

PP14767/09/2012(030761)

Dialog Group Berhad

“Pengerang to Propel Growth”

Results Review

- Actual vs. expectations.** Dialog Group Berhad (Dialog) FY15 net profit of RM275 million (+27% y-o-y), came in above ours and consensus estimates respectively, accounting 111% and 108% of ours and consensus full year net profit forecast. Better-than-expected FY15 earnings were energised by strong contribution from Malaysia’s operation segment (+45% y-o-y) mainly due to the completion of engineering and construction activities for Pengerang Deepwater Terminal Phase 1 and the commencement of work for phase 2 development. Note that Phase 1 is now in full operation with more than 200 vessels and including supertanker “VLCC” have used the terminal for loading and unloading purpose.
- Dividend.** Declared final interim dividend of 1.2sen/share for the quarter, bringing total FY15 dividend to 2.2sen/share, translating into a dividend payout ratio of 41%, lower than FY14 payout of 70%.
- Top line.** Dialog recorded lower revenue of RM2.4 billion (-8% y-o-y) in FY15 impacted by weaker contribution from international operation segment which posted a lower revenue of RM1.0 billion (-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 higher revenue of RM1.3 billion (+4% y-o-y) in FY15 due to the completion of Pengerang Deepwater Terminals Phase 1 coupled with strong revenue contribution from Production Sharing Contract (PSC) for three fields namely D35, D21 and J4 at offshore Sarawak.

Friday, August 21, 2015

HOLD (TP: RM1.60)

Current Price (RM)	RM1.50
New Target Price (RM)	RM1.60
Previous Target Price (RM)	RM1.70
Previous Recommend.	HOLD
Upside To Target Price	7%
Dividend Yield (FY17)	3%

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)	5,085
Market Cap (RM mn)	8,086
YTD Chg In Share Price	6%
Beta (x)	1.32
52-week Hi/Lo (RM)	1.93   1.19
3M Average Volume (shrs)	6.91mn
Estimated Free Float	59%

Major Shareholders

EPF	11%
Azam Utama	9%
Wide Synergy	9%

- **Bottom line.** Dialog's FY15 PBT surged to RM370 million (+34% y-o-y) in tandem with the improvement from the 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 RM280 million in FY15 compared to FY14 PBT of only RM193 million. PBT margin for FY15 was at 16%, higher against FY14 margins of 11%.
- **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. Phase 2 will encompass the development of petroleum and petrochemical terminal with storage capacity of 2.1 mil m<sup>3</sup>. 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 200,000m<sup>3</sup> LNG storage tanks. The entire project is expected to be completed by 2017.
- **Change to forecast.** We have done some housekeeping exercise and came out with new FY16 and FY17 earnings forecast of RM315 million (+15% y-o-y) and RM349 million (+11% y-o-y) respectively to be driven by i) continuous development of Pengerang Deepwater Terminal and ii) earnings contribution from Dialog's upstream activities.
- **Valuation & recommendation.** Dialog is valued at RM1.60 based on 23x PER (20% 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	1.69	19	20	13.2	12.3	1.1	1.0	10	1	2.95	Buy
Wah Seong	Dec	1.25	14	15	9.5	8.8	0.9	0.9	13	4	1.38	Hold
Bumi Armada	Dec	0.84	7	10	15.3	11.1	1.0	0.9	4	1	1.32	Buy
Dialog Group	Jun	1.50	5	5	31.4	29.9	4.5	4.5	15	1	1.60	Hold
Alam Maritim	Dec	0.39	5	6	9.3	7.9	0.5	0.5	7	NA	0.56	Hold
MMHE	Dec	0.96	8	8	14.3	15.0	0.7	0.7	5	NA	1.20	Hold
PetDag	Dec	19.82	74	81	28.9	26.1	3.4	3.4	12	2	19.71	Hold
Dayang	Dec	1.53	21	24	9.7	8.7	1.8	1.4	22	3	2.64	Buy
UMW-OG	Dec	0.97	9	11	16.2	12.4	0.9	0.8	7	1	2.21	Buy
Perisai	Dec	0.29	3	6	15.6	7.1	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.48	8	13	18.6	11.6	1.7	1.4	12	1	NR	NR
TH Heavy	Dec	0.16	(1)	2	NA	10.5	0.5	0.4	(26)	NA	NR	NR
Petra Energy	Dec	0.95	12	15	8.7	7.1	0.6	0.6	7	2	NR	NR
Deleum	Dec	1.05	16	18	8.0	7.5	1.7	1.4	23	6	NR	NR
Uzma	Dec	2.00	20	24	12.5	10.4	2.3	1.9	18	2	NR	NR
KNM	Dec	0.48	7	7	8.8	7.8	0.5	0.4	3	NA	NR	NR
Average					14.7	12.1	1.4	1.3	8	2		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: June (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	2,237	2,552	2,358	2,931	3,264
EBITDA	239	273	NA	423	470
EBIT	201	235	NA	378	421
Net Finance cost	(11)	(12)	(21)	(55)	(62)
Share of JCE	42	53	6	73	82
PBT	232	277	370	397	441
Net profit	193	216	275	315	349
EPS (sen)	4	4	6	6	7
PBT margin	10%	11%	16%	14%	13%
Net profit margin	9%	8%	12%	11%	11%
PER (x)	35.3	42.7	35.2	24.2	21.8
P/BV (x)	5.2	6.1	3.9	4.6	4.3
Dividend (sen)	3	3	3	4	5
Dividend yield	2%	2%	2%	3%	3%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

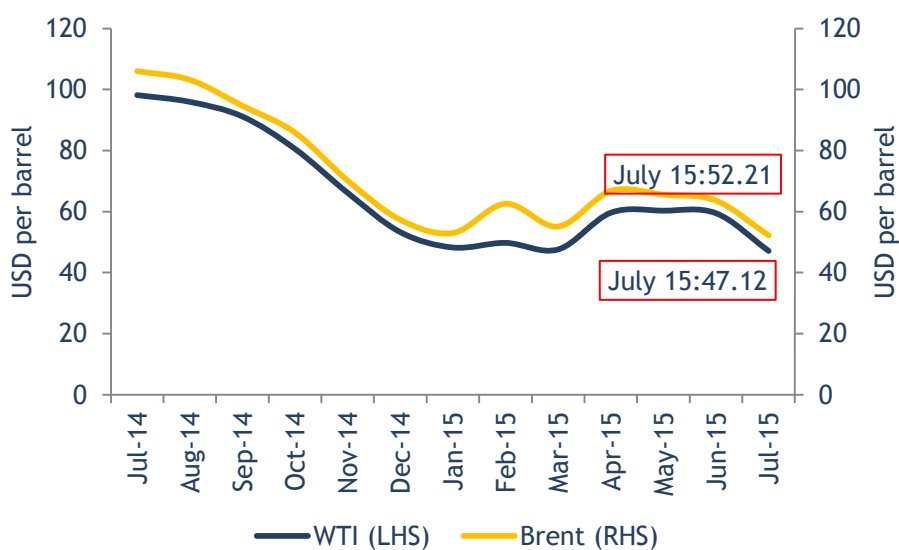
YE: June (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
Revenue	644	670	577	-14%	-10%	2,552	2,358	-8%
Operating expenses	(583)	(570)	(479)	-16%	-18%	(2,337)	(2,014)	-14%
Other operating income	3	9	1	-91%	-75%	21	42	103%
JCE/Associate	5	8	(1)	NM	-125%	53	6	-89%
Finance cost	(2)	(6)	(7)	9%	206%	(12)	(21)	79%
PBT	67	110	90	-18%	35%	277	370	34%
Taxation	(11)	(24)	(25)	1%	115%	(48)	(85)	78%
Net profit	52	82	64	-22%	22%	216	275	27%
EPS (sen)	1	2	1	-24%	19%	4	6	26%
Pre-tax margin	10%	16%	16%			11%	16%	
Net profit margin	8%	12%	11%			8%	12%	
Effective tax rate	17%	22%	27%			17%	23%	

Source: Bursa Malaysia, M&amp;A Securities

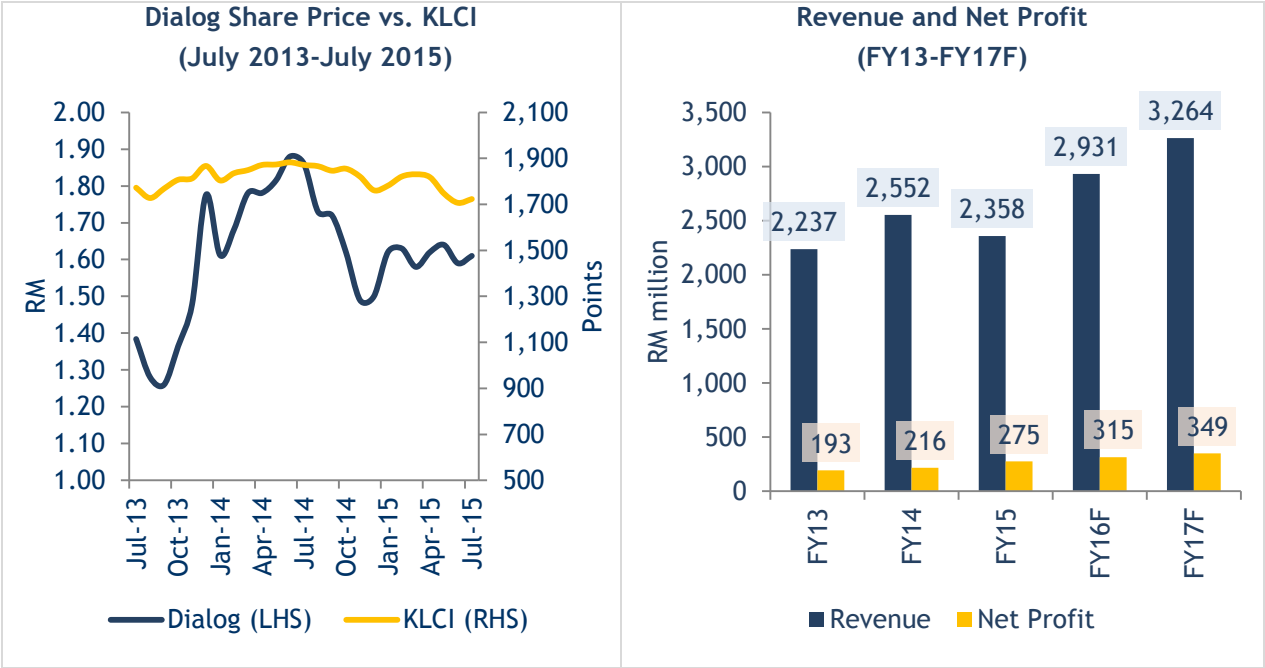
Table 4: Segmental Analysis

YE: June (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
<b>Revenue</b>								
Malaysia	303	428	340	-21%	12%	1,297	1,343	4%
Overseas	290	242	237	-2%	-19%	1,254	1,015	-19%
<b>PBT</b>								
Malaysia	49	88	81	-8.1%	66%	193	280	45%
Overseas	18	22	9	-61%	-51%	83	91	9%

Source: Bursa Malaysia, M&amp;A Securities

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

Source: Bloomberg



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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