

PP14767/09/2012(030761)

Dialog Group Berhad

“Well On Track”

Results Review

- Actual vs. expectations.** Dialog Group Berhad (Dialog) 1Q16 net profit of RM60 million (+20% y-o-y), came in line with ours and consensus estimates respectively, accounting 20% of both sides full year net profit forecast. Better-than-expected 1Q16 earnings were energised by strong contribution from international operation segment (+75% y-o-y), lifted by higher engineering and construction activities in New Zealand. On the other sides, the Phase 1 of Pengerang Deepwater Terminal is now in full operation with more than 300 vessels and including supertanker “VLCC” had used the terminal for loading and unloading purpose.
- Dividend.** No dividend was declared during the quarter.
- Top line.** Dialog recorded marginally lower revenue of RM536 million (-1% y-o-y) in 1Q16 impacted by weaker contribution from international operation segment which posted a lower revenue of RM225 million (-15% y-o-y). However, Malaysia’s operation segment managed to achieve a higher revenue of RM311 million (+13% y-o-y) in 1Q16 due to higher progress of engineering and construction activities in Pengerang Deepwater Terminal. Note that the group is also involved in several projects including Malaysia LNG (MLNG) Train 9 and SAMUR piping works during the quarter.
- Bottom line.** Dialog’s 1Q16 PBT surged to RM81 million (+27% y-o-y) in tandem with the improvement from the international operation segment mainly due to higher fabrication activities in New Zealand as well as better margin on sales of specialist products and services. Dialog’s international operation segment recorded a PBT of RM25 million in 1Q16 compared to 1Q15 PBT of

Wednesday, November 18, 2015

HOLD (TP: RM1.60)

Current Price (RM)	RM1.64
New Target Price (RM)	RM1.60
Previous Target Price (RM)	RM1.70
Previous Recommend.	HOLD
Upside To Target Price	-2%
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)	5,154
Market Cap (RM mn)	8,350
YTD Chg In Share Price	8%
Beta (x)	1.09
52-week Hi/Lo (RM)	1.71 1.19
3M Average Volume (shrs)	7.64mn
Estimated Free Float	55%

Major Shareholders

EPF	11%
Azam Utama	9%
Wide Synergy	9%

only RM14 million. PBT margin for 1Q16 was at 15%, higher against 1Q15 margins of 12%.

- **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 for 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 million 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 maintain our earnings forecast for now as 1Q16 results were in line with our assumption. At this juncture, FY16 and FY17 earnings are projected to grow at RM315 million (+15% y-o-y) and RM349 million (+11% y-o-y) respectively to be driven by i) continuous involvement and development at Pengerang Deepwater Terminal and ii) steady 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	2.10	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.16	12	13	9.9	8.9	0.8	0.8	10	3	1.15	Hold
Bumi Armada	Dec	1.03	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.64	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.10	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	23.34	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.61	18	21	9.6	8.2	1.6	1.4	18	2	1.80	Hold
UMW-OG	Dec	1.21	4	6	33.6	19.2	0.8	0.8	5	1	0.90	Sell
Perisai	Dec	0.30	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	NA	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.19	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.40	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.27	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.17	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.51	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	2		

Source: Bloomberg, M&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	26.5	23.9
P/BV (x)	5.2	6.1	3.9	4.9	4.7
Dividend (sen)	3	3	3	4	5
Dividend yield	2%	2%	2%	3%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

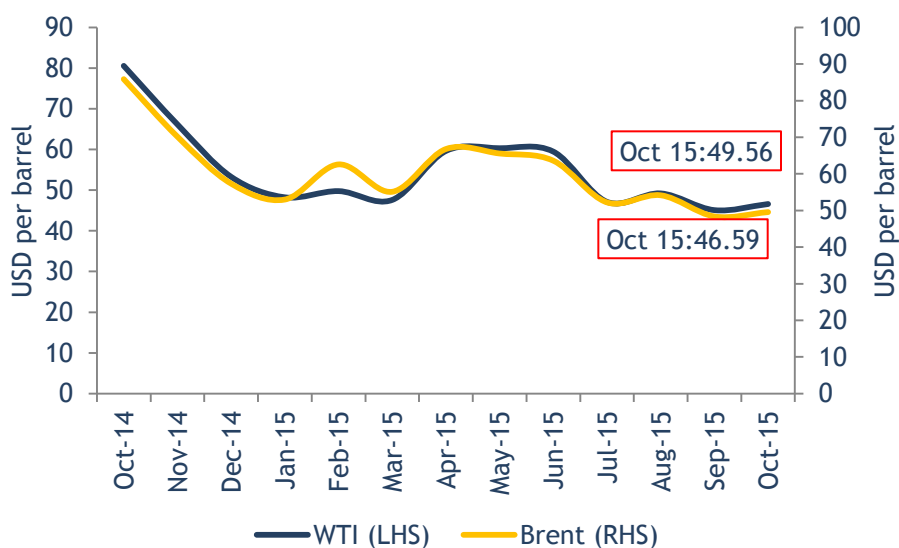
YE: June (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	542	577	536	-7%	-1%	542	536	-1%
Operating expenses	(484)	(479)	(480)	0%	-1%	(484)	(480)	-1%
Other operating income	4	1	18	2279%	321%	4	18	321%
JCE/Associate	5	(1)	12	NM	122%	5	12	122%
Finance cost	(4)	(7)	(6)	-9%	61%	(4)	(6)	61%
PBT	63	90	81	-10%	27%	63	81	27%
Taxation	11	(25)	(18)	-27%	-259%	11	(18)	-259%
Net profit	50	64	60	-6%	20%	50	60	20%
EPS (sen)	1	1	1	-6%	16%	1	1	16%
Pre-tax margin	12%	16%	15%			12%	15%	
Net profit margin	9%	11%	11%			9%	11%	
Effective tax rate	-18%	27%	22%			-18%	22%	

Source: Bursa Malaysia, M&A Securities

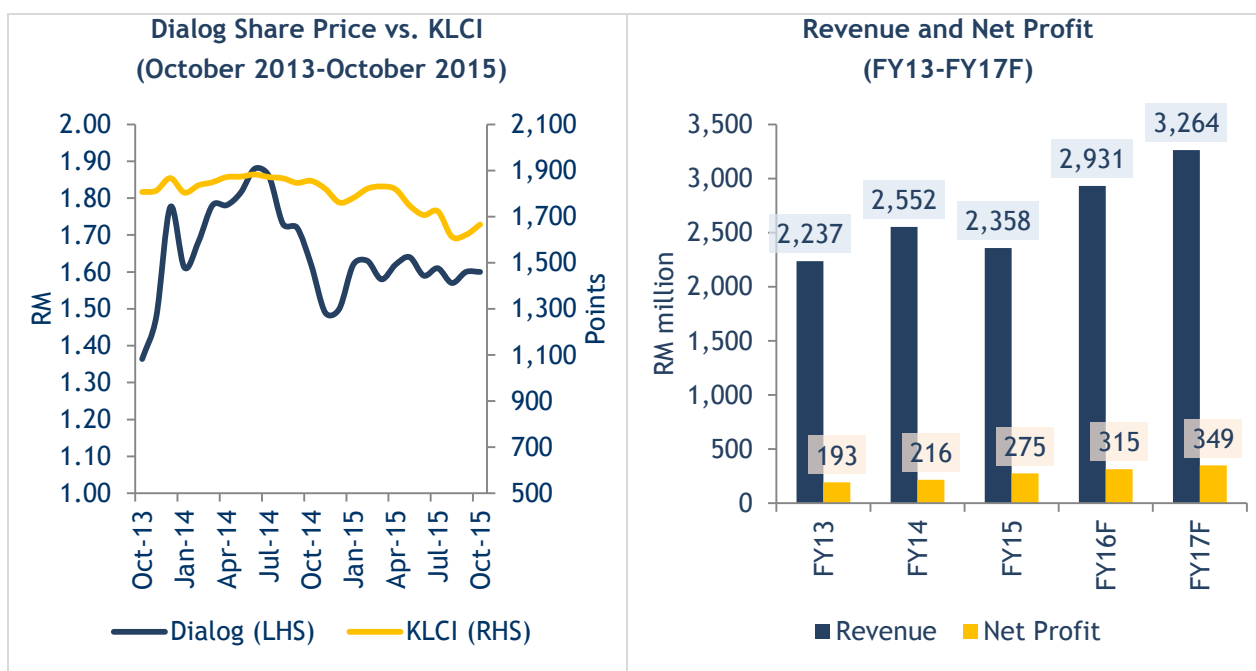
Table 4: Segmental Analysis

YE: June (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
<u>Revenue</u>								
Malaysia	277	340	311	-9%	13%	277	311	13%
Overseas	265	237	225	-5%	-15%	265	225	-15%
<u>PBT</u>								
Malaysia	49	81	56	-31%	13%	49	56	13%
Overseas	14	9	25	191%	75%	14	25	75%

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(October 2014-October 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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