

22 November 2017 | 1QFY18 Results Review

Dialog Group Berhad

Focus on tank farms

INVESTMENT HIGHLIGHTS

- Dialog Group Bhd's 1QFY18 reported earnings expanded by nearly 100% to RM160.9m
- Fair value gain on acquisition of RM65.6m recorded
- Normalised profit of RM89.8m expanded by +10.5%yoy
- Tank farm business expanded by +8.1%yoy to RM27.1m
- Maintain NEUTRAL (upside bias) with unchanged TP of RM2.16 per share

Steady earnings growth. Dialog reported profit in excess of RM160m, representing growth of nearly 100% largely due to fair value gain recorded on acquisition of the 45% equity interest in Centralised Terminals Sdn Bhd from MISC Bhd. The fair value gain recorded totalled RM65.6m. Excluding the fair value gain on acquisition and on disposal of PPE, Dialog's normalised earnings is RM89.9m, representing growth of +10.5%yoy. 3MFY18 earnings came in within expectations, accounting for 20.3% and 22.3% of our and consenses full year FY18 earnings estimates respectively.

Malaysian operations on solid footing. Over 90% of the group's earnings is contributed by the Malaysian operations. Local revenue expanded by 24.4%yoy, mainly from the E&C and plant maintenance divisions. Despite this, its upstream activities remain sluggish.

Tank farm business expanding. Earnings from its tank farm business expanded by +8.1%yoy to RM27.1m as good take-ups were recorded from the group's operations in Pengerang, Tanjung Langsat and Kertih.

Focus on tank farms moving forward. Dialog's strategy is clear – immediate to long-term focus on tank farms. Pengerang Deepwater Terminal Phase 1 is being expanded by 430,000m³ while construction of Phase 2 is on schedule. The company also indicated that new potential partners are being secured for Phase 3.

Maintain NEUTRAL


Unchanged Target Price (TP): RM2.16

RETURN STATS

Price (21 November 2017)	RM2.30
Target Price	RM2.16
Expected Share Price Return	+6.1%
Expected Dividend Yield	+1.6%
Expected Total Return	+7.7%

STOCK INFO

KLCI	1,720.68
Bursa / Bloomberg	7277 / DLG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,630.8
Market cap. (RM'm)	12,968.1
Price over NA	4.2x
52-wk price Range	RM1.50 – RM2.41
Beta (against KLCI)	0.93
3-mth Avg Daily Vol	15.3m
3-mth Avg Daily Value	RM32.7m
Major Shareholders (%)	
Ngau Boon Keat	20.37
Employees Provident Fund	11.47
Azam Utama	8.20
Wide Synergy	7.57

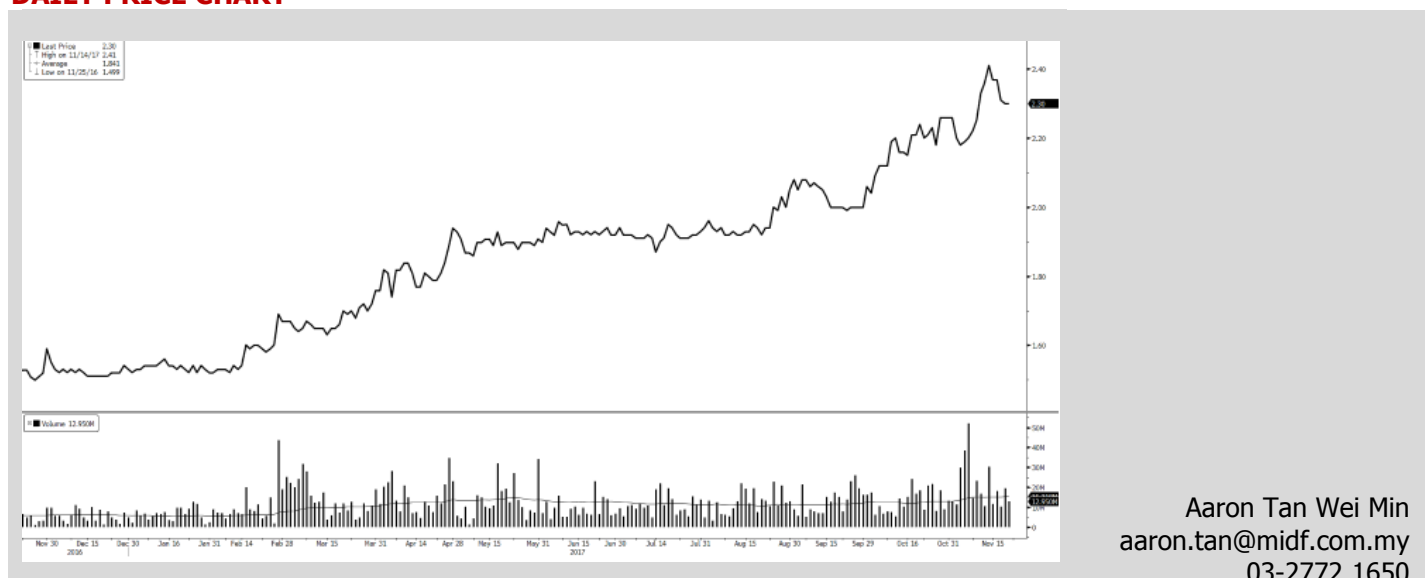
Maintain Neutral with positive bias. Dialog's share price has been volatile on the upside, stoked by positive news flows from Pengerang and solid earnings. The company's forward PER is currently at **27x**, below its two-year historical average. We are maintaining our **NEUTRAL** (with positive bias) recommendation with an unchanged TP of **RM2.16** per share. Our valuation is based on a sum-of-parts method pegging a PER of 20x to its core businesses ie. EPCC, Plant Maintenance, Specialist and Catalyst. As for the centralized tankage facilities business, our discounted cash flow is based on a discount rate of 8%. 

INVESTMENT STATISTICS

FYE Jun	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	2,358.2	2,390.0	3,392.9	3,950.0	4,240.0
EBIT (RM'm)	167.6	191.2	341.8	577.9	622.1
Pretax Profit (RM'm)	370.5	363.6	448.8	557.9	602.1
Net Profit (RM'm)	275.1	300.2	370.6	441.1	473.9
EPS (sen)	5.5	5.3	6.8	7.8	8.4
EPS growth (%)	13.3	-3.9	27.7	15.1	7.4
PER (x)	41.5	43.2	33.8	29.4	27.4
Net Dividend (sen)	2.2	2.4	2.8	3.5	3.8
Net Dividend (%)	1.0	1.0	1.2	1.5	1.6

Source: MIDFR

DAILY PRICE CHART



Aaron Tan Wei Min
 aaron.tan@midf.com.my
 03-2772 1650

EARNINGS SUMMARY 1QFY18

FYE June (RM m)	Quarterly Results				
	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	653.6	968.9	778.7	-19.6	19.1
Operating Expenses	-603.1	-892.2	-700.3	-21.5	16.1
Other Operating Income	27.2	27.1	26.5	-2.5	-2.6
Fair value gain on disposal of JV	na	na	65.6	nm	nm
JCE	25.1	28.4	27.1	-4.4	8.1
Finance Costs	-7.1	-10.4	-11.1	6.8	57.0
PBT	95.7	121.9	186.4	52.9	94.8
Tax	-14.4	-21.0	-22.1	5.4	54.3
PATAMI	81.3	103.5	160.9	55.4	97.9
Normalised PATAMI	na	na	89.8	nm	nm
PBT Margin (%)	14.6	12.6	23.9	11.4	9.3
Tax Rate (%)	15.0	17.2	11.9	-5.4	-3.1
Net Margin (%)	12.4	10.7	20.7	10.0	8.2

Source: MIDFR, Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.