

Dialog Group (DLG MK)

A ST blip, LT investment case remains firm

Maintain BUY and MYR4.90 TP

9MFY22 results came in below, on lower profits from its independent terminal ops due to lower ASP and higher overall opex (manpower, supply chain setbacks) in 3QFY22, which led to an 8-9% cut in FY22-24 earnings. We see this as a temporary setback. Its tank terminal operations remain its core earnings push and developing Pengerang to its full potential remains its key agenda. Our SOP-based TP is unchanged.

Snapshot of 3Q22 results

Core net profit of MYR131m (+4% QoQ; 5% YoY) took 9MFY22 core earnings to MYR384m (-7% YoY), 64% of our initial FY estimate. Contrary to a stronger QoQ outlook in 3Q22, its performance was relatively flat. The weakness was due to: (i) a 19% QoQ profit fall from its associate, mainly from its independent terminal ops (855k cu m capacity Langsat & Pengerang Phase 1; 1.73m cu m), weighed down by lower ASP (-8%) and (ii) losses at its SG ops (-MYR9m in pretax), as it suffered from project cost overruns as well as elevated manpower, material and logistics costs.

Pengerang remains key

We cut our FY22-24 earnings by 8-9% post 3Q22 results and now expect flat YoY earnings in FY22. While the uninspiring FY22 is well-flagged due to the challenges highlighted above, we expect FY23 to be a more meaningful period, with greater traction at its Pengerang ops, on new capacity uptake by then as the Covid-19 pandemic turns endemic and stringent travel restrictions are progressively lifted. Developing Pengerang to its full potential remains its key agenda, a LT project lasting 10-15 years.

Decarbonisation agenda on the rise

Dialog targets the renewable section to contribute 10% to Group's earnings over the long run and have the upstream/midstream/ downstream each delivering equally, at 30%/ 30%/ 30%. Its maiden green investment, the USD20m 51:49 JV with Diyou for the r-PET project, is scheduled to commence ops in 3QFY23. The investment/ capacity will grow as demand picks up. It is also not ruling out CCS tech, hydrogen and solar projects in its renewable ops development, if it meets its investment criteria.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,303	1,610	1,980	2,068	2,205
EBITDA	711	656	760	796	834
Core net profit	588	546	546	605	658
Core EPS (sen)	10.4	9.7	9.7	10.7	11.7
Core EPS growth (%)	10.0	(7.3)	(0.0)	10.8	8.8
Net DPS (sen)	3.1	3.1	2.9	3.2	3.5
Core P/E (x)	34.6	29.9	23.6	21.3	19.6
P/BV (x)	4.9	3.2	2.4	2.2	2.0
Net dividend yield (%)	0.9	1.1	1.3	1.4	1.5
ROAE (%)	15.9	12.4	11.4	11.7	11.6
ROAA (%)	8.5	7.2	6.4	6.6	6.8
EV/EBITDA (x)	29.7	26.5	18.2	17.3	16.3
Net gearing (%) (incl perps)	15.8	9.3	6.6	3.8	1.0
Consensus net profit	-	-	551	649	693
MKE vs. Consensus (%)	-	-	(1.0)	(6.8)	(5.1)

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BUY

Share Price	MYR 2.28
12m Price Target	MYR 4.90 (+115%)
Previous Price Target	MYR 4.90

Company Description

The largest tank terminal operators in Malaysia with EPC works

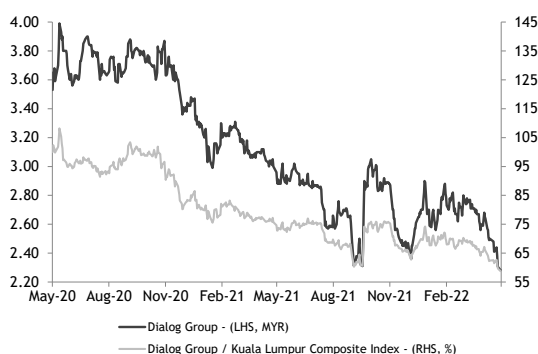
Statistics

52w high/low (MYR)	3.05/2.28
3m avg turnover (USDm)	3.0
Free float (%)	65.6
Issued shares (m)	5,646
Market capitalisation	MYR12.9B USD2.9B

Major shareholders:

Employees Provident Fund	13.9%
Kumpulan Wang Persaraan	9.2%
Wide Synergy Sdn. Bhd.	7.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(12)	(18)	(23)
Relative to index (%)	(10)	(15)	(21)

Source: FactSet

Fig 1: Summary Results Table

FY Jun (MYR m)	Quarterly					Cumulative		
	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Turnover	593.4	405.2	46.5	544.5	9.0	1,643.4	1,087.8	51.1
EBITDA	148.4	139.0	6.8	130.0	14.1	413.9	466.2	(11.2)
Int. expense	(6.9)	(3.0)	129.9	(6.8)	2.0	(20.8)	(23.5)	(11.4)
Associates	55.2	62.7	(12.0)	68.4	(19.4)	197.0	166.6	18.3
Exceptional item	2.6	11.3	(77.1)	2.2	19.3	5.6	(8.9)	(163.2)
Pretax profit	141.5	148.1	(4.5)	139.5	1.4	423.6	439.6	(3.6)
Tax	(10.5)	(15.8)	(34.0)	(11.3)	(7.7)	(33.5)	(37.0)	(9.6)
Minority interest	2.1	3.9	(47.0)	(0.3)	914.2	(0.4)	2.0	(120.9)
Net profit	133.1	136.2	(2.3)	127.9	4.1	389.8	404.6	(3.7)
Net profit Ex EI	130.5	124.9	4.5	125.7	3.8	384.1	413.5	(7.1)
<i>EBIT margin (%)</i>	25.0	34.3	(9.3)	23.9	1.1	25.2	42.9	(17.7)
<i>Tax rate (%)</i>	7.4	10.7	(3.3)	8.1	(0.7)	7.9	8.4	(0.5)
	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Turnover	593.4	405.2	46.5	544.5	9.0	1,643.4	1,087.8	51.1
- Malaysia	381.9	203.2	88.0	291.6	31.0	956.0	511.7	86.8
- Overseas	211.5	202.0	4.7	252.9	(16.4)	687.3	576.0	19.3
Pretax profit	141.5	148.1	(4.5)	139.5	1.4	423.6	439.6	(3.6)
- Malaysia	88.3	69.7	26.7	69.5	27.0	209.1	233.6	(10.5)
- Overseas	(2.0)	15.7	(112.5)	1.6	(226.1)	17.5	39.5	(55.6)
- Associates	55.2	62.7	(12.0)	68.4	(19.4)	197.0	166.6	18.3
Pretax margin (%)	23.8	36.6	(12.7)	25.6	(1.8)	25.8	40.4	(14.6)
- Malaysia	23.1	34.3	(11.2)	23.8	(0.7)	21.9	45.6	(23.8)
- Overseas	-0.9	7.8	(8.7)	0.6	(1.5)	2.5	6.9	(4.3)

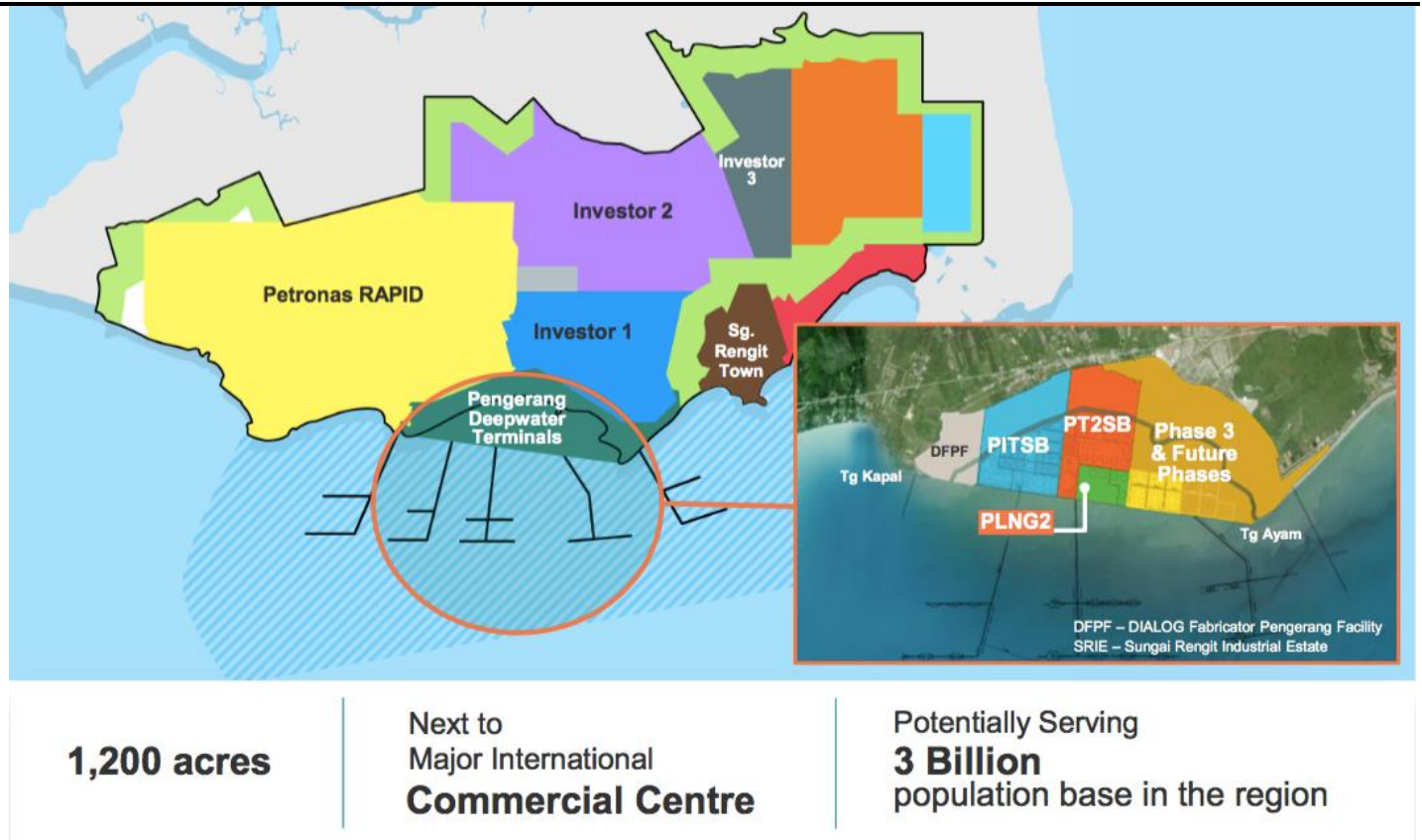
Source: Company, Maybank IBG Research

Fig 2: Dialog's SOP valuation

Operations	(MYR'm)	MYR/shr	Details
- Kertih	666.8	0.12	397k cu m; 30% stake (<u>dedicated terminal</u>)
- Langsat	2,008.3	0.36	647k-947k cu m; 100% stake (<u>independent terminal</u>)
- Pengerang l'dent Terminals (PITSB); SPV1	1,265.3	0.22	Phase 1: 1,300k cu m; 45.9% stake; MYR2.0b project cost (<u>independent terminal</u>)
- Pengerang Terminals (TWO) (PT2SB); SPV2	2,380.7	0.42	Phase 2A: 1,300k cu m; 25% stake; MYR6.3b project cost (<u>dedicated terminal</u>)
- Pengerang LNG (TWO) (PLNG2); SPV3	1,672.6	0.30	Phase 2B: Regas: 3.5m tpa capacity; 400k m ³ LNG storage; 25% stake (<u>dedicated terminal</u>)
- PITSB expansion; SPV4	1,186.6	0.21	Phase 1E: 400k- 1,000k cu m; 45.9% stake; MYR1.2b project cost (<u>independent terminal</u>)
- Pengerang SPV5 (for BP Singapore)	1,491.3	0.26	Phase 3: 430k cu m; 90% stake (<u>dedicated terminal</u>)
- Pengerang future SPVs	5,301.5	0.94	New phases: 2,000k cu m; 90% stake (<u>independent terminal</u>)
- Pengerang future SPVs	7,325.3	1.30	New phases: 2,000k cu m; 50% stake (<u>dedicated terminal</u>)
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Tank terminal ops	23,298.4	4.13	
Halliburton Bayan Petroleum S/B	74.1	0.01	1H19 (YE Dec) BV; 95% stake, OSC up to 2036
Dialog Resources S/B	273.9	0.05	FY18 (YE Dec) BV; 20% stake at 3 PSCs - D35/D21/J4 up to 2034
EPCC, other services	1,602.3	0.28	MYR2b replenishment p.a.; 6% net margin; 12x PE multiple
Maintenance-related services	1,837.4	0.33	MYR700m replenishment; 15% net margin; 15x PE multiple
Land @ Pengerang	1,306.8	0.23	600 acres of greenfield land near RAPID/ reclaimed land valued at MYR50 psf
Net debt	(981.2)	(0.17)	FY21 (incl MYR499m perps).
SOP	27,411.6	4.86	Share base: 5,640.7m (<u>rounded up to MYR4.90</u>)

Source: Maybank IBG Research

Fig 3: Snapshot of Pengerang deepwater terminals



Source: Company

Fig 4: Tank terminal capacity

Operations	Stake (%)	Capacity (m ³)	Comment
Existing: (a)			
Kertih	30%	400,000	
DTL 1 & 2	100%	650,000	
DTL 3	100%	120,000	120,000 came onstream in FY20
PITSB	46%	1,730,000	430,000 was added in FY20
PT2SB	25%	1,300,000	
PLNG2	25%	400,000	
		4,600,000	
Expansion: (b)			
DTL3	100%	85,000	MYR100m capex, to start from mid-2022
Phase 3A	90%	430,000	BP SG, came onstream in mid-2021
		515,000	
Total (a) + (b)		5,115,000	

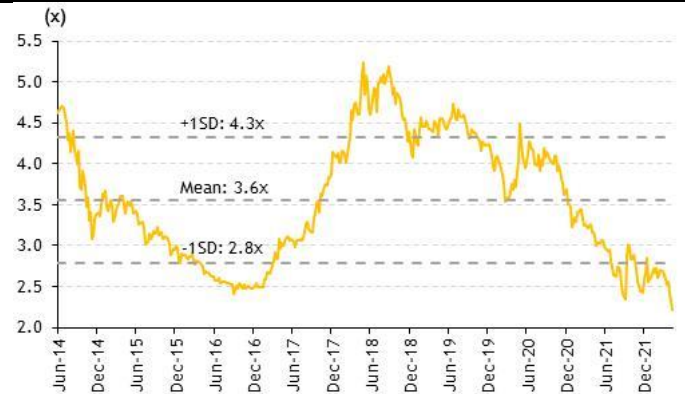
Source: Company

Fig 5: 1-year forward PER



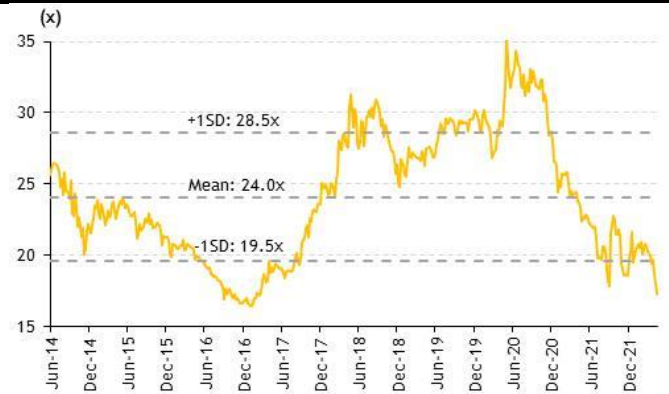
Source: Company, Maybank IBG Research

Fig 6: 1-year forward PBV



Source: Company, Maybank IBG Research

Fig 7: 1-year forward EV/ EBITDA



Source: Company, Maybank IBG Research

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	30.4	35.4	23.6	21.3	19.6
Core P/E (x)	34.6	29.9	23.6	21.3	19.6
P/BV (x)	4.9	3.2	2.4	2.2	2.0
P/NTA (x)	6.1	3.8	2.8	2.5	2.3
Net dividend yield (%)	0.9	1.1	1.3	1.4	1.5
FCF yield (%)	1.0	nm	4.2	4.3	4.6
EV/EBITDA (x)	29.7	26.5	18.2	17.3	16.3
EV/EBIT (x)	40.8	40.5	26.8	24.9	23.1

INCOME STATEMENT (MYR m)

Revenue	2,303.4	1,609.9	1,980.3	2,068.3	2,205.5
EBITDA	710.6	656.4	760.2	796.4	833.9
Depreciation	(192.8)	(226.7)	(244.0)	(244.0)	(244.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	517.8	429.7	516.2	552.4	589.9
Net interest income / (exp)	(54.6)	(26.4)	(89.0)	(77.3)	(74.4)
Associates & JV	242.0	227.4	250.1	273.4	296.9
Exceptionals	42.1	(2.6)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	747.3	595.0	677.3	748.5	812.4
Income tax	(99.2)	(51.9)	(105.0)	(116.0)	(125.9)
Minorities	(17.7)	0.1	(26.7)	(27.8)	(28.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	630.4	543.1	545.6	604.7	657.7
Core net profit	588.3	545.7	545.6	604.7	657.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,240.4	1,453.4	1,971.5	2,025.4	2,094.7
Accounts receivable	1,147.0	620.7	763.5	797.5	850.4
Inventory	84.7	43.7	53.8	56.1	59.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,567.0	3,371.9	3,177.9	2,983.9	2,789.9
Intangible assets	777.2	835.1	835.1	835.1	835.1
Investment in Associates & JVs	1,283.4	1,504.8	2,004.9	2,528.2	3,075.1
Other assets	90.4	147.7	147.7	147.7	147.7
Total assets	7,190.0	7,977.2	8,954.3	9,373.9	9,852.7
ST interest bearing debt	457.7	297.7	350.0	350.0	350.0
Accounts payable	930.8	747.5	919.4	960.3	1,024.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,453.5	1,637.9	1,993.3	1,903.3	1,813.3
Other liabilities	104.0	95.0	95.0	95.0	95.0
Total Liabilities	2,946.3	2,778.3	3,358.0	3,308.8	3,282.5
Shareholders Equity	4,132.1	5,096.6	5,467.3	5,908.4	6,384.6
Minority Interest	111.6	102.3	129.0	156.7	185.6
Total shareholder equity	4,243.8	5,198.9	5,596.3	6,065.1	6,570.2
Total liabilities and equity	7,190.0	7,977.2	8,954.3	9,373.9	9,852.7

CASH FLOW (MYR m)

Pretax profit	747.3	595.0	677.3	748.5	812.4
Depreciation & amortisation	192.8	226.7	244.0	244.0	244.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	160.9	160.9	19.1	4.5	7.1
Cash taxes paid	(99.2)	(51.9)	(105.0)	(116.0)	(125.9)
Other operating cash flow	(155.3)	(399.8)	(250.1)	(273.4)	(295.9)
Cash flow from operations	846.6	530.9	585.3	607.6	641.7
Capex	(646.8)	(835.0)	(50.0)	(50.0)	(50.0)
Free cash flow	199.8	(304.1)	535.3	557.6	591.7
Dividends paid	(216.8)	(180.3)	(174.9)	(163.7)	(181.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	236.8	24.5	407.7	(90.0)	(90.0)
Other invest/financing cash flow	136.2	672.8	(250.0)	(250.0)	(250.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	356.0	213.0	518.1	53.9	70.3

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.5)	(30.1)	23.0	4.4	6.6
EBITDA growth	9.3	(7.6)	15.8	4.8	4.7
EBIT growth	(0.7)	(17.0)	20.1	7.0	6.8
Pretax growth	14.4	(20.4)	13.8	10.5	8.5
Reported net profit growth	17.6	(13.8)	0.5	10.8	8.8
Core net profit growth	10.0	(7.2)	(0.0)	10.8	8.8
Profitability ratios (%)					
EBITDA margin	30.9	40.8	38.4	38.5	37.8
EBIT margin	22.5	26.7	26.1	26.7	26.7
Pretax profit margin	32.4	37.0	34.2	36.2	36.8
Payout ratio	27.7	32.2	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	27.4	33.7	27.6	29.2	29.8
Revenue/Assets (x)	0.3	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.7	1.6	1.6	1.6	1.5
ROAE (%)	15.9	12.4	11.4	11.7	11.6
ROAA (%)	8.5	7.2	6.4	6.6	6.8
Liquidity & Efficiency					
Cash conversion cycle	(26.4)	(108.2)	(130.7)	(140.6)	(134.5)
Days receivable outstanding	184.7	197.6	125.8	135.9	134.5
Days inventory outstanding	21.1	25.3	15.9	17.2	16.7
Days payables outstanding	232.3	331.1	272.5	293.6	285.7
Dividend cover (x)	3.6	3.1	3.3	3.3	3.3
Current ratio (x)	1.7	1.9	2.1	2.1	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.9	2.7	2.8	3.0
Net gearing (%) (incl perps)	15.8	9.3	6.6	3.8	1.0
Net gearing (%) (excl. perps)	15.8	9.3	6.6	3.8	1.0
Net interest cover (x)	9.5	16.3	5.8	7.1	7.9
Debt/EBITDA (x)	2.7	2.9	3.1	2.8	2.6
Capex/revenue (%)	28.1	51.9	2.5	2.4	2.3
Net debt/ (net cash)	670.8	482.3	371.9	227.9	68.6

Source: Company; Maybank IBG Research

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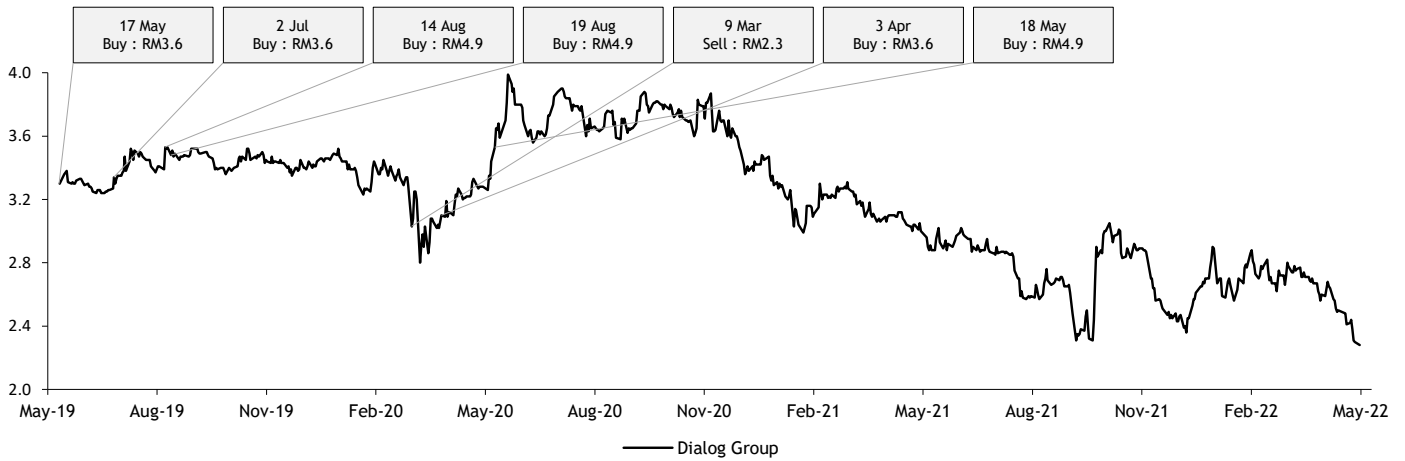
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