

16 August 2019

# Dialog Group Berhad

## Strong FY19 Results Beat Estimates

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**Strong FY19 results beat expectations, driven by higher contributions from its tanker storage business and EPCC projects. Moving forward, land reclamation works for Pengerang Phase 3 is on track for completion by end-CY19. With EPCC works expected to follow thereafter, we target commencement to be around mid-CY21. Pengerang Phase 3 will be the key growth driver for the group moving forward. Maintain OUTPERFORM with upgraded SoP-TP of RM4.15.**

**FY19 results above expectations.** DIALOG registered FY19 net profit of RM535.8m, beating expectations, coming in above our forecast by 13%, and consensus by 6%, mainly attributable to stronger-than-expected contributions from EPCC, possibly driven by costs recovery from the tail-end phases of EPCC for Pengerang Terminals Phase 2. Likewise, proposed dividend of 2.3 sen per share (bringing full year to 3.8 sen) is also above expectations.

**Strong FY19 results.** FY19 core net profit jumped 25% YoY, driven by: (i) stronger associates' contributions following the commencement of Pengerang LNG 2 (25% stake) in Nov 2017, and Pengerang Phase 2A (25% stake) since Nov 2018, (ii) full-year consolidation of Langsat Terminals 1 and 2, and (iii) cost recovery from tail-end stages of the EPCC for Pengerang Phase 2, resulting in higher margins.

For 4Q19, net profit of RM140.7m leapt strongly by 34% YoY, similarly driven by: (i) greater contribution from associates, on the back of Pengerang Phase 2A's commencement, and (ii) cost recovery from tail-end stages of EPCC for Pengerang Phase 2. Sequentially, however, 4Q19 net profit was marginally down by 2% QoQ, due to lower EPCC activities during the quarter, as reflected by the lower revenue.

**Pengerang Phase 3 driving long-term growth.** Land reclamation works for Pengerang Phase 3 is currently on track for completion by end-CY2019, with EPCC works expected to commence thereafter. That said, we expect the first phase of Pengerang Phase 3 to be ready by mid-CY2021. To recap, Pengerang Phase 3 has already managed to secure its first client in BP Singapore back in May 2019 via a long-term storage agreement with a capacity of 430k m3. This was the first instance of a clientele-securement for Phase 3, and hence, we are expecting further announcement of similar nature to be made in due course. Overall, we believe Pengerang Phase 3 could eventually add up to approximately 5-6m cubic meters of gross storage capacity, although the first phase for commencement could start off with ~3m cubic meters. We expect Pengerang Phase 3 to be the group's main growth driver in the coming years.

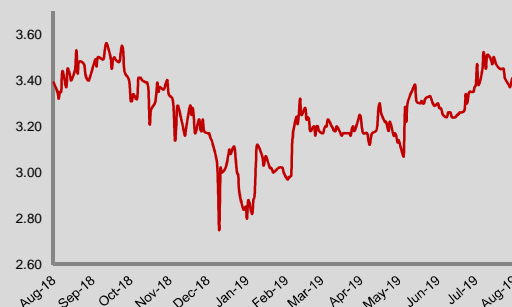
**Maintain OUTPERFORM.** Post-results, we raised our FY20E earnings forecast by ~5% from higher EPCC assumption, while simultaneously introducing our FY21E numbers. Likewise, **our SoP-derived TP is also raised to RM4.15** (from RM3.80 previously) – implying 42x forward PER, which is close to +2SD from its 5-year mean valuations. Nonetheless, **we continue to like DIALOG** for: (i) solid track record of earnings delivery, (ii) defensive earnings from its tank terminal businesses, and (iii) Pengerang Phase 3 acting as a main growth catalyst driver over the longer-term.

**Risks to our call include:** (i) lower utilisations of its tank terminals, (ii) delay in EPCC jobs, which could further delay income contributions from upcoming expansions, and (iii) delay in the development of Pengerang Phase 3.

# OUTPERFORM ↔

Price : **RM3.52**  
Target Price : **RM4.15** ↑

### Share Price Performance



KLCI	1,600.29
YTD KLCI chg	-5.3%
YTD stock price chg	13.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	19,846.8
Shares Outstanding	5,638.3
52-week range (H)	3.66
52-week range (L)	2.72
3-mth avg daily vol:	9,311,890
Free Float	63%
Beta	1.0

### Major Shareholders

Ngau Boon Keat	20.0%
Employees Provident Fund	9.1%
Azam Utama Sdn Bhd	8.3%

### Summary Earnings Table

FYE June (RM 'm)	2019A	2020E	2021E
Revenue	2,386.5	2,809.2	2,980.2
EBIT	465.4	444.9	481.2
Profit Before Tax	653.0	677.5	742.6
<b>Net Profit</b>	<b>535.8</b>	<b>559.9</b>	<b>614.0</b>
<b>Core Net Profit</b>	<b>535.8</b>	<b>559.9</b>	<b>614.0</b>
Consensus (NP)		577.6	623.7
Earnings Revision (%)		4.5	NEW
Core EPS (sen)	9.5	9.9	10.9
CNP Growth (%)	25.0	4.5	9.7
DPS (sen)	3.8	4.0	4.4
BV/share (RM)	0.7	0.7	0.8
PER (x)	37.0	35.4	32.3
PBV (x)	5.2	5.0	4.6
Net Gearing (x)	0.2	0.1	0.1
Div. Yield (%)	1.1	1.1	1.2

16 August 2019

Income Statement								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Jun (RM ' mil)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	449.3	636.6	-29.4%	607.1	-26.0%	2,386.5	3,110.6	-23.3%
Operating expenses	(330.9)	(530.2)	-37.6%	(506.4)	-34.6%	(1,931.3)	(2,721.2)	-29.0%
Other operat. income	17.9	17.1	4.8%	30.3	-40.9%	67.1	95.5	-29.7%
JV and associates	51.1	57.2	-10.7%	31.4	62.8%	180.1	129.1	39.5%
Finance costs	(12.7)	(12.0)	5.9%	(13.6)	-6.7%	(49.4)	(51.4)	-4.0%
<b>Profit before tax</b>	<b>174.7</b>	<b>168.7</b>	<b>3.6%</b>	<b>148.8</b>	<b>17.4%</b>	<b>653.0</b>	<b>628.1</b>	<b>4.0%</b>
Tax expense	(26.0)	(23.5)	10.5%	(27.4)	-5.1%	(100.7)	(99.8)	0.9%
NCI	(8.1)	(1.5)	436.5%	6.6	-221.5%	(16.5)	(17.9)	-8.0%
<b>Net profit</b>	<b>140.7</b>	<b>143.7</b>	<b>-2.1%</b>	<b>114.8</b>	<b>22.5%</b>	<b>535.8</b>	<b>510.4</b>	<b>5.0%</b>
<b>Core net profit</b>	<b>140.7</b>	<b>143.7</b>	<b>-2.1%</b>	<b>104.8</b>	<b>34.3%</b>	<b>535.8</b>	<b>428.8</b>	<b>25.0%</b>
PBT margin	38.9%	26.5%		24.5%		27.4%	20.2%	
Net margin	31.3%	22.6%		18.9%		22.5%	16.4%	
Core net margin	31.3%	22.6%		17.3%		22.5%	13.8%	
Effective tax rate	14.9%	13.9%		18.4%		15.4%	15.9%	

Source: Kenanga Research

Sum-of-Parts (SoP) Valuation		
	RM m	Valuation Basic
Downstream business (EPCC and O&M)	8,808.3	FY21E 18x PER
Kertih Centralised Tankage Facilities (30%)	520.5	FCFF @ 6.1% discount rate
Langsat Tank Terminals Facility 1 (100%)	1,845.2	FCFF @ 6.1% discount rate
Langsat Tank Terminals Facility 2 (100%)	467.0	FCFF @ 6.1% discount rate
Langsat Tank Terminals Facility 3 (100%)	742.1	FCFF @ 6.1% discount rate
Pengerang Phase 1 (46%) and Phase 2 (25%)	4,055.1	FCFF @ 6.1% discount rate
Pengerang LNG2 (25%)	1230.1	FCFF @ 6.04% discount rate
Pengerang Phase 3 (assumed 49%)	4117.3	FCFF @ 6.1% discount rate
Dialog Upstream	1,016.8	FCFF @ 8.0% discount rate
500 acres for future phases	849.4	RM1.7m/acre
Expected net cash/(debt)	(324.4)	
<b>Total SoP</b>	<b>23,327.5</b>	
No of Shares	5,638.0	
<b>SoP per share (RM)</b>	<b>4.15</b>	

Source: Kenanga Research

16 August 2019

## Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BUMI ARMADA BERHAD	0.215	1,263.5	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.6	4.0	4.0	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.38	1,331.4	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.1	12.3	11.2	1.2	1.1	9.5%	0.0%	1.35	MP
DIALOG GROUP BHD	3.52	19,846.8	Y	06/2020	17.7%	6.1%	4.5%	9.7%	37.0	35.4	32.3	5.2	5.0	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.800	1,280.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	88.3	36.9	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.18	32,049.7	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.2	18.6	17.7	0.9	0.9	4.9%	4.2%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.505	378.7	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.5	8.0	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.20	57,600.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.6	16.6	14.5	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	22.84	22,690.5	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	27.1	20.4	20.0	3.8	3.6	18.4%	3.4%	24.95	MP
SAPURA ENERGY BHD	0.270	4,303.6	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	89.1	24.9	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.15	6,094.3	Y	12/2019	23.2%	14.3%	17.2%	13.3%	15.9	13.6	12.0	2.9	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.620	198.4	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	3.8	27.6	9.4	0.4	0.4	1.5%	0.0%	0.760	MP
WAH SEONG CORP BHD	0.660	508.5	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.1	10.0	12.1	0.5	0.5	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	6.69	7,228.5	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	27.5	29.6	19.0	4.2	3.8	13.5%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

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16 August 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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