

PP14767/09/2012(030761)

Dialog Group Berhad

“Making Decent Progress”

Results Review

- Actual vs. expectations.** Dialog Group Berhad (Dialog) 9M15 core net profit of RM208 million (+27% y-o-y), excluding exceptional item, came in above ours and consensus estimates respectively, accounting 90% and 87% of ours and consensus full year net profit forecast. Note that 9M15 earnings have been adjusted to exclude RM23.4 million exceptional gains on disposal of the group’s other investment and RM20.0 million write-off of non-recoverable cost in upstream activities. Better-than-expected 9M15 earnings was energised by the strong contribution from Malaysia’s operation segment (+32% y-o-y) thanks to the increase in upstream activities at offshore of Sarawak.
- Dividend.** Declared an interim dividend of 1.0sen/share for the quarter, translating into a dividend payout ratio of 24%, slightly lower than 9M14 payout of 33%.
- Top line.** Dialog recorded lower revenue of RM1.8 billion (-7% y-o-y) in 9M15 impacted by weaker contribution from international operation segment which posted a lower revenue of RM779 million (-19% y-o-y) mainly due to lower activities in engineering and construction in Singapore, fabrication activities in New Zealand/Australia as well as weaker sales of specialist products and services in India and Brunei . However, Malaysia’s operation segment managed to achieve a flat revenue of RM1.0 billion (+1% y-o-y) in 9M15 due to the completion of Pengerang Deepwater Terminals Phase 1A, Phase 1B and Phase 1C couple with the higher revenue contribution from its operation of the Production Sharing Contract (PSC) for three fields namely D35, D21 and J4 at offshore Sarawak.

Wednesday, May 13, 2015

HOLD (TP: RM1.70)

Current Price (RM)	RM1.60
New Target Price (RM)	RM1.70
Previous Target Price (RM)	RM1.66
Previous Recommend.	HOLD
Upside To Target Price	6%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	DLG MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	5,054
Market Cap (RM mn)	8,035
YTD Chg In Share Price	6%
Beta (x)	1.38
52-week Hi/Low (RM)	1.96 1.19
3M Average Volume (shrs)	5.76mn
Estimated Free Float	59%

Major Shareholders

EPF	11%
Azam Utama	9%
Wide Synergy	9%

- **Bottom line.** Dialog's 9M15 core PBT surged to RM277 million (+32% y-o-y) in tandem with the improvement from Malaysian operation segment as a result of the increase in contribution from Dialog's upstream activities at offshore of Sarawak. Dialog's Malaysia operation segment recorded a PBT of RM281 million in 9M15 compared to 9M14 PBT of only RM144 million. PBT margin for 9M15 was at 16%, slightly higher against 9M14 margins of 11%.
- **Pengerang's phase 1.** Moving forward, we expect the Pengerang Deepwater Terminal to be the growth driver for Dialog in the long-term. Note that the construction of phase 1 has been carried out in three different stages comprising phase 1A, phase 1B and phase 1C with storage capacity of approximately 432,000 m³ each. Phase 1 now is in full operation with more than 160 vessels and including supertanker "VLCC" has used the terminal for trading activities.
- **Pengerang's phase 2 (SPV 2).** Dialog has inked a shareholders' agreement (SHA) with PRPC Utilities & Facilities Sdn Bhd and Vopak Terminal Pengerang BV in December 2014 to develop a project worth RM6.3 billion for handling, storing and distribution of crude oil and petrochemical feedstock from RAPID. Dialog has successfully secured an engineering, procurement, construction and commissioning (EPCC) contract worth RM5.5 billion. The phase 2 will encompass the development of petroleum and petrochemical terminal with storage capacity of 2.1 mil m³. The project is estimated to be completed by 2018.
- **Pengerang's phase 3 (SPV 3).** Dialog is forming a JV (25: 65: 10) with Petronas Gas and the state government of Johor to develop a regasification terminal (RGT) worth approximately RM2.7 billion at Pengerang Deepwater Terminal. The RGT will comprise of i) regasification unit with 3.5 million MT/p.a. storage capacity and ii) two units of 200,000m³ LNG storage tanks. The entire project is expected to be completed by 2017.
- **Change to forecast.** We made adjustment to our earnings by upgrading FY15 earnings forecast by 7% due to stronger-than-expected earnings contribution from Malaysia operation segment. Nonetheless, FY15 and FY16 earnings are projected to increase by 14% y-o-y and 38% y-o-y underpinned by i) the continuous development of Pengerang Deepwater Terminal and ii) earnings contribution from Dialog's upstream activities.
- **Valuation & recommendation.** Dialog is valued at RM1.70 based on 27x PER (5% discount to last 3-years average low PER) and the stock is a **HOLD**. Re-rating catalyst may come from i) long-term recurring income from the development of phase 2 and 3 of Pengerang Deepwater Terminal and ii) prime beneficiary of Petronas' RAPID development.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.73	20	21	13.7	12.7	1.2	1.1	13	1	3.22	Buy
Wah Seong	Dec	1.26	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.24	8	10	15.7	11.7	1.0	1.0	4	2	1.28	Hold
Dialog Group	Jun	1.60	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.68	7	7	9.5	9.4	0.7	0.7	9	NA	0.72	Hold
MMHE	Dec	1.20	8	8	15.1	15.4	0.7	0.7	8	NA	1.33	Hold
PetDag	Dec	20.98	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.66	24	28	10.8	9.3	2.4	2.1	22	3	2.95	Buy
UMW-OG	Dec	2.10	15	17	14.8	13.3	1.4	1.2	8	0.5	3.20	Buy
Perisai	Dec	0.54	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.45	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.30	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.50	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.60	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.24	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.64	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: June (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	1,634	2,237	2,552	2,556	2,760
EBITDA	200	239	273	327	395
EBIT	174	201	235	281	345
Finance costs	-4	-11	-12	-19	-14
JCE/Associates	55	42	53	51	69
PBT	225	232	277	313	400
Net profit	177	193	216	247	318
EPS (sen)	8	8	9	5	6
PBT margin	14%	10%	11%	12%	14%
Net profit margin	11%	9%	8%	10%	12%
PER (x)	30.6	34.9	18.9	32.8	25.4
P/BV (x)	4.7	5.0	5.0	4.8	4.3
DPS (sen)	3	3	3	3	3
Dividend yield	2%	2%	2%	2%	2%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

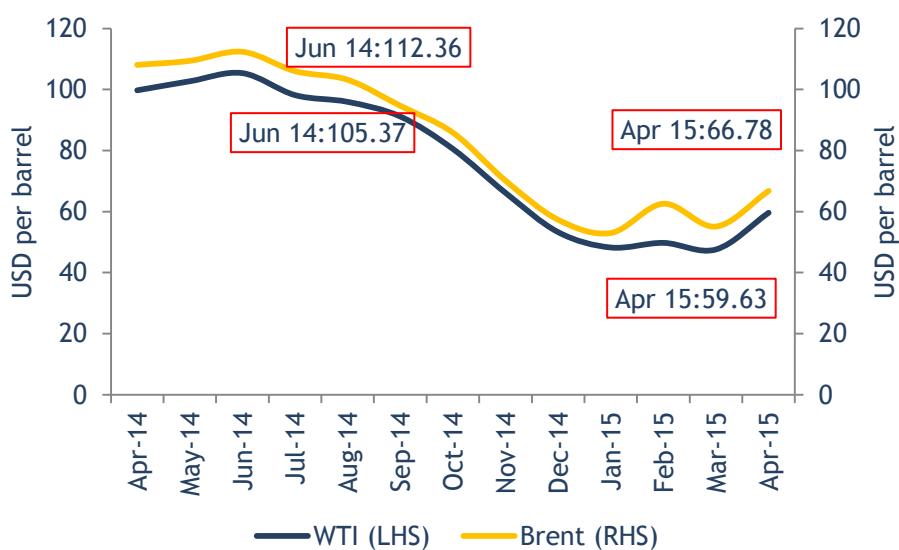
YE: June (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	638	570	670	17%	5%	1,908	1,782	-7%
Operating expenses	(587)	(481)	(570)	19%	-3%	(1,754)	(1,535)	-13%
Other operating income	4	28	9	-68%	104%	18	41	133%
JCE/Associate	9	(6)	8	NM	-13%	48	7	-85%
Finance cost	(1)	(4)	(6)	53%	330%	(10)	(15)	49%
PBT	64	107	110	3%	73%	210	281	34%
Taxation	(9)	(25)	(24)	-1%	161%	(36)	(61)	67%
Net profit	50	80	82	3%	65%	164	211	29%
EPS (sen)	1	2	2	2%	63%	3	4	28%
Pre-tax margin	10%	19%	16%			11%	16%	
Net profit margin	8%	14%	12%			9%	12%	
Effective tax rate	15%	23%	22%			17%	22%	

Source: Bursa Malaysia, M&A Securities

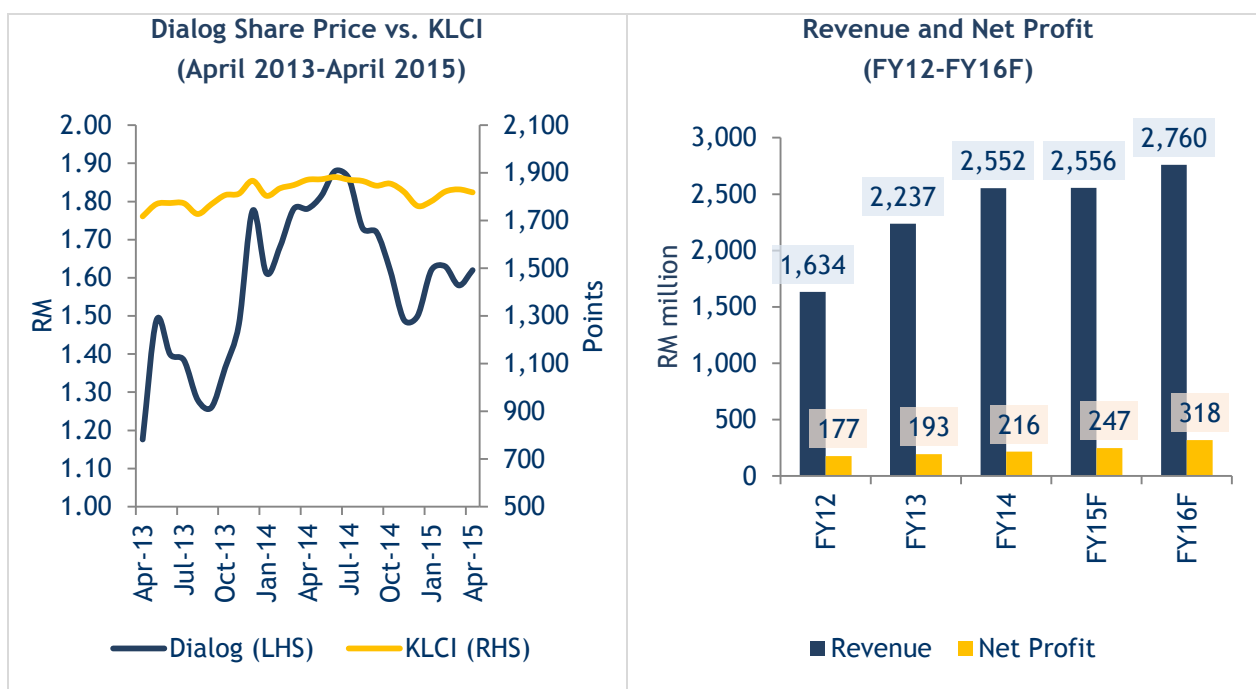
Table 4: Segmental Analysis

YE: June (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Malaysia	381	298	428	44%	12%	994	1,003	1%
Overseas	307	272	242	-11%	-21%	964	779	-19%
PBT								
Malaysia	36	61	88	45.7%	146%	144	198	37%
Overseas	28	46	22	-53%	-21%	65	82	26%

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(April 2014-April 2015)

Source: Bloomberg



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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