

PP14767/09/2012(030761)

Dialog Group Berhad

“Putting Up a Decent Show”

Results Review

- Actual vs. expectations.** Dialog Group Berhad (Dialog) 9M16 net profit of RM217 million (+3% y-o-y), came in line with ours and consensus estimates respectively, accounting 73% and 75% of both sides full year net profit forecast. Improving 9M16 earnings was energised by strong contribution from Malaysian operation segment (+5% y-o-y), offsetting weaker earnings contribution from International operation segment (-14% y-o-y).
- Dividend.** Declared an interim dividend of 1.0sen/share for the quarter, translating into a dividend payout ratio of 24%, slightly lower than 9M15 payout of 25%.
- Top line.** Dialog recorded a revenue of RM1.8 billion (+2% y-o-y) in 9M16 driven by strong contribution from Malaysian operation segment which posted a higher revenue of RM1.1 billion (+9% 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 9M16 PBT declined marginally to RM278 million (-1% y-o-y) impacted by weaker contribution from International operation segment (-14% y-o-y) due to lower sales of specialist product. However, Dialog posted higher share of profit from JV/associates at RM42 million in 9M16 (+500% y-o-y) mainly derived from Pengerang Independent Terminal which has fully leased out its storage capacity since 1Q16. PBT margin for 9M16 was at 15%, lower against 9M15 margin of 16%.

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HOLD (TP: RM1.60)

Current Price (RM)	RM1.54
New Target Price (RM)	RM1.60
Previous Target Price (RM)	RM1.70
Previous Recommend.	HOLD
Upside To Target Price	4%
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)	5,237
Market Cap (RM mn)	8,275
YTD Chg In Share Price	-1%
Beta (x)	1.05
52-week Hi/Lo (RM)	1.70   1.30
3M Average Volume (shrs)	4.71mn
Estimated Free Float	50%

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 m<sup>3</sup>. 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 200,000m<sup>3</sup> LNG storage tanks. The entire project is expected to be completed by 2017.
- Change to forecast.** We maintain our earnings forecast as 9M16 results were in line with our assumption. At this juncture, FY16 and FY17 earnings are projected to grow to RM298 million (+8% y-o-y) and RM352 million (+18% 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	1.58	13	17	10.6	10.9	0.8	0.8	(7)	1	2.34	Buy
Wah Seong	Dec	0.74	8	9	9.6	8.0	0.5	0.5	1	4	0.80	Hold
Bumi Armada	Dec	0.73	5	8	14.4	9.3	0.6	0.6	(3)	2	0.95	Buy
Dialog Group	Jun	1.54	6	7	26.8	24.7	3.7	3.4	14	1	1.60	Hold
MMHE	Dec	1.15	5	5	20.0	19.3	0.5	0.6	2	NA	0.88	Sell
PetDag	Dec	23.28	89	94	26.7	25.4	4.4	4.2	16	3	23.58	Hold
Dayang	Dec	1.12	14	18	8.6	6.9	0.9	0.8	NA	3	1.26	Hold
UMW-OG	Dec	0.91	(3)	(1)	NA	NA	0.6	0.6	(11)	NA	0.90	Hold
Perisai	Dec	0.26	1	24	20.8	1.0	0.4	0.3	2	NA	NR	NR
Perdana Petroleum	Dec	NA	6	7	27.5	23.3	NA	NA	(3)	NA	NR	NR
TH Heavy	Dec	0.13	NA	NA	NA	NA	NA	NA	(23)	NA	NR	NR
Petra Energy	Dec	1.28	15	18	8.3	7.0	0.7	0.6	8	2	NR	NR
Deleum	Dec	1.17	13	15	9.2	8.0	1.5	1.4	16	5	NR	NR
Uzma	Dec	2.00	20	23	8.9	7.6	0.9	0.8	2	NA	NR	NR
KNM	Dec	0.47	6	6	8.9	7.9	0.4	0.4	2	NA	NR	NR
Average					15.4	12.3	1.2	1.1	1	2		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: June (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	2,237	2,552	2,358	2,792	2,997
EBITDA	239	273	437	392	468
EBIT	201	235	386	345	418
Net Finance cost	(11)	(12)	(21)	(39)	(51)
Share of JCE	42	53	6	70	75
PBT	232	277	370	376	442
Net profit	193	216	275	298	352
EPS (sen)	4	4	6	6	7
PBT margin	10%	11%	16%	13%	15%
Net profit margin	9%	8%	12%	11%	12%
PER (x)	35.3	42.7	35.2	27.0	22.9
P/BV (x)	5.2	6.1	3.9	4.0	3.8
Dividend (sen)	3	3	3	4	5
Dividend yield	2%	2%	2%	3%	3%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

YE: June (RM million)	3Q15	2Q16	3Q16	q-o-q	y-o-y	9M15	9M16	y-o-y
Revenue	670	640	641	0%	-4%	1,782	1,817	2%
Operating expenses	(570)	(554)	(568)	3%	0%	(1,535)	(1,602)	4%
Other operating income	9	7	16	139%	78%	41	40	-2%
JCE/Associate	8	15	15	-0.3%	90%	7	42	493%
Finance cost	(6)	(7)	(7)	2%	7%	(15)	(20)	34%
PBT	110	101	97	-4%	-12%	281	278	-1%
Taxation	(24)	(20)	(17)	-18%	-31%	(61)	(55)	-9%
Net profit	82	78	79	1%	-4%	212	217	3%
EPS (sen)	2	2	2	0%	-8%	4	4	-1%
Pre-tax margin	16%	16%	15%			16%	15%	
Net profit margin	12%	12%	12%			12%	12%	
Effective tax rate	22%	20%	17%			22%	20%	

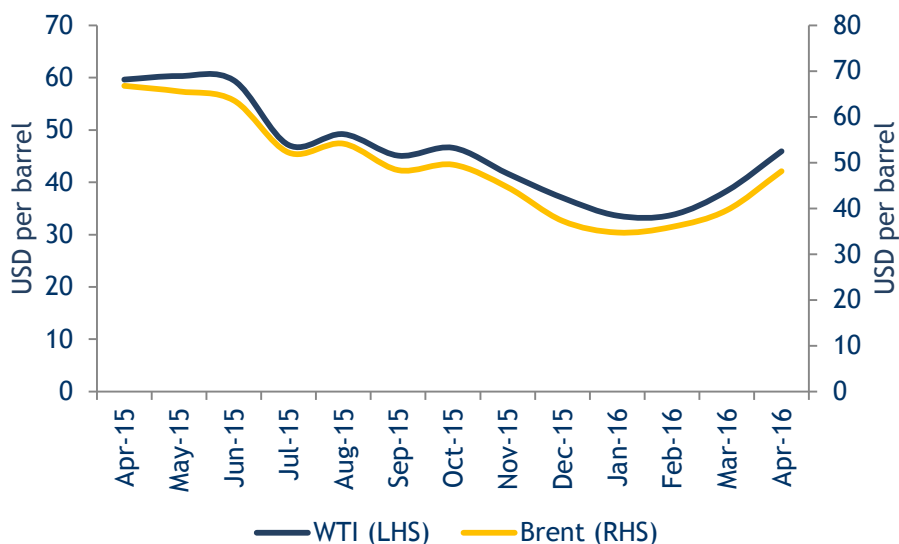
Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

YE: June (RM million)	3Q15	2Q16	3Q16	q-o-q	y-o-y	9M15	9M16	y-o-y
<b>Revenue</b>								
Malaysia	428	365	422	15%	-2%	1,003	1,098	9%
Overseas	242	274	220	-20%	-9%	779	719	-8%
<b>PBT</b>								
Malaysia	88	77	74	-4%	-16%	198	207	5%
Overseas	22	23	23	-2%	5%	82	71	-14%

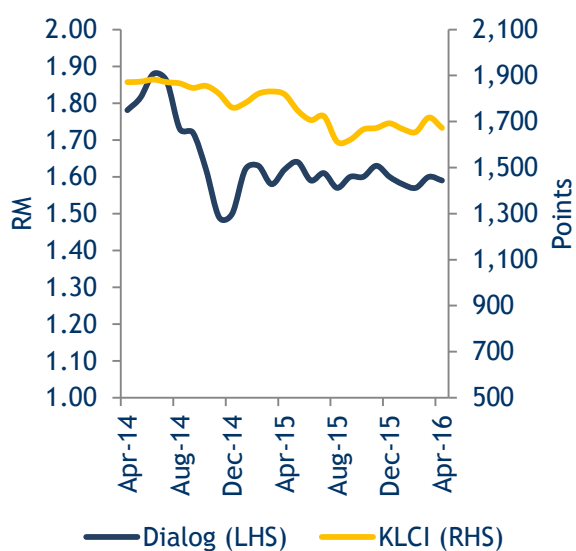
Source: Bursa Malaysia, M&amp;A Securities

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

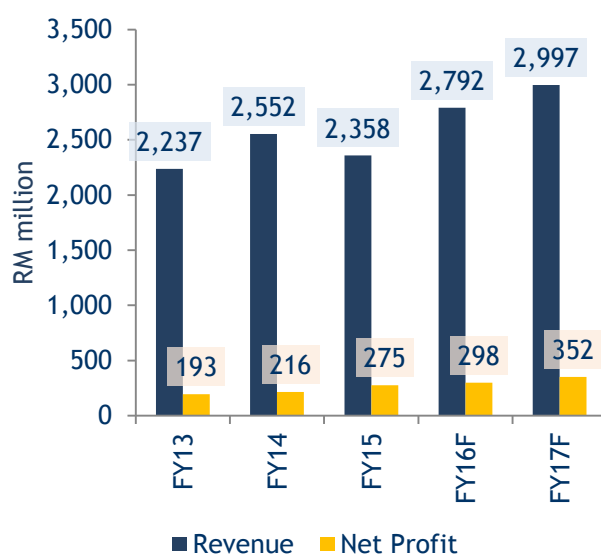


Source: Bloomberg

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



Revenue and Net Profit  
(FY13-FY17F)



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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