

# Dialog Group (DLG MK)

## Big EPCC job wins

### Maintain BUY and MYR4.90 TP

Dialog is off to a good start in 2022. The MYR724m EPCC job win offers a 24-30 months order visibility. That said, its tank terminal operations remain its core earnings contributor and developing Pengerang to its full potential remains its key agenda, a long-term project lasting 10 years. Meanwhile, its green energy agenda is also starting to shape up, targeting the renewable section to contribute 10% to Group's earnings over the long run. Our SOP-based TP is unchanged.

### Salient details of the MYR724m EPCC works

The Dialog-Technip Energies (M) S/B (TEM) consortium (30:70) has accepted a LOA from PETRONAS Chemicals Fertiliser Kedah (PCFK) for an EPCC contract, worth up to MYR724m to: (i) construct a new single-train Melamine plant and (ii) undertake modification of existing plant and utilities. Dialog will undertake the construction and pre-commissioning scope while TEM will handle the EPC scope. The project is expected to be completed by 2H 2024 (about 28-30 months' work).

### A decent contributor ...

We are positive on this substantial single EPCC job. Based on an estimated 5%-10% net margin, the consortium should make decent net profit MYR36m-72m. With a 30% stake in the consortium, Dialog's effective net profit from this job alone is worth about MYR11m-22m; contributing about 1-2% to the Group's earnings p.a. in FY23-24.

### ... but Pengerang ops will continue to lead growth

Our estimates are unchanged. We expect stronger earnings and operational outlook from FY23, as it navigates through the pandemic and supply chain disruption issues. We expect greater traction at its Pengerang ops, on new capacity uptake by then as border restrictions end and the Covid-19 pandemic turns endemic.

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,303	1,610	1,980	2,068	2,205
EBITDA	711	656	775	811	849
Core net profit	588	546	601	660	713
Core EPS (sen)	10.4	9.7	10.6	11.7	12.6
Core EPS growth (%)	10.0	(7.3)	10.0	9.8	8.0
Net DPS (sen)	3.1	3.1	3.2	3.5	3.8
Core P/E (x)	34.6	29.9	26.0	23.7	21.9
P/BV (x)	4.9	3.2	2.8	2.6	2.4
Net dividend yield (%)	0.9	1.1	1.2	1.3	1.4
ROAE (%)	15.9	12.4	12.5	12.5	12.4
ROAA (%)	8.5	7.2	7.1	7.1	7.3
EV/EBITDA (x)	29.7	26.5	21.4	20.4	19.3
Net gearing (%) (incl perps)	15.8	9.3	6.5	3.8	1.3
Consensus net profit	-	-	572	646	687
MKE vs. Consensus (%)	-	-	5.0	2.1	3.7

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# BUY

Share Price	MYR 2.77
12m Price Target	MYR 4.90 (+77%)
Previous Price Target	MYR 4.90

### Company Description

The largest tank terminal operators in Malaysia with EPCC works

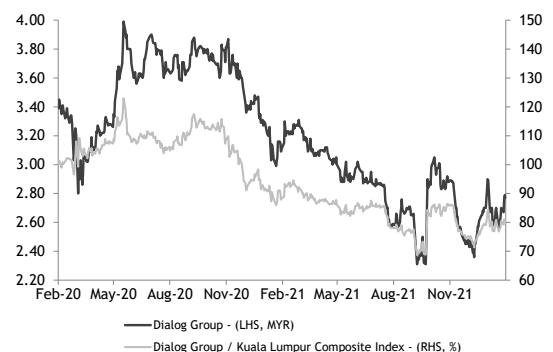
### Statistics

52w high/low (MYR)	3.31/2.31
3m avg turnover (USDm)	3.9
Free float (%)	66.0
Issued shares (m)	5,646
Market capitalisation	MYR15.6B USD3.7B

### Major shareholders:

Employees Provident Fund	11.9%
Kumpulan Wang Persaraan	9.3%
Wide Synergy Sdn. Bhd.	7.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(4)	(11)
Relative to index (%)	(1)	(7)	(10)

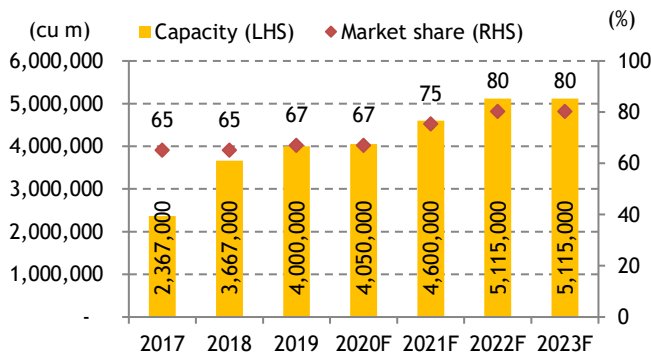
Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

## Value Proposition

- Malaysia's largest, most profitable and efficiently-run tank terminal operator with 5.1m m<sup>3</sup> capacity. Its independent E&P and O&G services are complementary businesses.
- Continues to focus on its tank terminal operations (which are cash generative, stable and scalable) and strategic tie-ups with PETRONAS.
- Commencement of new projects at Pengerang (regas, dedicated terminals) in FY19 to contribute to a big jump in earnings and expansion in return of capital above cost of capital.

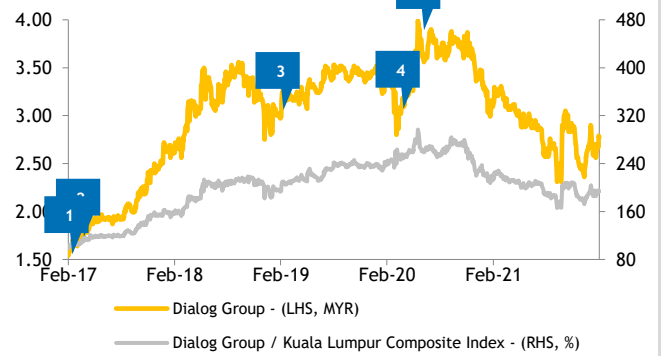
### Dialog's tank terminal capacity & market share in MY



Source: Company

## Price Drivers

### Historical share price trend



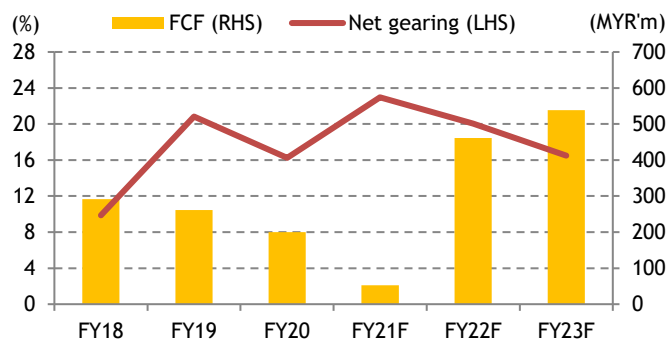
Source: Company, Maybank IBG Research

- To build, own and operate dedicated tank terminals for PETRONAS' RAPID project; secured MYR5.5b EPCC works.
- Launches Pengerang Deepwater Terminals, Phase 3.
- Fully owns Dialog Terminals.
- Kick starts Phase 3 with a 430k cu m dedicated storage terminal with BP (Singapore).
- OPEC+ alliance breaks up in Mar 2020.

## Financial Metrics

- ASP, capacity, throughput and opex are Dialog's key earnings drivers for its tank terminal operations. Variation in any of these parameters will impact profitability.
- Earnings growth is strong from FY17 as focus is on the development at Pengerang operations and M&A activities.
- Low net gearing level with consistent dividends, atypical in the O&G services industry.
- Execution of the planned tank terminal and regasification facilities will drive future earnings growth from FY18

### Net gearing and FCF trend



Source: Company

## Swing Factors

### Upside

- Rebound in crude oil prices will be a near-term share price driver.
- New tank terminal contracts will be a catalyst to sentiment and NAV.
- Special/higher dividend payment serves as a potential positive.

### Downside

- Further weakness in oil/gas price will hurt absolute share price performance.
- Execution delay/failure of new, planned tank terminal facilities.
- Ventures into new E&P assets/non-integrated operations will not be well received particularly at this point of the industry cycle.

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Risk Rating & Score <sup>1</sup>	High & 31.5
Score Momentum <sup>2</sup>	-2.2
Last Updated	22 May 2021
Controversy Score <sup>3</sup> (Updated: 3 Oct 2021)	0

## Business Model & Industry Issues

- It continues to make progress in FY21, in terms of improving natural capitals disclosures (covering international ops) and setting climate goals targets. It aims to achieve net zero carbon emissions (NZCE) by 2050 & (ii) will pursue renewables, including clean and green energy projects, as well as recycling ventures.
- Greentech venture - partnered Diyou Fibre; on a 51:49 JV, to BOO a food grade recycled polyethylene terephthalate (r-PET) pellets production facility, using r-PET flakes as raw materials to produce food grade recycled PET pellets for sale.
- We are positive on Dialog given its strong track record across the ESG parameters & compliance with international standards.

## Material E issues

- In FY21, (i) used 29.6m KWh of energy in FY21 (MY: 20.6KWh, Intl: 9.0KWh), (ii) emitted 13,550 MT of CO<sup>2</sup> (MY: 9,559 MT, Intl: 3,991MT; Scope 1: 3,818 MT, Scope 2: 9,732 MT), (iii) consumed 161,581m of water (MY: 139,979m<sup>3</sup>, Intl: 21,603m<sup>3</sup>), (iv) generated and disposed 243 MT of hazardous waste and (v) reported zero reportable spills.
- In its biodiversity agenda, detailed Environment Impact Assessments (DEIAs) is compulsory. Engages with registered Department of Environment (DOE) consultant to conduct yearly environment audit. Uses state-of-the-art monitoring devices to enable live monitoring of environmental statistics (Total Suspended Solids; TSS & turbidity).
- Uses Life Cycle Analysis (LCA) to assess the environmental impacts in its Fibreglass Reinforced Plastic ops, resulting in the recycling/reuse of acetone for the cleaning process.
- Dialog Tower is Green Building Index (GBI) compliant. Installed rooftop solar at its Nilai workshop, realising 87MT of CO<sup>2</sup> offsets.

## Material S issues

- Has a diversified workforce (2,494 workforce in FY21), spanning 10 countries. 70% of them are permanent staff.
- An advocate in hiring of local workforce in the geographies it operates in. The current workforce composition is predominantly local hires (83% of total).
- 62% of its workforce is between the ages of 30-50, 22% below the age of 30 and 16% above the age of 50.
- 19%/ 18%/ 20%/ 28% of its overall/ senior/ upper/ middle management workforce are female represented.
- Clocked in 34,805 training hours (HSE: 62%, technical: 27%, soft skills & leadership: 11%) in FY21.
- Continues to maintain a good and safety records, with zero Loss-Time injury (LTI) and Total Recordable Injury (TRI) Frequency of 0.72 respectively in FY21. Dialog has been supporting the MyKasih Foundation, a non-profit social purpose organisation since its inception in 2009. Dialog contributed MYR5.2m in FY21 to support 560 families and 3,300 students through this program.

## Key G metrics and issues

- Adopts these policies: (i) whistleblowing and (ii) anti-bribery & anti-corruption (ABAC), to name a few.
- Dialog's board comprised 9 directors - 4 Independent Directors (IDs), 1 Senior ID, 1 NINE-Director, 1 Executive Chairman, 1 Executive Deputy Chairman and 1 NIE.
- A very experienced and gender-diversified board - 89% are above 50 years old and 44% are female.
- Tan Sri Ngau Boon Keat - co-founder/ executive chairman/ major shareholder of Dialog collectively owns 18.3% of Dialog via Azam Utama S/B, Wide Synergy S/B and family members.
- The BOD's total remuneration packages of MYR11.1m for FY21 accounted for 2% of the Group's pretax profit.
- Dialog has been audited by BDO PLT, the world's fifth largest network of professional firms.
- Dialog's dividend payout ratio policy is set at 40%.
- Its Audit Committee/ Board Risk Management Committee has 4 Independent Non-Executive Directors.
- Material litigation -received a Writ and Statement of Claim from Teguh Kemajuan S/B (TKSB) in Apr 2019.
  - TKSB challenged the compulsory land acquisition at Pengerang under a judicial review, which have been dismissed by the courts. The land acquisition was completed in Apr 2013 and forms part of the Pengerang Independent Terminals S/B (PITSB). PITSB comprises of Dialog, Vopak Group and the State Government of Johor, which currently operates an independent storage terminal.
  - TKSB is claiming for USD1.35b in damages. Dialog believes the claims are scandalous, frivolous and amounts to an abuse of process of the Court.
- Dialog and Tanjung Langsat Port S/B (TLP) have mutually agreed to terminate the arbitral proceedings in Mar 2018 in relation to the provisions of the EPCIC contract worth MYR89.5m and settlement agreement. Recall that Dialog previously constructed a 100k cu m oil terminal, which was completed and handed over to TLP in 2007. In Aug 2008, there was unfortunate fire incident at the terminal, which TLP is claiming MYR700m in damages.

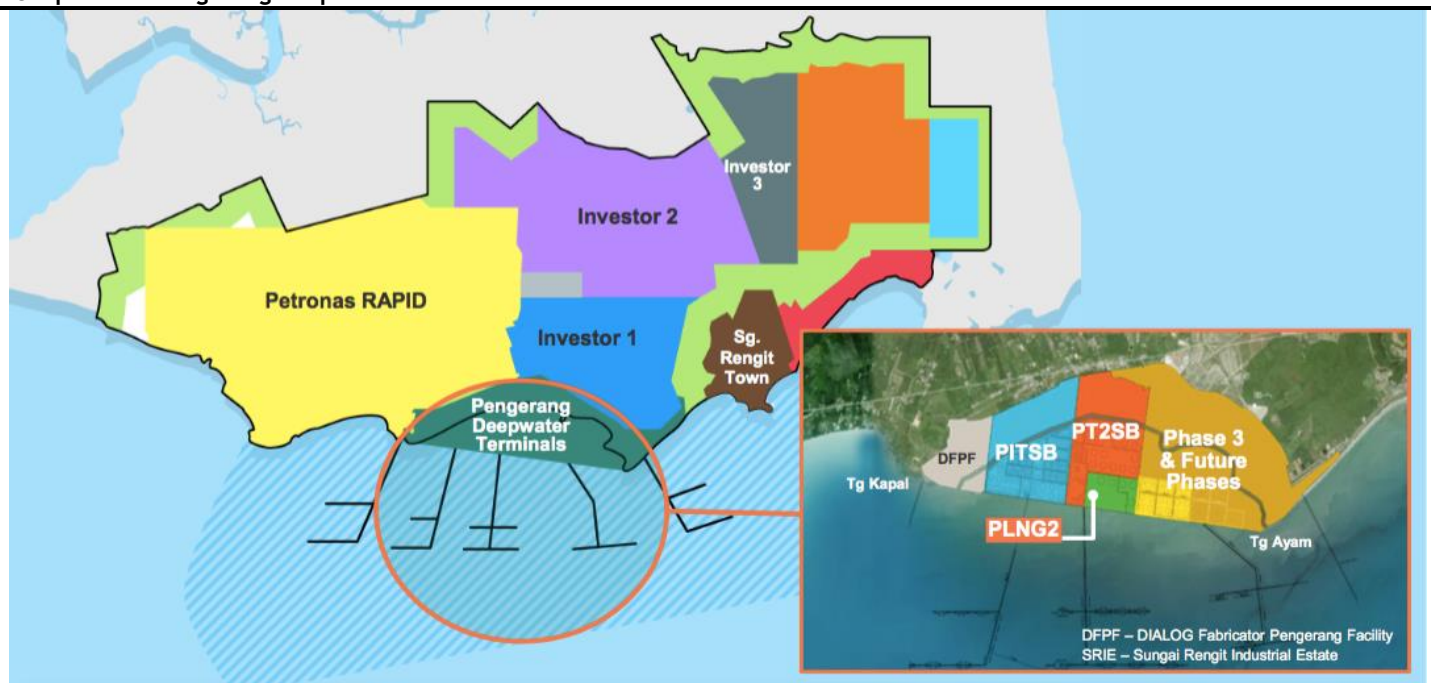
<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

**Dialog’s SOP valuation**

Operations	(MYR'm)	MYR/shr	Details
- Kertih	666.8	0.12	397k cu m; 30% stake ( <u>dedicated terminal</u> )
- Langsat	2,008.3	0.36	647k-947k cu m; 100% stake ( <u>independent terminal</u> )
- Pengerang I'dent Terminals (PITSB); SPV1	1,265.3	0.22	Phase 1: 1,300k cu m; 45.9% stake; MYR2.0b project cost ( <u>independent terminal</u> )
- Pengerang Terminals (TWO) (PT2SB); SPV2	2,380.7	0.42	Phase 2A: 1,300k cu m; 25% stake; MYR6.3b project cost ( <u>dedicated terminal</u> )
- Pengerang LNG (TWO) (PLNG2); SPV3	1,672.6	0.30	Phase 2B: Regas: 3.5m tpa capacity; 400k m³ LNG storage; 25% stake ( <u>dedicated terminal</u> )
- PITSB expansion; SPV4	1,186.6	0.21	Phase 1E: 400k- 1,000k cu m; 45.9% stake; MYR1.2b project cost ( <u>independent terminal</u> )
- Pengerang SPV5 (for BP Singapore)	1,491.3	0.26	Phase 3: 430k cu m; 90% stake ( <u>dedicated terminal</u> )
- Pengerang future SPVs	5,301.5	0.94	New phases: 2,000k cu m; 90% stake ( <u>independent terminal</u> )
- Pengerang future SPVs	7,325.3	1.30	New phases: 2,000k cu m; 50% stake ( <u>dedicated terminal</u> )
Tank terminal ops	23,298.4	4.13	
Halliburton Bayan Petroleum S/B	74.1	0.01	1H19 (YE Dec) BV; 95% stake, OSC up to 2036
Dialog Resources S/B	273.9	0.05	FY18 (YE Dec) BV; 20% stake at 3 PSCs - D35/D21/J4 up to 2034
EPCC, other services	1,602.3	0.28	MYR2b replenishment p.a.; 6% net margin; 12x PE multiple
Maintenance-related services	1,837.4	0.33	MYR700m replenishment; 15% net margin; 15x PE multiple
Land @ Pengerang	1,306.8	0.23	600 acres of greenfield land near RAPID/ reclaimed land valued at MYR50 psf
Net debt	(981.2)	(0.17)	FY21 (incl MYR499m perps).
<b>SOP</b>	<b>27,411.6</b>	<b>4.86</b>	Share base: 5,640.7m (rounded up to MYR4.90)

Source: Maybank IBG Research

**Snapshot of Pengerang deepwater terminals**



**1,200 acres**

Next to Major International **Commercial Centre**

Potentially Serving **3 Billion** population base in the region

Source: Company

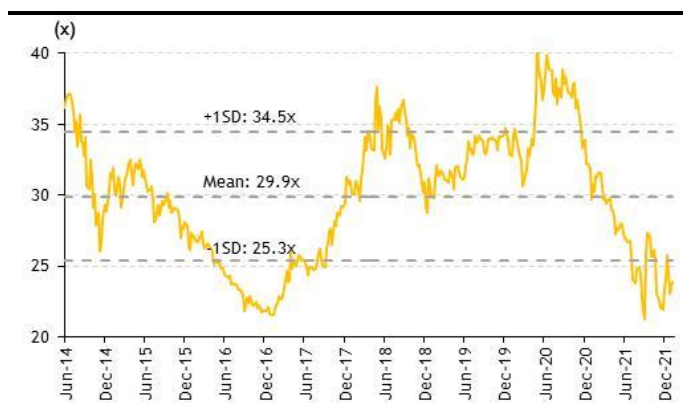


### Tank terminal capacity

Operations	Type	Stake (%)	Capacity (m <sup>3</sup> )	Comment
<b>Existing: (a)</b>				
Kertih	Dedicated	30%	400,000	
DTL 1 & 2	Independent	100%	650,000	
DTL 3	Independent	100%	120,000	120,000 came onstream in FY20
PITSB	Dedicated	46%	1,730,000	430,000 was added in FY20
PT2SB	Dedicated	25%	1,300,000	
PLNG2	Dedicated	25%	400,000	
			<b>4,600,000</b>	
<b>Expansion: (b)</b>				
DTL3	Independent	100%	85,000	MYR100m capex, to start from mid-2022
Phase 3A	Dedicated	90%	430,000	BP SG, came onstream in mid-2021
			<b>515,000</b>	
<b>Total (a) + (b)</b>			<b>5,115,000</b>	

Source: Company

### 1-year forward PER



Source: Company, Maybank IBG Research

### 1-year forward PBV



Source: Company, Maybank IBG Research

### 1-year forward EV/ EBITDA



Source: Company, Maybank IBG Research

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	30.4	35.4	26.0	23.7	21.9
Core P/E (x)	34.6	29.9	26.0	23.7	21.9
P/BV (x)	4.9	3.2	2.8	2.6	2.4
P/NTA (x)	6.1	3.8	3.3	3.0	2.8
Net dividend yield (%)	0.9	1.1	1.2	1.3	1.4
FCF yield (%)	1.0	nm	3.5	3.6	3.8
EV/EBITDA (x)	29.7	26.5	21.4	20.4	19.3
EV/EBIT (x)	40.8	40.5	31.3	29.1	27.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,303.4	1,609.9	1,980.3	2,068.3	2,205.5
EBITDA	710.6	656.4	775.2	811.4	848.9
Depreciation	(192.8)	(226.7)	(244.0)	(244.0)	(244.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	517.8	429.7	531.2	567.4	604.9
Net interest income / (exp)	(54.6)	(26.4)	(89.0)	(77.3)	(74.4)
Associates & JV	242.0	227.4	300.1	323.4	346.9
Exceptionals	42.1	(2.6)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	747.3	595.0	742.3	813.5	877.4
Income tax	(99.2)	(51.9)	(115.1)	(126.1)	(136.0)
Minorities	(17.7)	0.1	(26.7)	(27.8)	(28.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	630.4	543.1	600.5	659.6	712.6
Core net profit	588.3	545.7	600.5	659.6	712.6
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	1,240.4	1,453.4	1,976.4	2,018.8	2,076.5
Accounts receivable	1,147.0	620.7	763.5	797.5	850.4
Inventory	84.7	43.7	53.8	56.1	59.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,567.0	3,371.9	3,177.9	2,983.9	2,789.9
Intangible assets	777.2	835.1	835.1	835.1	835.1
Investment in Associates & JVs	1,283.4	1,504.8	2,054.9	2,628.2	3,225.1
Other assets	90.4	147.7	147.7	147.7	147.7
<b>Total assets</b>	<b>7,190.0</b>	<b>7,977.2</b>	<b>9,009.2</b>	<b>9,467.3</b>	<b>9,984.5</b>
ST interest bearing debt	457.7	297.7	350.0	350.0	350.0
Accounts payable	930.8	747.5	919.4	960.3	1,024.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,453.5	1,637.9	1,993.3	1,903.3	1,813.3
Other liabilities	104.0	95.0	95.0	95.0	95.0
<b>Total Liabilities</b>	<b>2,946.3</b>	<b>2,778.3</b>	<b>3,358.0</b>	<b>3,308.8</b>	<b>3,282.5</b>
Shareholders Equity	4,132.1	5,096.6	5,522.3	6,001.7	6,516.5
Minority Interest	111.6	102.3	129.0	156.7	185.6
<b>Total shareholder equity</b>	<b>4,243.8</b>	<b>5,198.9</b>	<b>5,651.2</b>	<b>6,158.5</b>	<b>6,702.0</b>
<b>Total liabilities and equity</b>	<b>7,190.0</b>	<b>7,977.2</b>	<b>9,009.2</b>	<b>9,467.3</b>	<b>9,984.5</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	747.3	595.0	742.3	813.5	877.4
Depreciation & amortisation	192.8	226.7	244.0	244.0	244.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	160.9	160.9	19.1	4.5	7.1
Cash taxes paid	(99.2)	(51.9)	(115.1)	(126.1)	(136.0)
Other operating cash flow	(155.3)	(399.8)	(300.1)	(323.4)	(345.9)
Cash flow from operations	846.6	530.9	590.2	612.5	646.6
Capex	(646.8)	(835.0)	(50.0)	(50.0)	(50.0)
Free cash flow	199.8	(304.1)	540.2	562.5	596.6
Dividends paid	(216.8)	(180.3)	(174.9)	(180.2)	(197.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	236.8	24.5	407.7	(90.0)	(90.0)
Other invest/financing cash flow	136.2	672.8	(250.0)	(250.0)	(250.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>356.0</b>	<b>213.0</b>	<b>523.0</b>	<b>42.4</b>	<b>58.7</b>

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(3.5)	(30.1)	23.0	4.4	6.6
EBITDA growth	9.3	(7.6)	18.1	4.7	4.6
EBIT growth	(0.7)	(17.0)	23.6	6.8	6.6
Pretax growth	14.4	(20.4)	24.8	9.6	7.9
Reported net profit growth	17.6	(13.8)	10.6	9.8	8.0
Core net profit growth	10.0	(7.2)	10.0	9.8	8.0
<b>Profitability ratios (%)</b>					
EBITDA margin	30.9	40.8	39.1	39.2	38.5
EBIT margin	22.5	26.7	26.8	27.4	27.4
Pretax profit margin	32.4	37.0	37.5	39.3	39.8
Payout ratio	27.7	32.2	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	27.4	33.7	30.3	31.9	32.3
Revenue/Assets (x)	0.3	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.7	1.6	1.6	1.6	1.5
ROAE (%)	15.9	12.4	12.5	12.5	12.4
ROAA (%)	8.5	7.2	7.1	7.1	7.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(26.4)	(108.2)	(127.3)	(137.0)	(131.3)
Days receivable outstanding	184.7	197.6	125.8	135.9	134.5
Days inventory outstanding	21.1	25.3	15.7	16.9	16.5
Days payables outstanding	232.3	331.1	268.8	289.8	282.3
Dividend cover (x)	3.6	3.1	3.3	3.3	3.3
Current ratio (x)	1.7	1.9	2.1	2.1	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	2.9	2.7	2.9	3.0
Net gearing (%) (incl perps)	15.8	9.3	6.5	3.8	1.3
Net gearing (%) (excl. perps)	15.8	9.3	6.5	3.8	1.3
Net interest cover (x)	9.5	16.3	6.0	7.3	8.1
Debt/EBITDA (x)	2.7	2.9	3.0	2.8	2.5
Capex/revenue (%)	28.1	51.9	2.5	2.4	2.3
Net debt/ (net cash)	670.8	482.3	366.9	234.6	86.8

Source: Company; Maybank

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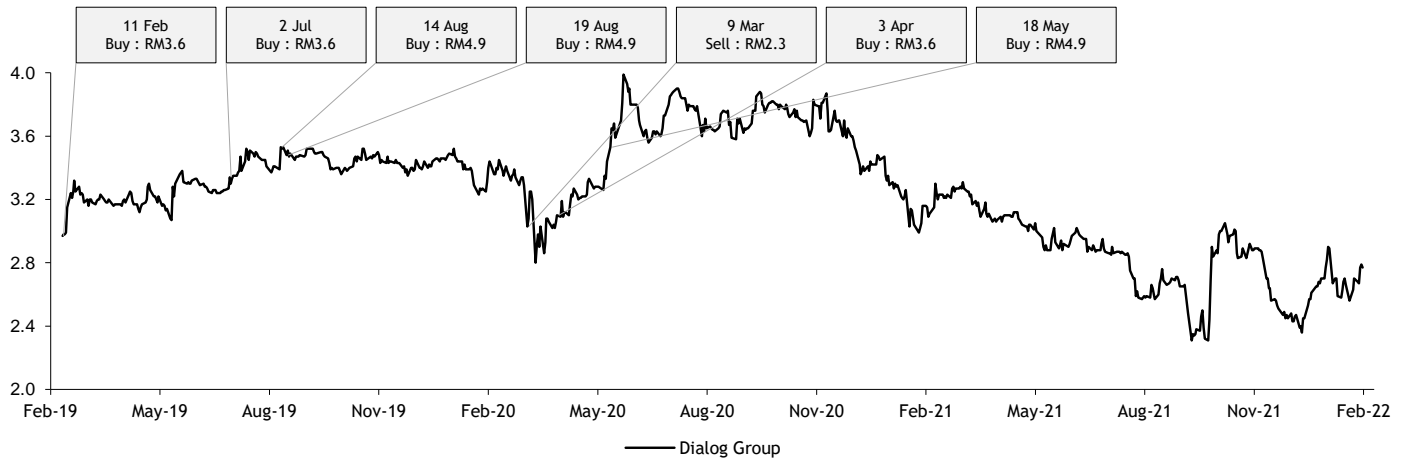
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