

COMPANY RESULTS

Dialog Group (DLG MK)

FY23: Core Results Behind Expectations On Malaysia Project Hiccups

FY23 core profit was behind expectations on higher costs and project hiccups (ie Bayan first gas) that weighed down Malaysia income. We cut our forecasts by 4-7% to assume a slower Malaysia income recovery, but the overseas income growth is positive progress. We acknowledge that near-term catalysts (as Pengerang beneficiary and new storage offtaker) are murky, but we still see long-term growth for DLG (ie carbon capture). Retain BUY with a lower target price of RM2.85.

FY23 RESULTS

Year to 30 June (RMm)	4Q FY23	qoq (% chg)	yoy (% chg)	YTD FY23	yoy (% chg)
Revenue	690.0	(14.0)	2.1	3,001.5	29.4
- Malaysia	306.6	(35.1)	(18.2)	1,636.0	22.9
- Overseas	383.5	16.0	27.4	1,365.6	38.2
Impairment loss	nm	nm	nm	nm	nm
JV/associates	82.1	(18.3)	50.4	364.0	44.7
Finance costs	(18.0)	(12.2)	(6.6)	-72.3	80.4
PBT	145.4	3.0	14.8	553.9	Na
- Malaysia	58.5	(37.3)	(53.2)	339.0	(36.2)
- Overseas	86.9	81.1	5,191.1	214.9	1,023.0
PBT margin (%)	21.1%	3.5%	2.3%	18.5%	-5.3%
Tax	(10.1)	39.7	(3.8)	-33.3	(25.1)
Net Profit	126.8	(3.1)	(4.7)	510.5	0.5
Core Profit	112.4	(15.0)	(15.3)	499.5	(0.8)

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

RESULTS

- FY23 profit missed expectations, at 94% of our/consensus estimates.** 4QFY23 EBITDA remains weak at RM135m (3QFY23: RM119m; FY23: RM486m). One key negative deviation was a surprisingly weaker Malaysia JV/associate income qoq, at RM64m in 4QFY23 vs RM80m in 3QFY23. This trend was also reported recently by Vopak, even though Vopak reiterated on favourable storage market conditions. Thailand JV income (L53/48 upstream concession) remains at RM20m, flat qoq.
- Another negative deviation is the qoq weakness in Malaysia EBITDA, which dropped from RM84m to RM70m.** This is in sharp contrast to DLG's overseas projects, for which we noticed all regions contributed positive qoq traction in PBT. DLG commented that it benefitted from a recovery in the overseas business environment. Overall we believe DLG is still facing rising costs and project hiccups amongst its Malaysian projects (ie Bayan).

KEY FINANCIALS

Year to 30 Jun (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,319	3,002	2,875	2,918	2,875
EBITDA	574	506	628	715	761
Operating profit	334	251	345	410	435
Net profit (rep./act.)	508	511	586	641	659
Net profit (adj.)	504	499	586	641	659
EPS (sen)	8.0	7.9	9.3	10.2	10.5
PE (x)	28.3	28.5	24.3	22.2	21.6
P/B (x)	2.8	2.6	2.4	2.2	2.1
EV/EBITDA (x)	24.0	27.2	21.9	19.3	18.1
Dividend yield (%)	1.2	1.2	1.4	1.6	1.6
Net margin (%)	21.9	17.0	20.4	22.0	22.9
Net debt/(cash) to equity (%)	10.4	7.9	12.1	16.3	18.5
Interest cover (x)	14.3	7.0	10.0	10.5	10.5
ROE (%)	10.5	9.6	10.2	10.4	10.0
Consensus net profit	-	-	586	642	-
UOBKH/Consensus (x)	-	-	1.00	1.00	-

Source: Dialog Group Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.26
Target Price	RM2.85
Upside	+26.0%
(Previous TP)	RM3.00)

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 equipments.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	DLG MK
Shares issued (m):	5,642.6
Market cap (RMm):	12,752.2
Market cap (US\$m):	2,750.7
3-mth avg daily t'over (US\$m):	1.8

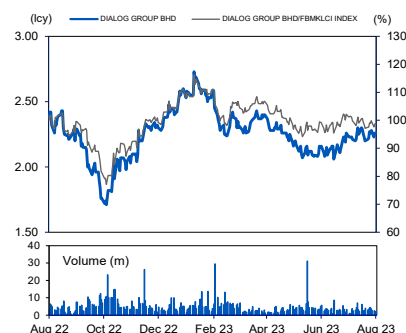
Price Performance (%)

52-week high/low			RM2.73/RM1.71	
1mth	3mth	6mth	1yr	YTD
0.0	3.2	(12.7)	(3.0)	(7.8)

Major Shareholders

	%
Ngau Boon Keat	18.3
EPF	14.7
Azam Utama	7.6
FY24 NAV/Share (RM)	0.95
FY24 Net Debt/Share (RM)	0.11

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Royal Vopak reinforced positive storage sentiment...** Dialog's key storage partner still reports that its terminal portfolio in the Asia and Middle East regions is still at multi-year highs of 93% utilisation (similar to 1Q23). Vopak continues to be bullish on storage outlook for crude and products, spearheaded by the rebalancing of trade patterns due to geopolitical events and demand for energy security, and the blending of fuels. Vopak did comment that the chemical markets may see some throughput flow weakness in 2H23, partly due to a slower-than-expected recovery in China's economy and higher cost of production. This should not impact its industrial terminals, which are on take-or-pay contracts.
- ...despite reporting weaker qoq JV results.** Vopak's 2Q23 Asia and Middle East JV terminals saw EBITDA fall qoq from EUR23.8m to EUR16.9m in 2Q23 (2Q22: EUR18.4m), but did not explain the deviations. Key events that happened in the quarter were: a) a cybersecurity data breach in the Pengerang Independent Terminals (PITSB) on 22 Apr 23, and b) a successful refinancing of PITSB loan to a new 10-year non-recourse, sustainability-linked financing of SG\$330m. We understand that none of these events resulted in lumpy one-off costs, and the data breach did not impact day-to-day operations.
- Other key events: Resumption of Pengerang Integrated Complex in 1H23,** as quoted by Vopak in its Annual Report 2023. Vopak did not update on the financial status of the dedicated terminal for the complex, Pengerang Terminals (Two) (PT2SB), except that its net accounts receivable balance for contractually delivered services (on a gross basis) had ballooned to EUR220m in 1H23 (4Q22: EUR173m).
- Other key events: Upstream project updates.** Dialog recognised some contractual/ EPCC works related to the Bayan Oilfield Services Contract (OSC), but the major milestone for monetising the non-associated gas reserves for Bayan (Phase 2) was the first gas in Jul 23. As the platforms have been ready since Dec 22, we assume that up to Jun 23, the project level (Bayan Phase 2) might have incurred losses in the form of additional commissioning costs, that were not reimbursable yet until the first oil/gas, similar to other projects that faced delayed startup (due to client risk) like Yinson's Anna Nery project. For the case of Yinson, management guided that the outstanding charter costs (for standby rates) for the project will be amortised over the contract tenure. Hence, we assume this may be the likely scenario for DLG, vs the scenario of a lumpy deferred income.

EARNINGS REVISION/RISK

- Cut FY24/25 earnings forecasts by 7%/4% and introduce FY26 earnings.** Although we see recovery in DLG's project management for non-Malaysia projects, we now assume higher cost of operations for Malaysia projects, including costs representing ESG and transition risks, alongside slower recovery of projects ie Bayan's costs.

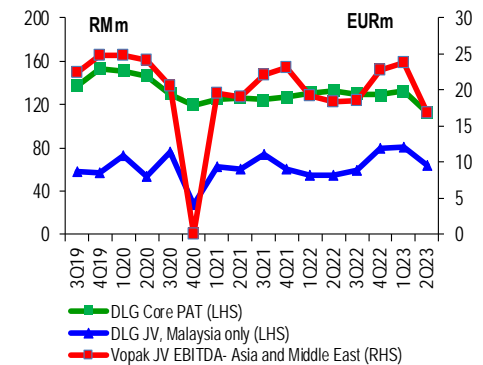
STOCK VALUATION/ RECOMMENDATION

- Maintain BUY with lower target price of RM2.85 (from RM3),** which implies FY24F PE of 30x. Although we still do not see near-term earnings inflection, DLG stands out on its own vs our other O&G stock coverage, as the sole beneficiary from the storage upcycle.
- Our new target price, trimmed in tandem with earnings outlook, still factors a RM0.50 growth catalyst. Despite DLG being the biggest beneficiary of Pengerang's future expansion, we acknowledge that the new storage offtaker negotiations is taking longer than expected. However, with Vopak's partnership with Petronas to study development of a carbon capture/storage value chain that allows Singapore's emitters to import emissions into Malaysia, we see Dialog to be the most obvious beneficiary for this potential market (over the long term).

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



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



JV SEGMENTS AND FORECASTS

RMm (forecasts)	FY24	FY25	FY26
JV/associate line	341.8	343.2	346.3
Pengerang Phase 1, JV	65.4	66.4	26.3
Pengerang 2, JV	94.9	95.1	3.3
Other JV and POEC	77.8	78.0	47.0
Pengerang LNG	103.7	103.6	269.6

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)	1.10
Kertih Terminal	400,000m³, 30% stake, WACC 9%	0.04
Tanjung Langsat 1 and 2	740,000 m³, 100% stake, WACC: 9%	0.25
Pengerang : Phase 1 and 2	PT2SB recovery offsetting PITSB's weakness	1.02
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	0.50
(-) Net debt	Including warrant proceed	(0.19)
SOTP		2.85
Implied P/E	+1SD of 10 year average	30.6
Implied P/B		3.1x

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Net turnover	3,002	2,875	2,918	2,875
EBITDA	506	628	715	761
Deprec. & amort.	255	283	304	325
EBIT	251	345	410	435
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	364	342	343	346
Net interest income/(expense)	(72)	(63)	(68)	(73)
Pre-tax profit	554	625	686	709
Tax	(33)	(31)	(34)	(35)
Minorities	(10)	(8)	(10)	(14)
Net profit	511	586	641	659
Net profit (adj.)	499	586	641	659

CASH FLOW

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Operating	750	1,006	772	884
Pre-tax profit	554	625	686	709
Tax	(67)	(31)	(34)	(35)
Deprec. & amort.	255	283	304	325
Working capital changes	124	254	(64)	(1)
Other operating cashflows	(115)	(125)	(119)	(115)
Investing	(296)	(800)	(800)	(800)
Capex (growth)	251	(500)	(500)	(500)
Investments	(467)	(300)	(300)	(300)
Others	(79)	0	0	0
Financing	(598)	(22)	(113)	(107)
Proceeds from borrowings	(306)	246	179	196
Loan repayment	(72)	(63)	(68)	(73)
Others/interest paid	(221)	(205)	(224)	(231)
Net cash inflow (outflow)	(143)	184	(141)	(23)
Beginning cash & cash equivalent	1,840	1,720	1,905	1,764
Changes due to forex impact	24	0	0	0
Ending cash & cash equivalent	1,721	1,905	1,764	1,740

BALANCE SHEET

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Fixed assets	2,750	2,924	3,143	3,362
Other LT assets	3,820	4,170	4,520	4,870
Cash/ST investment	1,721	1,905	1,764	1,740
Other current assets	1,021	988	997	984
Total assets	9,312	9,988	10,425	10,956
ST debt	299	811	866	927
Other current liabilities	967	1,383	1,224	1,131
LT debt	1,864	1,816	1,940	2,075
Other LT liabilities	22	22	22	22
Shareholders' equity	5,576	5,957	6,374	6,802
Minority interest	584	0	0	0
Total liabilities & equity	9,312	9,988	10,425	10,956

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.9	21.9	24.5	26.5
Pre-tax margin	18.5	21.7	23.5	24.7
Net margin	17.0	20.4	22.0	22.9
ROA	5.6	6.1	6.3	6.2
ROE	9.6	10.2	10.4	10.0
Growth				
Turnover	29.4	(4.2)	1.5	(1.5)
EBITDA	(11.8)	24.2	13.7	6.4
Pre-tax profit	0.7	12.8	9.8	3.4
Net profit	0.5	14.7	9.5	2.8
Net profit (adj.)	(0.8)	17.3	9.5	2.8
EPS	(0.8)	17.3	9.5	2.8
Leverage				
Debt to total capital	26.0	30.6	30.6	30.6
Debt to equity	38.8	44.1	44.0	44.1
Net debt/(cash) to equity	7.9	12.1	16.3	18.5
Interest cover (x)	7.0	10.0	10.5	10.5

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