AmInvestment Bank

Sector Report

06 Dec 2024

OIL & GAS SECTOR

Switch to thematic plays amidst sectoral uncertainties

NEUTRAL

(Maintained)

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Rationale for report: Sector Update

Sector Assumption

Brent Crude Oil Price
2025:US$75-US$80/bbl

Stock Universe

Deleum
TP: RM2.00
Rec: BUY
Upside/Downside: +43%

Dialog
TP: RM2.95 → RM2.00
Rec: BUY → HOLD
Upside/Downside: +11%

Keyfield International
TP: RM3.25
Rec: BUY
Upside/Downside: +53%

MISC
TP: RM8.60 → RM8.80
Rec: HOLD → BUY
Upside/Downside: +19%

Petronas Chemicals
TP: RM5.10
Rec: HOLD
Upside/Downside: +5%

Petronas Gas
TP: RM19.97 → RM18.60
Rec: BUY → HOLD
Upside/Downside: +4%

Investment Highlights

We maintain NEUTRAL on the oil & gas (O&G) sector as softer brent crude oil price environment and uncertainties over domestic capex are likely to weigh on sector valuations in 2025. Meanwhile, earnings growth is expected to moderate after a year of easy comps. We turn more selective by opting for a thematic approach and highlight the following plays: (a) new tender cycle for floating, production storage and offloading (FPSO) vessels; and (b) fleet expansion for the offshore support vessel (OSV) subsegment amidst a looming age cliff. We favour players with sustainable earnings, a strong balance sheet and appealing valuations, particularly after the recent selldown. Our top picks are MISC, Keyfield International and Deleum.

- **Uncertain sectoral narrative to weigh on valuations.** We have a NEUTRAL call on O&G. We think the sector will continue to struggle in attracting investors due to macro-level downside risks. Brent crude oil prices are expected to soften in 2025 due to the return of OPEC's spare capacity after cutting production over the past few years. With the initiative falling flat and member countries seeing loss of market share, we struggle to find reason why the cuts should continue, particularly as major member Saudi Arabia is said to prefer stable prices in effort to pursue downstream opportunities. Closer to home, Petronas has expressed concerns over future earnings after the take-over of the sole gas aggregator role by Petro Sarawak to support plans for the Sarawak Gas Roadmap. These factors have led to the sell-down in recent months with % of tracked asset under management for the sector now close to its 2022 lows of 3.1%, according to our fund manager radar.

- **We turn selective and focus on thematic plays for 2025.** Amidst the uncertainties, we prefer players with a stable earnings profile and strong balance sheet. However, to avoid being caught in a value trap, we believe investors ought to take a thematic approach to identify key catalysts. We highlight 2 themes:

  - **Theme 1: New FPSO tender cycle.** Despite a lower brent crude price assumption of US$75-USD80/bbl for 2025, we believe upstream capex spend will continue globally but national oil companies and oil majors will turn more selective. We see focus on deepwater field which will require investments into FPSO units which are the preferred mode for production and storage in harsh and deep conditions. We see multiple tenders up for grabs in Brazil, West Africa and Malaysia as conversion players return to the market after freeing up capacity after the delivery of prior projects.

  - **Theme 2: Fleet expansion for OSV.** We believe the subsegment will be relatively more defensive against other OGSE functions as charter rates will hold at current levels as the supply deficit situation remains status quo for now. We think there is downside risk to supply as most vessels are inching closer to the maximum age for operations. Players will be forced to choose between refurbishing or renewing their vessels. In contrast, we see alpha plays relative to the situation from players with a younger fleet, a stronger net cash position and ready financing facilities who will be able to look at expanding their fleet size.

Global upstream capex to remain stable despite softer prices

Supply side conundrums to weigh on brent crude oil price outlook

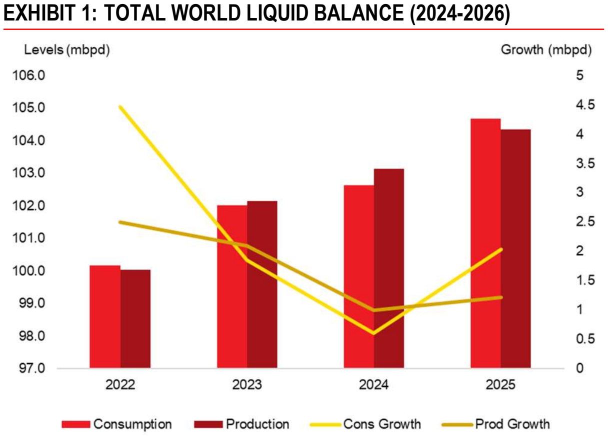
2024 has been a volatile year for the global crude oil market largely due to market sentiment from geopolitical uncertainties in the Middle East and speculation over the return of spare production capacity by the Organization of the Petroleum Exporting Countries (OPEC). Accordingly, we cut our 2024 forecast to US$81 per barrel (bbl) (from US$83/bbl) (Exhibit 2).

We expect 2025 to be a softer year. Global demand levels in 2025 are expected to be flat, evident by the US Energy Information Administration (EIA) consumption growth forecast of 1.2 mil barrels of oil per day (mbpd) in 2025 (+23% YoY) – close to half of what it was in 2022 to 2023 of >2.0 mbpd levels - which sees limited increase from major drivers: China and the US (collectively 36% of total global demand) subsequent to the release of pent-up demand and on the back of subpar economic performance (Exhibit 1).

This will be exacerbated by potential easing in global supply mainly due to the eventual return of OPEC's spare production capacity. Recall, the OPEC's Joint Ministerial Monitoring Committee (JMMC) announced the extension of voluntary cuts up to January 2025. This could bump production to 2.2 mbpd levels in 2025 if it were to materialise based on pledged cuts made so far, but we believe a gradual return scenario is more likely to ensure price level stability. For reference the EIA expects global production levels to see an uptick to 2.04 mbpd (+>100% YoY).

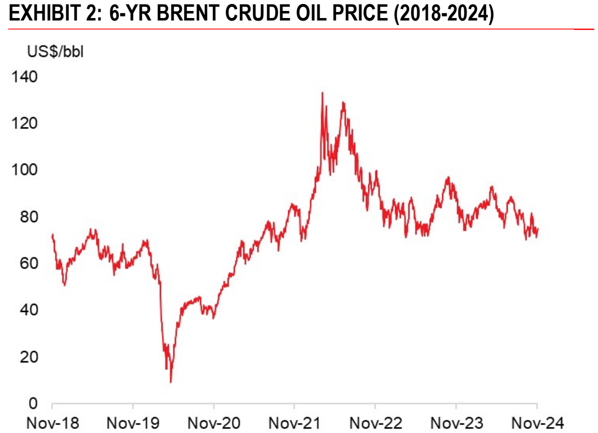
We see additional downside risk from the return of Donald Trump as the 38th US President as he implements his "*drill, baby, drill*"-mantra in an attempt to "*cut your energy prices in half within 12 months*". He is expected to enact 3 critical policies: (a) speed up the approval of drilling permits and leases; (b) tax cuts for O&G exploration; and (c) rolling back of new LNG export permit pause. These policies are expected to increase the supply of liquid and gaseous resources and exert downward pressure on product prices. We believe market has begun pricing these risks, with the oil futures contract in a current backwardation pattern as well as the record low levels of net cumulative long positions since 2012 (Exhibit 3 & 4). With this in mind, we set our 2025 brent crude oil price target range at US$75-US$80/bbl.

EXHIBIT 1: TOTAL WORLD LIQUID BALANCE (2024-2026)



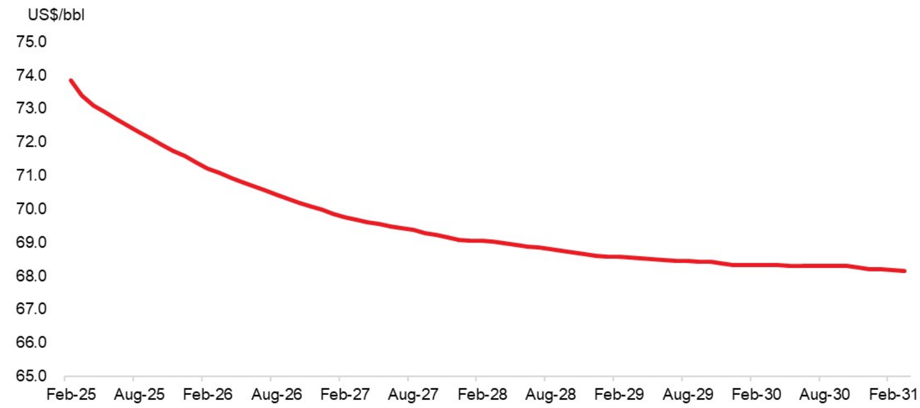
Source: EIA STEO Nov-24

EXHIBIT 2: 6-YR BRENT CRUDE OIL PRICE (2018-2024)



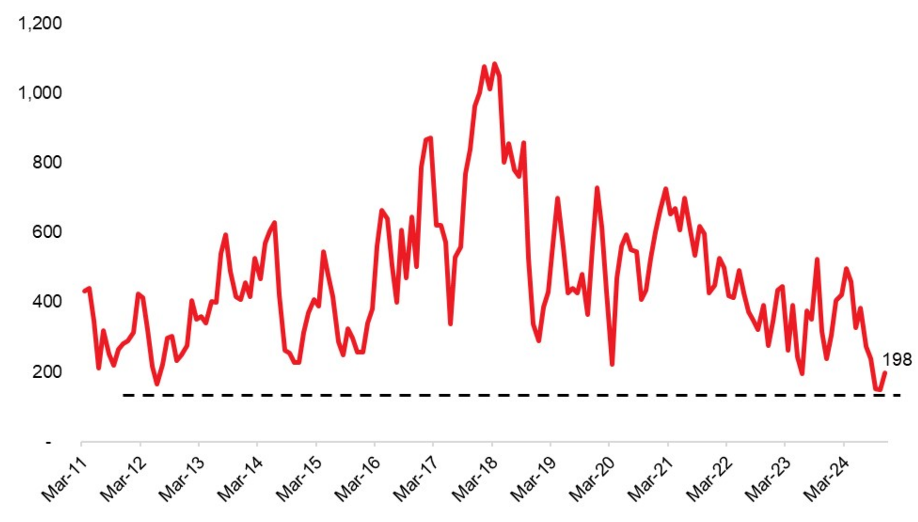
Source: Bloomberg

EXHIBIT 3: 3-MONTHS CRUDE OIL FUTURES CONTRACT



Source: Bloomberg

EXHIBIT 4: NET-SHORT AND LONG POSITIONS FOR OIL CONTRACTS GLOBALLY



Source: Bloomberg

Global upstream capex to remain steady amidst softer oil price levels…

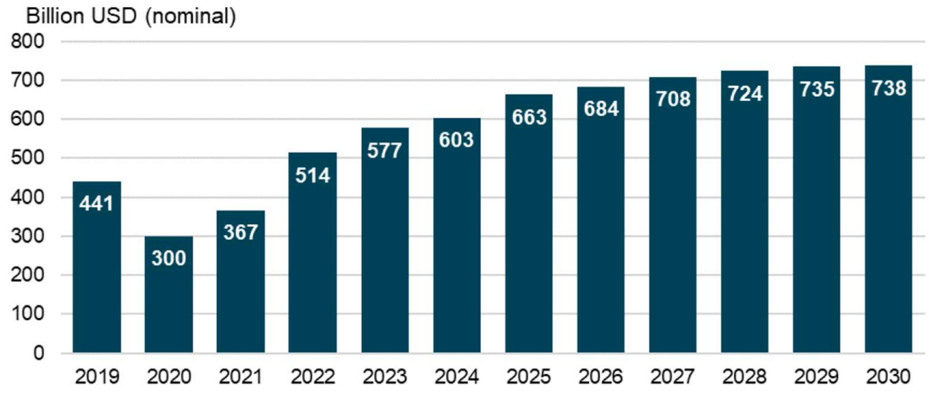
According to a study by the International Energy Forum (IEF) and S&P, global upstream capex is expected to remain stable over the next 5-years with 2025 at US$663bil (+9% YoY) from investments by oil majors and national oil companies (NOC) in the Americas and Asia Pacific (Exhibit 5). This is largely rationalised by the risk of under investment – without continued capex, global oil production level is expected to see a significant decline of 9% to 10% by 2030 which will likely lead to an energy crisis. We think this is possible despite a soft oil price environment, particularly in developing countries in the Middle East, Africas and South America as the estimated cost of production is relatively manageable (assuming a 20% return) due to economies of scale, improvements in technology, currency advantage, among others (Exhibit 6).

…but capex will be more selective moving forward – the new game: value>volume

We think upstream capex has pivoted towards a new direction, value through higher returns relative to the required capex. Data presented by Westwood as early as 2022 shows that oil majors are producing less but generating more cash than they were close to 10-years ago.

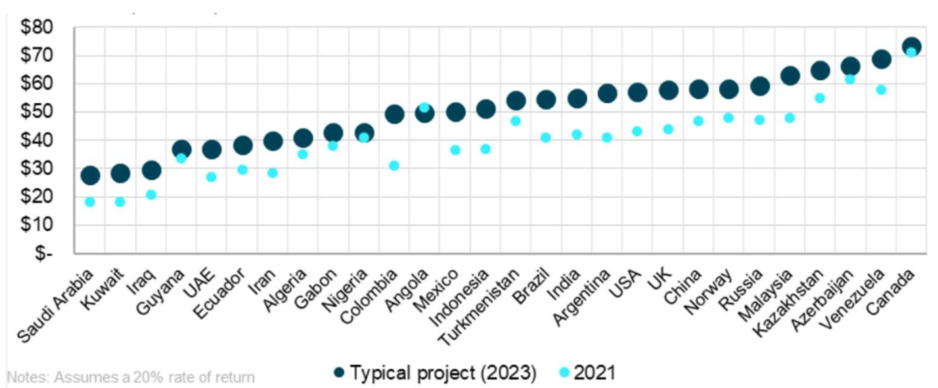
The data tells a story of 2 halves: as companies began losing resources through divestment of Russian assets and closure of higher cost fields, they began seeing efficiency gains through selective field investments, such as in the Permian basin. We believe this narrative is likely to continue and dictate investment themes in the near term.

EXHIBIT 5: UPSTREAM O&G CAPEX FORECAST



Source: IEF Upstream Oil and Gas Investment Outlook (June 2024)

EXHIBIT 6: AVERAGE FULL-CYCLE COST OF NEW CRUDE OIL SUPPLY IN SELECT COUNTRIES



Source: IEF Upstream Oil and Gas Investment Outlook (June 2024)

Theme 1: FPSO scene to shine as tender scene ramps-up again

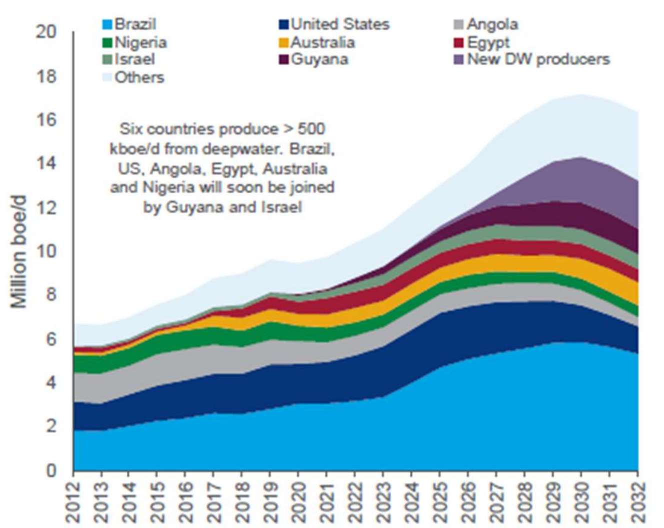
Shale's peak production narrative ensures deepwater development in favor

We expect to see deepwater investments exceed shale in the medium-term horizon. Though 2024 saw several important acquisitions largely centered on shale assets in the US, this is mainly to improve field economics as its overall production level is peaking. According to Enverus Intelligence Research, the amount of oil recovered per foot drilled in the Permian Basin in Texas, the main US shale formation, has fallen by 15% from 2020 to 2030, particularly as the production decline rate grows steeper by more than 0.5% annually over the past ~14 years.

Deepwater resources, defined as discoveries in water depth greater than 1,000 feet, present several key advantages over shale, namely: (a) lower costs; (b) greater resource potential; (c) longer production periods; and (d) lower levels of carbon dioxide emissions.

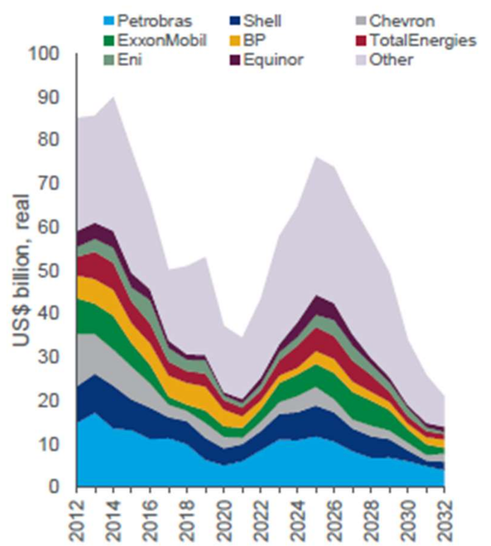
A study by Wood Mackenzie shows that deepwater production is set to increase by over 60% between 2022 and 2030 and grow from 6% to 8% of overall upstream production. Much of this will be dominated by oilfields in Brazil and the West Africa which are owned by NOCs and oil majors, including Petrobras, Shell, Chevron, Eni and ExxonMobil in our observation (Exhibit 6 & 7). This implies a strong outlook, particularly for the FPSO subsector, which is the preferred production method.

EXHIBIT 7: DEEPWATER INVESTMENTS BY REGION



Source: Wood Mackenzie

EXHIBIT 8: DEEPWATER INVESTMENTS BY COMPANY

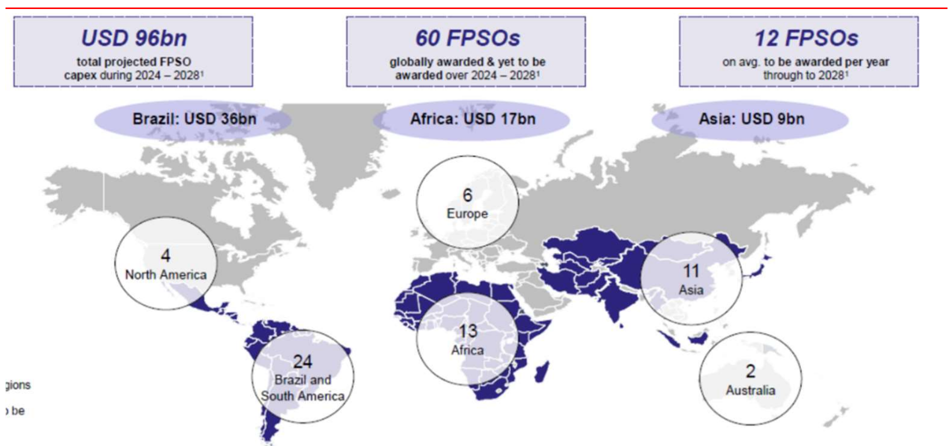


Source: Wood Mackenzie

Market outlook for FPSO awards appears strong through to 2030

Energy Maritime Associates (EMA) projects a strong outlook for the FPSO subsector over the next 5-years underpinned by a capex of US$96bil from 60 new awards globally. This assumes brent crude oil price remains at rangebound of US$60-80/bbl with global energy demand growth of 1% annually. This translates to 12 FPSO awards on an annual basis. The association sees a consistent narrative to the aforementioned analysis: these awards will be led by South America and Africa which will make up 62% of total new awards (Exhibit 8).

EXHIBIT 9: MARKET OUTLOOK FOR FPSO AWARDS



Source: Energy Maritime Associates

Conversion-based hull to make a comeback in 2025 as capacity becomes available

Despite strong demand, admittedly 2024 has been a disappointing year for tender awards in our view. YTD only 4 awards were made and centered on engineering, procurement and construction (EPC) contracts. Rather, companies involved in the FPSO subsector have focused on execution and delivery (up to first oil) e.g., Marechal Duque de Caxias FPSO (Mero 3) by MISC.

We think the low number of awards was not due to demand but rather to the lack of available capacity from mid-sized conversion hull players. Hence, we believe the tender scene for conversion-based hull is likely to turn more active in 2025 with the return of players such as MISC and Bumi Armada into the market with the capacity to undertake at least 1 new project each based on their balance sheet and technical capabilities. We also note other players: Altera Infrastructure, Bluewater, BW Offshore and Shapoorij Pallonji, as they do have spare capacity as well, but competition from these players will be limited as they are focused on the small to mid-sized segment. We highlight tenders which we believe may be in-play for 2025, its progress and expected beneficiaries (Exhibit 10).

Positive surprise from Malaysian tenders likely

According to the 2024-2026 Petronas Activity Outlook (PAO) report, there are potentially 2 FPSO or Floating Storage and Offloading (FSO) requirements in the near term. We think opportunities in the Malaysian market is worth up to RM1.5-2.0bil in the medium term. Based on our channel checks, the 2 contracts are likely for Kikeh and Kelidang respectively. Scope of works will involve conversion or redeployment of existing assets. We believe this will be opportune for Malaysian-based players given their existing relationship with the client and shipyards, particularly MISC who is said to be involved in some capacity, according to insiders cited from *Upstream* (Exhibit 9).

Potential M&A plays to accelerate cashflows and de-risk portfolios

In absence of new contract awards, Malaysian-based shipping companies have been actively engaged in M&A activities to accelerate returns from their portfolios and recapitalize after undertaking substantial debt-load to take on the construction and ownership risk from previous contracts. We think this will likely continue in 2025, with a host of future transactions. Of these, the most prominent is the proposed merger between MISC’s offshore unit and Bumi Armada. Though we are hopeful over its development, we maintain a cautious view subject to further information as a shares-based transaction is not as attractive to an outright stake sale of the asset. We gather this is possible, judging from rumors during mid-of the year of Mero 3 FPSO’s sale to a tripartite of Chinese shipyard-related players but is harder to close and achieve a favorable valuation as opposed to the former exercise.

EXHIBIT 10: LIST OF NOTABLE FPSO AWARDS AND ONGOING TENDERS (2024-2025)

Field / Project	Location	Client	Hull Type	Capex (USD mil.)	Status and Potential Beneficiary
Awarded					
Benchamas	Thailand	Chevron	Conversion	100	Established MOU with MISC for Bunga Kertas FSO as replacement vessel.
Kaminho	Angola	TotalEnergies	Conversion	1,500	CMHI commenced initial engineering work.
Atapu 2	Brazil	Petrobras	Newbuild	4,080	Bid for EPC due on 8th April 2025.
Sepia 2	Brazil	Petrobras	Newbuild	4,080	Bid for EPC due on 8th April 2025.
Ongoing					
Dorado	Australia	Santos	Conversion	1,000	FEED* work to complete before end-2024. Phase 1 FID target in 2025.
Albacora	Brazil	Petrobras	Conversion	2,000	To issue tender by end-2024
Barracuda/Caratinga	Brazil	Petrobras	Conversion	1,500	In negotiations with SP Energy as sole bidder
Gato do Mato	Brazil	Shell	Conversion/ Newbuild	2,000	FID in March 2025.
Marlim Sul/Leste	Brazil	Petrobras	Conversion/ Newbuild	2,000	Submission by April 2025. Beneficiary: MISC
Sea Lion	Falklands	Navitas	Redeployment	1,000	Begun FEED studies in early Nov 2024, signed MOU with Bluewater for floater.
Baleine (Phase 3)	Ivory Coast	Eni	Conversion/ Newbuild	1,000	Not yet issued
Polok/Chinwol	Mexico	Repsol	Redeployment	1,000	Not yet issued
Venus	Namibia	TotalEnergies	Conversion/ Newbuild	2,500	Phase 1 dev. scheme to be finalised by end-2025
Singa Laut/Kuda Laut	Indonesia	Harbour Energy	Conversion/ Redeployment	500	Undergoing FEED, completion date unknown Beneficiary: Bumi Armada
Geng North	Indonesia	Eni	Newbuild	1,900	Issued tender in 3Q24
Kelidang	Brunei	Petronas	Conversion/ Redeployment	800	Bids submitted, valid until 2Q25 with +1 yr ext. Beneficiary: MISC
Kikeh	Malaysia	PTTEP	Conversion/ Redeployment	750	Bids submitted. Beneficiaries: MISC, Yinson
Salam-Patawali	Malaysia	ConocoPhillips	Redeployment	n.a.	Bids submitted. Progressed to FEED**. Bidders: MISC-Bluewater, T7 Global
SFA Cluster	Malaysia	Jadestone	Redeployment	250	Not yet issued. MOU between Jadestone and MISC on Bunga Kertas sale.

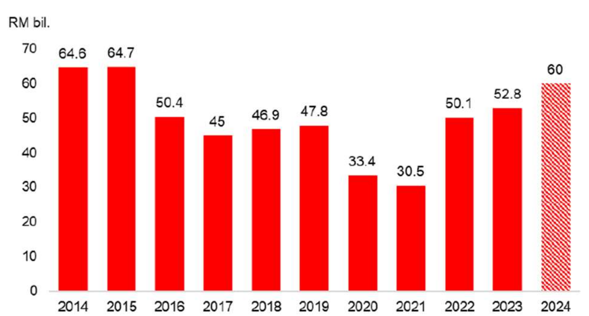
Source: AmInvestment Bank, Upstream

Theme 2: Fleet expansion amidst looming fleet renewal cliff

Domestic scene continues to be plagued by rumour of Petronas capex cuts

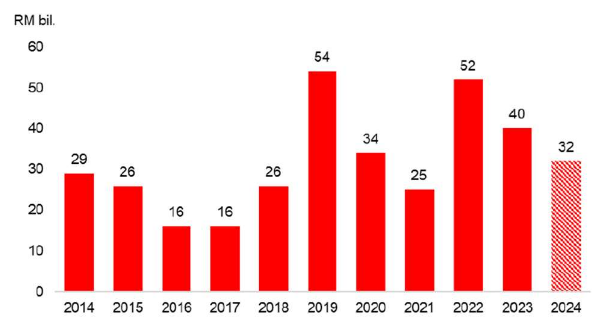
Our previous report *Changing Tides on Local Shores* (dated 9 July 2024) highlights the risk of a possible cut to Petronas' 5-year domestic capex plans over concerns that the NOC may lose a portion of its revenues if Petroleum Sarawak Bhd (Petros) takes over the role of sole gas aggregator in Sarawak. The role assigns control over whom the resource is sold to and at what price for gas resources originating from the state. Since then, Petros has entered into discussions with Petronas, but progress appears to be slower than expected. Though the latter has expressed commitment to ensuring an equitable solution, we remain cognisant over the issue. We note that soft implementation of the role has begun evident from the change of the gas feedstock arrangement for a Sarawak Petrochemical plant.

EXHIBIT 11: PETRONAS CAPEX (2014-2024F)



Source: AmInvestment Bank

EXHIBIT 12: PETRONAS DIVIDEND PAYOUT (2014-2024F)



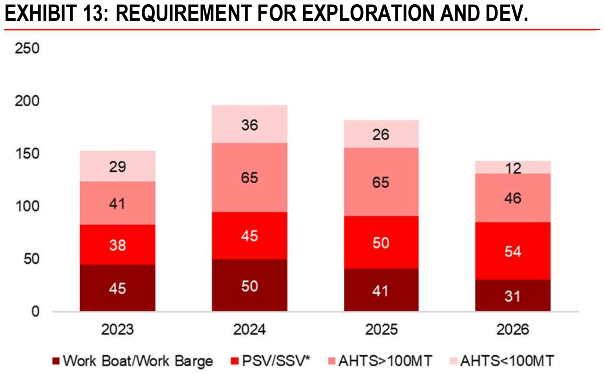
Source: AmInvestment Bank

OSV and the DCR narrative: Peak growth, not peak levels!

Relative to other segments of the local value chain, we believe the OSV subsector will see renewed interest despite charter rates hitting peak growth levels in 2024 as this risk has been over-priced by the market at current valuation levels with OSV names due to the recent sell-off. We think this is overdone as fundamentals remain intact premised on its more defensive nature relative to other segments of the O&G services and equipment (OGSE) value chain.

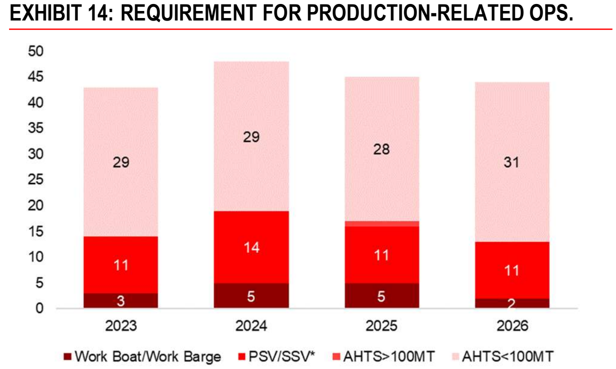
We believe charter rates can maintain current levels on the back of supply tightness. An upward revision of Malaysia's OSV requirement is possible as new decommissioning contracts by Petronas which involve dismantling of offshore rigs will also require additional AHTS to transport the rig to offshore yards. (Note that these contracts, which were recently closed in October will not be under Petronas' but directly contracted by the decommissioning players, and thus may not be captured under PAO 2024-2026).

EXHIBIT 13: REQUIREMENT FOR EXPLORATION AND DEV.



Source: Petronas

EXHIBIT 14: REQUIREMENT FOR PRODUCTION-RELATED OPS.



Source: Petronas

EXHIBIT 15: AVERAGE AGE OF VESSELS FOR OSV PLAYERS IN MALAYSIA

Vessel	Total	On Charter	Available	Laid-Up /Dock/Repair
AWB	38	26	7	5
AHT/AHTS	82	66	5	11
Others	152	105	22	25
Total	**272**	**197**	**34**	**41**
% of Total		***72.4***	***12.5***	***15.1***

Source: MOSVA

Renewed interests as focus shifts to fleet expansion vs. renewal imperative

The central focus for the subsector in 2025 will be on fleet status, in our view, as the average age of anchor handling tug and supply (AHTS) vessels enters into danger territory closer to the 15-year age limit by which it has to undergo major refurbishment to qualify for an extra 5-years of operation. Based on our engagement with OSV players, most prefer fleet renewal to capitalise on the current charter rate environment.

Supporting this are banks' appetite to provide financing facilities which will be largely dependent on implementation of longer-term contracts by Petronas, likely through Project Safina Phase 2. However, we remain cautious as the track record has not been positive with Phase 1 seeing only 11 vessels delivered out of the 16 tendered in 2021.

Hence, we favour companies with cleaner balance sheets, particularly Keyfield. Through its recently concluded IPO, the group has become net cash. This is supportive of the group's planned expansion programme relative to peers, who are expected to be more focused on renewal in the near term.

For reference, Keyfield has already met its current fleet expansion targets as follows:

a. Acquisition of a DP2 AWB named MV Belait Barakah from Belait Barakah Sdn Bhd for a cash consideration of USD6mil (equivalent to RM28.3mil),

b. Acquisition of an AHTS, MV Aulia, from Fun Success Ltd for US$7.8mil (RM34.6mil), and

c. Acquisition of 1 newbuild DP2 AWB from Jingjiang Nanyang Shipbuilding Co. Ltd for USD30.5mill (RM143.7mil).

Further to this, we see sufficient capacity for even further expansion as the group's free cash flows remains in a favourable state with a positive balance of RM145mil by FY26F

Stock Picks and Valuations

Expect KLENG to remain in value trap mode despite as earnings growth moderate

YTD, the KLENG index has seen a topsy turvy performance as it rose to a high before falling to current levels. The recent downtrend is reflective of investors' negative sentiment towards the sector over potential downsides including a softer brent crude environment and domestic uncertainties. From a medium-term historical perspective, the sector appears to have seen a derating as it continues to trade at -1 SD to its 7-year average PE of 15x since early-2022. With no recovery in sector fundamentals, we believe the situation is likely to continue into 2025.

EXHIBIT 16: KLENG INDEX 5-YR 12-MTH BLENDED FORWARD PE

Source: Bloomberg, Bursa Malaysia, AmInvestment

Buys on MISC, Keyfield and Deleum

We upgrade MISC to BUY (from HOLD) with a sum-of-parts (SOP) derived target price (TP) of RM8.80/share (from RM8.60) – which implies a CY26 EV/EBITDA of 8x or -1 SD to its 10-year average. Our call is premised on its role as a key beneficiary of the FPSO tender cycle. We think the recent 30% selldown in share prices are overdone and expects the Group's earnings to stabilize in FY25 on the back of stable performance from the petroleum segment and easy comps for the LNG segment. At current valuations of 7x EV/EBITDA, we believe there is significant value upside for the stock.

We also maintain our BUY stance on Keyfield and Deleum with TPs of RM3.25/share and RM2/share respectively, both pegged to the 5-year OGSE average of 10x. We see Keyfield as the prime proxy to the OSV subsector given its exposure to AWBs which are more stable in nature given its requirement throughout the development and production supply chain. Additionally, we think the Group is the only player with the capacity to expand its fleet due to its younger fleet age. Meanwhile, our call on Deleum is based on the Group's growing earnings base which we think will pick-up in 2025 driven by stronger demand for brownfield services. We also see potential M&A play through the potential acquisition of PT Osa in Indonesia

Downgrade Dialog and Petronas Gas to HOLD from BUY

We downgrade Dialog to a HOLD (from BUY previously) based on a SOP derived TP of RM2.00/share (from RM2.90/share) due to downside risks to earnings and limited re-rating catalysts. We think the stock is currently in a value trap with valuations lingering at -1 to -2 SD to its long-term average and share price performance is capped until better clarity is obtained on the progress of Pengerang Phase 3 which is largely dependent on the final investment decision for commissioning of convention fuel and biofuel plants by prospective end-clients which will only take place 18-months from the commencement operation dates.

Similarly, we revise our call on Petronas Gas to HOLD (from BUY previously) at a SOP-derived TP of RM18.60/share (from RM19.97/share) which is at 18x to its 10-year average due to its limited near-term growth prospects. Most importantly, the group's dividend yield of 4.1%-4.4% at current prices appears relatively unattractive as it only matches the KLCI.

DELEUM

(DLUM MK EQUITY, DLEU.KL)

06 Dec 2024

Appealing valuation for preferred brownfield play

BUY

(Maintained)

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Rationale for report: Company Update

Price	**RM1.39**
Fair Value	**RM2.00**
52-week High/Low	RM1.69/RM0.94

Key Changes

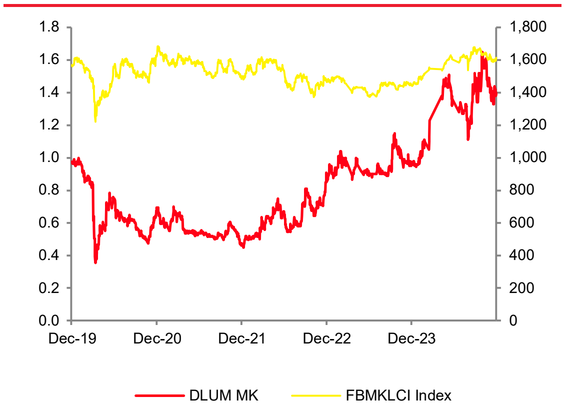
Fair value	⇔
EPS	⇔

YE to Jun	**FY23**	**FY24F**	**FY25F**	**FY26F**
Revenue (RM mil)	744.9	880.6	951.8	1,023.4
Core net profit (RM mil)	40.8	73.8	74.1	79.9
FD Core EPS (sen)	10.2	18.4	18.5	19.9
FD Core EPS growth (%)	10.0	80.7	0.4	7.8
Consensus Net Profit (RM mil)	-	72.2	72.3	75.4
DPS (sen)	3.8	9.2	9.2	9.9
PE (x)	13.7	7.6	7.5	7.0
EV/EBITDA (x)	4.0	1.4	0.9	0.4
Div yield (%)	2.7	6.6	6.6	7.1
ROE (%)	7.7	17.1	15.8	15.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	401.6
Market Cap (RMmil)	558.2
Book Value (RM/Share)	1.03
P/BV (x)	1.4
ROE (%)	7.7
Net Gearing (%)	-
Major Shareholders	Lantas Mutiara (20.4%) Hartapac (12.0%) Datuk Vivekananthan (10.8%)
Free Float	56.9
Avg Daily Value (RMmil)	1.1

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(5.4)	8.6	46.3
Relative (%)	(2.2)	8.7	31.5



Investment Highlights

Maintain BUY on Deleum. Despite share price rising by 47% YTD, we see further upside against 1-yr forward PE valuation of 7x currently. This is premised on the Group's superior earnings growth relative to the broader sector at a strong 3-year (2024-2026) CAGR of 25% driven by (a) sustainable earnings from Power & Machinery (P&M); and (b) bumper growth from the new O&G maintenance contracts. We expect the Group to close on the proposed acquisition of Indonesian unit PT OSA in 1H25. Our TP of RM2.00/share is based on CY26 PE of 10x which is at par to the local OGSE average.

- **Valuation is still appealing despite YTD share price performance.** Deleum share price rose by 47% YTD mainly driven by stronger than expected earnings performance following the recovery of its ICS segment. Nevertheless, at current PE valuation of 7.7x, we believe there is still upside to the group premised on its earnings growth prospects. Our TP of RM2.00/share is based on CY26 PE of 10x which is at par to the local OGSE average.

- **Relatively stronger earnings growth vs KLENG index.** We project a 3-yr (2025-2026) CAGR of 25% premised on sustainable earnings from the P&M division backed by new field developments and a strong year for plant maintenance activities by Petronas, particularly from the Pengerang Petrochemical Complex and the Kertih Integrated Petrochemical Plant. Additionally, we expect to see recognition of the group's 2 newly acquired maintenance, modification, and modification (MCM) and hook-up and commissioning services contracts. For reference, we assume an orderbook value of RM1.0bil with visibility of 5-years.

- **Expect to see accretion from Indonesia's PT OSA acquisition.** The Group announced the final 70%-stake acquisition of PT OSA yesterday at a purchase consideration of RM31.3mil. At an implied FY23 valuation of 11.6x PE, valuation appears slightly stretched vs the Malaysian OGSE average – however PT OSA has committed to a profit guarantee of RM12.1mil for FY24 and FY25. We believe the acquisition will be positive to the group with immediate value enhancing opportunities given its small market share of 11% and 5% for control valves and pressure relief equipment respectively in Indonesia. We believe Deleum will be able to grow the market share as it is a business that the Group currently excels in Malaysia with key partner Baker Hughes.

Company profile

Deleum Berhad, established in 1982, is a Malaysian investment holding company specializing in providing a wide range of products and services to the oil and gas industry, particularly in the exploration and production sectors. Its operations are divided into two main segments: Power and Machinery, which includes gas turbine packages, turbomachinery services, and industrial power generation solutions, and Oilfield Integrated Services, offering slickline equipment, wellhead maintenance, drilling services, and other oilfield-related products.

Key subsidiaries include Deleum Services Sdn. Bhd., which focuses on gas turbine and power generation equipment, and Deleum Oilfield Services Sdn. Bhd., which provides oilfield equipment and services. Other subsidiaries, like Deleum Chemicals Sdn. Bhd., specialize in developing solid deposit removal solutions and specialty chemicals, while Penaga Dresser Sdn. Bhd. handles valves and flow regulators.

Deleum's CEO Ramanrao Abdullah emerged as substantial shareholder with 20.36% indirect stake following its share acquisition from Lantas Mutiara, owned by Deleum chairman Datuk Izham Mahmud.

Investment thesis and catalysts

Niche and asset-light business model. We gather that the group is well positioned within the industry as one of the most preferred contractors within the power & machineries scene and the leading provider of slickline services.

Recovery from loss-making ICS operations. This is premised on stronger tender environment as Petronas actively issuing tenders for MCM works.

Attractive dividend yields. Based on company's 50% payout ratio, investors are envisage to enjoy high dividend yield of 5%.

Valuation methodology

We apply a CY26F PE of 10x to arrive at Deleum's target price of RM2.00/share. We use PE instead of SOP as it is a better reflection of the group's earnings outlook. The PE of 10x is the five-year average for Deleum.

Risk factors

Downside risks to our thesis include:

i) Lower commodity prices, reduced spending by key clients
ii) Cost overruns due to delays or operational inefficiencies
iii) Concentrated client risks

EXHIBIT 1: VALUATIONS

Target PE (x)	10
FY26 EPS	19.9
ESG premium	-
12-month target price	2.00

EXHIBIT 2: 3-YEAR FORWARD PE

Source:Bloomberg

EXHIBIT 3: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating	Rationale
	Environmental Assessment				
1	Water usage	Megalitres (ml) used	25%	* *	+62% YoY to 41ml
2	Energy usage	Renewable energy consumption (mWh)	25%	* * *	Usage in PSC assets
3	Minimise waste generation	Recycled waste (tonnes)	25%	* * * * *	+2x to 124 tonnes
4	Greenhouse Gas (GHG) emissions	tCO2e emitted/	25%	* * *	+11% to 7.3 tCO2e
	Weighted score for environmental assessment		***100%***	* * *	
	Social Assessment				
1	Health, safety & well-being	Loss time injury (LTI)	25%	* * * * *	0 hours for 3-years
2	Women in workforce	% of total workforce	25%	* *	35% of workforce
3	Investment in employee training	Average hours of training per employee	25%	* * * *	2.4x increase to 49 hours
4	CSR programmes	Investment in RM	25%	* * *	-17% to RM1mil
	Weighted score for social assessment		***100%***	* * *	
	Governance Assessment				
1	Board age diversity	% under 60 years old	20%	* *	14%
2	Board women representation	% of total board directors	20%	* * *	43% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	* * *	43% representation
4	Independent board directors	% of total board directors	20%	* * *	56% independent non-exec
5	Remuneration to directors	% of total staff costs	20%	* * *	RM10.2mil, 9% staff costs
	Weighted score for governance assessment		***100%***	* * *	
	Environmental score		40%	* * *	
	Social score		30%	* * *	
	Governance score		30%	* * *	
	Overall ESG Score		***100%***	* * *	

Source: Company, AmInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jun)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	698.0	744.9	880.6	951.8	1,023.4
EBITDA	88.1	86.3	122.8	127.7	135.2
Depreciation/Amortisation	(33.5)	(33.8)	(34.2)	(34.5)	(34.8)
Operating income (EBIT)	54.7	52.5	88.7	93.2	100.3
Other income & associates	6.5	6.8	7.1	7.5	7.8
Net interest	2.0	2.2	2.4	2.6	2.7
Exceptional items	4.8	(10.0)	-	-	-
Pretax profit	**67.9**	**51.5**	**98.2**	**103.2**	**110.9**
Taxation	(16.9)	(11.1)	(14.3)	(18.6)	(20.0)
Minorities/pref dividends	(9.1)	(9.6)	(10.0)	(10.5)	(11.1)
Net profit	**41.9**	**30.8**	**73.8**	**74.1**	**79.9**
Core net profit	37.1	40.8	73.8	74.1	79.9

Balance Sheet (RMmil, YE 31 Jun)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	110.3	91.1	92.1	93.0	93.9
Intangible assets	0.2	0.2	0.2	0.2	0.2
Other long-term assets	66.9	68.4	73.5	78.8	84.4
Total non-current assets	**177.4**	**159.8**	**165.7**	**172.0**	**178.5**
Cash & equivalent	174.3	215.9	388.3	446.9	510.9
Stock	40.0	17.7	50.2	54.3	58.3
Trade debtors	120.3	115.0	144.3	152.0	159.4
Other current assets	201.8	112.3	112.7	113.1	113.5
Total current assets	**536.4**	**460.9**	**695.4**	**766.3**	**842.1**
Trade creditors	221.1	97.1	293.1	324.7	357.9
Short-term borrowings	7.6	1.5	1.5	1.6	1.6
Other current liabilities	54.5	62.0	59.5	57.2	55.1
Total current liabilities	**283.2**	**160.6**	**354.1**	**383.5**	**414.6**
Long-term borrowings	1.2	0.9	0.9	0.9	0.9
Other long-term liabilities	14.9	12.7	12.8	12.9	13.0
Total long-term liabilities	**16.0**	**13.6**	**13.7**	**13.8**	**14.0**
Shareholders' funds	**388.8**	**413.4**	**450.3**	**487.3**	**527.3**
Minority interests	25.8	33.1	43.1	53.6	64.7
BV/share (RM)	0.97	1.03	1.12	1.21	1.31

Cash Flow (RMmil, YE 31 Jun)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	67.9	51.5	98.2	103.2	110.9
Depreciation/Amortisation	33.5	33.8	34.2	34.5	34.8
Net change in working capital	(55.6)	(87.1)	131.7	17.5	19.7
Others	(23.8)	(17.8)	(21.4)	(26.1)	(26.8)
Cash flow from operations	**22.0**	**(19.7)**	**242.5**	**129.2**	**138.6**
Capital expenditure	(8.6)	(14.7)	(35.1)	(35.4)	(35.8)
Net investments & sale of fixed assets	3.2	-	-	-	1.0
Others	7.6	-	-	-	-
Cash flow from investing	**2.2**	**(14.7)**	**(35.1)**	**(35.4)**	**(34.8)**
Debt raised/(repaid)	(22.0)	(11.0)	(11.6)	(12.1)	(12.8)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(12.8)	(15.4)	(36.9)	(37.0)	(39.9)
Others	(3.7)	(3.7)	(3.7)	(3.7)	(2.7)
Cash flow from financing	**(38.6)**	**(30.1)**	**(52.2)**	**(52.9)**	**(55.4)**
Net cash flow	**(14.4)**	**(64.5)**	**155.3**	**40.9**	**48.5**
Net cash/(debt) b/f	**164.1**	**149.6**	**85.1**	**240.5**	**281.3**
Net cash/(debt) c/f	**149.6**	**85.1**	**240.5**	**281.3**	**329.8**

Key Ratios (YE 31 Jun)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	25.0	6.7	18.2	8.1	7.5
EBITDA growth (%)	30.9	(2.1)	42.4	3.9	5.9
Pretax margin (%)	9.7	6.9	11.1	10.8	10.8
Net profit margin (%)	6.0	4.1	8.4	7.8	7.8
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	24.9	21.5	14.6	18.0	18.0
Dividend payout (%)	50.3	50.0	50.0	50.0	50.0
Debtors turnover (days)	74	58	54	57	56
Stock turnover (days)	19	14	14	20	20
Creditors turnover (days)	97	78	81	118	122

Source: Company, AmInvestment Bank Bhd estimates

Company Report

DIALOG GROUP

(DLG MK EQUITY, DIAL.KL) **06 Dec 2024**

Still someways to go for Pengerang Phase 3

HOLD

(Downgraded)

Muhammad Nuur Ashman Ab Razak
muhammad-nuur-ashman.a@ambankgroup.com
0199965475

Rationale for report: Company Update

Price	**RM1.79**
Fair Value	**RM2.00**
52-week High/Low	RM2.64/RM1.72

Key Changes

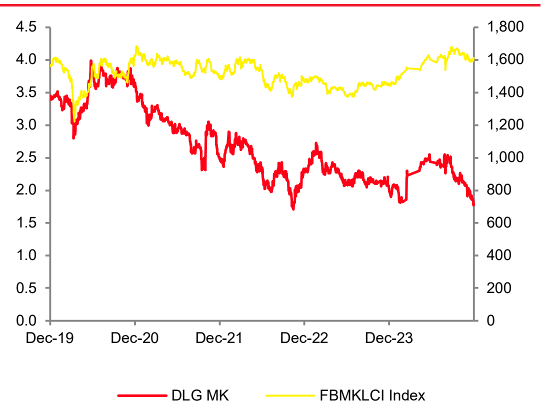
Fair value	↓
EPS	⇔

YE to Jun	**FY24**	**FY25F**	**FY26F**	**FY27F**
Revenue (RM mil)	3,151.9	3,226.7	3,425.6	3,638.2
Core net profit (RM mil)	575.0	621.6	656.5	692.0
FD Core EPS (sen)	10.2	11.0	11.6	12.3
FD Core EPS growth (%)	12.7	8.1	5.6	5.4
Consensus Net Profit (RM mil)	-	645.4	667.8	703.0
DPS (sen)	3.9	4.1	4.3	4.5
PE (x)	17.6	16.2	15.4	14.6
EV/EBITDA (x)	14.2	15.0	14.3	14.0
Div yield (%)	1.6	1.6	1.7	1.8
ROE (%)	8.6	9.4	9.3	9.3
Net Gearing (%)	2.0	4.7	6.6	11.6

Stock and Financial Data

Shares Outstanding (million)	5,645.9
Market Cap (RMmil)	10,106.2
Book Value (RM/Share)	1.14
P/BV (x)	1.6
ROE (%)	8.6
Net Gearing (%)	2.0
Major Shareholders	Ngau Boon Keat (19.1%)
	EPF (14.8%)
	KWAP (9.8%)
Free Float	56.3
Avg Daily Value (RMmil)	11.2

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(21.1)	(27.5)	(13.5)
Relative (%)	(18.4)	(27.5)	(22.3)



Investment Highlights

We downgrade Dialog to HOLD (from BUY previously). We see limited re-rating catalyst for the group amidst the lack of progress for Pengerang Phase 3. Additionally, we see potential downside in earnings growth for both the Midstream and Upstream segments due to a higher earnings base and the return of spare capacity from OPEC+, which will likely push brent crude oil price downwards. We revise our target price (TP) to RM2.00/share (from RM2.90/share) previously based on CY26 PE of 18x, or -1 SD to its 5-year average of 25x.

- **Return to value trap despite share price recovery after post-KLCI exclusion.** We observe valuations unable to remain at prior levels despite the recent tank terminal contract announcement at Tanjung Langsat and recovery of the downstream division during the year. Without a significant catalyst and status as a KLCI-index stock, we do not think valuations will see a marked improvement. Accordingly, we modify our approach from sum-of-parts (SOP) to PE as it is more reflective of this view. We revise our TP to RM2.00/share (from RM2.90/share) based on CY26 PE of 18x, or -1SD to its 5-year average of 25x which we think is fair due to downside risks to earnings given its higher base.

- **Downside risks to earnings growth.** We are cautious over earnings growth projection in the coming years as we believe market assumptions for the segments are still at the higher end. For the upstream segment, we incorporate a brent crude oil price assumption US$75. However, potential risks from the return of spare capacity from OPEC+ could push prices lower than expected. We observe futures prices are now trending at the US$70-US$75 level, which is indicative of this view. Meanwhile, for the mid-stream division, we believe the market is currently baking in an independent tank terminals storage rate of SGD6.5-7 per meter cube (m3), which is the higher end relative to the pre-pandemic period of SGD4-5/m3.

- **Limited re-rating catalysts.** For 2025, we see 2 medium term catalysts which have yet to be priced-in: (a) new tank terminal contract for the biorefinery plant in Pengerang Integrated Complex (PIC) [recall in Jul-24, Petronas, Enilive and Euglena had reached final investment decision (FID) for the plant, commissioning by 2H28]; and (b) final investment decision (FID) for Baram Junior Cluster. However, these will take at least 18 months to 2-years (i.e., 2027) to generate earnings to the group, in our view. Additionally, our estimates show that it will not generate more than +5% to group earnings given Dialog's significantly large asset base. Lastly, we think new awards for tank terminal storage via Pengerang Phase 3 will likely occur earliest in 2026-2027 due to lack of visibility on progress and Final Investment Decision by prospective clients: ChemOne and Rhongsheng Petrochemical.

Company profile

Incorporated in 1984, Dialog Group Bhd (Dialog) is a Malaysia-based integrated oil & gas company with a global presence. The Group is involved in nearly all of the sectoral value chain, upstream, midstream and downstream subsegments. However, Dialog is best known as the biggest provider of tank terminal services with presence in major domestic hubs Kerteh, Pahang and Pengerang, Johor.

Dialog is owned by co-founder Tan Sri Dr Ngau Boon Keat with a 19.1%-stake and was listed on Bursa Malaysia in 1996.

Investment thesis and catalysts

Limited catalyst in the near term. We think earnings prospects remain tepid as the two projects i.e (a) new tank terminal contract for the biorefinery plant in Pengerang Integrated Complex (PIC) and (b) final investment decision (FID) for Baram Junior Cluster will not significantly raise earnings to more than +5% given Dialog's significant large base asset.

Slower than expected progress on expansion of Pengerang Phase 3. There is lack of visibility over Final Investment Decision (FID) by prospective clients: ChemOne and Rhongsheng Petrochemical. Therefore, we think the new awards will likely to be awarded earliest in 2026-2027.

Valuation methodology

Our TP for Dialog is based on a CY26 PE of 18.4x or -1SD to its 5-year average of 25x which we think is fair due to downside risks to earnings given its higher base.

Risk factors

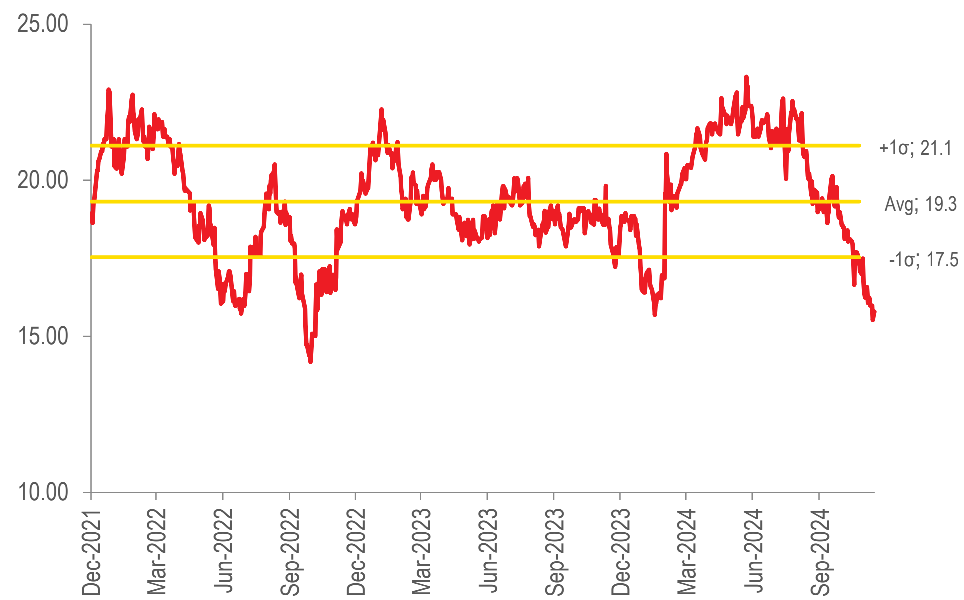
Upside risks to our thesis include:

1. Faster than expected progress or new tank terminal contract wins
2. Recovery in brent crude oil prices
3. New EPC-related contract wins for the downstream division

EXHIBIT 1: VALUATIONS

Target PE (x)	18
CY26 EPS	11.3
ESG premium	-
12-month target price	**2.00**

EXHIBIT 2: 3-YEAR FORWARD PE



Source:Bloomberg

EXHIBIT 3: ESG SCORE

	Criteria	Parameters	Weightage	Rating				
	Environmental Assessment							
1	Water usage	Megalitres (ML) used	25%	*	*	*		
2	Energy usage	Renewable energy consumption (mWh)	25%	*	*	*	*	*
3	Minimise waste generation	Recycled waste (tonnes)	25%	*	*	*		
4	Greenhouse Gas (GHG) emissions	tCO2e emitted/ RM mil	25%	*	*			
	Weighted score for environmental assessment		***100%***	*	*	*		
	Social Assessment							
1	Health, safety & well-being	Loss time injury (LTI)	25%	*	*	*	*	
2	Women in workforce	% of total workforce	25%	*	*	*		
3	Investment in employee training	Average hours of training per employee	25%	*	*	*	*	
4	CSR programmes	Investment in RM	25%	*	*	*		
	Weighted score for social assessment		***100%***	*	*	*		
	Governance Assessment							
1	Board age diversity	% under 60 years old	20%	*	*			
2	Board women representation	% of total board directors	20%	*	*	*		
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*		
4	Independent board directors	% of total board directors	20%	*	*	*		
5	Remuneration to directors	% of total staff costs	20%	*	*	*		
	Weighted score for governance assessment		***100%***	*	*	*		
	Environmental score		40%	*	*	*		
	Social score		30%	*	*	*		
	Governance score		30%	*	*	*		
	Overall ESG Score		***100%***	*	*	*		

Source: Company, AmInvestment

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	3,001.5	3,151.9	3,226.7	3,425.6	3,638.2
EBITDA	483.6	721.8	692.7	737.7	784.9
Depreciation/Amortisation	(254.9)	(333.7)	(350.3)	(367.9)	(386.2)
Operating income (EBIT)	228.7	388.2	342.3	369.8	398.7
Other income & associates	364.0	309.9	353.0	365.9	377.2
Net interest	(38.8)	(18.9)	(12.8)	(14.9)	(16.1)
Exceptional items	3.7	(35.6)	-	-	-
Pretax profit	**557.6**	**643.5**	**682.5**	**720.8**	**759.8**
Taxation	(33.3)	(73.8)	(54.6)	(57.7)	(60.8)
Minorities/pref dividends	(10.1)	(30.3)	(6.3)	(6.6)	(7.0)
Net profit	**514.2**	**539.4**	**621.6**	**656.5**	**692.0**
Core net profit	510.5	575.0	621.6	656.5	692.0

Balance Sheet (RMmil, YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	3,435.9	3,506.9	3,735.0	3,978.1	4,487.2
Intangible assets	922.4	993.0	993.0	993.0	993.0
Other long-term assets	2,212.0	2,134.6	2,454.9	2,786.9	3,129.6
Total non-current assets	**6,570.4**	**6,634.5**	**7,182.9**	**7,757.9**	**8,609.8**
Cash & equivalent	1,720.6	1,572.8	1,408.8	1,272.1	1,057.6
Stock	70.9	94.7	96.6	98.5	100.5
Trade debtors	904.6	789.2	805.0	821.1	837.5
Other current assets	45.1	39.1	60.3	62.3	63.3
Total current assets	**2,741.2**	**2,495.8**	**2,370.7**	**2,254.0**	**2,058.9**
Trade creditors	912.3	829.3	837.6	846.1	854.6
Short-term borrowings	298.8	127.7	130.3	132.9	135.6
Other current liabilities	55.0	67.1	59.0	61.0	62.0
Total current liabilities	**1,266.1**	**1,024.1**	**1,026.9**	**1,040.0**	**1,052.2**
Long-term borrowings	1,863.7	1,574.8	1,596.3	1,618.2	1,816.6
Other long-term liabilities	21.5	23.8	25.0	27.0	28.0
Total long-term liabilities	**1,885.2**	**1,598.6**	**1,621.3**	**1,645.2**	**1,844.6**
Shareholders' funds	**6,075.1**	**6,443.1**	**6,834.6**	**7,249.4**	**7,687.6**
Minority interests	85.2	64.5	70.8	77.4	84.4
BV/share (RM)	1.08	1.14	1.21	1.28	1.36

Cash Flow (RMmil, YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	557.6	643.5	682.5	720.8	759.8
Depreciation/Amortisation	254.9	333.7	350.3	367.9	386.2
Net change in working capital	127.2	(28.3)	(17.4)	(7.6)	(8.9)
Others	(189.5)	238.2	325.0	491.1	702.8
Cash flow from operations	**750.2**	**1,187.0**	**1,340.5**	**1,572.1**	**1,839.9**
Capital expenditure	(320.0)	(401.8)	(507.2)	(532.5)	(559.1)
Net investments & sale of fixed assets	(206.7)	(96.6)	-	-	-
Others	231.1	(52.8)	-	-	-
Cash flow from investing	**(295.5)**	**(551.1)**	**(507.2)**	**(532.5)**	**(559.1)**
Debt raised/(repaid)	(305.5)	(484.1)	(484.1)	(484.1)	(484.1)
Equity raised/(repaid)	-	0.1	0.1	0.1	0.1
Dividends paid	(191.8)	(220.1)	(230.2)	(241.7)	(253.8)
Others	(100.6)	(84.6)	(33.7)	(34.8)	(35.0)
Cash flow from financing	**(598.0)**	**(788.6)**	**(747.8)**	**(760.5)**	**(772.7)**
Net cash flow	**(143.4)**	**(152.7)**	**85.5**	**279.2**	**508.1**
Net cash/(debt) b/f	**1,840.2**	**1,720.5**	**1,572.0**	**1,661.7**	**1,945.1**
Net cash/(debt) c/f	**1,720.5**	**1,572.0**	**1,661.7**	**1,945.1**	**2,457.3**

Key Ratios (YE 31 Jun)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	29.4	5.0	2.4	6.2	6.2
EBITDA growth (%)	(13.4)	49.3	(4.0)	6.5	6.4
Pretax margin (%)	18.6	20.4	21.2	21.0	20.9
Net profit margin (%)	17.1	17.1	19.3	19.2	19.0
Interest cover (x)	5.9	20.5	26.7	24.8	24.7
Effective tax rate (%)	6.0	11.5	8.0	8.0	8.0
Dividend payout (%)	40.6	40.6	37.0	36.8	36.7
Debtors turnover (days)	105	98	90	87	83
Stock turnover (days)	9	10	11	10	10
Creditors turnover (days)	101	101	94	90	85

Source: Company, AmInvestment Bank Bhd estimates

AmInvestment Bank

Company Report

OIL & GAS

KEYFIELD INTERNATIONAL

(KEYFIELD MK EQUITY, KEYF.KL)

06 Dec 2024

Defensive Earnings with Potential Expansion Upside

BUY

(Maintained)

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Rationale for report: Company Update

Price	**RM2.12**
Fair Value	**RM3.25**
52-week High/Low	RM2.90/RM1.70

Key Changes

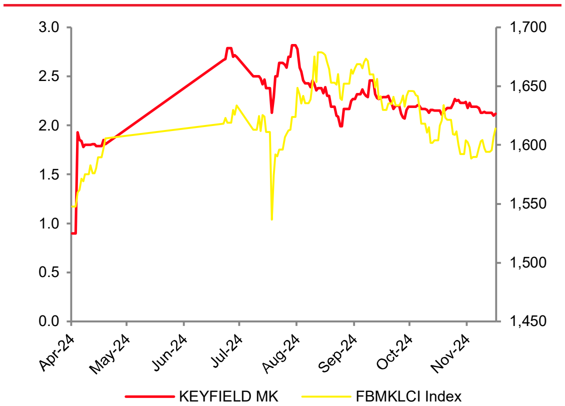
Fair value	⇔
EPS	⇔

YE to Dec	**FY23**	**FY24F**	**FY25F**	**FY26F**
Revenue (RM mil)	430.5	627.1	683.3	718.4
Core net profit (RM mil)	105.5	216.2	240.1	261.0
FD Core EPS (sen)	21.1	26.1	29.0	31.5
FD Core EPS growth (%)	125.0	24.1	11.0	8.7
Consensus Net Profit (RM mil)	-	195.5	211.3	272.0
DPS (sen)	1.0	9.5	10.5	11.4
PE (x)	10.1	8.1	7.3	6.7
EV/EBITDA (x)	8.7	4.6	3.7	3.3
Div yield (%)	0.4	4.2	4.7	5.1
ROE (%)	44.3	47.8	34.5	30.4
Net Gearing (%)	169.9	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	802.8
Market Cap (RMmil)	1,701.9
Book Value (RM/Share)	0.58
P/BV (x)	3.7
ROE (%)	44.3
Net Gearing (%)	169.9
Major Shareholders	Lavin Group (26.9%) Kee Chit Huei (22.7%) Ooi Soo Ping (4.3%)
Free Float	46.1
Avg Daily Value (RMmil)	2.5

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(7.8)	(11.3)	-
Relative (%)	(4.6)	(11.2)	-



Investment Highlights

We maintain BUY on Keyfield. Valuations appear highly appealing at current PE of 7.6x – a 24% discount against the OGSE subsector average of 10x. We think the group's earnings will remain resilient as charter rates will remain at current levels amidst the tight supply environment for the offshore support vessel (OSV) subsector. We believe the group is primed for fleet expansion relative to peers given its strong capital position, with debt facilities gearing up for deployment. Our target price (TP) of RM3.25/share is based on CY26 PE of 10x, at par to the local OGSE average.

- **Appealing valuations from recent sell-down.** Keyfield's share price has seen a significant decline of 23% since peaking in August largely due to concerns over: (a) the trajectory of charter rate growth and (b) peak earnings narrative. We believe the sell-down is overblown with value now emerging at cheap valuations of 7.6x PE. Our TP of RM3.25/share is based on CY26 PE of 10x, at par to the local OGSE average, which we deem fair given its position as one of the prime proxies to the OSV industry and stable expectations for the subsector in the coming years.

- **Tight supply environment to buoy charter rates.** We believe the current supply shortage environment will remain, with tight supply in key segments including 80-tonne bollard pull anchor handling tug supply (AHTS) vessels, mid-size accommodation workboats and passenger support vessels (PSV). Our forecast is premised on a flattish assumption for total revenues per day of RM110k/day for AWB and RM45k/day for AHTS. We project a 2-year (2025-2026) core net profit (CNP) CAGR of 10%. Additionally, though Keyfield has already fulfilled its IPO-promise of 3 new vessels, we think the group is primed for bumper earnings growth through further fleet expansion largely due to its younger fleet size and significantly cleaner balance sheet relative to peers.

- **Dividends galore.** With a strong cashflow, we are hopeful for the group to institute a dividend policy moving forward. Recall, Keyfield had announced a third interim dividend per share (DPS) of 4 sen, bringing YTD to 8 sen. This implies a payout of 35% which exceeds its IPO guidance of 20%. With a clean balance sheet and strong cashflows, we think the group can maintain current payout levels. Our analysis shows that at current price, the group is likely to deliver dividend yields of 4-5% throughout our forecast period.

Company profile

Founded in 2013 by Dato' Darren Kee Chit Huei, Keyfield is a local O&G services company involved in the provision of offshore support vessels (OSV) and related ancillary services. The group's current fleet of 13 vessels consists of 9 accommodation workboats (AWB), 2 anchor handling tug & supply vessel (AHTS), 1 geotechnical vessel and 1 work barge. The group also charters third-party vessels on spot basis.

Notable clients include Petronas Carigali (PCSB), Petra Energy, MDPC (a subsidiary of MISC), Perdana Petroleum and PTTEP. Keyfield was recently listed on the main market of Bursa Malaysia on 22 Apr 2024 through the initial public offering of 209mil new shares at an IPO price of RM0.90.

Investment thesis and catalysts

One of the prime proxies to the OSV upcycle. As a pureplay OSV company, we view Keyfield as a prime proxy with a larger and younger vessel fleet relative to other listed peers. Additionally, Keyfield's DP2 vessels also sees a 20%-30% premium over 4-point mooring systems.

Beneficiary of charter rate upcycle. The subsector has recently seen charter rates improved significantly over the past few years which we believe will remain at such levels in the medium term as market supply remains tight.

Only player to have fleet expansion advantage. Post-IPO, Keyfield is expected to remain in a net cash position. In addition to its younger fleet age, we think this will be supportive of the group's expansion programme relative to peers, who are expected to be more focused on fleet renewal. With a projected RM 145mil in free cash flow by FY26F, we think Keyfield is well-positioned for further growth.

Valuation methodology

We value Keyfield at a TP of RM3.25/share, pegged to FY26F P/E of 10x at par to local O&G maintenance average. We believe this is fair given its market position.

Our TP also implies a neutral 3-star ESG rating based on our in-house methodology.

Risk factors

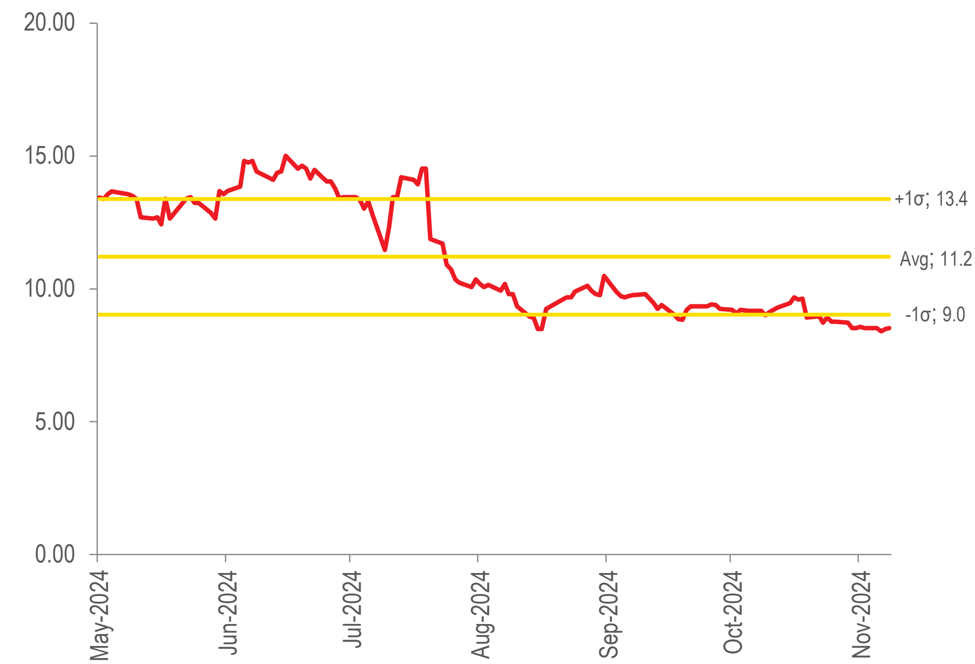
Key downside risks to our investment thesis include:

i. Slower-than-expected activity in offshore exploration, production, and development,
ii. Higher operating costs, from increased material costs or labor shortages,
iii. Geopolitical and economic uncertainties impacting oil prices,
iv. A sharp drop in oil prices, potentially triggering an industry de-rating, and
v. Continued sector de-rating by banks and investors due to ESG and climate change prerogatives

EXHIBIT 1: VALUATIONS

Target PE (x)	10
CY26 EPS	32.8
ESG premium	-
12-month target price	RM3.25

EXHIBIT 2: 1-YEAR FORWARD PE



Source: Bloomberg

EXHIBIT 3: ESG SCORE

	Criteria	Parameters	Weightage	Rating
	Environmental Assessment			
1	Water usage	Megalitres (ml) used	25%	* * *
2	Energy usage	Renewable energy consumption (mWh)	25%	* *
3	Minimise waste generation	Recycled waste (tonnes)	25%	* * * *
4	Greenhouse Gas (GHG) emissions	tCO2e emitted/	25%	* * *
	Weighted score for environmental assessment		***100%***	* * *
	Social Assessment			
1	Health, safety & well-being	Loss time injury (LTI)	25%	* * * *
2	Women in workforce	% of total workforce	25%	* *
3	Investment in employee training	Average hours of training per employee	25%	* * * *
4	CSR programmes	Investment in RM	25%	* * *
	Weighted score for social assessment		***100%***	* * *
	Governance Assessment			
1	Board age diversity	% under 60 years old	20%	* * * *
2	Board women representation	% of total board directors	20%	* * * *
3	Directors with tenure below 6 years	% below 6 years category	20%	* * * *
4	Independent board directors	% of total board directors	20%	* * * *
5	Remuneration to directors	% of total staff costs	20%	* * *
	Weighted score for governance assessment		***100%***	* * * *
	Environmental score		40%	* * *
	Social score		30%	* * *
	Governance score		30%	* * * *
	Overall ESG Score		***100%***	* * *

Source: AmInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Revenue	236.2	430.5	627.1	683.3	718.4
EBITDA	91.7	187.9	329.3	362.2	390.0
Depreciation/Amortisation	(25.4)	(28.0)	(38.1)	(41.0)	(38.1)
Operating income (EBIT)	66.3	159.9	291.2	321.2	351.9
Other income & associates	4.4	(5.7)	(5.6)	(5.6)	(5.6)
Net interest	(8.6)	(13.3)	(4.5)	(3.0)	(6.0)
Exceptional items	(3.8)	0.5	0.5	0.5	0.5
Pretax profit	**65.0**	**146.5**	**286.7**	**318.2**	**345.8**
Taxation	(15.2)	(39.4)	(68.8)	(76.4)	(83.0)
Minorities/pref dividends	(1.0)	(1.6)	(1.7)	(1.8)	(1.8)
Net profit	**48.9**	**105.5**	**216.2**	**240.1**	**261.0**
Core net profit	46.9	105.5	216.2	240.1	261.0

Balance Sheet (RMmil, YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Fixed assets	368.6	501.2	539.2	501.7	610.8
Intangible assets	-	-	-	-	-
Other long-term assets	21.1	16.4	16.4	16.4	16.4
Total non-current assets	**389.6**	**517.6**	**555.6**	**518.1**	**627.2**
Cash & equivalent	17.0	68.5	172.3	407.4	511.6
Stock	2.1	3.4	3.3	3.5	3.6
Trade debtors	88.0	93.6	132.3	144.1	151.5
Other current assets	7.0	8.2	8.3	8.5	8.6
Total current assets	**114.2**	**173.6**	**316.2**	**563.5**	**675.3**
Trade creditors	33.7	40.7	44.5	48.0	48.9
Short-term borrowings	51.9	2.6	-	-	-
Other current liabilities	22.0	49.8	46.2	46.2	46.2
Total current liabilities	**107.6**	**93.1**	**90.7**	**94.2**	**95.1**
Long-term borrowings	27.5	6.2	-	50.3	100.6
Other long-term liabilities	176.5	297.6	158.1	158.1	158.1
Total long-term liabilities	**203.9**	**303.7**	**158.1**	**208.4**	**258.7**
Shareholders' funds	**188.0**	**288.4**	**617.0**	**773.1**	**942.7**
Minority interests	4.4	6.0	6.0	6.0	6.0
BV/share (RM)	0.38	0.58	0.77	0.97	1.18

Cash Flow (RMmil, YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Pretax profit	65.0	146.5	286.7	318.2	345.8
Depreciation/Amortisation	25.4	28.0	38.1	41.0	38.1
Net change in working capital	(30.9)	(1.4)	(35.0)	(8.1)	(6.4)
Others	3.0	11.5	(61.7)	(78.8)	(85.1)
Cash flow from operations	**62.5**	**184.5**	**228.1**	**272.3**	**292.4**
Capital expenditure	(11.8)	(31.6)	(66.4)	(3.5)	(147.2)
Net investments & sale of fixed assets	0.5	-	-	-	-
Others	0.1	2.6	-	-	-
Cash flow from investing	**(11.2)**	**(29.0)**	**(66.4)**	**(3.5)**	**(147.2)**
Debt raised/(repaid)	(25.1)	(50.6)	(8.8)	50.3	50.3
Equity raised/(repaid)	-	-	188.1	-	-
Dividends paid	(2.1)	(5.0)	(75.7)	(84.0)	(91.4)
Others	(21.8)	(48.5)	(161.5)	-	-
Cash flow from financing	**(49.0)**	**(104.1)**	**(57.9)**	**(33.7)**	**(41.1)**
Net cash flow	**2.3**	**51.5**	**103.8**	**235.1**	**104.2**
Net cash/(debt) b/f	**14.7**	**17.0**	**68.5**	**172.3**	**407.4**
Net cash/(debt) c/f	**17.0**	**68.5**	**172.3**	**407.4**	**511.6**

Key Ratios (YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Revenue growth (%)	69.0	82.2	45.7	9.0	5.1
EBITDA growth (%)	132.2	104.8	75.3	10.0	7.7
Pretax margin (%)	27.5	34.0	45.7	46.6	48.1
Net profit margin (%)	20.7	24.5	34.5	35.1	36.3
Interest cover (x)	7.7	12.0	64.7	106.5	58.3
Effective tax rate (%)	23.3	26.9	24.0	24.0	24.0
Dividend payout (%)	4.3	4.7	35.0	35.0	35.0
Debtors turnover (days)	118	77	66	74	75
Stock turnover (days)	3	2	2	2	2
Creditors turnover (days)	52	32	25	25	25

Source: Company, AmInvestment Bank Bhd estimates

AmInvestment Bank

Company Report

MISC

(MISC MK EQUITY, MISC.KL)

06 Dec 2024

FPSO play at attractive valuations

BUY

(Upgraded)

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Rationale for report: Company Update

Price	**RM7.36**
Fair Value	**RM8.80**
52-week High/Low	RM8.97/RM7.05

Key Changes

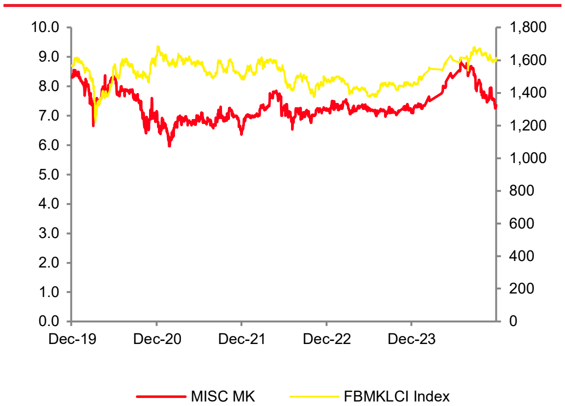
Fair value	⇧
EPS	⇧

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	14,271.7	14,121.4	14,566.2	15,128.2
Core net profit (RM mil)	2,302.8	2,323.7	2,659.5	2,826.3
FD Core EPS (sen)	51.6	52.1	59.6	63.3
FD Core EPS growth (%)	8.2	0.9	14.4	6.3
Consensus Net Profit (RM mil)	-	2,256.8	2,539.6	2,744.5
DPS (sen)	33.0	33.0	33.0	33.0
PE (x)	14.3	14.1	12.4	11.6
EV/EBITDA (x)	9.1	7.9	7.1	6.5
Div yield (%)	3.8	3.8	3.8	3.8
ROE (%)	5.5	5.6	5.8	5.6
Net Gearing (%)	25.0	18.2	14.2	9.9

Stock and Financial Data

Shares Outstanding (million)	4,463.8
Market Cap (RMmil)	32,853.6
Book Value (RM/Share)	8.80
P/BV (x)	0.8
ROE (%)	5.5
Net Gearing (%)	25.0
Major Shareholders	Petronas (51.0%)
	EPF (12.7%)
	ASNB (6.8%)
Free Float	29.5
Avg Daily Value (RMmil)	25.0

Price performance	3mth	6mth	12mth
Absolute (%)	(11.3)	(14.4)	2.2
Relative (%)	(8.2)	(14.3)	(8.1)



Investment Highlights

We upgrade MISC to BUY (from HOLD). Valuations appear attractive at current EV/EBITDA of 7.2x, close to levels seen since the Covid-19 pandemic. We think the recent sell-down is overdone as earnings will remain relatively stable supported by the crude tanker business in the near term and see a recovery in LNG carrier charter rates by 2026. MISC is a key beneficiary of the upcoming FPSO tender cycle, in our view. Additionally, the group is also primed for potential value unlocking opportunities after hitting first-oil for the Marechal Duque du Caxias (Mero 3) FPSO. We raise our sum-of-parts (SOP) derived target price (TP) to RM8.80/share (vs RM8.50 previously), which implies 8x EV/EBITDA.

- **Attractive valuations post-sell down.** YTD, the stock has seen a 17% sell-down after hitting peak in July. EV/EBITDA valuations have come off strongly to 7.2x, which is at -1.5 SD to its 10-year average of 9.5x, which we think is unjustified given the group's relatively stable earnings, large asset base and strong balance sheet. We adjust our earnings by -8%/-4%/+2% for FY24/FY25/FY26. However, we raised our TP to RM8.80/share (from RM8.50 prior) as we rolled forward our valuations. This implies a CY26 EV/EBITDA of 8x, which comes to -1 SD to its 10-year average.

- **Sustainable earnings in 2025 driven by the crude tanker market.** We expect 2025 to see an earnings growth of 14% driven by improved spot rates for the crude tanker market and full recognition of earnings from Mero 3 FPSO. Earnings growth from the LNG carrier business is expected to moderate due to an unfavorable demand-supply environment before seeing a gradual improvement in 2026 as global liquefaction capacity improves and supply of available carriers decline.

- **Beneficiary of the FPSO tender cycle.** We see MISC as a potential beneficiary for the incoming tender cycle, particularly in Brazil and Malaysia owing to recent delivery of Mero 3 FPSO and relationship with the clients: Petrobras and Petronas. We believe the group will be able to cater to at least 1 new conversion award and 2-3 redeployment which will carry an estimated capex of up to US$2-2.5bil collectively. We also gather that the group is also partaking in front-end engineering and design bids.

- **M&A play possible, but we prefer an outright stake sale.** MISC recently announced that it had entered into a 9-month non-binding memorandum of understanding (MOU) with Bumi Armada (BAB MK, NR) to explore a shares-based merger to create a pureplay FPSO player. Though admittedly we prefer an outright stake sale of the Mero 3 FPSO to accelerate project cashflows, we admit that the former is easier to execute subject to valuations for the share swap ratio.

Company profile

Founded in 1968, MISC Berhad (MISC) is Malaysia'a largest maritime logistics company primarily involved in the transportation of liquefied natural gas (LNG) and petroleum products globally, as well as the charter of offshore floating facilities. It has a fleet of close to 100 vessels including LNG carriers, crude oil tankers, product carriers, and floating production storage and offloading vessels (FPSO/FSO). The group is also exposed to the engineering business through its 51%-stake in Malaysia Marine and Heavy Engineering Bhd (MMHE).

MISC is a Petronas-owned company through a 62.7%-stake and was listed in the main board of Bursa Malaysia in November 2003.

Investment thesis and catalysts

One of the prime proxies to the FPSO tender cycle. We expect to see strong demand for FPSOs over the next 5 years (till 2030) as deepwater developments pick up due to their relative advantage. We see MISC as one of the key players in the industry due to its track record with the successful delivery of Marechal Duque du Caxias FPSO and its strong balance sheet.

Stable demand for tanker services. We think demand for carrier services will remain strong in the medium term as it is key to addressing energy security. Bimco expect a stable outlook for the tanker market for 2025 at a growth rate of 2.5-3.5% driven mainly by crude tankers.

Beneficary of carbon capture utilisation and unit storage (CCUS). We see CCUS as a long term growth strategy and acknowledges its role as a key component in the energy transition. We believe MISC is likely to benefit through its holdings in MMHE. Recall the group was the EPCI contractor for Malaysia's largest CCUS project to date, the Kasawari Gas Field development.

Valuation methodology

We utilise a SOP methodology to derive our TP of RM8.80/share for MISC. This implies a CY26 EV/EBITDA of 8x, which comes to -1 SD to its 10-year average.

Risk factors

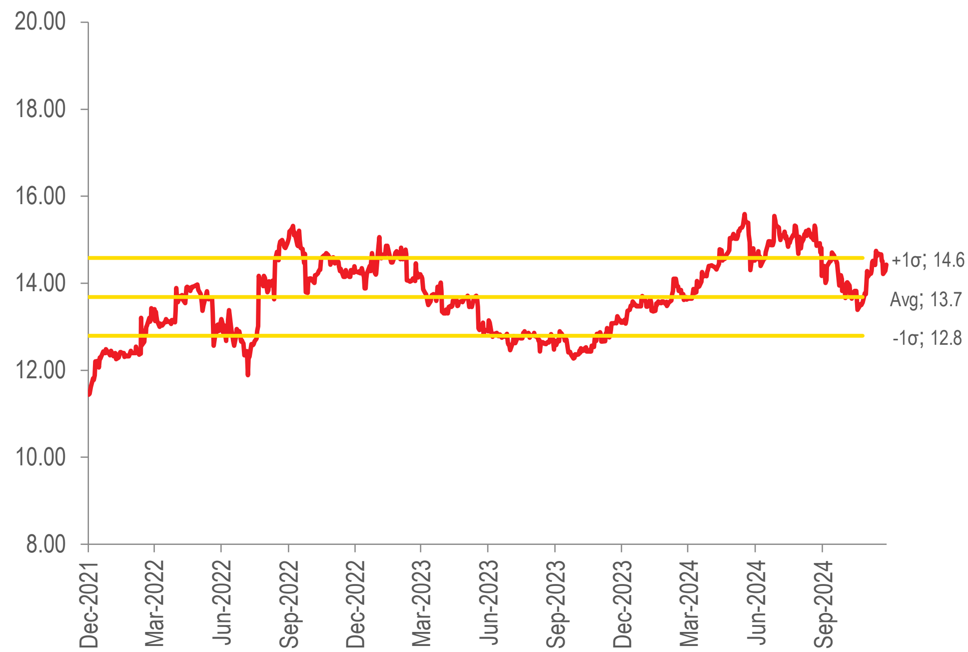
Downside risks to our thesis include:

1. Stronger than expected reduction in charter rates for its LNG carrier businesses;
2. Absence of wins from the current FPSO tender cycle; and
3. Faster than expected normalization from Red Sea crisis which would imply a decline in rates for the crude tanker business.

EXHIBIT 1: VALUATIONS

	Equity Stake (%)	Methodology	Value (RM/share)	Share (%)
Gas assets and solutions	100	DCF with WACC of 7%	5.55	65
Petroleum and product shipping	100	Estimated market value of fleet	3.42	40
Offshore business	100	DCF with WACC of 7%	1.10	13
MMHE	66.5	Book value; 66.5% stake	0.26	3
Mero-3 FPSO	100	US$2bil capex, WACC of 6%	0.41	5
Less net debt as at 31 Dec 2023			(2.20)	
Equity Value			**8.55**	
ESG premium (%)		ESG Rating: 4-Star or +3%	0.26	
Fair Value			**8.80**	
EV			47,243.0	
CY26F EBITDA			5,824.4	
EV/EBITDA			8.1	

EXHIBIT 2: 3-YEAR FORWARD PE



Source:Bloomberg

EXHIBIT 3: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating				Rationale
	<u>**Environmental Assessment**</u>							
1	Water usage	Megalitres (ml) used	25%	*	*	*	*	-1.3% to 308.9 ml
2	Energy usage	Renewable energy consumption (mWh)	25%	*	*	*	*	-2.8% to 16.683mil mWh
3	Minimise waste generation	Recycled waste (tonnes)	25%	*	*	*	*	99.9% recylced
4	Greenhouse Gas (GHG) emissions	tCO2e emitted	25%	*	*	*	*	-1.6% to 4.15 mil tCO2e.
	Weighted score for environmental assessment		***100%***	*	*	*	*	
	<u>**Social Assessment**</u>							
1	Health, safety & well-being	Loss time injury (LTI)	25%	*	*	*	*	+12.5% to 0.09 LTI
2	Women in workforce	% of total workforce	25%	*	*			15% of workforce
3	Investment in employee training	Average hours of training per employee	25%	*	*	*	*	+10% to 26.5 hours
4	CSR programmes	Investment in RM	25%	*	*	*	*	FY23: RM29.6mil
	Weighted score for social assessment		***100%***	*	*	*	*	
	<u>**Governance Assessment**</u>							
1	Board age diversity	% under 60 years old	20%	*	*	*	*	50%
2	Board women representation	% of total board directors	20%	*	*	*	*	40% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*	*	90% representation
4	Independent board directors	% of total board directors	20%	*	*	*	*	62.5% representation
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*	RM2.6mil
	Weighted score for governance assessment		***100%***	*	*	*	*	
	Environmental score		40%	*	*	*	*	
	Social score		30%	*	*	*	*	
	Governance score		30%	*	*	*	*	
	Overall ESG Score		***100%***	*	*	*	*	

Source: Company, AmInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	13,867.0	14,271.7	14,121.4	14,566.2	15,128.2
EBITDA	4,766.0	4,688.7	5,189.6	5,608.0	5,824.4
Depreciation/Amortisation	(2,067.4)	(2,173.1)	(2,227.4)	(2,338.8)	(2,455.7)
Operating income (EBIT)	2,698.7	2,515.6	2,962.2	3,269.2	3,368.6
Other income & associates	(25.1)	115.7	(29.0)	(30.5)	(32.0)
Net interest	(494.0)	(358.3)	(525.8)	(483.5)	(408.6)
Exceptional items	(305.3)	(179.3)	-	-	-
Pretax profit	**1,874.3**	**2,093.7**	**2,407.4**	**2,755.2**	**2,928.0**
Taxation	(39.3)	(134.8)	(24.1)	(27.6)	(29.3)
Minorities/pref dividends	(12.1)	164.6	(59.6)	(68.2)	(72.5)
Net profit	**1,822.9**	**2,123.5**	**2,323.7**	**2,659.5**	**2,826.3**
Core net profit	2,128.2	2,302.8	2,323.7	2,659.5	2,826.3

Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	24,305.0	25,398.2	26,669.1	28,003.7	28,687.4
Intangible assets	1,001.6	949.1	939.6	930.2	920.9
Other long-term assets	24,612.8	24,804.5	25,927.6	27,590.5	29,629.2
Total non-current assets	**49,919.3**	**51,151.8**	**53,536.4**	**56,524.4**	**59,237.4**
Cash & equivalent	7,134.0	7,731.6	11,554.7	12,910.5	15,497.1
Stock	97.9	92.9	86.6	86.8	90.2
Trade debtors	5,380.6	5,997.7	5,934.5	6,121.5	6,357.6
Other current assets	132.5	86.1	85.2	87.9	91.3
Total current assets	**12,744.9**	**13,908.3**	**17,661.0**	**19,206.7**	**22,036.2**
Trade creditors	5,147.7	6,110.6	5,695.4	5,712.2	5,932.6
Short-term borrowings	3,605.5	1,719.4	1,753.8	1,788.9	1,824.6
Other current liabilities	14.0	113.5	114.8	116.2	117.6
Total current liabilities	**8,767.2**	**7,943.5**	**7,563.9**	**7,617.2**	**7,874.8**
Long-term borrowings	14,256.1	15,825.6	17,745.9	17,923.3	18,819.5
Other long-term liabilities	1,336.9	1,325.2	1,389.5	1,459.1	1,532.0
Total long-term liabilities	**15,593.0**	**17,150.8**	**19,135.4**	**19,382.4**	**20,351.5**
Shareholders' funds	**37,458.7**	**39,285.8**	**43,758.4**	**47,923.7**	**52,167.0**
Minority interests	845.4	680.0	739.6	807.8	880.2
BV/share (RM)	8.39	8.80	9.80	10.74	11.69

Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	1,874.3	2,093.7	2,407.4	2,755.2	2,928.0
Depreciation/Amortisation	2,067.4	2,173.1	2,227.4	2,338.8	2,455.7
Net change in working capital	(1,978.8)	(1,978.8)	(345.8)	(170.3)	(19.1)
Others	1,079.2	754.0	1,102.3	1,058.0	982.8
Cash flow from operations	**3,042.1**	**3,042.1**	**5,391.3**	**5,981.7**	**6,347.5**
Capital expenditure	(2,293.5)	(2,523.4)	(1,924.0)	(1,906.0)	(1,417.8)
Net investments & sale of fixed assets	-	333.2	-	-	-
Others	350.6	324.0	246.1	303.1	393.0
Cash flow from investing	**(1,943.0)**	**(1,866.2)**	**(1,677.9)**	**(1,602.9)**	**(1,024.8)**
Debt raised/(repaid)	(167.4)	(1,847.4)	1,954.6	212.5	931.9
Equity raised/(repaid)	-	1.0	1.0	1.0	1.0
Dividends paid	(1,473.0)	(1,614.9)	(1,473.1)	(1,473.1)	(1,473.1)
Others	(399.7)	(459.1)	(485.0)	(499.7)	(514.7)
Cash flow from financing	**(2,040.2)**	**(3,920.4)**	**(2.4)**	**(1,759.3)**	**(1,054.8)**
Net cash flow	**(941.0)**	**(2,744.5)**	**3,711.0**	**2,619.5**	**4,267.9**
Net cash/(debt) b/f	**9,634.4**	**9,046.2**	**6,531.2**	**10,471.7**	**13,320.7**
Net cash/(debt) c/f	**9,046.2**	**6,531.2**	**10,471.7**	**13,320.7**	**17,818.1**

Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	29.9	2.9	(1.1)	3.2	3.9
EBITDA growth (%)	27.0	(1.6)	10.7	8.1	3.9
Pretax margin (%)	13.5	14.7	17.0	18.9	19.4
Net profit margin (%)	13.1	14.9	16.5	18.3	18.7
Interest cover (x)	5.5	7.0	5.6	6.8	8.2
Effective tax rate (%)	2.1	6.4	1.0	1.0	1.0
Dividend payout (%)	80.8	69.4	63.4	55.4	52.1
Debtors turnover (days)	142	153	153	153	153
Stock turnover (days)	4	4	4	4	4
Creditors turnover (days)	206	233	233	233	233

Source: Company, AmInvestment Bank Bhd estimates

AmInvestment Bank

Company Report

PETRONAS CHEMICALS

(PCHEM MK EQUITY, PCGB.KL)

06 Dec 2024

Downcycle bottom at sight but catalyst yet to arrive

HOLD

(Maintained)

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Rationale for report: Company Update

Price	**RM4.92**
Fair Value	**RM5.10**
52-week High/Low	RM7.36/RM4.50

Key Changes

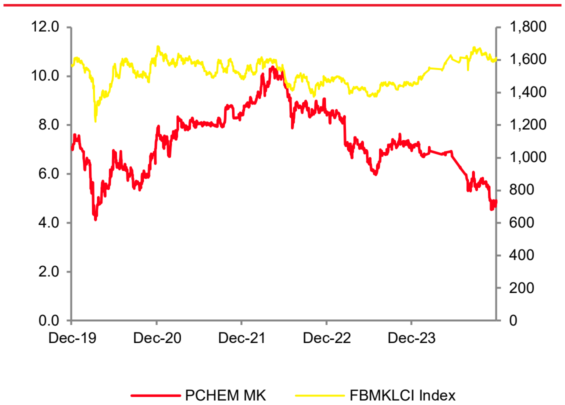
Fair value	⇔
EPS	⇔

YE to Dec	**FY23**	**FY24F**	**FY25F**	**FY26F**
Revenue (RM mil)	28,667.0	29,011.7	31,939.3	33,078.7
Core net profit (RM mil)	1,693.0	1,795.7	1,907.6	2,203.5
FD Core EPS (sen)	(73.2)	6.1	6.2	15.5
FD Core EPS growth (%)	21.2	22.4	23.8	27.5
Consensus Net Profit (RM mil)	-	1,923.1	2,199.5	2,509.3
DPS (sen)	41.0	13.0	11.4	12.2
PE (x)	6.2	16.4	15.7	14.9
EV/EBITDA (x)	4.3	8.0	8.6	7.3
Div yield (%)	8.3	2.6	2.3	2.5
ROE (%)	17.5	6.1	6.2	6.3
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	8,000.0
Market Cap (RMmil)	39,360.0
Book Value (RM/Share)	5.05
P/BV (x)	1.0
ROE (%)	6.1
Net Gearing (%)	-
Major Shareholders	Petroliam Nasional Bhd (64.4%) EPF (9.1%) ASNB (5.2%)
Free Float	21.4
Avg Daily Value (RMmil)	24.6

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(10.2)	(26.9)	(30.2)
Relative (%)	(7.1)	(26.8)	(37.3)



Investment Highlights

We maintain HOLD on Petronas Chemicals (PChem). Current valuations appear fair at 6.2x EV/EBITDA as downside risks appear limited at this juncture. Though we believe the current petrochemical downcycle is well priced in the stock's YTD selldown of ~30%, we maintain a conservative view over risks to the Group's Pengerang venture – we see this as a double-edged sword as successful negotiations over discount to its feedstock will act as a short-term catalyst and cushion the blow to cash levels from interest costs for the plant. Our TP of RM5.10/share is based on 7.5x EV/EBITDA which is at -1SD to its 10-year average.

- **Valuation appears fair at this juncture.** We believe current valuations have incorporated downside risks sufficiently, as guided by management. Our TP of RM5.10/share is based on 7.5x EV/EBITDA which is at -1SD to its 10-year average is justified in our view given that the petrochemical sector is currently in a downcycle.

- **Petrochemical downcycle is close to reaching bottom but will likely linger over the next 1-2 years.** Prices of basic petrochemical products have but have recently stabilized, in our observation. We think investors ought to discount a similar trajectory of growth for the sector as China demand is unlikely to return at a similar pace and settle at a 3%-4% in the medium-term horizon (vs 7%-8% during the previous cycles), and accordingly incorporate this into our projections with a flattish YoY average price growth assumption of 5-6% by CY26. Looking ahead, we do not expect prices to decline further, supported by the following: (a) gradual but steady pace of increase in global manufacturing activities, evident from the JP Morgan Global PMI Composite index which exceeded 50.0-pts levels over the past 1-yr; and (b) steady decline in petrochemical capacity, led by closures of liquid-based feedstock producers in Europe.

- **Primed for a technical upgrade, subject to key catalyst: EBITDA neutral for its 50%-joint entity Pengerang Petrochemical Company Sdn Bhd.** Though we do not discount further downtrend in share price, we think this is less likely as foreign shareholding is now at 7.8% as at October, or at the lower end vs. its typical range of 7-10%. We see opportunity for upside as the sector is now close to multi-year low holdings. According to our fund flow tracker which tracks percentage of tracked AUM from over 90 funds, the energy sector holding is currently at 3.4% as at end-September, close to its lowest level of ~3% in mid-2022.

Company profile

Established in 1997, Petronas Chemicals Bhd (PCHEM) is Malaysia's leading integrated petrochemical producer with a diverse portfolio including olefins, polymers and other industrial chemicals. The Group serves a wide range of industries such as automotive, construction, packaging, and agriculture, with a global clientele. PChem is owned by Petronas with a 64.35% direct-stake and was listed in November 2010.

PChem has seen considerable growth over the years, through both organic and inorganic approaches. Notably in 2019, the Group acquired Perstorp, a leading global specialty chemicals company to expand offerings in high-value chemicals in areas like coatings, plastics, and chemicals for various industries. Additionally, PChem's 50%-stake investment in the Pengerang Petrochemical Company in Johor has also given the Group flexibility over feedstock and bolster production capacity.

Investment thesis and catalysts

Proxy to global manufacturing PMI. As the product PChem produces are a main component for the industrial and consumer sector, the group is a major beneficiary from improvement in PMI trends globally. However, global PMI is expected to remain sluggish in the near future, with the recent index declining to 48.7 due to ongoing economic challenges amidst higher operating costs and supply chain disruption.

Lower cost curve as gas-based feedstock producer. As a gas-based producer, PChem has a relatively more advantageous cost curve relative to regional players due to the lower cost of gas relative to liquids. However, margins is expected to come off slightly due to the introduction of naphtha-based feedstock under the Pengerang Petrochemical component.

Valuation methodology

We value PChem based on target EV/EBITDA multiple of 7.5x to its CY25 EBITDA to capture a 12-month forward view. This implies -1 std dev to its 10-year mean of 8.5x.

Though the group deserves a mean valuation based on its characteristic as a gas-based feedstock player, we exercise prudence and limit our upside due to the subsectors ongoing downcycle.

Risk factors

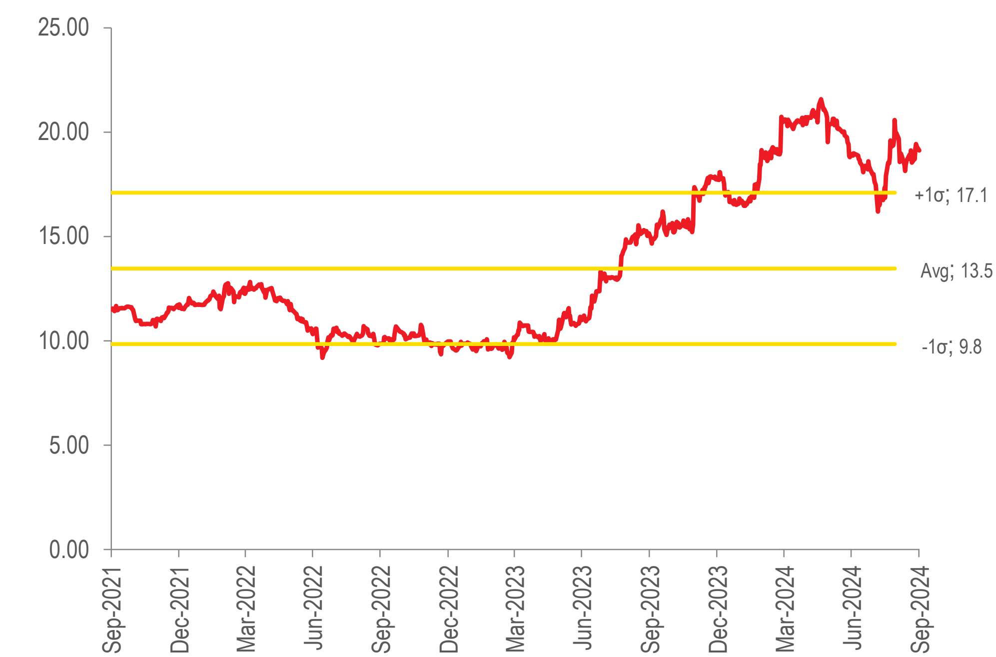
Key downside risks to our investment thesis include:

i. Lower than expected plant utilisation rates
ii. Lower than expected product prices

EXHIBIT 1: VALUATIONS

	CY25
EV/EBITDA Multiple	7.5x
Enterprise value	34,712
(-) Debt	2,973
(+) Cash	9,268
Equity value (RM mil)	**41,007**
TP/share (RM)	**5.10**

EXHIBIT 2: 3-YEAR FORWARD PE



Source: Bloomberg

EXHIBIT 3: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating	Rationale
	Environmental Assessment				
1	Water usage	Megalitres (ml) used	25%	* * * *	-11% YoY
2	Energy usage	Renewable energy consumption (mWh)	25%	* * * *	Started in FY23, 134mWh
3	Minimise waste generation	Recycled waste (tonnes)	25%	* *	n.a.
4	Greenhouse Gas (GHG) emissions	tCO2e emitted/	25%	* *	n.a.
	Weighted score for environmental assessment		***100%***	* * *	
	Social Assessment				
1	Health, safety & well-being	Loss time injury (LTI)	25%	* * * *	1 -80% to 0.09 LTIs
2	Women in workforce	% of total workforce	25%	* *	22% of workforce
3	Investment in employee training	Average hours of training per employee	25%	* * * * *	+33% to 81 hrs
4	CSR programmes	Investment in RM	25%	* * * *	RM2.7mil
	Weighted score for social assessment		***100%***	* * * *	
	Governance Assessment				
1	Board age diversity	% under 60 years old	20%	* * *	42%
2	Board women representation	% of total board directors	20%	* * *	38% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	* * * * *	88% representation
4	Independent board directors	% of total board directors	20%	* * *	50% independent non-exec
5	Remuneration to directors	% of total staff costs	20%	* * * * *	RM3.9mil, <1% staff costs
	Weighted score for governance assessment		***100%***	* * * *	
	Environmental score		40%	* * *	
	Social score		30%	* * * *	
	Governance score		30%	* * * *	
	Overall ESG Score		***100%***	* * * *	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	28,953.0	28,667.0	29,011.7	31,939.3	33,078.7
EBITDA	8,428.0	4,131.0	4,073.4	4,628.2	4,872.8
Depreciation/Amortisation	(1,794.0)	(1,978.0)	(2,030.1)	(2,250.4)	(2,272.9)
Operating income (EBIT)	6,634.0	2,153.0	2,043.3	2,377.8	2,599.9
Other income & associates	165.0	93.0	97.7	102.5	107.7
Net interest	(66.0)	(139.0)	38.9	(164.7)	(32.7)
Exceptional items	143.0	3.0	-	-	-
Pretax profit	6,876.0	2,110.0	2,179.8	2,315.7	2,674.9
Taxation	(406.0)	(360.0)	(327.0)	(347.4)	(401.2)
Minorities/pref dividends	(5.0)	(54.0)	(57.2)	(60.7)	(70.2)
Net profit	6,465.0	1,696.0	1,795.7	1,907.6	2,203.5
Core net profit	6,322.0	1,693.0	1,795.7	1,907.6	2,203.5

Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	27,213.0	29,437.0	29,606.9	29,556.6	29,483.7
Intangible assets	9,364.0	10,253.0	10,253.0	10,253.0	10,253.0
Other long-term assets	2,835.0	3,483.0	3,593.5	3,709.6	3,831.5
Total non-current assets	39,412.0	43,173.0	43,453.5	43,519.2	43,568.2
Cash & equivalent	8,888.0	9,268.0	7,039.2	7,765.6	8,917.8
Stock	3,465.0	3,767.0	2,781.9	3,062.7	3,171.9
Trade debtors	3,619.0	3,857.0	4,371.6	4,812.8	4,984.5
Other current assets	46.0	46.0	48.3	50.7	53.3
Total current assets	16,018.0	16,938.0	14,241.0	15,691.8	17,127.5
Trade creditors	6,039.0	8,271.0	4,947.9	5,447.2	5,641.5
Short-term borrowings	229.0	500.0	550.0	605.0	665.5
Other current liabilities	234.0	178.0	161.7	171.7	198.4
Total current liabilities	6,502.0	8,949.0	5,659.6	6,223.9	6,505.4
Long-term borrowings	2,489.0	2,473.0	1,978.4	1,582.7	1,266.2
Other long-term liabilities	6,706.0	6,710.0	7,045.5	7,397.8	7,767.7
Total long-term liabilities	9,195.0	9,183.0	9,023.9	8,980.5	9,033.8
Shareholders' funds	39,078.0	40,415.0	41,294.9	42,229.6	43,309.3
Minority interests	655.0	1,659.0	1,716.2	1,776.9	1,847.1
BV/share (RM)	4.41	4.56	4.66	4.76	4.88

Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	6,876.0	2,110.0	2,179.8	2,315.7	2,674.9
Depreciation/Amortisation	1,794.0	1,978.0	2,030.1	2,250.4	2,272.9
Net change in working capital	(542.0)	1,636.0	(2,871.3)	(214.9)	(62.5)
Others	348.2	399.8	430.7	431.7	432.7
Cash flow from operations	7,905.2	5,670.8	1,344.6	4,333.0	4,809.1
Capital expenditure	(6,812.0)	(4,202.0)	(2,200.0)	(2,200.0)	(2,200.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(6,812.0)	(4,202.0)	(2,200.0)	(2,200.0)	(2,200.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(3,280.0)	(1,040.0)	(915.8)	(972.9)	(1,123.8)
Others	(3,280.0)	(1,040.0)	(915.8)	(972.9)	(1,123.8)
Cash flow from financing	(2,186.8)	428.8	(1,771.2)	1,160.1	1,485.3
Net cash flow	13,853.2	11,666.4	12,095.2	10,324.0	11,484.1
Net cash/(debt) b/f	11,666.4	12,095.2	10,324.0	11,484.1	12,969.4
Net cash/(debt) c/f	6,876.0	2,110.0	2,179.8	2,315.7	2,674.9

Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	140.8	(1.0)	1.2	10.1	3.6
EBITDA growth (%)	(1.3)	(51.0)	(1.4)	13.6	5.3
Pretax margin (%)	23.7	7.4	7.5	7.3	8.1
Net profit margin (%)	22.3	5.9	6.2	6.0	6.7
Interest cover (x)	105.2	16.2	(55.1)	15.1	82.9
Effective tax rate (%)	5.9	17.1	15.0	15.0	15.0
Dividend payout (%)	51	61	51	51	51
Debtors turnover (days)	55	55	55	55	55
Stock turnover (days)	35	35	35	35	35
Creditors turnover (days)	75	75	75	75	75

Source: Company, AmInvestment Bank Bhd estimates

OIL & GAS

PETRONAS GAS

(PTG MK EQUITY, PGAS.KL)

06 Dec 2024

AmInvestment Bank

Company Report

Dividend yields a snore at current levels vs. KLCI

HOLD

(Downgraded)

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0199965475

Rationale for report: Company Update

Price	**RM17.86**
Fair Value	**RM18.60**
52-week High/Low	RM18.80/RM16.60

Key Changes

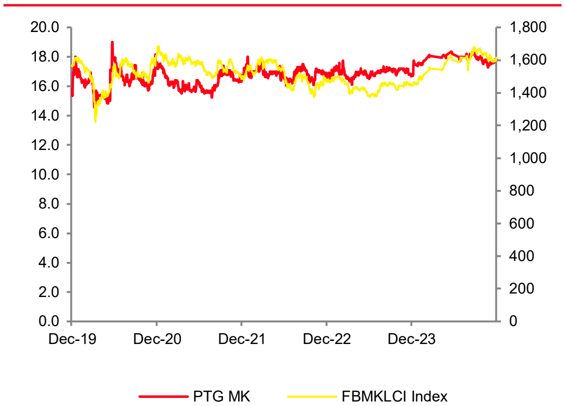
Fair value	⬇
EPS	⬄

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	6,445.4	5,633.6	5,817.1	5,865.3
Core net profit (RM mil)	1,841.6	1,805.3	1,896.3	1,892.5
FD Core EPS (sen)	93.1	91.2	95.8	95.6
FD Core EPS growth (%)	7.5	(2.0)	5.0	(0.2)
Consensus Net Profit (RM mil)	-	1,885.8	1,936.4	1,989.9
DPS (sen)	92.0	73.0	77.1	77.3
PE (x)	19.2	19.6	18.6	18.7
EV/EBITDA (x)	10.8	10.3	9.8	9.5
Div yield (%)	5.5	4.1	4.4	4.4
ROE (%)	13.6	13.3	14.0	14.0
Net Gearing (%)	0.9	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,978.7
Market Cap (RMmil)	35,340.2
Book Value (RM/Share)	6.85
P/BV (x)	2.6
ROE (%)	13.6
Net Gearing (%)	0.9
Major Shareholders	Petronas (51.0%) EPF (14.3%) KWAP (10.0%)
Free Float	24.7
Avg Daily Value (RMmil)	12.1

Price performance	3mth	6mth	12mth
Absolute (%)	(1.9)	(2.0)	6.9
Relative (%)	1.5	(1.9)	(3.9)



Investment Highlights

We downgrade Petronas Gas (PetGas) to HOLD (from BUY previously). The Group's dividend yields appear unexciting at this current juncture, with limited prospects for growth as earnings are capped. Though we do like its long-term fundamentals with expectations of eventual demand growth for liquefied natural gas (LNG) due to the phase-out of coal-power plants and rising electricity usage, valuations appear full at current PE of 18.8x. We revise our sum-of-parts (SOP) derived target price (TP) to RM18.60/share (from RM19.96/share previously). This implies a CY26 PE of 19.5x, which comes close to +1.5SD to its 20-year average.

- **Valuation appears full at this juncture.** PetGas currently trades at a PE valuation of 18.8x, which we think is fair given its value proposition as a dividend play with stable earnings. We revise our SOP-derived TP downwards to RM18.60/share (from RM19.96) as we roll forward our valuations for the group's operating cashflows to CY26 and update the WACC and terminal growth rate assumptions to 7.7% and 1% respectively (vs 8% and 2% prior). Our TP implies a CY26 PE of 19.5x which presents limited upside to current valuations.

- **Regulated businesses to remain stable, with growth prospects years away.** We expect the group's regulated business to remain stable as earnings are close to its allowable limit. We think credible prospects lies with its periodic change to regulatory rates. Aside, we do not see new regasification requirements until 4-5 years away.

- **The right dividend play, still?** At current price, we think dividend yields of 4% do not appeal to investors as it lags the KLCI index's 4.2%. We do not think there is space for a higher payout as the group is already issuing at levels of 72% vs its stated policy of 50%. Additionally, we do not expect special dividends in the coming years given risks to Petronas's earnings from the Sarawak-Petros Sole Gas Aggregator issue which may lead to lower dividend requirements from the former in the future.

Company profile

Incorporated in 1983, Petronas Gas Bhd (PetGas) is Petronas's domestic gas arm. The Group is primarily involved in the processing, transportation, and storage of natural gas to ensure the supply and distribution of natural gas to various industries in Malaysia. PetGas's comprehensive infrastructure includes gas processing plants, a network of pipelines, and storage facilities.

Held by Petronas through a 51% effective-stake, PetGas was listed on Bursa Malaysia in 2003.

Investment thesis and catalysts

Dividend yield unexciting at current juncture. PetGas' CY26 dividend yield of 4% remain unattractive as it lags KLCI's Index of 4.2%. We do not think there will be special dividends in the coming years due to risks of lower Petronas's earnings from the Sarawak-Petros Sole Gas Aggregator issue. Consequently, this will lead to lower Petronas' dividend payout in the future.

Limited growth opportunities due to constraints in expanding it regulated utility segments which are bound by fixed tariffs under Malaysia's Third-Party Access (TPA Framework). In addition, lack of visibility over major new projects further cap growth prospects. Nevertheless, in the long term, the business remains resilient from eventual demand growth for liquefied natural gas (LNG) due to the phase-out of coal-power plants and rising electricity usage.

Valuation methodology

We value PetGas using sum-of-parts (SOP) with target price of RM18.60/share. This implies CY26 PE of 19.5x, which comes close to +1.5SD to its 20-year average.

Risk factors

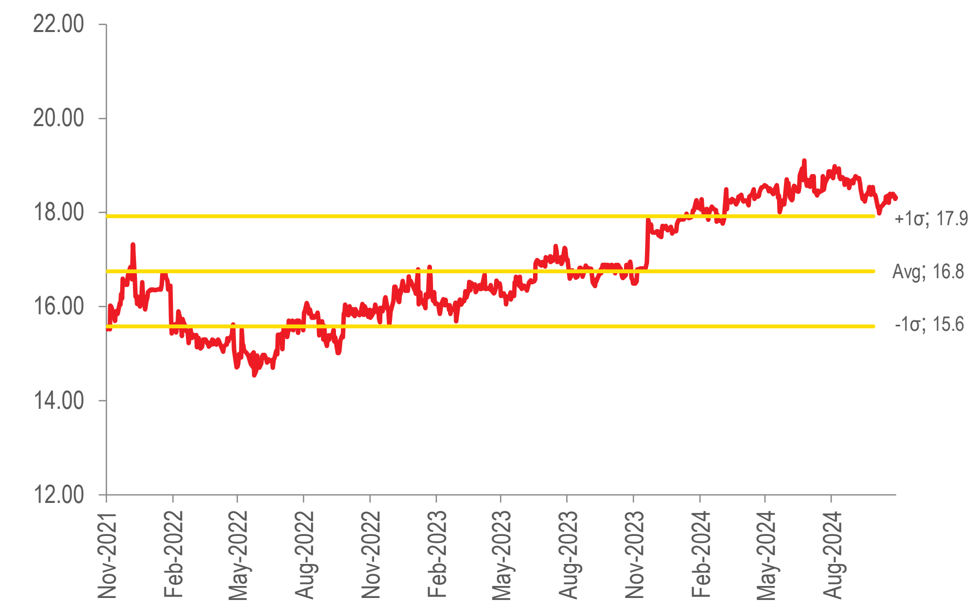
i) Subdued domestic gas demand.

ii) Lower-than-expected electricity demand due to fast adoption of renewable energy.

EXHIBIT 1: VALUATIONS

	Equity Stake (%)	Methodology	RMmil	%
Present value of PGas' operating cash flows	100	DCF at WCC of 7.7% and terminal growth rate of 1%	35,653	96.8
Gas Malaysia	15	Market price of RM4.35/share	838	2.3
300MW Kimanis power plant	60	Project IRR at 9%, Ke of 9%, 80:20 debt:equity	168	0.5
Net debt as at 31 Dec 2022			191	0.5
Total sum-of-parts (SOP)			**36,849**	**100.0**
No of shares			1,979	
SOP value (RM/share)			18.62	
ESG premium (%)			-	
ESG-adjusted SOP value (RM/share)			**18.62**	
Implied CY26F PE (x)			19.5	

EXHIBIT 2: 3-YEAR FORWARD PE



Source: Bloomberg

EXHIBIT 3: ESG SCORE

	Environmental assessment	Parameters	Weightage	Rating	Rationale
	Environmental Assessment				
1	Water usage	Megalitres (ml) used	25%	* * *	+3% YoY to 4.1k ml
2	Energy usage	Renewable energy consumption (mWh)	25%	* * * * *	17.7x to 1086 mWh
3	Minimise waste generation	Recycled waste (tonnes)	25%	* * * *	+10% to 74 tonnes
4	Greenhouse Gas (GHG) emissions	tCO2e emitted/	25%	* *	n/a
	Weighted score for environmental assessment		***100%***	* * *	
	Social Assessment				
1	Health, safety & well-being	Loss time injury (LTI)	25%	* * * *	1 hr in FY23
2	Women in workforce	% of total workforce	25%	* *	12% of workforce
3	Investment in employee training	Average hours of training per employee	25%	* * * * *	60% increase to 105 hours
4	CSR programmes	Investment in RM	25%	* * * *	RM5.2mil
	Weighted score for social assessment		***100%***	* * * *	
	Governance Assessment				
1	Board age diversity	% under 60 years old	20%	* * * *	75%
2	Board women representation	% of total board directors	20%	* * *	38% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	* * * * *	100% representation
4	Independent board directors	% of total board directors	20%	* * *	50% independent non-exec
5	Remuneration to directors	% of total staff costs	20%	* * *	RM3.4mil, <1% staff costs
	Weighted score for governance assessment		***100%***	* * *	
	Environmental score		40%	* * *	
	Social score		30%	* * * *	
	Governance score		30%	* * *	
	Overall ESG Score		***100%***	* * *	

Source:AmInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Revenue	6,160.2	6,445.4	5,633.6	5,817.1	5,865.3
EBITDA	3,303.1	3,287.9	3,417.5	3,570.8	3,649.6
Depreciation/Amortisation	(1,035.5)	(1,141.4)	(1,124.4)	(1,159.4)	(1,194.4)
Operating income (EBIT)	2,267.5	2,146.5	2,293.1	2,411.4	2,455.3
Other income & associates	127.7	239.1	182.1	193.6	138.9
Net interest	(58.2)	22.5	(106.3)	(94.4)	(88.1)
Exceptional items	(67.7)	(22.0)	-	-	-
Pretax profit	**2,269.4**	**2,386.0**	**2,368.9**	**2,510.5**	**2,506.1**
Taxation	(510.9)	(485.0)	(473.8)	(502.1)	(501.2)
Minorities/pref dividends	(113.0)	(81.4)	(89.8)	(112.2)	(112.3)
Net profit	**1,645.4**	**1,819.6**	**1,805.3**	**1,896.3**	**1,892.5**
Core net profit	1,713.1	1,841.6	1,805.3	1,896.3	1,892.5

Balance Sheet (RMmil, YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Fixed assets	13,408.4	13,630.5	13,506.1	13,346.7	13,152.4
Intangible assets	-	-	-	-	-
Other long-term assets	1,200.2	1,175.6	1,365.5	1,567.2	1,714.7
Total non-current assets	**14,608.7**	**14,806.1**	**14,871.6**	**14,913.9**	**14,867.0**
Cash & equivalent	4,026.2	3,027.9	3,140.9	3,191.8	3,377.8
Stock	42.6	38.7	55.7	57.5	57.9
Trade debtors	990.0	926.6	879.3	907.9	915.4
Other current assets	20.9	520.0	520.0	520.0	520.0
Total current assets	**5,079.7**	**4,513.2**	**4,595.8**	**4,677.1**	**4,871.1**
Trade creditors	1,203.6	1,097.4	1,242.5	1,283.0	1,293.6
Short-term borrowings	172.9	1,293.3	1,422.6	1,564.9	1,721.4
Other current liabilities	-	-	-	-	-
Total current liabilities	**1,376.5**	**2,390.7**	**2,665.1**	**2,847.9**	**3,015.0**
Long-term borrowings	3,662.8	1,859.2	1,580.3	1,343.3	1,141.8
Other long-term liabilities	1,239.2	1,254.3	1,317.0	1,382.8	1,452.0
Total long-term liabilities	**4,902.1**	**3,113.5**	**2,897.3**	**2,726.1**	**2,593.8**
Shareholders' funds	**13,148.1**	**13,555.1**	**13,555.1**	**13,555.1**	**13,555.1**
Minority interests	261.8	260.1	349.9	462.0	574.4
BV/share (RM)	6.64	6.85	6.85	6.85	6.85

Cash Flow (RMmil, YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Pretax profit	2,269.4	2,386.0	2,368.9	2,510.5	2,506.1
Depreciation/Amortisation	1,035.5	1,141.4	1,124.4	1,159.4	1,194.4
Net change in working capital	(20.9)	(38.9)	175.5	10.0	2.6
Others	(357.7)	(483.4)	(563.2)	(598.3)	(540.7)
Cash flow from operations	**2,926.3**	**3,005.1**	**3,105.5**	**3,081.7**	**3,162.4**
Capital expenditure	(1,000.0)	(1,000.0)	(1,250.0)	(1,200.0)	(1,200.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	**(1,000.0)**	**(1,000.0)**	**(1,250.0)**	**(1,200.0)**	**(1,200.0)**
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,713.1)	(1,841.6)	(1,805.3)	(1,896.3)	(1,892.5)
Others	-	-	-	-	-
Cash flow from financing	**(1,713.1)**	**(1,841.6)**	**(1,805.3)**	**(1,896.3)**	**(1,892.5)**
Net cash flow	**213.1**	**163.4**	**50.2**	**(14.6)**	**69.9**
Net cash/(debt) b/f	**433.1**	**646.2**	**809.7**	**859.8**	**845.2**
Net cash/(debt) c/f	**646.2**	**809.7**	**859.8**	**845.2**	**915.1**

Key Ratios (YE 31 Dec)	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Revenue growth (%)	9.1	4.6	(12.6)	3.3	0.8
EBITDA growth (%)	(8.2)	(0.5)	3.9	4.5	2.2
Pretax margin (%)	36.8	37.0	42.0	43.2	42.7
Net profit margin (%)	26.7	28.2	32.0	32.6	32.3
Interest cover (x)	39.0	nm	21.6	25.5	27.9
Effective tax rate (%)	22.5	20.3	20.0	20.0	20.0
Dividend payout (%)	86.6	78.3	80.0	80.0	80.0
Debtors turnover (days)	56	54	59	56	57
Stock turnover (days)	3	2	3	4	4
Creditors turnover (days)	67	65	76	79	80

Source: Company, AmInvestment Bank Bhd estimates

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