

COMPANY UPDATE

**Dialog Group (DLG MK)**

Midstream Catalyst Is Still Ongoing

Although the storage terminals may continue to enjoy peakish utilisation and rates, the midstream segment offers another earnings catalyst via the Jubail Supply Base, that is benefitting from a sustainable elevated demand for O&G activities in Saudi Arabia and energy transition. In terms of expansion/growth, Dialog remains as a Pengerang beneficiary, but may also see new growth from upstream (Baram Junior) and Jubail. Retain BUY, with adjusted target price of RM3.10.

WHAT'S NEW

- **Profit recovery is stronger than expected.** We were guided there was a non-recurring RM20m deferred tax impact in a JV project in 2QFY24. Excluding this item, 1HFY24 core profit would have been higher at RM295m (+14% yoy). Of this, the income split between midstream (ie storage terminals and Jubail Supply Base), upstream (production sharing contracts), and downstream (services like plant maintenance and EPCC), was about 60/30/10. The midstream business continued to show strength, as utilisation and rates of Pengerang Independent Terminals (PITSB) remained above 90% and S\$6.5/cbm (US\$5.2/cbm) respectively, close to previous peak cycles highs of >S\$7/cbm.
- **Midstream will continue to enjoy earnings growth not only from peak storage fundamentals...** Energy security will remain as a recurring top consideration for long-term storage demand. When the European Union banned imports of Russian oil/products in end 22 to Feb 23, this caused large influx of Russian oil/products into storage tanks at the Fujairah terminals, and pushed up storage rates in the Middle East hub to all-time high of US\$12/cbm in 1Q23. For 2024, the US is seeking to purchase 3m barrels of oil for Strategic Petroleum Reserve. Also, Reuters reported that China is back to filling up its crude inventory, suggesting a potential repeat of the 2023 pattern of inventory buildup and paredown at US\$70-90/bbl oil price levels. Back then, Jun 23 storage flows were strong though reflected time-lagged delivery of orders, when Brent hit a low of US\$70/bbl on 20 Mar 23.
- **...but also Dialog Jubail Supply Base (DJSB).** Often overshadowed by Asian storage projects, Dialog Group (Dialog) first invested SAR130m (US\$35m) back in 2011 in return for a 20+5 year lease agreement with Jubail Commercial Port (JCP), one of Middle East's fastest growing port, to operate the supply base. DJSB recorded its highest ever vessel calls of 1,999 in FY23 (profit before tax (PBT): RM37m), and we understand another 10-20% more of this will hit optimal capacity. Yet, its PBT trajectory continued to rise (2Q/ 1HFY24 PBT: RM29m/RM51m). We estimate this quarterly PBT will be sustainable, supported by rising activities of offshore vessel (90% of East Coast services required are for O&G) and Jubail Industrial City over the medium term.

KEY FINANCIALS

Year to 30 Jun (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,319	3,002	3,051	3,040	3,084
EBITDA	574	506	623	696	777
Operating profit	334	251	300	378	435
Net profit (rep./act.)	508	511	609	670	721
Net profit (adj.)	504	499	609	670	721
EPS (sen)	8.0	7.9	9.7	10.6	11.4
PE (x)	29.0	29.3	24.0	21.8	20.3
P/B (x)	2.9	2.6	2.5	2.3	2.2
EV/EBITDA (x)	24.0	27.3	22.1	19.8	17.7
Dividend yield (%)	1.4	1.6	1.9	2.1	2.3
Net margin (%)	21.9	17.0	20.0	22.1	23.4
Net debt/(cash) to equity (%)	10.4	7.9	2.1	3.0	2.3
Interest cover (x)	14.3	7.0	12.4	13.1	13.8
ROE (%)	10.5	9.6	10.6	11.0	11.2
Consensus net profit	-	-	583	629	654
UOBKH/Consensus (x)	-	-	1.04	1.07	1.10

Source: Dialog Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.32
Target Price	RM3.10
Upside	+33.4%
(Previous TP	RM2.85)

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 equipments.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	DLG MK
Shares issued (m):	5,642.6
Market cap (RMm):	13,090.8
Market cap (US\$m):	2,757.2
3-mth avg daily t'over (US\$m):	11.5

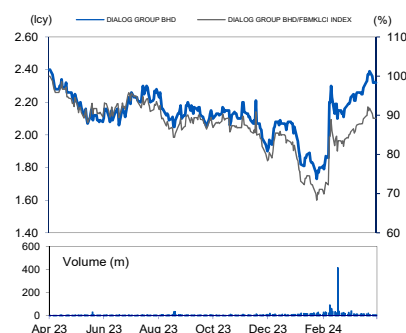
Price Performance (%)

52-week high/low	RM2.40/RM1.73			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
7.4	12.1	8.9	(2.1)	12.1

Major Shareholders

	%
EPF	15.6
Azam Utama	9.2
Wide Synergy	9.1
FY24 NAV/Share (RM)	0.94
FY24 Net Debt/Share (RM)	0.02

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **We see increased likelihood for Potential DJSB Phase 2 expansion** involving 28 h.a of land (a full development will span 10x larger of 314,500 sqm of land), although this is still at feasibility stages. Firstly, Saudi Arabia launched strategic plans in Nov 23 to upgrade and integrate the Jubail port capacities. Secondly on 11 Feb 24, Baker Hughes and Dussur inaugurated the Saudi Petrolite Chemicals Facility focusing on oilfield/industrial chemicals, and this will indirectly boost DJSB's activity outlook. Last but not least, in a Mar 24 EME Outlook publication, we found that Sedres is aligned to Saudi's 2030 Vision, as it is actively upgrading its vessel fleet while diversifying into chemicals solutions.
- **Updates: Potential expansion of upstream portfolio by end-24.** We do not expect Dialog to seriously consider another major upstream acquisition, as it evaluates the Baram Junior Cluster (BJC) Small Field Asset Production Sharing Contract (SFA PSC) secured in Jan 23. Although we are not privy to data of potential reserves, the fact that it acquired a 70% stake (along with Petros as the other partner) is a statement of confidence that Dialog is potentially ready for its first operatorship in a local upstream O&G field. Should the group decide to relinquish the PSC back to Petronas by end-24 (ie the deadline for the two-year pre-development phase), only a minimal capex commitment will be forfeited.
- **Updates on the US\$60m Moritmasu-Dialog JV (49% stake).** The 18,245 m<sup>2</sup> module production facilities remains on track for delivery by 1Q25, with an annual revenue target of US\$70m. In Moritmasu's 2023 Audited Accounts, the JV/associate losses surged yoy from Rmb4.7m to Rmb7.9m. Nevertheless, Moritmasu's unwavering commitment on this facility is shown via a supplementary JV agreement signed in Jan 24, that grants Moritmasu a full control of the project (hence it is now a subsidiary of Moritmasu).
- **Upgrade 2024-26 earnings by 4%/4%/7% respectively.** While retaining our EBITDA forecasts, we upgrade JV income forecasts by 15-17% (1HFY24: RM180m, excluding the deferred tax impact), as we turn more bullish on income from PITSB and DJSB. This is partially offset by higher depreciation, as the depreciation policy for its upstream PSCs and Bayan follows the "unit of production" method and the depreciation increases along with production rate.

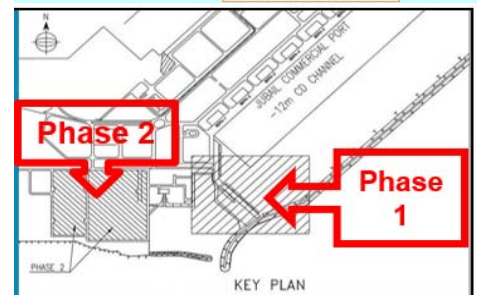
VALUATION/ RECOMMENDATION

- **Maintain BUY with adjusted target price of RM3.10 (29x PE),** as we roll forward to FY25 valuations. We see clearer signs of earnings recovery driven by multiple fronts and not only from storage projects. At the same time, downstream income (ie EPCC) Dialog can shift its resources to work on several internal EPCC jobs, and avoid committing to high-risk EPCC projects while demonstrating cost control. We still retain a RM0.50 expansion potential for Pengerang Phase 3 storage, although it is not likely in the near future.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Carbon (CO2) emission.</b> Scope 1 and 2 emissions are higher at 17,326 tCO2e in FY23 from 14,865 tCO2e in FY22. But Dialog has formulated its sustainability goals.</li> <li>- <b>Safety (HSE).</b> Nil Lost Time Injury (LTI) frequency in FY23 (FY22: 0.00).</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Diversity.</b> 21% female representation in the management team (FY22: 19%)</li> <li>- &gt;RM440m donations since inception of MyKasih (set up by the founder).</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Five out of nine board members are independent with diverse backgrounds, even though there is family representation in the management team.</li> </ul> </li> </ul>	
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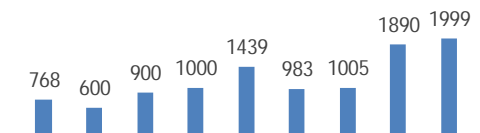
DJSB, LOCATION AND FACILITIES



Dialog (60% stake): Sedres (40% stake)
Integrated, efficient supply base close to O&G exploration: Can receive 6 offshore vessels concurrently
Services include: Vessel docking, storage, bunkering, crew embarkation, vessel repairs
Dialog (60% stake): Sedres (40% stake)
400m Quay: 6m water depth; 22,000 m <sup>2</sup> open storage area
1,680 m <sup>2</sup> Warehouse, 900 m <sup>2</sup> of Workshop
4,000 m <sup>3</sup> Fresh Water Storage Tank, 10,000 m <sup>3</sup> Fuel Diesel Tank, 5,000 m <sup>3</sup> Spare Tank
Phase 1: 20+ year lease for 45,440 sqm (US\$35m)
Phase 2: Additional around 270,000 sqm of land

Source: Dialog, UOB Kay Hian

DJSB VESSEL CALLS



FY15 FY16 FY17 FY18 FY19 FY20 FY21 FY22 FY23  
Source: Dialog, UOB Kay Hian

JV SEGMENTS AND FORECASTS

RMm (Actual)	FY21	FY22	FY23
JV/associate line	227.4	251.6	364.0
Pengerang Phase 1, JV	72.0	49.4	91.2
Pengerang 2, JV	39.9	81.0*	82.4*
Other JV and POEC**	75.5	116.6	200.3
Pengerang LNG	79.9	85.6	72.6
RMm (forecasts)	FY24	FY25	FY26
JV/associate line	402.5	395.1	399.1
Pengerang Phase 1, JV	129.0	131.3	134.9
Pengerang 2, JV	87.0	87.2	87.5
Other JV and POEC	195.7	185.8	186.0
Pengerang LNG	77.8	78.0	78.2

\*Note: Our back of envelope estimate; \*\*POEC: Pan Orient: >RM80m  
Source: Dialog, UOB Kay Hian

SOTP VALUATION PER SHARE (FY25)

Segments	Valuation	RM
Diluted shares	6.3b shares	
Core business	18x P/E on net profit, ex-associates (cut from 22x)	1.23
Kertih Terminal	400,000m <sup>3</sup> , 30% stake, WACC 9%	0.04
Tanjung Langsat 1 and 2	740,000 m <sup>3</sup> , 100% stake, WACC: 9%	0.26
Pengerang: Phase 1 and 2	Upgrades PITSB	1.12
D35 PSC + Bayan + POEC T	Assume O&G price of US\$90-100/bbl, WACC of 12%	0.11
Expansion potential	PLNG2, Langsat, and Pengerang Phase 3	0.50
(-) Net debt	Including warrant proceed	(0.16)
SOTP		3.10
Implied P/E	+1SD of 10-year average	29.1x
Implied P/B		3.1x

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Net turnover	3,002	3,051	3,040	3,084
EBITDA	506	623	696	777
Deprec. & amort.	255	323	318	342
EBIT	251	300	378	435
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	364	402	395	399
Net interest income/(expense)	(72)	(50)	(53)	(56)
<b>Pre-tax profit</b>	<b>554</b>	<b>652</b>	<b>720</b>	<b>778</b>
Tax	(33)	(36)	(40)	(43)
Minorities	(10)	(8)	(10)	(14)
<b>Net profit</b>	<b>511</b>	<b>609</b>	<b>670</b>	<b>721</b>
Net profit (adj.)	499	609	670	721

### CASH FLOW

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>750</b>	<b>1,090</b>	<b>797</b>	<b>942</b>
Pre-tax profit	554	652	720	778
Tax	(67)	(36)	(40)	(43)
Deprec. & amort.	255	323	318	342
Working capital changes	124	287	(67)	(4)
Other operating cashflows	(115)	(137)	(134)	(131)
<b>Investing</b>	<b>(296)</b>	<b>(961)</b>	<b>(800)</b>	<b>(800)</b>
Capex (growth)	251	(500)	(500)	(500)
Investments	(467)	(461)	(300)	(300)
Others	(79)	0	0	0
<b>Financing</b>	<b>(598)</b>	<b>90</b>	<b>58</b>	<b>32</b>
Proceeds from borrowings	(306)	500	500	500
Loan repayment	(72)	(50)	(53)	(56)
Others/interest paid	(221)	(360)	(388)	(412)
<b>Net cash inflow (outflow)</b>	<b>(143)</b>	<b>219</b>	<b>56</b>	<b>174</b>
Beginning cash & cash equivalent	1,840	1,720	1,939	1,995
Changes due to forex impact	24	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>1,721</b>	<b>1,939</b>	<b>1,995</b>	<b>2,169</b>

### BALANCE SHEET

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Fixed assets	2,750	2,613	2,859	3,075
Other LT assets	3,820	4,248	4,354	4,469
Cash/ST investment	1,721	1,939	1,995	2,169
Other current assets	1,021	1,047	1,039	1,053
<b>Total assets</b>	<b>9,312</b>	<b>9,848</b>	<b>10,246</b>	<b>10,765</b>
ST debt	299	637	674	716
Other current liabilities	967	1,282	1,206	1,217
LT debt	1,864	1,426	1,510	1,603
Other LT liabilities	22	22	22	22
Shareholders' equity	5,576	5,905	6,267	6,656
Minority interest	584	577	566	552
<b>Total liabilities &amp; equity</b>	<b>9,312</b>	<b>9,848</b>	<b>10,246</b>	<b>10,765</b>

### KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	16.9	20.4	22.9	25.2
Pre-tax margin	18.5	21.4	23.7	25.2
Net margin	17.0	20.0	22.1	23.4
ROA	5.6	6.4	6.7	6.9
ROE	9.6	10.6	11.0	11.2
<b>Growth</b>				
Turnover	29.4	1.6	(0.4)	1.4
EBITDA	(11.8)	23.1	11.7	11.7
Pre-tax profit	0.7	17.8	10.4	8.0
Net profit	0.5	19.2	10.1	7.5
Net profit (adj.)	(0.8)	21.9	10.1	7.5
EPS	(0.8)	21.9	10.1	7.5
<b>Leverage</b>				
Debt to total capital	26.0	24.1	24.2	24.3
Debt to equity	38.8	34.9	34.9	34.8
Net debt/(cash) to equity	7.9	2.1	3.0	2.3
Interest cover (x)	7.0	12.4	13.1	13.8

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