

PP14767/09/2012(030761)

Wednesday, February 17, 2016

Dialog Group Berhad

“Making Decent Progress”

Results Review

- **Actual vs. expectations.** Dialog Group Berhad (Dialog) 6M16 net profit of RM138 million (+7% y-o-y), came in line with ours and consensus estimates respectively, accounting 45% and 47% of both sides full year net profit forecast. Better-than-expected 6M16 earnings were energised by strong contribution from Malaysian operation segment (+21% y-o-y), offsetting weaker earnings contribution from International operation segment (-20% y-o-y).
- **Dividend.** No dividend was declared during the quarter.
- **Top line.** Dialog recorded a revenue of RM1.2 billion (+6% y-o-y) in 6M16 driven by strong contribution from Malaysian operation segment which posted a higher revenue of RM676 million (+18% y-o-y) due to greater progress of engineering, construction and fabrication activities in Pengerang Deepwater Terminal, Malaysia LNG (MLNG) Train 9, SAMUR piping works and Toyo bullet tanks. Besides, Dialog also involved in major turnaround work in Melaka which was completed during the period.
- **Bottom line.** Dialog's 6M16 PBT surged to RM181 million (+6% y-o-y) lifted by the improvement from Malaysian operation segment (+21% y-o-y) in tandem with the increase in revenue as mentioned above. Moreover, Dialog also posted higher share of profit from JV/associates at RM15 million in 6M16 as compared against a loss of RM6.2 million recorded in 6M15 which derived from the group's interest in terminal operation in Kertih, Tanjung Langsat and Pengerang. PBT margin for 6M16 was at 15%, more or less the same against 6M15 margin of 15%.

HOLD (TP: RM1.60)

Current Price (RM)	RM1.57
New Target Price (RM)	RM1.60
Previous Target Price (RM)	RM1.70
Previous Recommend.	HOLD
Upside To Target Price	2%
Dividend Yield (FY17)	3%

Stock Code

Bloomberg	DLG MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	5,204
Market Cap (RM mn)	8,170
YTD Chg In Share Price	-2%
Beta (x)	1.09
52-week Hi/Lo (RM)	1.70 1.30
3M Average Volume (shrs)	4.90mn
Estimated Free Float	49%

Major Shareholders

EPF	12%
Azam Utama	9%
Wide Synergy	8%

- Pengerang's phase 2 (SPV 2).** Dialog has inked a shareholders' agreement (SHA) with PRPC Utilities & Facilities Sdn Bhd and Vopak Terminal Pengerang BV in December 2014 to develop a project worth RM6.3 billion for handling, storing and distribution of crude oil and petrochemical feedstock for RAPID. Dialog has successfully secured an engineering, procurement, construction and commissioning (EPCC) contract worth RM5.5 billion. Phase 2 will encompass the development of petroleum and petrochemical terminal with storage capacity of 2.1 million m³. The project is estimated to be completed by 2018 and 2019.
- Pengerang's phase 3 (SPV 3).** Dialog is forming a JV (25: 65: 10) with Petronas Gas and the state government of Johor to develop a regasification terminal (RGT) worth approximately RM2.7 billion at Pengerang Deepwater Terminal. The RGT will comprise of i) regasification unit with 3.5 million MT/p.a. storage capacity and ii) two units of 200,000m³ LNG storage tanks. The entire project is expected to be completed by 2017.
- Change to forecast.** We maintain our earnings forecast for now as 6M16 results were in line with our assumption. At this juncture, FY16 and FY17 earnings are projected to grow to RM315 million (+15% y-o-y) and RM349 million (+11% y-o-y) respectively to be driven by i) continuous involvement and development at Pengerang Deepwater Terminal and ii) steady earnings contribution from Dialog's upstream activities.
- Valuation & recommendation.** Dialog is valued at RM1.60 based on 23x PER (20% discount to last 3-years average low PER) and the stock is a **HOLD**. Re-rating catalyst may come from i) long-term recurring income from the development of phase 2 and 3 of Pengerang Deepwater Terminal and ii) prime beneficiary of Petronas' RAPID development.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
SapuraKencana	Jan	1.96	18	19	10.7	10.1	0.9	0.8	5	2	2.32	Buy
Wah Seong	Dec	0.82	10	12	9.5	8.0	0.7	0.7	7	4	0.94	Hold
Bumi Armada	Dec	1.01	7	10	15.2	10.2	0.9	0.8	(3)	2	1.20	Buy
Dialog Group	Jun	1.57	6	7	26.6	23.5	3.6	3.3	15	1	1.60	Hold
MMHE	Dec	0.94	7	8	13.7	12.7	0.6	0.6	3	NA	0.96	Hold
PetDag	Dec	25.04	93	98	26.5	24.9	4.4	4.5	14	2	22.68	Hold
Dayang	Dec	1.04	15	21	9.3	6.6	1.1	0.8	20	3	1.71	Buy
UMW-OG	Dec	1.02	2	5	48.6	23.8	0.7	0.7	3	NA	0.83	Sell
Perisai	Dec	0.29	2	4	13.3	0.8	0.3	0.3	2	NA	NR	NR
Perdana Petroleum	Dec	NA	8	10	20.0	NA	NA	NA	(3)	NA	NR	NR
TH Heavy	Dec	0.15	NA	NA	NA	NA	NA	NA	(23)	NA	NR	NR
Petra Energy	Dec	1.19	18	19	7.1	6.6	0.8	0.7	8	2	NR	NR
Deleum	Dec	1.01	13	14	8.6	7.7	1.3	1.2	19	6	NR	NR
Uzma	Dec	1.73	21	26	9.7	7.5	1.2	0.8	1	NA	NR	NR
KNM	Dec	0.48	6	8	9.4	6.5	0.4	NA	2	NA	NR	NR
Average					16.3	11.4	1.3	1.3	5	3		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: June (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	2,237	2,552	2,358	2,931	3,264
EBITDA	239	273	NA	423	470
EBIT	201	235	NA	378	421
Net Finance cost	(11)	(12)	(21)	(55)	(62)
Share of JCE	42	53	6	73	82
PBT	232	277	370	397	441
Net profit	193	216	275	315	349
EPS (sen)	4	4	6	6	7
PBT margin	10%	11%	16%	14%	13%
Net profit margin	9%	8%	12%	11%	11%
PER (x)	35.3	42.7	35.2	26.5	23.9
P/BV (x)	5.2	6.1	3.9	4.9	4.7
Dividend (sen)	3	3	3	4	5
Dividend yield	2%	2%	2%	3%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: June (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue	570	536	640	19%	12%	1,112	1,176	6%
Operating expenses	(481)	(480)	(554)	15%	15%	(964)	(1,033)	7%
Other operating income	28	18	7	-64%	-76%	32	25	-24%
JCE/Associate	-6	12	15	24%	NM	(1)	27	NM
Finance cost	(4)	(6)	(7)	6%	48%	(8)	(13)	54%
PBT	107	81	101	25%	-6%	171	181	6%
Taxation	(25)	(18)	(20)	14%	-17%	(36)	(38)	6%
Net profit	80	60	78	30%	-2%	130	138	7%
EPS (sen)	2	1	2	29%	-6%	3	3	3%
Pre-tax margin	19%	15%	16%			15%	15%	
Net profit margin	14%	11%	12%			12%	12%	
Effective tax rate	23%	22%	20%			21%	21%	

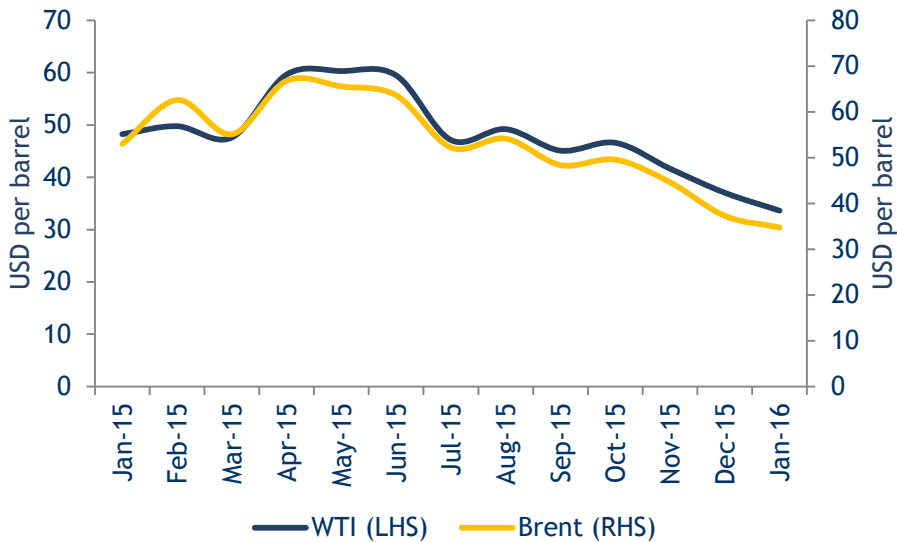
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: June (RM million)	2Q15	1Q16	2Q16	q-o-q	y-o-y	6M15	6M16	y-o-y
<u>Revenue</u>								
Malaysia	298	311	365	17%	22%	575	676	18%
Overseas	272	225	274	22%	1%	537	500	-7%
<u>PBT</u>								
Malaysia	61	56	77	39%	28%	110	133	21%
Overseas	46	25	23	-6%	-50%	61	48	-20%

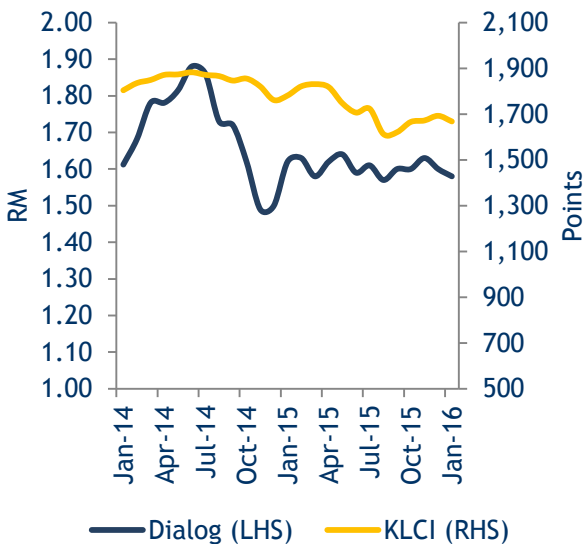
Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(January 2015-January 2016)

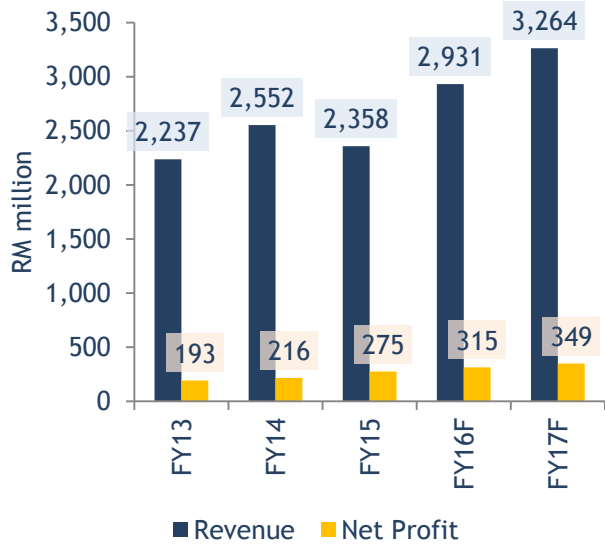


Source: Bloomberg

Dialog Share Price vs. KLCI
(January 2014-January 2016)



Revenue and Net Profit
(FY13-FY17F)



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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