

# Dialog Group (DLG MK)

## 1QFY23 results in line

### Maintain BUY and MYR4.90 TP

1QFY23 earnings made up 21% of our FY estimate and we expect its YoY strength in FY23 to be driven by its recently acquired upstream Thailand ops, POEC. Developing Pengerang to its full potential remains its key agenda. Its Phase 3 ops is expected to gained traction post pandemic. All in, we remain positive of its operational/financial strength & management acumen. Our TP is SOP-based.

### Snapshot of 1Q23 results

Excluding the MYR7m impairment loss from its 60%-owned Jubail Supply Base ops in Saudi Arabia, Dialog reported core net profit of MYR130m in 1QFY23. Revenue was up 41% YoY, thanks to increased workflows at its MY (+46%) and overseas ops (+35%). However, net profit was flat (+1% YoY). This was largely due to lower contributions from its upstream ops. Its Bayan and D35/D21/J4 fields had scheduled maintenance works in the quarter, which resulted in lower: (i) operating uptime & (ii) Group EBITDA margin (-10-ppts YoY). Its midstream ops (tank terminals; +14% YoY) remain its key contributor (i.e. ~60% of Group's earnings).

### TH's POEC to drive FY23's growth

Our earnings estimates are unchanged, on stronger quarters ahead, arising from higher upstream profits. The YoY growth in FY23 (+19%) will be fueled by: (i) contribution of its 100%-owned producing, upstream, onshore oil field in Thailand, Pacific Orient Energy Corp (POEC) and (ii) lower opex, as the pandemic-led and supply chain issues dissipate. Based on our back-of-envelope calculations, the expected payback period for the former is relatively low, at 2-4 years, based on a conservative crude oil profit of USD10-USD20/bbl.

### Pengerang development is key to its LT growth

Developing Pengerang to its full potential remains its long-term key agenda. Its Phase 3 project (earmarked for long-term downstream/dedicated terminals ops) is gaining traction post pandemic and will anchor the Group's growth over the next 10-15 years. Dialog has been actively engaging with multiple prospects (post-pandemic) to invest there. More importantly, it reiterates that it has no intention to sell and monetise its real estate there for a quick gain, a positive.

FYE Jun (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,610	2,319	2,393	2,525	2,640
EBITDA	656	750	792	830	865
Core net profit	546	506	605	658	709
Core EPS (sen)	9.7	9.0	10.7	11.7	12.6
Core EPS growth (%)	(7.3)	(7.3)	19.5	8.8	7.7
Net DPS (sen)	3.1	3.4	4.1	4.4	4.8
Core P/E (x)	29.9	23.7	18.9	17.4	16.2
P/BV (x)	3.2	2.2	1.9	1.8	1.7
Net dividend yield (%)	1.1	1.6	2.0	2.2	2.4
ROAE (%)	12.4	10.5	11.5	11.6	11.6
ROAA (%)	7.2	6.0	6.7	7.0	7.2
EV/EBITDA (x)	26.5	17.5	15.6	14.6	13.8
Net gearing (%) (incl perps)	9.3	9.3	4.5	0.5	net cash
Consensus net profit	-	-	590	630	654
MKE vs. Consensus (%)	-	-	2.5	4.5	8.4

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## BUY

Share Price	MYR 2.03
12m Price Target	MYR 4.90 (+141%)
Previous Price Target	MYR 4.90

### Company Description

*The largest tank terminal operators in Malaysia with EPCC works*

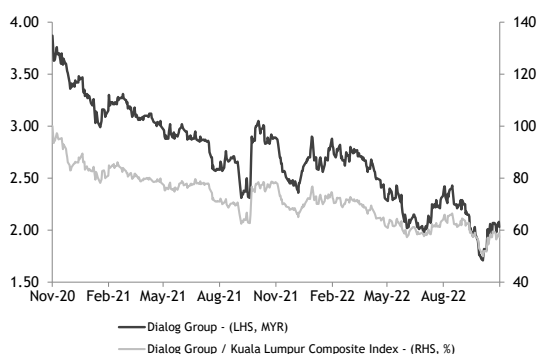
### Statistics

52w high/low (MYR)	2.90/1.71
3m avg turnover (USDm)	2.6
Free float (%)	65.3
Issued shares (m)	5,646
Market capitalisation	MYR11.5B
	USD2.5B

### Major shareholders:

Employees Provident Fund	14.2%
Kumpulan Wang Persaraan	9.2%
Wide Synergy Sdn. Bhd.	7.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	15	(13)	(30)
Relative to index (%)	9	(10)	(27)

Source: FactSet

## Summary Results Table

FY Jun (MYR m)	Quarterly				
	1Q23	1Q22	% YoY	4Q22	% QoQ
Turnover	711.7	505.5	40.8	675.7	5.3
EBITDA	119.9	135.5	(11.5)	162.2	(26.1)
Int. expense	(16.4)	(7.2)	NM	(19.3)	(14.9)
Associates	84.1	73.4	14.5	54.6	54.1
Exceptional item	(3.9)	0.9	NM	(3.7)	4.7
<b>Pretax profit</b>	<b>127.4</b>	<b>142.7</b>	<b>(10.7)</b>	<b>126.7</b>	<b>0.6</b>
Tax	(7.2)	(11.7)	(38.5)	(11.0)	(34.6)
Minority interest	5.6	(2.2)	NM	2.5	NM
<b>Net profit</b>	<b>125.8</b>	<b>128.8</b>	<b>(2.4)</b>	<b>118.2</b>	<b>6.4</b>
<b>Net profit Ex EI</b>	<b>129.7</b>	<b>128.0</b>	<b>1.3</b>	<b>121.9</b>	<b>6.3</b>
<i>EBITDA margin (%)</i>	<i>16.8</i>	<i>26.8</i>	<i>(10.0)</i>	<i>24.0</i>	<i>(7.2)</i>
<i>Tax rate (%)</i>	<i>5.6</i>	<i>8.2</i>	<i>(2.5)</i>	<i>8.7</i>	<i>(3.0)</i>
	1Q23	1Q22	% YoY	4Q22	% QoQ
<b>Turnover</b>	<b>711.7</b>	<b>505.5</b>	<b>40.8</b>	<b>675.7</b>	<b>5.3</b>
- Malaysia	411.1	282.5	45.5	374.6	9.7
- Overseas	300.6	222.9	34.8	301.0	(0.1)
<b>Pretax profit</b>	<b>127.4</b>	<b>142.7</b>	<b>(10.7)</b>	<b>126.7</b>	<b>0.6</b>
- Malaysia	31.1	51.4	(39.4)	70.4	(55.8)
- Overseas	12.2	17.9	(32.0)	1.7	>100
- Associates	84.1	73.4	14.5	54.6	54.1
<b>Pretax margin (%)</b>	<b>17.9</b>	<b>28.2</b>	<b>(10.3)</b>	<b>18.7</b>	<b>(0.9)</b>
- Malaysia	7.6	18.2	(10.6)	18.8	(11.2)
- Overseas	4.1	8.0	(4.0)	0.6	3.5

Source: Company, Maybank IBG Research

## 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 m³ 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).
<b>SOP</b>	<b>27,411.6</b>	<b>4.86</b>	Share base: 5,640.7m (rounded up to MYR4.90)

Source: Maybank IBG Research

### Snapshot of Pengerang deepwater terminals



**1,200 acres**

Next to  
Major International  
**Commercial Centre**

Potentially Serving  
**3 Billion**  
population base in the region

Source: Company

### Tank terminal capacity

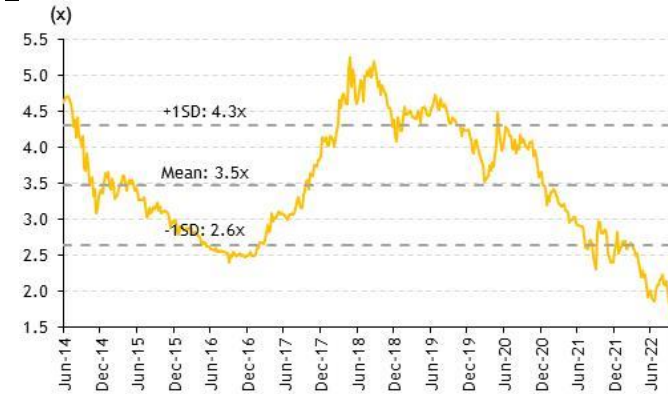
Operations	Stake (%)	Capacity (m <sup>3</sup> )	Comment
<b>Existing: (a)</b>			
Kertih	30%	400,000	
DTL 1 & 2	100%	650,000	
DTL 3	100%	120,000	120,000 came onstream in FY20
PITSB	46%	1,730,000	430,000 was added in FY20
PT2SB	25%	1,300,000	
PLNG2	25%	400,000	
		<b>4,600,000</b>	
<b>Expansion: (b)</b>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

1-year forward PER



Source: Company, Maybank IBG Research

1-year forward PBV



Source: Company, Maybank IBG Research

1-year forward EV/ EBITDA



Source: Company, Maybank IBG Research

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	35.4	29.1	18.9	17.4	16.2
Core P/E (x)	29.9	23.7	18.9	17.4	16.2
P/BV (x)	3.2	2.2	1.9	1.8	1.7
P/NTA (x)	3.8	2.5	2.2	2.0	1.9
Net dividend yield (%)	1.1	1.6	2.0	2.2	2.4
FCF yield (%)	nm	1.8	3.4	3.7	3.9
EV/EBITDA (x)	26.5	17.5	15.6	14.6	13.8
EV/EBIT (x)	40.5	25.7	22.3	20.6	19.1

**INCOME STATEMENT (MYR m)**

Revenue	1,609.9	2,319.0	2,393.3	2,525.1	2,639.5
EBITDA	656.4	750.3	792.4	829.8	864.7
Depreciation	(226.7)	(239.2)	(239.2)	(239.2)	(239.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	429.7	511.0	553.2	590.6	625.5
Net interest income / (exp)	(26.4)	(40.1)	(78.0)	(74.4)	(71.4)
Associates & JV	227.4	251.6	273.4	296.9	320.6
Exceptionals	(2.6)	1.9	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	595.0	550.3	748.5	813.1	874.7
Income tax	(51.9)	(44.4)	(116.0)	(126.0)	(135.6)
Minorities	0.1	2.1	(27.8)	(28.8)	(29.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	543.1	508.0	604.8	658.3	709.2
Core net profit	545.7	506.1	604.8	658.3	709.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,453.4	1,840.3	1,979.9	2,128.6	2,295.4
Accounts receivable	620.7	859.9	887.4	936.3	978.7
Inventory	43.7	73.5	75.8	80.0	83.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	3,349.4	3,350.2	3,311.0	3,271.7	3,232.5
Intangible assets	835.1	807.1	807.1	807.1	807.1
Investment in Associates & JVs	1,504.8	1,535.6	1,759.0	2,005.8	2,276.4
Other assets	170.2	380.5	380.5	380.5	380.5
<b>Total assets</b>	<b>7,977.2</b>	<b>8,847.1</b>	<b>9,200.7</b>	<b>9,610.0</b>	<b>10,054.2</b>
ST interest bearing debt	297.7	337.2	350.0	350.0	350.0
Accounts payable	747.5	740.7	764.4	806.5	843.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,637.9	2,026.9	1,903.3	1,813.3	1,732.0
Other liabilities	95.0	90.0	90.0	90.0	90.0
<b>Total Liabilities</b>	<b>2,778.3</b>	<b>3,194.6</b>	<b>3,107.5</b>	<b>3,059.6</b>	<b>3,014.9</b>
Shareholders Equity	5,096.6	5,553.3	5,966.3	6,394.7	6,853.8
Minority Interest	102.3	99.1	126.9	155.7	185.6
<b>Total shareholder equity</b>	<b>5,198.9</b>	<b>5,652.5</b>	<b>6,093.1</b>	<b>6,550.4</b>	<b>7,039.4</b>
<b>Total liabilities and equity</b>	<b>7,977.2</b>	<b>8,847.1</b>	<b>9,200.7</b>	<b>9,610.0</b>	<b>10,054.2</b>

**CASH FLOW (MYR m)**

Pretax profit	595.0	550.3	748.5	813.1	874.7
Depreciation & amortisation	226.7	239.2	239.2	239.2	239.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	160.9	(264.2)	(6.2)	(10.9)	(9.5)
Cash taxes paid	(51.9)	(44.4)	(116.0)	(126.0)	(135.6)
Other operating cash flow	(358.9)	78.8	(273.4)	(295.9)	(318.6)
Cash flow from operations	571.7	559.7	592.2	619.5	650.3
Capex	(784.9)	(347.2)	(200.0)	(200.0)	(200.0)
Free cash flow	(213.2)	212.5	392.2	419.5	450.3
Dividends paid	(180.3)	(184.7)	(191.8)	(229.8)	(250.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	24.5	428.5	(110.8)	(90.0)	(81.3)
Other invest/financing cash flow	581.9	(69.3)	50.0	50.0	50.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>213.0</b>	<b>387.0</b>	<b>139.6</b>	<b>149.7</b>	<b>168.8</b>

FYE 30 Jun	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(30.1)	44.0	3.2	5.5	4.5
EBITDA growth	(7.6)	14.3	5.6	4.7	4.2
EBIT growth	(17.0)	18.9	8.2	6.8	5.9
Pretax growth	(20.4)	(7.5)	36.0	8.6	7.6
Reported net profit growth	(13.8)	(6.5)	19.0	8.8	7.7
Core net profit growth	(7.2)	(7.3)	19.5	8.8	7.7
<b>Profitability ratios (%)</b>					
EBITDA margin	40.8	32.4	33.1	32.9	32.8
EBIT margin	26.7	22.0	23.1	23.4	23.7
Pretax profit margin	37.0	23.7	31.3	32.2	33.1
Payout ratio	32.2	37.8	38.0	38.0	38.0
<b>DuPont analysis</b>					
Net profit margin (%)	33.7	21.9	25.3	26.1	26.9
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.6	1.6	1.5	1.5	1.5
ROAE (%)	12.4	10.5	11.5	11.6	11.6
ROAA (%)	7.2	6.0	6.7	7.0	7.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(108.2)	(57.9)	(31.9)	(28.8)	(28.4)
Days receivable outstanding	197.6	114.9	131.4	130.0	130.6
Days inventory outstanding	25.3	14.8	18.0	17.5	17.5
Days payables outstanding	331.1	187.6	181.3	176.3	176.5
Dividend cover (x)	3.1	2.6	2.6	2.6	2.6
Current ratio (x)	2.0	2.4	2.5	2.6	2.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.9	2.8	3.0	3.1	3.3
Net gearing (%) (incl perps)	9.3	9.3	4.5	0.5	net cash
Net gearing (%) (excl. perps)	9.3	9.3	4.5	0.5	net cash
Net interest cover (x)	16.3	12.7	7.1	7.9	8.8
Debt/EBITDA (x)	2.9	3.2	2.8	2.6	2.4
Capex/revenue (%)	48.8	15.0	8.4	7.9	7.6
Net debt/ (net cash)	482.3	523.8	273.4	34.7	(213.4)

Source: Company; Maybank IBG Research



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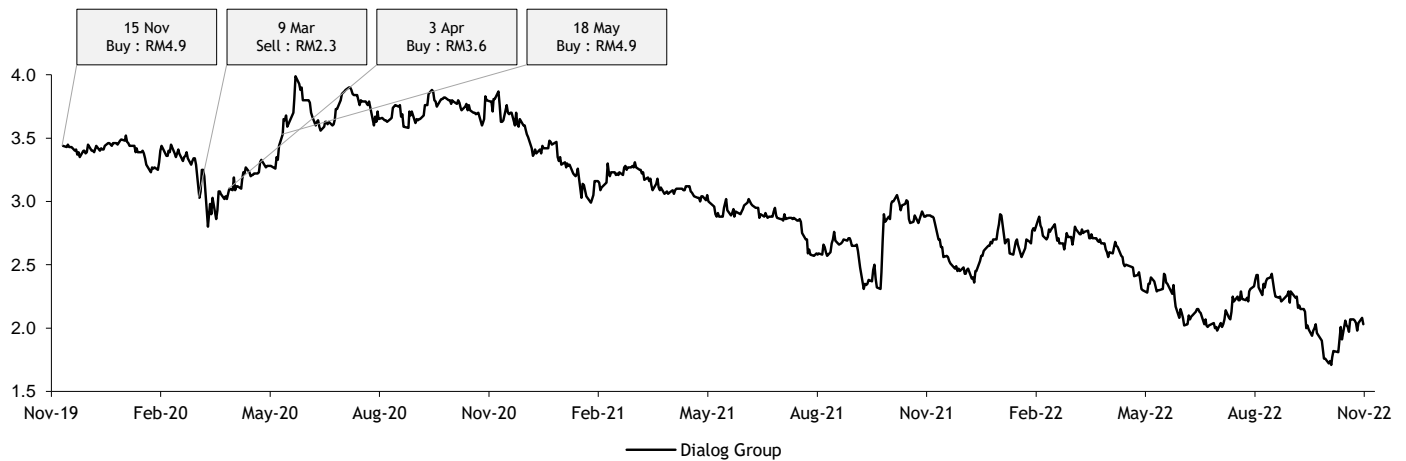
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