



# DELEUM

(DLUM MK EQUITY, DLEU.KL)

7 Sep 2022

*Riding on robust oil and gas prospects*

**BUY**

(Maintained)

AmInvestment Bank

Team Coverage

03-2036 2290

**Rationale for report: Company update**

Price **RM0.81**  
Fair Value **RM1.02**  
52-week High/Low **RM0.83/RM0.45**

### Key Changes

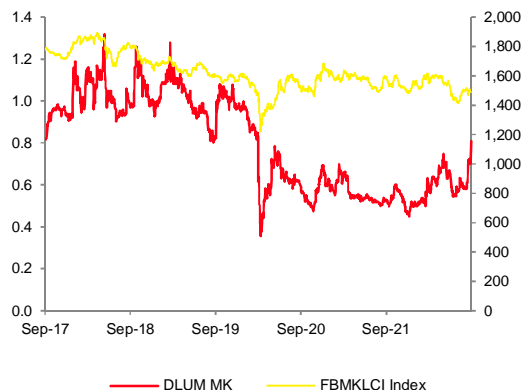
Fair value **⬆️**  
EPS **⬆️**

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	558.4	583.2	612.3	642.9
Core net profit (RM mil)	26.2	35.2	38.6	41.2
FD Core EPS (sen)	6.5	8.8	9.6	10.3
FD Core EPS growth (%)	(37.8)	34.4	9.5	6.8
Consensus Net Profit (RM mil)	-	34.1	36.8	40.9
DPS (sen)	2.2	4.4	4.8	5.1
PE (x)	12.4	9.2	8.4	7.9
EV/EBITDA (x)	2.4	1.8	1.5	1.2
Div yield (%)	2.7	5.4	5.9	6.3
ROE (%)	4.8	9.6	10.0	10.2
Net Gearing (%)	nm	nm	nm	nm

### Stock and Financial Data

Shares Outstanding (million)	401.6
Market Cap (RM mil)	325.3
Book Value (RM/share)	0.89
P/BV (x)	0.9
ROE (%)	4.8
Net Gearing (%)	-
Major Shareholders	Lantas Mutiara (20.4%) Hartapac (12.0%) Datuk Vivekananthan (10.8%)
Free Float	40.0
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	20.9	32.8	54.3
Relative (%)	24.9	43.1	64.0



### Investment Highlights

- We maintain BUY on Deleum with a higher fair value of RM1.02/share (from RM0.90/share previously), pegged to a rolled-forward FY23F PE of 11x. We also attach a 3% discount to our ESG rating of 2 stars given that one of its core operations remains blacklisted from Petronas' tenders. Our valuation multiple is based on the average Malaysian oil & gas operators' CY23F PE.
- We raise FY22–24F forecasts by 10–17% on higher profit margin assumptions following an analyst briefing yesterday. Here are the key takeaways:
  - In the power and machinery (P&M) segment, while Deleum recorded a 1HFY22 decline of 15% YoY in sales of gas turbine packages and after-sales support and services (which accounted for 48% of group revenue) to RM110mil, management remains optimistic on the long-term outlook given the necessity for periodic maintenance to ensure efficient performance of gas turbines.
  - Management further highlighted that despite the considerable potential orders for maintenance services from clients, it could not book in job awards due to delays in finalising contractual terms. The number of gas turbines operating in Malaysia is estimated to be 250–300 units, which implies robust demand for recurring maintenance services for these turbines.
  - The group's slickline operations, accounting for 26% of 1HFY22 group revenue, remained busy with a commendable utilisation rate of above 80%, underpinning the strong revenue growth as well as the turnaround of the oilfield services division in 2QFY22. Also, recall that the group owns more than 50 units of slickline equipment and is well-known as the largest service provider in Malaysia's slickline subsector with more than 50% market share.
  - Given the elevated activity level on the back of higher oil prices, Deleum is cautiously exploring opportunities to further strengthen its market leadership in the slickline subsector. To facilitate the expansion plan, we gather that the group is planning to spend a significant amount of capex on purchasing new equipment as well as upgrading obsolete assets.
  - As at end-2QFY22, the outstanding order book was relatively stable at RM355mil and tenders at RM507mil. Over the short-to-medium term, the group foresees elevated oil & gas activities alongside higher investment expenditure from Petronas to further spur its job replenishment rate.

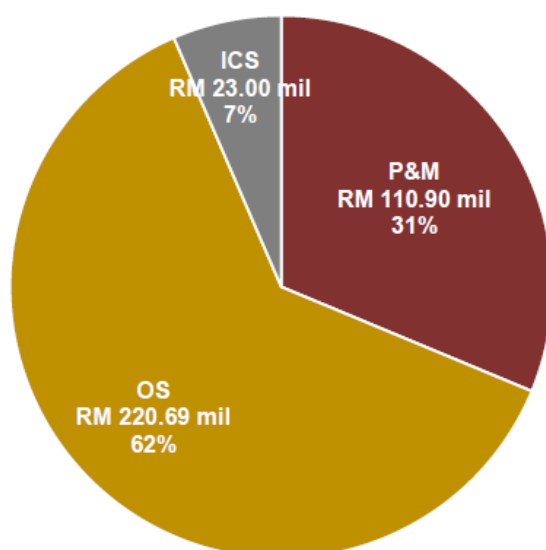
- While the P&M segment's current order and tender books mostly comprise short-term maintenance jobs, the group is in talks with clients to secure long-term services agreement with contract period of at least 2 years which would substantially boost earnings visibility.
- As for the integrated corrosion solutions division, which was impacted by Petronas' suspension of licence to participate in tenders since March 2021, the group reaffirms that all necessary initiatives have been put in place and is confident of receiving positive responses from Petronas over the coming quarters.
- Deleum's 2QFY22 net cash balance of RM188mil already represents 58% of its current market cap. Based on the group's earnings trajectory, we estimate that its cash balance will almost rival its current market cap by end-FY24F.
- Deleum is currently trading at an unjustified FY23F PE of 8.4x, 24% below the sector average of 11x. Stripping out the group's net cash from the market cap, the stock trades at a bargain FY23F PE of only 4x while offering a compelling dividend yield of 5.4%.

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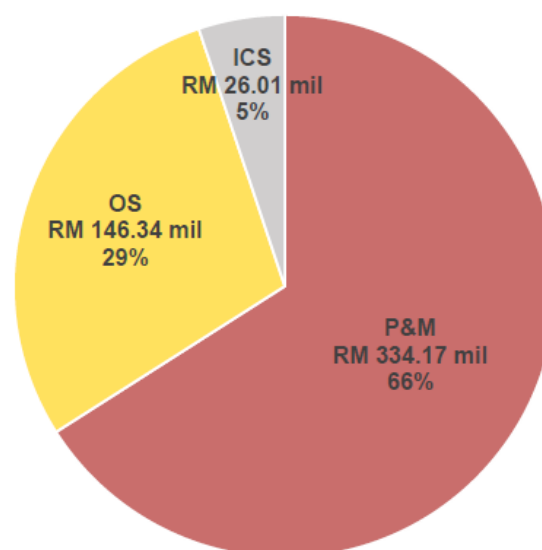
### EXHIBIT 1: BREAKDOWN OF ORDER BOOK AND TENDER BOOK

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Order book totaling RM354.59 million  
as at 30 June 2022



Tender book totaling RM506.53 million  
as at 30 June 2022



ICS = Integrated Corrosion Solution  
P&M = Power & Machinery  
OS = Oilfield Services

Source: Company presentation

**EXHIBIT 2: PB BAND CHART**



**EXHIBIT 3: PE BAND CHART**



**EXHIBIT 4: ESG MATRIX**

<b>Overall</b>	★	★			
Zero-carbon initiatives	★	★	★		
Health & Safety Compliance	★	★	★		
Shareholder accountability	★	★			
Social responsibility	★	★			
Pollution control	★	★	★		
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★			
Accessibility & transparency	★				

*We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star.*

Source: AmInvestment Bank

## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	587.4	558.4	583.2	612.3	642.9
EBITDA	93.5	66.7	78.7	83.0	86.4
Depreciation/Amortisation	(37.1)	(35.4)	(35.9)	(36.3)	(36.7)
Operating income (EBIT)	56.4	31.3	42.8	46.7	49.7
Other income & associates	5.5	7.0	7.3	7.7	8.1
Net interest	0.1	1.1	1.4	1.6	1.9
<b>Exceptional items</b>	<b>(34.7)</b>	<b>(9.1)</b>	-	-	-
Pretax profit	27.3	30.2	51.5	56.0	59.7
Taxation	(12.0)	(6.5)	(9.3)	(10.1)	(10.7)
<b>Minorities/pref dividends</b>	<b>(7.9)</b>	<b>(6.7)</b>	<b>(7.0)</b>	<b>(7.4)</b>	<b>(7.8)</b>
Net profit	7.4	17.1	35.2	38.6	41.2
Core net profit	42.1	26.2	35.2	38.6	41.2
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Fixed assets	154.3	134.5	135.9	137.2	138.6
Intangible assets	0.3	0.3	0.3	0.3	0.2
<b>Other long-term assets</b>	<b>67.5</b>	<b>61.1</b>	<b>66.4</b>	<b>72.0</b>	<b>77.8</b>
Total non-current assets	222.1	195.9	202.6	209.5	216.6
Cash & equivalent	219.6	192.7	215.2	234.1	254.4
Stock	30.4	32.0	33.2	34.9	36.6
Trade debtors	158.7	164.6	169.1	177.6	186.5
<b>Other current assets</b>	<b>17.7</b>	<b>23.7</b>	<b>24.2</b>	<b>24.7</b>	<b>25.2</b>
Total current assets	426.4	413.0	441.7	471.3	502.7
Trade creditors	173.2	148.5	157.5	165.3	173.6
Short-term borrowings	55.7	25.9	26.4	26.9	27.5
<b>Other current liabilities</b>	<b>7.7</b>	<b>36.2</b>	<b>36.7</b>	<b>37.2</b>	<b>37.7</b>
Total current liabilities	236.6	210.6	220.5	229.4	238.7
Long-term borrowings	22.7	4.4	4.4	4.5	4.6
<b>Other long-term liabilities</b>	<b>18.8</b>	<b>15.2</b>	<b>15.9</b>	<b>16.7</b>	<b>17.6</b>
<b>Total long-term liabilities</b>	<b>41.5</b>	<b>19.6</b>	<b>20.4</b>	<b>21.3</b>	<b>22.2</b>
Shareholders' funds	349.1	358.3	375.9	395.1	415.7
Minority interests	21.2	20.5	27.6	34.9	42.7
BV/share (RM)	0.87	0.89	0.94	0.98	1.04
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Pretax profit	27.3	30.2	51.5	56.0	59.7
Depreciation/Amortisation	37.1	35.4	35.9	36.3	36.7
Net change in working capital	52.0	(2.4)	3.6	(1.8)	(1.9)
<b>Others</b>	<b>(67.7)</b>	<b>34.9</b>	<b>(55.5)</b>	<b>4.9</b>	<b>(2.3)</b>
Cash flow from operations	48.7	98.1	35.6	95.5	92.2
Capital expenditure	(8.6)	(15.6)	(37.3)	(37.6)	(38.0)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	-	-	-	-	-
Cash flow from investing	(8.6)	(15.6)	(37.3)	(37.6)	(38.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(4.0)	(8.8)	(17.6)	(19.3)	(20.6)
<b>Others</b>	<b>(3.0)</b>	<b>3.0</b>	<b>(1.7)</b>	<b>(1.7)</b>	<b>(1.6)</b>
<b>Cash flow from financing</b>	<b>(7.0)</b>	<b>(5.8)</b>	<b>(19.4)</b>	<b>(20.9)</b>	<b>(22.2)</b>
<b>Net cash flow</b>	<b>33.1</b>	<b>76.6</b>	<b>(21.0)</b>	<b>36.9</b>	<b>32.0</b>
<b>Net cash/(debt) b/f</b>	<b>147.1</b>	<b>180.3</b>	<b>256.9</b>	<b>235.8</b>	<b>272.7</b>
Net cash/(debt) c/f	180.3	256.9	235.8	272.7	304.7
<b>Key Ratios (YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Revenue growth (%)	(32.3)	(4.9)	4.4	5.0	5.0
EBITDA growth (%)	11.5	(28.7)	18.1	5.4	4.1
Pretax margin (%)	4.7	5.4	8.8	9.2	9.3
Net profit margin (%)	1.3	3.1	6.0	6.3	6.4
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	43.8	21.4	18.0	18.0	18.0
Dividend payout (%)	54.1	51.8	50.0	50.0	50.0
Debtors turnover (days)	132	106	104	103	103
Stock turnover (days)	23	20	20	20	20
Creditors turnover (days)	131	105	96	96	96

Source: Company, AmInvestment Bank Bhd estimates

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