)	(500)	(500)
Investments	(127)	(300)	(300)	(300)
Others	123	0	0	0
<b>Financing</b>	<b>153</b>	<b>(10)</b>	<b>(100)</b>	<b>(85)</b>
Proceeds from borrowings	499	215	163	193
Loan repayment	(40)	(39)	(42)	(45)
Others/interest paid	(307)	(186)	(220)	(233)
<b>Net cash inflow (outflow)</b>	<b>379</b>	<b>77</b>	<b>64</b>	<b>98</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,453</b>	<b>1,838</b>	<b>1,915</b>	<b>1,979</b>
Changes due to forex impact	8	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>1,840</b>	<b>1,915</b>	<b>1,979</b>	<b>2,077</b>

**KEY METRICS**

Year to 30 Jun (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	24.7	22.3	27.1	29.8
Pre-tax margin	23.7	23.4	26.7	28.6
Net margin	21.9	20.8	23.8	25.5
ROA	6.0	5.9	6.4	6.4
ROE	10.5	10.3	11.2	11.0
<b>Growth</b>				
Turnover	44.0	12.3	1.3	(1.0)
EBITDA	7.5	1.1	23.0	9.1
Pre-tax profit	(7.5)	10.9	15.6	6.0
Net profit	(6.5)	6.5	16.3	5.7
Net profit (adj.)	0.8	5.4	18.5	5.7
EPS	0.8	5.4	18.5	5.7
<b>Leverage</b>				
Debt to total capital	29.5	28.4	28.4	28.5
Debt to equity	46.8	44.1	43.8	43.8
Net debt/(cash) to equity	10.4	8.6	9.7	10.6
Interest cover (x)	14.3	14.9	17.0	17.3

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