

**HLIB Research**

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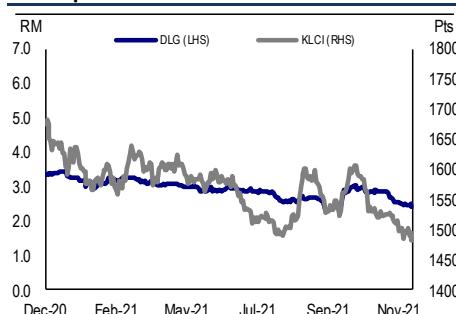
BUY (Maintain)

Target Price:	RM3.38
Previously:	RM3.38
Current Price:	RM2.43

Capital upside	39.0%
Dividend yield	1.5%
Expected total return	40.5%

Sector coverage: Oil & Gas

Company description: Dialog offers EPCC, fabrication, plant maintenance, catalyst handling services and owns tank terminals and upstream assets.

Share price

Historical return (%)	1M	3M	12M
Absolute	18.7	31.4	2.1
Relative	-13.6	-2.3	-18.0

Stock information

Bloomberg ticker	DLG MK
Bursa code	7277
Issued shares (m)	5,642
Market capitalisation (RM m)	13,711
3-mth average volume ('000)	8,744
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★★

Major shareholders

EPF	12.8%
KWAP	9.4%
Wide Synergy Sdn Bhd	7.7%

Earnings summary

FYE (June)	FY21	FY22f	FY23f
PATMI - core (RM m)	513.0	580.1	688.5
EPS - core (sen)	8.3	9.4	11.1
P/E (x)	27.7	26.0	21.9

Dialog Group

Bags RM360m EPCC job win from PetGas

Dialog has secured a RM360m job for the provision of engineering, procurement, construction and commissioning (EPCC) of a new booster compressor station with associated equipment and facilities at Mengkibol, Kluang, Johor, with a construction period of about 26 to 28 months, ending 1QCY24. We are slightly positive on this development as we expect it to be earnings accretive, of about ~RM36.0m billed over a period of 28 months, based on our assumption of a 10% net margin. This would enhance Dialog's FY22-24F earnings by 2% annually (RM12m each year), based on our earnings forecast – which is somewhat negligible. At this juncture, we make no changes to our estimates and maintain BUY with an unchanged TP of RM3.38.

NEWSBREAK

Dialog announced that it has secured a RM360m EPCC job of a new booster compressor station with associated equipment and facilities at Mengkibol, Kluang, Johor. The scope includes some modification scope for the existing compressors at Segamat Compressor Station and modification to the existing facilities. The project duration is expected to be about 26-28 months, ending 1QCY24.

HLIB's VIEW

Key highlights. We note a few key salient points, as below:

- (1) The client for this project is Petronas Gas (BUY, TP: RM19.00).
- (2) Dialog does not own this project and will only provide EPCC service for this job.
- (3) We expect the job to be earnings accretive of about ~RM36.0m billed over a period of 28 months. This is based on our assumption of a 10% net profit margin. It would then enhance Dialog's FY22-23F earnings by c.2% annually (RM12m each year), based on our earnings forecast, which is somewhat negligible.
- (4) With that, we are only slightly positive on this development.

Outlook. Dialog will continue to be one of the key beneficiaries of Pengerang's development due to its exposure in tank terminals, EPCC and maintenance services. In addition to Dialog's Terminals Langsat 1 and 2 with a total capacity of 650,000 m³, Langsat 3 has commenced full operations for its 120,000 m³ storage facility in Jan 2020. The construction works of the 430,000m³ storage capacity under Phase 3A of Pengerang Deepwater Terminals (PDT) was completed in March 2021 whilst, the 85,000m³ capacity expansion of Langsat 3 is slated for full completion by the end of CY21. With the imminent ease of international travel restrictions in CY22, we see Dialog as a beneficiary as PDT will be able to welcome foreign clients and investors, potentially boosting Dialog's downstream EPCC and midstream take-or-pay tank terminals business.

Forecast. We maintain our earnings estimates.

Maintain BUY, unchanged TP of RM3.38. Our TP of RM3.38 implies an attractive 39% upside to current share price. Valuation wise, Dialog is currently trading at FY23F P/E of 22x, which is at about 30% discount to its pre-pandemic mean of 32x in 2019. We continue to like Dialog for its recurring income type of business model and we deem it as one of the only listed secular growth stock in the local oil and gas space.

Figure #1 SOP valuation matrix

Components	Equity value (RMm)	RM/Share	Basis
Core Business	4069.1	0.66	12x FY21 P/E
Kertih Centralised Tankage Facilities (30% stake)	241.5	0.04	DCF with WACC of 5.3%
Langsat Terminal 1, 2 &3 (100% stake)	2585.9	0.42	DCF with WACC of 5.3%
Pengerang Phase 1 - Pengerang Deepwater Terminal (46%)	1981.6	0.32	DCF with WACC of 5.3%
Pengerang Phase 2 - Pengerang Terminals 2 (25% stake)	3779.8	0.61	DCF with WACC of 5.3%
Pengerang LNG Facilities (25% stake)	3779.8	0.61	DCF with WACC of 5.3%
Pengerang Phase 3 (expected value of equity stake 25%-49%)	3985.0	0.64	DCF with WACC of 5.3%
Bayan field	831.3	0.13	DCF with WACC of 5.3%
ESOS	174.8	0.03	Assuming conversion price of RM2.79
FY21 Net Cash/Debt	-482.3	-0.08	
Total	20946.6	3.38	
No of Shares	6202.1		
Target Price	3.38		

Company

Financial Forecast

All items in (RM m)

Balance Sheet

FYE Jun	FY20	FY21	FY22f	FY23f	FY24f
Cash	1,240.4	1,453.4	1,798.6	1,915.5	2,072.3
Receivables	1,147.0	460.8	769.9	792.4	813.8
Inventories	84.7	66.2	89.8	92.4	94.9
PPE	2,025.9	2,759.5	2,602.2	2,878.0	3,126.9
Others	2,692.0	3,237.4	3,215.0	3,638.5	4,055.6
Assets	7,190.0	7,977.2	8,475.4	9,316.9	10,163.6
Payables	930.8	747.5	809.1	832.7	855.2
Debt	1,911.1	1,935.6	2,571.1	2,901.1	3,231.1
Others	104.3	95.2	90.2	90.5	90.7
Liabilities	2,946.3	2,778.3	3,470.4	3,824.3	4,177.1
Shareholder's equity	4,132.1	5,096.6	4,878.0	5,346.2	5,820.5
Minority interest	111.6	102.3	127.0	146.3	166.0
Equity	4,243.8	5,198.9	5,005.0	5,492.5	5,986.5

Cash Flow Statement

FYE Jun	FY20	FY21	FY22f	FY23f	FY24f
Profit before tax	747.3	594.7	718.6	852.8	864.1
D&A	192.8	226.7	197.1	224.1	251.1
Working capital	(36.7)	(94.5)	(15.4)	(1.4)	(1.4)
Taxation	(99.2)	(51.9)	(122.2)	(145.0)	(146.9)
Others	42.3	(160.7)	(299.4)	(421.4)	(415.1)
CFO	846.6	514.2	478.8	509.1	551.8
Capex	(647.3)	(811.6)	(500.0)	(500.0)	(500.0)
Others	205.3	223.5	(21.3)	(2.0)	(1.9)
CFI	(442.0)	(588.1)	(521.3)	(502.0)	(501.9)
Changes in debt	236.8	35.5	330.0	330.0	330.0
Shares issued	-	-	-	-	-
Dividends	(192.3)	(174.9)	(185.6)	(220.3)	(223.2)
Others	(101.8)	462.0	1.3	0.1	0.1
CFF	(57.3)	322.6	145.7	109.8	106.9
Net cash flow	347.3	248.7	103.2	116.9	156.8
Forex	(0.3)	3.1	-	-	-
Others	-	-	-	-	-
Beginning cash	884.4	1,201.4	1,453.4	1,798.6	1,915.5
Ending cash	1,240.4	1,453.4	1,798.6	1,915.5	2,072.3

Income Statement

FYE Jun	FY20	FY21	FY22f	FY23f	FY24f
Revenue	2,303.4	1,609.9	2,341.7	2,410.2	2,475.2
EBITDA	650.7	505.8	625.2	669.6	724.0
EBIT	457.9	279.1	428.1	445.4	472.9
Finance cost	(54.6)	(26.4)	(77.1)	(87.0)	(96.9)
Associates & JV	242.0	227.4	294.1	420.9	414.7
Profit before tax	747.3	594.7	718.6	852.8	864.1
Tax	(99.2)	(51.9)	(122.2)	(145.0)	(146.9)
Net profit	648.1	542.7	596.4	707.8	717.2
Minority interest	(17.7)	1.0	(16.3)	(19.4)	(19.6)
Core PATMI	598.6	513.0	580.1	688.5	697.6
Exceptionals	(31.7)	(30.7)	-	-	-
Reported PATMI	630.4	543.7	580.1	688.5	697.6
Consensus core PATMI			597.6	665.4	687.1
HLIB/ Consensus			97%	103%	102%

Valuation & Ratios

FYE Jun	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	10.2	8.8	9.4	11.1	11.2
P/E (x)	23.9	27.7	26.0	21.9	21.6
EV/EBITDA (x)	24.2	30.8	25.3	24.0	22.4
DPS (sen)	3.1	3.1	3.0	3.6	3.6
Dividend yield	1.3	1.3	1.2	1.5	1.5
BVPS (RM)	0.68	0.74	0.81	0.89	0.97
P/B (x)	3.6	3.3	3.0	2.7	2.5
EBITDA margin	28.2	31.4	26.7	27.8	29.2
EBIT margin	19.9	17.3	18.3	18.5	19.1
PBT margin	32.4	36.9	30.7	35.4	34.9
Net margin	26.0	31.9	24.8	28.6	28.2
ROE	14.5	10.1	11.9	12.9	12.0
ROA	8.3	6.4	6.8	7.4	6.9
Net gearing	16.2	9.5	15.8	18.4	19.9
Assumptions					
FYE Jun	FY20	FY21	FY22f	FY23f	FY24f
Growth (%)					
Sales Growth	(3.5)	(30.1)	45.5	2.9	2.7
EBITDA Growth	11.5	(22.3)	23.6	7.1	8.1
EBIT Growth	0.6	(39.0)	53.4	4.0	6.2
PBT Growth	14.4	(20.4)	20.8	18.7	1.3
Core PATMI Growth	12.0	(14.3)	13.1	18.7	1.3

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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