CGSCIMB

Company Note

Oil & Gas - Equipment & Svs | Malaysia | August 16, 2023

Refinitiv ESG Combined Score B | Shariah Compliant

Malaysia

ADD *(no change)*

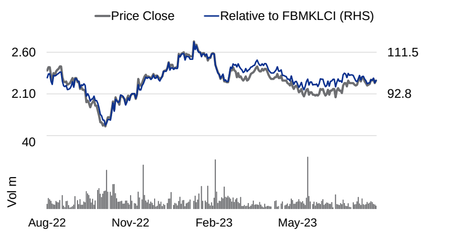
Consensus ratings*: Buy 12 Hold 2 Sell 1

Current price:	RM2.26
Target price:	RM2.70
Previous target:	RM2.73
Up/downside:	19.5%
CGS-CIMB / Consensus:	-7.3%
Reuters:	DIAL.KL
Bloomberg:	DLG MK
Market cap:	US$2,751m
	RM12,752m
Average daily turnover:	US$1.77m
	RM8.13m
Current shares o/s:	5,643m
Free float:	55.1%

**Source: Bloomberg*

Key changes in this note

- FY24-25F core EPS forecasts reduced 0.4%-1.6% on various housekeeping adjustments.
- FY26F core EPS forecast introduced in this report.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	3.2	-3
Relative (%)	-3.4	0.2	-0.1

Major shareholders	% held
Tan Sri Dr Ngau Boon Keat	21.3
EPF	14.3
KWAP	9.3

Dialog Group Bhd

Won't be too long before earnings recover

- FY6/23 core net profit of RM489m was 3.6% below our expectations and 7% below Bloomberg consensus, due to lower qoq Pengerang terminal profits.
- Reiterate Add; potential rerating catalysts include better earnings once Dialog completes its legacy EPCC work and raises its plant maintenance rates.
- We lower our SOP-based TP slightly to RM2.70 due to lower EPS forecasts.

4QFY23 core net profit fell 9% qoq…

4QFY23 core net profit of RM114m was 9% lower qoq, due mainly to a lower share of JV profits. Dialog's JVs mainly comprise its Pengerang (PITSB, PT2SB and PLNG2) and Kertih tank terminals, but also its Thai onshore oil production JV (POES). Dialog's share of tank terminal JV profits fell 21% qoq to RM63.8m in 4QFY23 (from RM80.4m in 3QFY23) for undisclosed reasons; we suspect one-off opex or tax provisions since the PT2SB, PLNG2 and Kertih tank terminals are leased on a take-or-pay basis, and the spot lease rates and utilisation rates for PITSB remain elevated at more than S$6/cbm/month and more than 90%, respectively. Meanwhile, Dialog's share of POES profits fell 9% qoq to RM18.2m (from RM20m in 3QFY23) likely because Brent crude oil prices declined 4% qoq.

…but EBIT rose 10% qoq, likely due to lower EPCC losses

The good news is that Dialog's 4QFY23 EBIT rose 10% qoq to RM57.8m, the highest quarterly EBIT in FY23. There was no explanation provided by Dialog, but we think that one possible reason was the progressive completion of various legacy EPCC projects that had erstwhile seen low margins or even losses due to cost overruns. Dialog may have also benefitted on the downstream side with higher sales of specialist products such as base oil used for offshore drilling. On a yoy basis, Dialog's 4QFY23 core net profit was flattish against 4QFY22 due to 1) cost pressures across its upstream and downstream arms (including EPCC and plant maintenance businesses); and 2) lower share of profits from PT2SB and PLNG2 due to higher borrowing costs; partially offset by 3) maiden contribution from POES after Dialog acquired a 50% effective stake in Aug 2022, and 4) higher share of PITSB profits due to rising spot lease rates and utilisation rates.

Upstream and downstream divisions may drive earnings recovery

Potential rerating catalysts for Dialog include the positive outlook for its upstream division, as oil prices are recovering from production cuts from major producers Saudi Arabia, Russia and other OPEC+ members. Meanwhile, POES continues to see stable production, and Dialog is already seeing higher production levels in Malaysia from the drilling work done so far. Dialog also believes that the legacy loss-making EPCC work should be completed by end-Dec 2023F or end-Mar 2024F, after which, Dialog will no longer incur these losses, as new EPCC contracts will be priced upwards. Also, the current umbrella plant maintenance contract with Petronas will end in Jun 2024F, and Dialog will negotiate higher manpower rates for the new contract. Downside risks include the potential for EPCC losses to drag on for longer, and for independent tank storage rates and utilisation to weaken if aggressive OPEC+ production cuts extend into 4QCY23.

Analyst(s)

Raymond YAP, CFA
T (60) 3 2635 9250
E raymond.yap@cgs-cimb.com

Financial Summary	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue (RMm)	2,319	3,002	3,023	3,057	3,075
Operating EBITDA (RMm)	517.4	444.6	526.2	600.6	602.1
Net Profit (RMm)	508.0	510.7	588.1	626.2	642.5
Core EPS (RM)	0.09	0.09	0.10	0.11	0.11
Core EPS Growth	(4.3%)	0.8%	15.9%	6.7%	2.7%
FD Core P/E (x)	26.28	26.05	22.47	21.06	20.51
DPS (RM)	0.034	0.037	0.042	0.044	0.046
Dividend Yield	1.50%	1.64%	1.84%	1.96%	2.02%
EV/EBITDA (x)	22.92	25.83	21.52	20.14	21.14
P/FCFE (x)	21.9	164.0	39.9	77.1	15.4
Net Gearing	9.6%	7.4%	5.4%	16.5%	25.5%
P/BV (x)	2.30	2.10	1.98	1.86	1.76
ROE	9.11%	8.42%	9.06%	9.11%	8.83%
% Change In Core EPS Estimates			(1.60%)	(0.42%)	
CGS-CIMB/Consensus EPS (x)			1.02	1.00	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

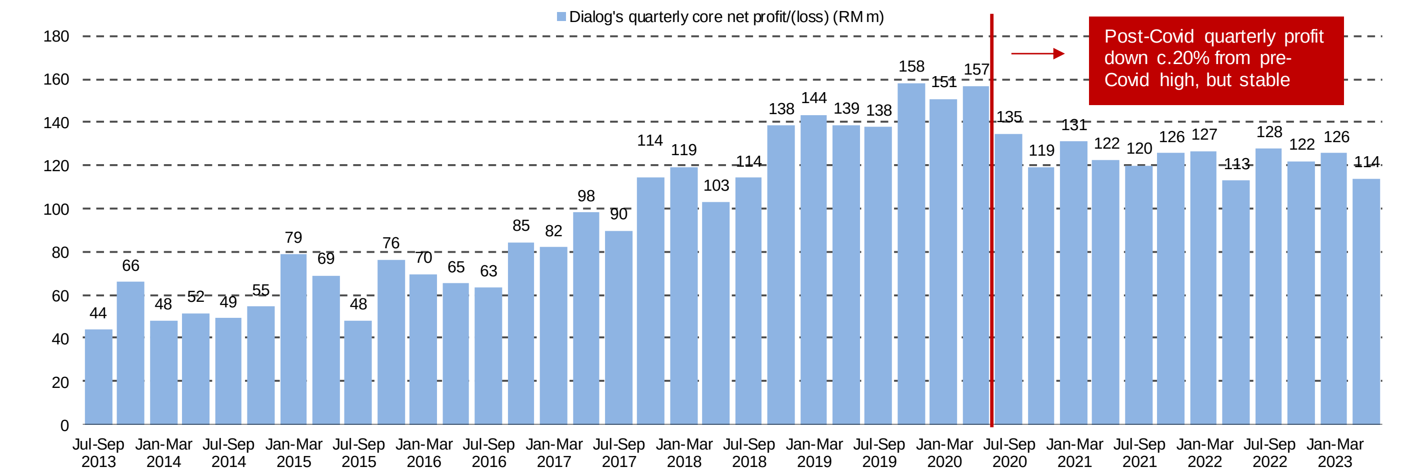
Results comparison table ›

Figure 1: Results comparison

FYE Jun (RM m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	4QFY23 Cum	4QFY22 Cum	yoy % chg	Prev. FY23F	Comments
Revenue	690.0	675.7	*2.1*	802.8	*(14.0)*	3,001.5	2,319.0	*29.4*	3,116.4	4QFY23 rev fell qoq, possibly due to the completion of
Operating costs	(558.3)	(530.2)	*5.3*	(685.3)	*(18.5)*	(2,535.9)	(1,801.6)	*40.8*	(2,664.8)	various EPCC projects or lower oil selling prices.
EBITDA	131.7	145.4	*(9.4)*	117.5	*12.1*	465.6	517.4	*(10.0)*	451.6	4QFY23 EBITDA up qoq, possibly due to lower losses from
EBITDA margin (%)	*19.1*	*21.5*		*14.6*		*15.5*	*22.3*		*14.5*	EPCC projects as they are progressively completed.
Depn & amort.	(73.9)	(67.1)	*10.1*	(65.1)	*13.5*	(253.8)	(239.2)	*6.1*	(363.2)	
EBIT	57.8	78.3	*(26.2)*	52.4	*10.4*	211.8	278.1	*(23.8)*	88.4	
Interest expense	(18.0)	(19.3)	*(6.6)*	(20.5)	*(12.1)*	(72.3)	(40.1)	*80.4*	(76.7)	
Interest & invt inc	15.8	13.0	*21.4*	8.9	*77.1*	49.8	58.7	*(15.1)*	47.5	
Associates' contrib	82.1	54.6	*50.4*	100.4	*(18.3)*	364.0	251.6	*44.7*	378.9	4QFY23 share of associates down qoq due to lower share
Exceptionals	7.6	0.1	*nm*	-	*nm*	0.5	2.0	*nm*	-	profits from its joint-venture tank terminals (reasons
Pretax profit	**145.3**	**126.7**	*14.7*	**141.2**	*2.9*	**553.9**	**550.3**	*0.7*	**438.1**	not disclosed), and lower profits from POES due to lower
Tax	(10.1)	(11.0)	*(8.3)*	(7.2)	*39.7*	(33.3)	(44.4)	*(25.1)*	(28.8)	oil selling prices.
Tax rate (%)	*6.9*	*8.7*		*5.1*		*6.0*	*8.1*		*6.6*	
Minority interests	(8.5)	2.5	*nm*	(3.2)	*163.5*	(10.1)	2.1	*nm*	(5.0)	
Net profit	**126.8**	**118.2**	*7.2*	**130.8**	*(3.1)*	**510.5**	**508.0**	*0.5*	**404.3**	
Core net profit	**114.0**	**113.0**	*0.8*	**125.6**	*(9.3)*	**489.3**	**485.3**	*0.8*	**507.5**	4QFY23 core net profit was down qoq, due to lower share
EPS (sen)	2.2	2.1	*7.2*	2.3	*(3.1)*	9.0	9.0	*0.5*	9.4	of associate profits that more than offset the higher qoq
Core EPS (sen)	2.0	2.0	*0.8*	2.2	*(9.3)*	8.7	8.6	*0.8*	9.0	EBIT. Taxes and minority interest were also higher qoq.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Dialog's quarterly core net profit/(loss) (RM m)



SOURCE: CGS-CIMB RESEARCH, COMPANY

Abbreviations in this report

EPCC: Engineering, procurement, construction and commissioning services provided by Dialog, mainly for the building of Dialog's own tank terminal business, but also for external parties.

Mbpd: Million barrels per day (of oil production).

Sequential quarterly table

Figure 3: Results comparison

FYE Jun (RM m)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Revenue	522.1	505.5	544.5	593.4	675.7	711.7	797.0	802.8	690.0
Operating costs	(386.0)	(378.9)	(421.6)	(470.8)	(530.2)	(600.6)	(691.7)	(685.3)	(558.3)
EBITDA	136.2	126.5	122.9	122.6	145.4	111.1	105.4	117.5	131.7
EBITDA margin (%)	*26.1*	*25.0*	*22.6*	*20.7*	*21.5*	*15.6*	*13.2*	*14.6*	*19.1*
Depn & amort.	(66.0)	(60.0)	(54.4)	(57.7)	(67.1)	(56.3)	(58.4)	(65.1)	(73.9)
EBIT	70.2	66.6	68.5	64.8	78.3	54.8	46.9	52.4	57.8
Interest expense	(2.9)	(7.2)	(6.8)	(6.9)	(19.3)	(16.4)	(17.5)	(20.5)	(18.0)
Interest & invt inc	16.2	6.3	12.2	27.2	13.0	12.0	13.0	8.9	15.8
Associates' contrib	60.9	73.4	68.4	55.2	54.6	84.1	97.4	100.4	82.1
Exceptionals	10.9	3.6	(2.8)	1.2	0.1	(7.1)	-	-	7.6
Pretax profit	**155.4**	**142.7**	**139.5**	**141.5**	**126.7**	**127.4**	**139.9**	**141.2**	**145.3**
Tax	(15.0)	(11.7)	(11.3)	(10.5)	(11.0)	(7.2)	(8.8)	(7.2)	(10.1)
Tax rate (%)	9.6	8.2	8.1	7.4	8.7	5.6	6.3	5.1	6.9
Minority interests	(1.9)	(2.2)	(0.3)	2.1	2.5	5.6	(3.9)	(3.2)	(8.5)
Net profit	**138.5**	**128.8**	**127.9**	**133.1**	**118.2**	**125.8**	**127.2**	**130.8**	**126.8**
Core net profit	**122.4**	**120.1**	**125.5**	**126.7**	**113.0**	**127.7**	**122.0**	**125.6**	**114.0**
EPS (sen)	2.5	2.3	2.3	2.4	2.1	2.2	2.3	2.3	2.2
Core EPS (sen)	2.2	2.1	2.2	2.2	2.0	2.3	2.2	2.2	2.0
Breakdown of exceptionals	**10.9**	**3.6**	**(2.8)**	**1.2**	**0.1**	**(7.1)**	**-**	**-**	**7.6**
- Foreign exchange gain/(loss)	-	-	-	-	-	-	-	-	-
- Gain/(loss) on disposal of PPE	5.0	0.0	(2.8)	1.2	0.1	-	-	-	0.5
- Gain/(loss) on disposal of subsidiary	-	3.6	-	-	-	-	-	-	-
- Gain/(loss) on forward exchange contract	-	-	-	-	-	-	-	-	-
- Impairment losses	-	-	-	-	-	(7.1)	-	-	(14.0)
- Others	6.0	-	-	-	-	-	-	-	21.1

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SOP valuation tables

Figure 4: SOP valuation of Dialog Group Berhad (RM m) - end-CY23F

		Cash flow forecast period		Valuation of 100% equity stake	Dialog's equity stake	Attributable to Dialog	Per share value	Valuation method
		From	To	RM m	%	RM m	RM/share	
	Tank Terminals (RM m)			**18,740.4**		**6,203.3**	**1.10**	
A	- Kertih Terminals	FY00	FY60F	1,074.7		322.4	0.06	
B	- Langsat Terminals (B1 + B2)	FY10	FY67F	827.2		827.2	0.15	
C	- Pengerang Terminals (C1 + C2)	FY14	FY76F	16,838.6		5,053.8	0.90	
A	**Kertih Terminals - Until end of 60-year land lease**	***FY00***	***FY60F***	**1,074.7**		**322.4**	**0.06**	
	Kertih Terminals Sdn Bhd (30% JV) - until FY30F	*FY00*	*FY30F*	*507.8*	*30%*	*152.3*	*0.03*	*DCF to equity*
	Kertih Terminals Sdn Bhd (30% JV) - FY31F-FY40F	*FY31F*	*FY40F*	*331.0*	*30%*	*99.3*	*0.02*	*DCF to equity*
	Kertih Terminals Sdn Bhd (30% JV) - FY41F-FY60F	*FY41F*	*FY60F*	*235.8*	*30%*	*70.8*	*0.01*	*DCF to equity*
B1	**Langsat Terminals - Until end of current 30-year land lease**	***FY10***	***FY37F***	**534.3**		**534.3**	**0.09**	
	Langsat Terminal (One) Sdn Bhd (100% sub)	*FY10*	*FY37F*	*284.2*	*100%*	*284.2*	*0.05*	*DCF to equity*
	Langsat Terminal (Two) Sdn Bhd (100% sub)	*FY12*	*FY37F*	*151.0*	*100%*	*151.0*	*0.03*	*DCF to equity*
	Langsat Terminal (Three) Sdn Bhd (100% sub)	*FY18F*	*FY48F*	*99.1*	*100%*	*99.1*	*0.02*	*DCF to equity*
B2	**Langsat Terminals - Assuming 30-year extension of land lease**	***FY37F***	***FY67F***	**292.9**		**292.9**	**0.05**	
	Langsat Terminal (One) Sdn Bhd (100% sub)	*FY37F*	*FY67F*	*137.2*	*100%*	*137.2*	*0.02*	*DCF to equity*
	Langsat Terminal (Two) Sdn Bhd (100% sub)	*FY37F*	*FY67F*	*81.2*	*100%*	*81.2*	*0.01*	*DCF to equity*
	Langsat Terminal (Three) Sdn Bhd (100% sub)	*FY48F*	*FY78F*	*74.5*	*100%*	*74.5*	*0.01*	*DCF to equity*
C1	**Pengerang Terminals - Until end of current 65-year land lease**	***FY14***	***FY76F***	**16,516.3**		**4,731.5**	**0.84**	
	PITSB - Pengerang Independent Terminals S/B (46% JV)	*FY14*	*FY76F*	*2,868.7*	*46%*	*1,319.6*	*0.23*	*DCF to equity*
	PT2SB - Pengerang Terminals (Two) S/B (25% JV)	*FY19F*	*FY76F*	*7,883.0*	*25%*	*1,970.7*	*0.35*	*DCF to equity*
	PLNG2 - Pengerang LNG (Two) S/B (25% assoc)	*FY18F*	*FY76F*	*5,764.7*	*25%*	*1,441.2*	*0.26*	*DCF to equity*
C2	**Pengerang Expansion - BP Singapore terminal**			**322.3**		**322.3**	**0.06**	
	DTP5 - Dialog Terminals Pengerang (Five) S/B, (100% sub)	*FY22F*	*FY76F*	*322.3*	*100%*	*322.3*	*0.06*	*DCF to equity*
	Upstream and Downstream (RM m)			**3,000.0**	**100%**	**3,000.0**	**0.53**	15x P/E on sustainable earnings of RM200m p.a.
	Note: Including Dialog Resources S/B (100% sub, 20% interest in PSC), Dialog Bayan Petroleum S/B (100% sub, with interest in OSC), Pan Orient Energy (Siam) Ltd (indirect 50% JV), EPCC, Specialist Products & Services, Plant Maintenance & Catalyst Handling Services, Fabrication, and Overseas businesses							
	Add: Advances from Dialog Group Bhd to JVs and associates at end-CY23F (RM m)					0.0	0.00	
	Add: Other net assets at end-CY23F (RM m)					1,976.6	0.35	
	Add: Dialog Group Bhd's consolidated cash balance at end-CY23F (RM m)					1,757.9	0.31	
	Less: Dialog Group Bhd's consolidated debt balance at end-CY23F (RM m)					-2,145.0	-0.38	
	Add: Tank terminal subsidiaries project finance debts at end-CY23F (RM m)					1,266.8	0.22	
	Total SOP valuation of Dialog Group Berhad (RM m) - end-CY23F					**12,059.7**	**2.14**	
	Pengerang Long-Term Expansion	**FY26F**	**FY76F**	**5,290.4**		**3,174.3**	**0.56**	
	DTP6 - Similar to PT2SB, FY29F onwards (assume 60% sub	*FY29F*	*FY76F*	*1,208.7*	*60%*	*725.2*	*0.13*	*DCF to equity*
	DTP7 - Similar to PT2SB, FY31F onwards (assume 60% sub	*FY31F*	*FY76F*	*1,987.2*	*60%*	*1,192.3*	*0.21*	*DCF to equity*
	DTP8 - Similar to PT2SB, FY36F onwards (assume 60% sub	*FY36F*	*FY76F*	*1,279.5*	*60%*	*767.7*	*0.14*	*DCF to equity*
	DTP9 - Similar to PT2SB, FY41F onwards (assume 60% sub	*FY41F*	*FY76F*	*815.0*	*60%*	*489.0*	*0.09*	*DCF to equity*
	Total SOP valuation, including long-term Pengerang expansion (RM m) - end-CY23F					**15,234.0**	**2.70**	
	Number of ordinary shares (m)					5,642.6		

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Cost of equity calculation

	Existing assets	New developments
Risk-free rate	4.0%	4.0%
Equity risk premium	6.0%	6.0%
Beta	0.60	0.80
Cost of equity (nominal)	**7.6%**	**8.8%**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Re-rating catalysts include faster-than-expected progress in securing new customers at Dialog's Phase 3 of the Pengerang Deepwater Terminal (PP3), and the launch of new development phases at PP3 and Langsat 3. These new customers may include Rongsheng Petrochemicals and ChemOne. We highlight that our SOP-based valuation of RM2.70 already includes an estimated RM0.56 valuation attributable to Pengerang's long-term expansion. If Dialog secures a new customer for PP3, we think that its share price may trade up to our target price, but our target price itself may not necessarily be raised.

Meanwhile, Dialog has been actively pursuing higher rates for its plant maintenance services that were secured under a 5-year master service contract with Petronas effective 1 July 2019; margins have been squeezed due to the post-Covid-19 global inflation and manpower shortages, but the plant maintenance service rates will likely be increased from 1 July 2024 onwards.

Downside risks include the potential for logistical challenges and higher raw material prices to continue to cause cost inflation that negatively impacts the economics of Dialog's downstream projects, such as for its EPCC work. The good news is that Dialog has cautiously guided for gradual improvements over the next 9-12 months as legacy EPCC projects are completed.

Dialog's tank terminal projects

Figure 6: Dialog's tank terminals in Malaysia

Name of tank terminal	Location	Capacity (cbm) as at 31-Mar-22	Types of storage tanks	Owners	Shareholders	Notes
Non-industrial tank terminals						
Langsat Terminal One	Southeast coast of Johor	476,000	32 tanks for petroleum products	Dialog Terminals Langsat (1) Sdn Bhd	Dialog: 100%	Phase 1 commissioned Sep 2009 Phase 2 commissioned Apr 2010 Phase 3 commissioned Aug 2011 7 liquid berths with draft of 13-15m. Langsat Port failed to dredge to 16.5m, as agreed with the tank terminal owners
Langsat Terminal Two	Southeast coast of Johor	171,000	10 tanks for petroleum products	Dialog Terminals Langsat (2) Sdn Bhd	Dialog: 100%	Commissioned Dec 2011
Langsat Terminal Three	Southeast coast of Johor	120,000	Petroleum products	Dialog Terminals Langsat (3) Sdn Bhd	Dialog: 100%	Commissioned Jan 2020
		85,000	Petroleum products			Completed in late-4QCY21
		24,000	Renewable fuels			To be completed by 4QCY24
Future Langsat terminals	Southeast coast of Johor	To be built	Petroleum products	To be determined	Dialog: 100%	Another 200,000 cbm of tanks can be built on 17 acres of land available
Pengerang Independent Terminals Sdn Bhd (PITSB, or 'SPV1')	Southeast coast of Johor	1,350,000	57 tanks for crude oil and petroleum products	Pengerang Independent Terminals Sdn Bhd	Dialog: 46% Vopak: 44% Johor State: 10%	Commissioned from Apr 2014 to Mar 2015 One jetty with 5 berths of 24m draft
PITSB - Phase 1E	Southeast coast of Johor	430,000	24 tanks for clean petroleum products	Pengerang Independent Terminals Sdn Bhd	Dialog: 46% Vopak: 44% Johor State: 10%	Commissioned early-2020
PITSB - Phase 1D	Southeast coast of Johor	To be built	Crude oil and petroleum products	Pengerang Independent Terminals Sdn Bhd	Dialog: 46% Vopak: 44% Johor State: 10%	570,000 cbm to be commissioned in the future, once the RAPID refinery is up and running
Pengerang Phase 3 ('PP3') - Jetty and Common Facilities	Southeast coast of Johor	N.A.	Various	Dialog Terminals Pengerang CTF Sdn Bhd	Dialog: 100%	265 acres of reclaimed land and 200 acres of buffer land at PP3 available for future development. This legal entity houses the common facilities for the whole PP3 development, including one jetty of 24m draft
Pengerang Phase 3A ('SPV5')	Southeast coast of Johor	430,000	Petroleum products	Dialog Terminals Pengerang (5) Sdn Bhd	Dialog: 100%	Commissioned Mar 2021 10 years lease to BP Singapore, take-or-pay, sitting on 35 acres of land
Subtotal – non-industrial tank terminals		**3,086,000**				
Industrial tank terminals						
Kertih	Terengganu	400,000	41 tanks for the storage of petrochemical products	Kertih Terminals Sdn Bhd	Petronas Chemicals 40% Dialog 30% Vopak 30%	Leased to six companies linked to Petronas Chemicals Commissioned from 2000, contracted for 20 years take-or-pay to 2020, then extended 10 years to 2030
Pengerang Deepwater Terminal – Phase 2 (PT2SB, or 'SPV2')	Southeast coast of Johor	1,300,000	Crude oil, petroleum products, and petrochemicals	Pengerang Terminals (Two) Sdn Bhd	Petronas 40% Dialog 25% Vopak 25% Johor State 10%	Commissioned late-2018, 25 years lease to Petronas and Petronas Chemicals, take-or-pay One jetty with 12 berths of 24m draft Dedicated for the use of Petronas' RAPID refinery and Petronas Chemicals' petrochemical plants
Pengerang Deepwater Terminal – Phase 2; Pengerang LNG (PLNG2, or 'SPV3')	Southeast coast of Johor	400,000	2 tanks for the storage of LNG, 200,000 cbm each	Pengerang LNG (Two) Sdn Bhd	Petronas Gas 65% Dialog 25% Johor State 10%	Commissioned end-2017, 25 years lease to Petronas Gas, take-or-pay SPV3 hosts an LNG regasification plant with an initial send-out capacity of 3.5m mtpa, as well as two LNG storage tanks totalling 400,000 cbm
Pengerang Deepwater Terminal – Phase 2 (PLNG2 Phase 2, or 'SPV4')	Southeast coast of Johor	To be built	In the future, 2 additional tanks for the storage of LNG, 200,000 cbm each	Pengerang LNG (Two) Sdn Bhd	Petronas Gas 65% Dialog 25% Johor State 10%	Another 400,000 cbm of LNG storage tanks to be built in the future
Subtotal – industrial tank terminals		**2,100,000**				
Future developments						
Pengerang Deepwater Terminal (PDT)	Southeast coast of Johor	To be confirmed	Crude oil and petroleum products	Exact ownership structure is dependent on the anchor tenants, but Dialog is expected to have a majority stakes		500 acres left for development at the buffer land in PITSB and PT2SB. The entire PDT development is able to accommodate a total of five jetties; three constructed so far at PITSB, PT2SB, and PP3
Subtotal – future developments		**To be confirmed**				
Grand Total		**5,186,000**				

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS, PLATTS

PITSB: Pengerang Independent Terminals Sdn Bhd (46% owned by Dialog), also known as SPV1; first commissioned in CY14 with 1.35m cubic metres (cbm) of tank storage capacity and subsequently expanded to 1.78m cbm.

SPV1E: Phase 1E expansion of the PITSB (SPV1) terminal; 430,000 cbm of clean product tank storage capacity (part of PITSB's 1.78m cbm); fully commissioned in early-CY20.

SPV1D: Planned future Phase 1D expansion of the PITSB (SPV1) terminal, with potential of 570,000 cbm of crude tank storage capacity.

PT2SB: Pengerang Terminals (Two) Sdn Bhd (25% owned by Dialog), also known as SPV2; 1.3m cbm; leased for 25 years (effective late-CY18) to Petronas' (unlisted) refinery and Petronas Chemicals' petrochemical plants in the Refinery and Petrochemical Integrated Development (RAPID) development in Pengerang, Johor.

PLNG2: Pengerang LNG (Two) Sdn Bhd (25% owned by Dialog), also known as SPV3, comprising an LNG regasification plant, 400,000 cbm of LNG storage capacity; leased to Petronas Gas for 25 years (effective from CY17).

SPV4: Planned future expansion of PLNG2 (SPV3), with the addition of 400,000 cbm of LNG storage capacity.

PP3: Pengerang Phase 3, with 300 acres of reclaimed land currently under development at an initial cost of RM2.5bn (including RM1.6bn for SPV5). Legal entity: Dialog Terminals Pengerang CTF Sdn Bhd (100% owned by Dialog currently). (Note that there is a further 700 acres at the Pengerang terminals area that is available for development.)

PP3A: Pengerang Phase 3A, also known as SPV5, with 430,000 cbm of clean product tank storage capacity for BP Singapore; commissioned on 19 Mar 2021 at a cost of RM1.6bn. Legal entity: Dialog Terminals Pengerang (5) Sdn Bhd (100% owned by Dialog currently).

Kertih: 400,000 cbm of petrochemical tank storage capacity, commissioned in 2020; leased to various entities of the Petronas Chemicals group for 20 years from Sep 2000 to Sep 2020, with the lease extended by a further 10 years to Sep 2030. Legal entity: Kertih Terminals Sdn Bhd (30% owned by Dialog).

Langsat 1: 476,000 cbm of clean product tank storage capacity, commissioned in 2009. Legal entity: Dialog Terminals Langsat (1) Sdn Bhd (100% owned by Dialog).

Langsat 2: 171,000 cbm of clean product tank storage capacity, commissioned in 2011. Legal entity: Dialog Terminals Langsat (2) Sdn Bhd (100% owned by Dialog).

Langsat 3: 120,000 cbm of clean product tank storage capacity, fully commissioned in Jan 2020. A further 85,000 cbm was constructed at a cost of RM100m and was ready for operations at end-CY21. Renewable and sustainable fuel tanks with capacity of 24,000 cbm to be ready by 4QCY24F. Another 17 acres of land is available for development, which can accommodate another 200,000 cbm of additional tank capacity; this may be constructed in the future, raising Langsat 3's capacity to a grand total of 429,000 cbm. Legal entity: Dialog Terminals Langsat (3) Sdn Bhd (100% owned by Dialog).

Dialog's oil fields ›

DBP: Dialog Bayan Petroleum Sdn Bhd (100% owned by Dialog), holder of the oil service contract (OSC) for the Bayan field, offshore Sarawak, which is effective until CY36. This company was originally named Halliburton Bayan Petroleum Sdn Bhd (HBP); Dialog raised its stake in HBP from 50% to 75% on 27 Aug 2019, to 95% on 13 Dec 2019, and finally to 100% on 29 Jun 2021. It was subsequently renamed as Dialog Bayan Petroleum Sdn Bhd.

DRSB: Dialog Resources Sdn Bhd (100% owned by Dialog); has a 20% interest in the production sharing contract (PSC) for the D35, D21, and J4 marginal fields, offshore Sarawak.

POES: Pan Orient Energy (Siam) Ltd (effective 50.01% stake owned by Dialog) is the concessionaire and operator of Concession L53/48, onshore Thailand. In Aug 2022, Dialog purchased a 100% interest in Pan Orient Energy Corp (POEC), for US$39.2m. POEC, through its wholly-owned subsidiary Pan Orient Petroleum Pte Ltd (POPS), holds 50.01% equity interest in POES.

Baram Junior Cluster: Dialog has a 70% participating interest in the operatorship of the Baram Junior Cluster Small Field Asset Production Sharing Contract (SFA PSC), with Petroleum Sarawak Exploration and Production (PSEP) having a 30% interest.

ESG in a nutshell

Refinitiv ESG Scores

ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score
B	A+	B	B+	B	B-

Dialog is perceived by investors as a well-managed, conservatively-run company that has shareholders' best interests at heart. Still, as an oil and gas services company, Dialog needs to strategise how to navigate the energy transition, so as to remain relevant in a future world that may rely less heavily on fossil fuels. Dialog is currently involved in the upstream oilfield business, the midstream tank terminal storage business, and varied downstream businesses that include the fabrication of oil and gas structures and equipment, engineering and construction of oil and gas plants and structures, plant maintenance and catalyst handling, and the sale of specialist products and services to the oil and gas industry.

Keep your eye on

In Dec 2021, Dialog entered a JV with Diyou PCR Sdn Bhd and incorporated Dialog Diyou PCR Sdn Bhd to build, own and operate a food-grade recycled PET pellets production facility. The plant is on track to be completed and commissioned in 2023F.

In May 2022, Dialog incorporated Dialog ESECO Sdn Bhd to provide innovative solutions for waste management and to support the implementation of recycling. Among the solutions are SisaLab, an innovative digital solution launched in Aug 2022, which encourages efficient waste management, recovery, and recycling.

We believe that Dialog is actively engaged in evaluating various opportunities in the renewable energy (RE) space, including potentially solar or wind farm investments, in order to diversify its exposure away from oil and gas.

Implications

We do not expect Dialog's upstream, midstream and downstream oil and gas businesses to be negatively affected by the energy transition in the 2030s and the 2040s, especially since Dialog's businesses are concentrated in the fast-growing Asia-Pacific region.

Dialog also invested in a carbon capture technology company that is headquartered in the US in 2022.

During 2022, Dialog invested in Hiringa Energy, a full-service green hydrogen provider that is on a mission to create a zero-emission energy future for New Zealand.

Dialog has not yet found RE investments that meet its required IRR thresholds.

ESG highlights

In FY22, Dialog's Scope 1 and Scope 2 emissions totalled 14,450 tCO_2e (Scope 1: 6,093 tCO_2e; Scope 2: 8,357 tCO_2e). CO_2e emissions rose from FY21's 11,636 tCO_2e (Scope 1: 4,227 tCO_2e; Scope 2: 7,409 tCO_2e) due to the commissioning of new tank terminals and higher volume of downstream EPCC and fabrication activities. Dialog does not disclose its Scope 3 emissions.

Dialog has established a Net Zero 2050 target. In the short-term of 2023-2025, it intends to tap on efficiency gains to reduce its Scope 1 and Scope 2 emissions, reduce waste grow its recycling ventures, and potentially invest in RE projects.

Implications

The 'E' disclosures do not cover emissions from some of Dialog's major tank terminal assets that are at the associate/JV level, including its 30%-owned Kertih terminal, 46%-owned PITSB, and 25%-owned PT2SB and PLNG2, as these are not operationally controlled by Dialog and are treated as Scope 3 emissions. Emissions from DBP (100% owned) and DRSB (100% owned) are also Scope 3, as the operations are controlled by Petronas.

Dialog is still working to set up hard numerical targets for its greenhouse gas emissions abatement.

Trends

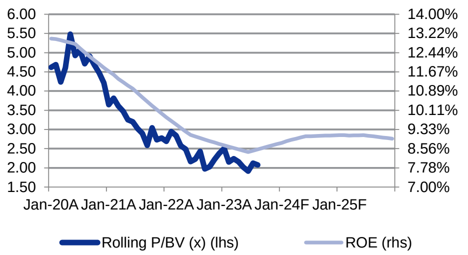
Dialog has a strong and well-known corporate social responsibility programme via the MyKasih Foundation that supports marginalised communities and schools. In FY22, Dialog contributed a total of RM5.5m towards its CSR activities (FY21: RM5.2m; FY20: RM5.4m; FY19: RM2.9m). Up to 30 Jun 2022, RM380m worth of aid has been disbursed by MyKasih Foundation to more than 750,000 financially challenged families and students nationwide.

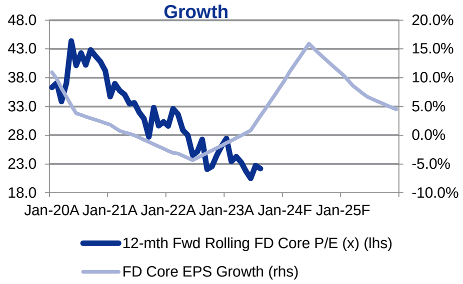
Implications

Part of the aid monies were donated by Dialog itself, but part of the monies were also donated by third-party organisations and individuals through MyKasih's cashless payment system that ensures the funds are in the hands of the intended recipients and that donors know how their donations have been utilised.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, REFINITIV

BY THE NUMBERS





Profit & Loss

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Total Net Revenues	**2,319**	**3,002**	**3,023**	**3,057**	**3,075**
Gross Profit	**517**	**445**	**526**	**601**	**602**
Operating EBITDA	**517**	**445**	**526**	**601**	**602**
Depreciation And Amortisation	-239	-254	-263	-276	-279
Operating EBIT	**278**	**191**	**263**	**325**	**323**
Financial Income/(Expense)	19	-1	4	-4	-23
Pretax Income/(Loss) from Assoc.	252	364	377	372	409
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**548**	**554**	**645**	**693**	**709**
Exceptional Items	2	1	0	0	0
Pre-tax Profit	**550**	**554**	**645**	**693**	**709**
Taxation	-44	-33	-47	-56	-56
Exceptional Income - post-tax					
Profit After Tax	**506**	**521**	**598**	**636**	**653**
Minority Interests	2	-10	-10	-10	-10
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**508**	**511**	**588**	**626**	**643**
Recurring Net Profit	485	489	567	605	622
Fully Diluted Recurring Net Profit	**485**	**489**	**567**	**605**	**622**

Cash Flow

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
EBITDA	517.4	444.6	526.2	600.6	602.1
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(264.2)	123.7	(126.6)	(23.6)	0.0
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	9.4	(67.4)	(80.4)	(53.8)	(68.6)
Other Operating Cashflow	286.9	272.2	260.2	303.6	318.5
Net Interest (Paid)/Received	(20.4)	(38.8)	(34.2)	(41.9)	(61.0)
Tax Paid	(48.6)	(55.5)	(46.7)	(56.3)	(56.3)
Cashflow From Operations	**480.5**	**678.7**	**498.5**	**728.5**	**734.6**
Capex	(131.8)	(273.8)	(245.0)	(245.0)	(135.0)
Disposals Of FAs/subsidiaries	127.9	11.4	101.5	129.4	92.0
Acq. Of Subsidiaries/investments	(239.8)	13.1	0.0	0.0	0.0
Other Investing Cashflow	(49.7)	(46.2)	0.0	(1,125.0)	(1,125.0)
Cash Flow From Investing	**(293.4)**	**(295.5)**	**(143.5)**	**(1,240.6)**	**(1,168.0)**
Debt Raised/(repaid)	395.1	(305.5)	(35.1)	677.6	1,263.6
Proceeds From Issue Of Shares	4.2	(2.9)	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(184.7)	(197.3)	(208.8)	(235.2)	(250.5)
Preferred Dividends					
Other Financing Cashflow	(20.8)	(20.8)	(43.4)	(43.4)	(43.4)
Cash Flow From Financing	**193.7**	**(526.4)**	**(287.3)**	**398.9**	**969.7**
Total Cash Generated	380.9	(143.2)	67.7	(113.2)	536.3
Free Cashflow To Equity	**582.2**	**77.7**	**319.9**	**165.4**	**830.1**
Free Cashflow To Firm	**226.9**	**454.9**	**415.5**	**(444.3)**	**(343.2)**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Total Cash And Equivalents	1,840	1,721	1,788	1,675	2,211
Total Debtors	882	950	1,500	1,554	1,602
Inventories	73	71	69	68	69
Total Other Current Assets	0	0	0	0	0
Total Current Assets	**2,796**	**2,741**	**3,357**	**3,297**	**3,882**
Fixed Assets	3,350	3,436	3,226	4,347	5,359
Total Investments	1,591	1,863	1,930	1,961	2,065
Intangible Assets	807	922	778	751	720
Total Other Non-Current Assets	303	349	349	349	349
Total Non-current Assets	**6,051**	**6,570**	**6,283**	**7,407**	**8,493**
Short-term Debt	337	299	336	0	0
Current Portion of Long-Term Debt					
Total Creditors	747	912	891	877	882
Other Current Liabilities	65	55	55	55	55
Total Current Liabilities	**1,148**	**1,266**	**1,282**	**932**	**937**
Total Long-term Debt	2,027	1,864	1,791	2,805	4,069
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	19	22	17	17	17
Total Non-current Liabilities	**2,046**	**1,885**	**1,808**	**2,822**	**4,085**
Total Provisions	0	0	0	0	0
Total Liabilities	**3,195**	**3,151**	**3,090**	**3,753**	**5,023**
Shareholders' Equity	5,553	6,075	6,454	6,845	7,237
Minority Interests	99	85	95	105	115
Total Equity	**5,652**	**6,160**	**6,550**	**6,951**	**7,353**

Key Ratios

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue Growth	44.0%	29.4%	0.7%	1.1%	0.6%
Operating EBITDA Growth	(2.5%)	(14.1%)	18.4%	14.1%	0.3%
Operating EBITDA Margin	22.3%	14.8%	17.4%	19.6%	19.6%
Net Cash Per Share (RM)	-0.10	-0.08	-0.06	-0.20	-0.33
BVPS (RM)	0.98	1.08	1.14	1.21	1.28
Gross Interest Cover	6.94	2.64	4.36	4.78	3.58
Effective Tax Rate	8.07%	6.00%	7.24%	8.13%	7.95%
Net Dividend Payout Ratio	37.9%	40.9%	40.0%	40.0%	40.0%
Accounts Receivables Days	113.2	104.7	116.0	121.4	121.6
Inventory Days	11.87	10.30	10.26	10.20	10.08
Accounts Payables Days	150.7	117.6	131.4	130.5	129.0
ROIC (%)	5.11%	3.15%	4.21%	4.96%	4.00%
ROCE (%)	3.92%	2.73%	3.40%	3.80%	3.32%
Return On Average Assets	5.82%	5.74%	6.28%	6.28%	5.81%

Key Drivers

	Jun-22A	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Kertih storage capacity (000 cbm)	400.0	400.0	400.0	400.0	400.0
Langsat storage capacity (000 cbm)	852.0	852.0	852.0	952.0	952.0
Pengerang Phase 1 storage capacity (000 cbm)	1,730.0	1,730.0	1,730.0	1,730.0	2,300.0
Pengerang Phase 2 storage capacity (000 cbm)	1,300.0	1,300.0	1,300.0	1,300.0	1,300.0
Pengerang Phase 3 storage capacity (000 cbm)	430.0	430.0	430.0	430.0	430.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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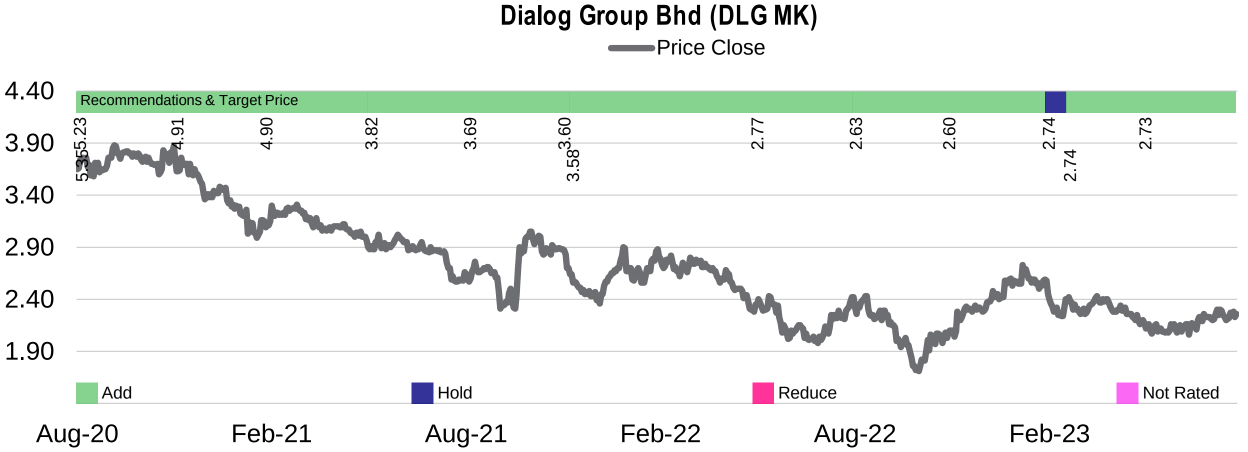
Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2023		
632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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