

COMPANY UPDATE

Dialog Group (DLG MK)

Blossoming Prospects Include Jetty Throughput, Moritmasu JV And New Storage

We visited Dialog's Pengerang Deepwater Terminals recently. The takeaways reinforce our view of strong sustainable storage earnings and event catalysts. We see three prospects blossoming for DLG in the near term. Aside from potential new storage offtakers in Pengerang Phase 3, the other two prospects are strong vessel calls (maximising the utilisation of all three jetties) and the Moritmasu-Dialog JV (embarking on new development). Maintain BUY and adjusted target price of RM3.00.

WHAT'S NEW

- Vessel calls approaching maximum capacity.** The deepwater terminals are supported by three jetties with 6/12/3 berths each. The third jetty, built for Pengerang Phase 3 storage terminals, can expand further from three to eight berths. We highlighted previously the surge in demand for storage and blending of fuels, catalysed by the change in trade flows and fuel security needs since the onset of the Russia-Ukraine crisis. For the same reason, vessel calls have surged to all-time highs since FY22. Last month, Dialog Group (DLG) received 190 vessels. If this momentum is sustained, all jetties will be fully maximised, and will exceed FY22's 1,170 calls (ytd: 1,310). This ancillary revenue is positive for DLG's storage earnings. Historically, we assume that the jetty's throughput and related services comprise 30% of the storage terminal's revenues.
- Spot storage rates may reach peak levels seen in previous upcycles.** Pengerang Independent Terminals' (PITSB) utilisation and rates are still increasing, and have likely reached our near-term peak utilisation/rates forecasts of 90% and S\$6.5/cbm respectively for FY23. The previous peak cycles saw rates as high as S\$7/cbm. DLG confirmed Vopak's investor guidance that inflation indexation clauses are built into long-term storage contracts (even though base rates are fixed throughout the tenure). The trends supporting higher storage demand is timely and coincides with the influx of foreign direct investments, ie companies like ChemOne that plan to set up base in Pengerang.
- New storage offtakers in late-stage negotiations.** Our expansion catalyst of RM0.50/share expects a near-term event of a new dedicated offtaker (tenure of about 10 years) in Pengerang Phase 3. DLG allocated the areas behind Dialog Terminals Pengerang 5 (DTP5), for refined products and chemicals, and several potential customers have visited the sites recently. To recap, the RM1.6b DTP5 was dedicated to BP Singapore, and started operations in Mar 21, with 0.45m cbm capacity spread across nine tanks (for gasoil) and eight tanks (for jet fuel). Since then, there have been no new offtakers. Theoretically, Pengerang Phase 3 can have 3m cbm of storage capacity, assuming all the capacity is for crude/refined products (smaller capacity required for the high-value chemical storage).

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)	30.3	30.0	28.5	24.0	22.7
P/B (x)	3.3	3.0	2.8	2.6	2.4
EV/EBITDA (x)	27.4	25.5	25.2	20.5	18.8
Dividend yield (%)	1.2	1.2	1.2	1.5	1.5
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	-	-	568	620	662
UOBKH/Consensus (x)	-	-	0.93	1.01	1.00

Source: Dialog Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.40
Target Price	RM3.00
Upside	+18.8%
(Previous TP:	RM2.85)

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):	13,542.2
Market cap (US\$m):	3,028.2
3-mth avg daily t'over (US\$m):	2.9

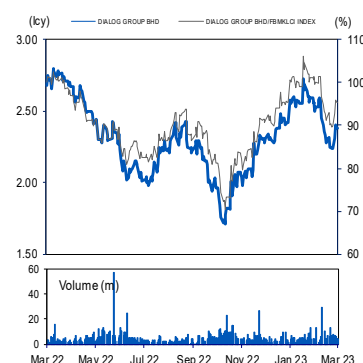
Price Performance (%)

52-week high/low			RM2.80/RM1.71	
1mth	3mth	6mth	1yr	YTD
(5.9)	4.3	8.6	(10.1)	(2.0)

Major Shareholders

	%
Ngau Boon Keat	18.3
EPF	15.8
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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STOCK IMPACT

- **Maintaining IRR of around 10% will be challenging for new projects.** Excluding the investment allocated to the third jetty, the cost for DTP5 tanks was around RM1,790/cbm. However, we gathered that the EPCC cost to build new storage tanks have surged by >50% to about RM2,500-3,000/cbm. The developments of the O&G value chain also meant that manpower opex for downstream projects had increased materially as well. The next storage project will also include investments to build more berths for the third jetty, but it will likely not be as large as DTP5 in capacity. DLG will aim for high single-digit IRR on a group-wide basis (same as pre-COVID-19). This includes not just the project-level storage profits, but also the EPCC profits made during construction and other value-added profit.
- **Moritmasu-Dialog development a positive surprise; now in a new phase of development (RM0.7b).** In Jan 23, the Johor Minister announced that Moritmasu-Dialog will allocate additional RM700m for new investments in three phases. This is a marked improvement from the time the JV was set up less than two years ago (14 Sep 21) for only RM14m. Moritmasu (listed in Hong Kong) chose Dialog's existing fabrication facility (DFPF) to set up a one-stop service centre for high-end pressure-bearing equipment and integrated modular industry solutions. DFPF was underutilised ever since major construction works for PRefChem and storage terminals were done years ago, but Moritmasu's plan will convert the whole facility for its specialised use.
- **Moritmasu-Dialog setting sail and at full speed ahead after Nov 22 breakthrough.** For Jan-Jun 22, the JV incurred a small loss of RM0.8m, based on Moritmasu's disclosure. Moritmasu further said that the JV officially started physical operations only from Jul 22. We believe the JV reached profit breakeven as of Jul-Dec 22, based on Moritmasu's announcement that the facility made a major breakthrough on 22 Nov 22, assembling and shipping 63 tonnes of equipment to a major chemical company overseas. We noticed that the JV is actively hiring people lately, but also believe that the three-phase development signals that the JV will tread carefully, and only lock in a certain expansion once a certain degree of recurring volumes/customer orders is achieved. Another peer, MMHE, was recently certified to be able to manufacture pressure vessels on its own.

EARNINGS REVISION/RISK

- **No change to overall group earnings forecasts.** The recent macro trends and our visit reinforce a sustained uptrend in both the storage earnings and the ancillary income (throughput) in the independent/spot storage terminals. Although we do not have separate forecasts for the Moritmasu-Dialog JV, we are optimistic on its future plans as well. Our forecasts still remain below consensus' however, as the non-storage projects like the Malaysian upstream earnings (Bayan, D21 PSC) and EPCC projects are still subject to earnings risks.

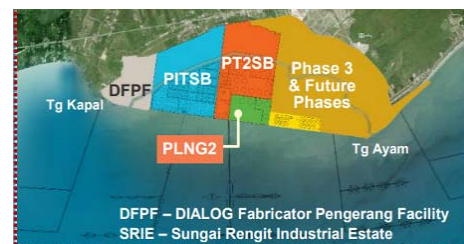
VALUATION/ RECOMMENDATION

- **Maintain BUY with target price adjusted to RM3.00 (after rolling forward valuations),** which implies FY24F PE of 30x. 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 high viability for more long-term storage terminals to materialise in Pengerang Phase 3 as a near-term event.
- Our target price factors expansion catalyst worth RM0.50/share in our SOTP. We did not price in all 3m cbm of capacity of Pengerang Phase 3 (300 acres of reclaimed land) in our valuation yet, even if all the potential offtakers sign on today. This is because there are still technical challenges for certain parts of the reclaimed land that need to be resolved, before a storage terminal can be built. Overall, our current BUY call is a trade-on sentiment, and we advise investors to accumulate on weakness.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• 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 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.	

PENGERANG DEEPWATER TERMINAL



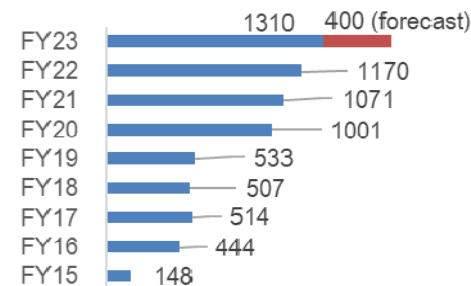
Source: Dialog, UOB Kay Hian

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

VESSEL CALLS FOR THE THREE JETTIES



Source: Dialog, UOB Kay Hian

MORITMASU-DIALOG FIRST SHIPMENT



Source: Moritmasu (Nov 22 announcement)

SOTP VALUATION (FY24)

Segments	Valuation	RM/share
<i>Diluted shares</i> 6.3b shares		
Core business	18x P/E on net profit, ex-associates	1.21
Kertih Terminal	400,000m ³ , 30% stake, WACC 9%	0.04
Tanjung Langsat 1 and 2	740,000 m ³ , 100% stake, WACC: 9%	0.25
Pengerang : Phase 1 and 2	PT2SB recovery offsetting PITSB's weakness	1.03
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 small likelihood for Phase 3 expansion	0.50
(-) Net debt	Including warrant proceed	(0.17)
SOTP		3.00
Implied P/E	+1SD of 10 year average	30.0
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)
Pre-tax profit	550	610	705	748
Tax	(44)	(59)	(69)	(73)
Minorities	2	(10)	(8)	(10)
Net profit	508	541	629	665
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
Total assets	8,847	9,475	10,044	10,595
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
Total liabilities & equity	8,847	9,475	10,044	10,595

CASH FLOW

Year to 30 Jun (RMm)	2022	2023F	2024F	2025F
Operating	519	886	964	983
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
Investing	(293)	(800)	(800)	(800)
Capex (growth)	(290)	(500)	(500)	(500)
Investments	(127)	(300)	(300)	(300)
Others	123	0	0	0
Financing	153	(10)	(100)	(85)
Proceeds from borrowings	499	215	163	193
Loan repayment	(40)	(39)	(42)	(45)
Others/interest paid	(307)	(186)	(220)	(233)
Net cash inflow (outflow)	379	77	64	98
Beginning cash & cash equivalent	1,453	1,838	1,915	1,979
Changes due to forex impact	8	0	0	0
Ending cash & cash equivalent	1,840	1,915	1,979	2,077

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
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
Growth				
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
Leverage				
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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