



## Company report

# DIALOG GROUP

(DLG MK EQUITY, DIAL.KL)

2 May 2019

## RM6bil legal suit on Pengerang land

# BUY

(Maintained)

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**Rationale for report: Company update**

Price	RM3.22
Fair Value	RM3.66
52-week High/Low	RM3.66/RM2.72

### Key Changes

Fair value	↔
EPS	↔

YE to Jun	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	3,110.6	3,586.4	3,786.7	4,006.7
Core net profit (RM mil)	444.8	473.5	547.4	604.8
FD Core EPS (sen)	7.9	8.4	9.7	10.7
FD Core EPS growth (%)	20.0	6.4	15.6	10.5
Consensus Net Profit (RM mil)	-	468.1	535.8	569.6
DPS (sen)	3.2	3.5	3.7	4.2
PE (x)	40.8	38.3	33.2	30.0
EV/EBITDA (x)	35.3	36.6	34.8	32.5
Div yield (%)	1.1	1.2	1.3	1.5
ROE (%)	15.4	13.0	13.9	14.1
Net Gearing (%)	9.9	10.2	9.9	9.8

### Stock and Financial Data

Shares Outstanding (million)	5,638.3
Market Cap (RM mil)	18,155.3
Book Value (RM/share)	0.62
P/BV (x)	5.2
ROE (%)	15.4
Net Gearing (%)	9.9

Major Shareholders	Ngau Boon Keat(20.9%) EPF(8.6%)
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Free Float	58.7
Avg Daily Value (RM mil)	22.8

Price performance	3mth	6mth	12mth
Absolute (%)	7.3	(3.9)	4.5
Relative (%)	10.0	(0.1)	19.1



### Investment Highlights

- We reiterate our BUY recommendation on Dialog Group with unchanged forecasts and sum-of-parts-based (SOP) fair value of RM3.66/share, which implies an FY20F PE of 38x – 17% below its 5-year peak of 46x. Our SOP values the 650-acre buffer land in Pengerang at RM80 psf.
- Dialog together with executive chairman and substantial shareholder Tan Sri Ngau Boon Keat and Pengerang Independent Terminals Sdn Bhd are facing a legal suit from Teguh Kemajuan Sdn Bhd (Teguh) for conspiracy for unlawful or unjust enrichment.
- Teguh is the owner of a 55-acre land in Pengerang which was compulsorily acquired in April 2013 by the Johor state, which then subsequently granted development rights to the joint venture company comprising Dialog, Vopak Group and the Johor state.
- While the court has dismissed Teguh's challenge to the compulsory land acquisition, the company is appealing to the Federal Court against the decision on January 2018 to award a higher land price than its original valuation.
- Teguh is now claiming US\$1.4bil (RM5.6bil) as the projected profits which would be gained from the land development, as well as liability to all future income from the land. Excluding the compulsory land acquisition value which was earlier awarded, this claim alone translates to an unreasonable valuation of RM2,335 psf vs. only RM40–RM70 psf currently for industrial land in Pengerang.
- According to Dialog, which will be contending this claim, the legal suit is frivolous and an abuse of the court process. Hence, we do not expect the group to make any provision for liabilities to its future earnings.
- Meanwhile, the group has already reached progress stage of 30% for land reclamation of Pengerang Phase 3, which involves the construction of petroleum/petrochemical storage and a third jetty at an indicative initial cost of RM2.5bil, in which Dialog will have an 80% equity stake and the Johor state 20%.
- We expect any co-investments in petrochemical operations with multinational players to be associate-level, value-enhancing and internally funded without any equity-raising requirements. This will be part of a 500-acre zone comprising further reclaimable land and the adjoining buffer zone. Additionally, Dialog will be expanding its dormant Langsat Terminal 3 into a 300,000 m3 storage facility.
- Dialog trades at a FY20F PE of 33x, below its 5-year peak of 46x. We view its higher-than-peer premium as justified given Dialog's long-term recurring cash flow-generating businesses, which are largely cushioned from volatile crude oil price cycles, and further underpinned by the Pengerang development's multi-year value re-rating bonanza together with a healthy net cash balance.

## EXHIBIT 1: SUM-OF-PARTS BREAKDOWN

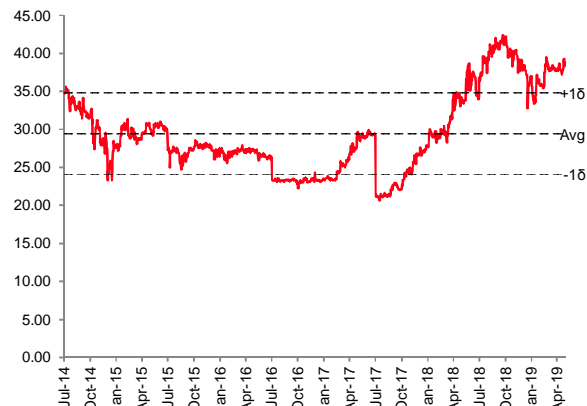
	FY20F Net profit (RMmil)	PE (x)	RMmil	% SOP contribution
Technical services & products	110.6	25	2,799.2	13.5
Advanced catalyst handling	17.4	25	434.7	2.1
Plant maintenance	54.6	25	1,364.4	6.6
Tank terminal	182.0	n/a		
EPCC and fabrication	182.8	25	4,624.7	22.4
<b>Total</b>	<b>547.4</b>			
<b>Based on DCF valuation</b>				
DCF from 30% -owned Kerith centralised tankage facility (400k cu m) - WAC of 7%			252.0	1.2
DCF from 80% -owned Tj Langsat tank terminal Phase 1 (400k cu m)			775.9	3.8
DCF from 80% -owned Tj Langsat tank terminal Phase 2 (247k cu m)			287.2	1.4
DCF from 100% -owned Tj Langsat tank terminal Phase 3 (200k cu m)			153.9	0.7
DCF from Pengerang Phase 1 (45.9% stake in 1.3mil cu m tank terminal)			1,246.5	6.0
DCF from Pengerang Phase 2 (25% stake in 1.3mil cu m tank terminal)			1,766.5	8.6
DCF from Pengerang Phase 1 expansion (45.9% stake in additional 1mil cu m tank terminal)			623.3	3.0
DCF from Pengerang Phase 3 (Assume similar storage capacity and equity stake as Phase 2)			1,542.9	7.5
DCF of 60% stake in Jubail Supply Base Phase 1 in Saudi Arabia (3.5ha)			35.7	0.2
DCF of 50% -owned Bayan enhanced oil recovery project (WAC at 7% , project IRR at 15% of cost at US\$1.2bil)			1,148.0	5.6
DCF of 25% -owned LNG Terminal at Pengerang (400k cu m)			225.7	1.1
DCF of 20% in RocOil's production fields of D35, D21 and J4.			459.2	2.2
650 acres of industrial and buffer land in Pengerang- assume 65% stake at RM80 psf			1,472.3	7.1
373 acres of reclaimable land in Pengerang - assume at RM70 psf			1,137.4	5.5
<b>Sub-total</b>			<b>20,349.5</b>	
Holding company shareholders' funds as at 30 June 2018			2,071.2	
Less: Cost of subsidiaries and associates			(1,761.5)	
<b>SOP valuation (RMmil)</b>			<b>20,659.2</b>	
No of shares (million)			5,638.3	
<b>SOP valuation-basic (RM/share)</b>			<b>3.66</b>	
<b>Implied FY20F PE</b>			<b>38</b>	

Source: AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	3,392.9	3,110.6	3,586.4	3,786.7	4,006.7
EBITDA	414.3	523.9	506.1	533.7	571.9
Depreciation/Amortisation	(81.7)	(104.1)	(100.8)	(105.8)	(111.1)
Operating income (EBIT)	332.6	419.9	405.3	427.9	460.8
Other income & associates	107.0	129.1	165.6	239.5	273.2
Net interest	9.2	13.5	(14.6)	(15.9)	(16.9)
<b>Exceptional items</b>	-	<b>65.6</b>	-	-	-
Pretax profit	448.8	628.1	556.3	651.6	717.1
Taxation	(75.7)	(99.8)	(69.2)	(73.2)	(79.2)
<b>Minorities/pref dividends</b>	<b>(2.5)</b>	<b>(17.9)</b>	<b>(13.6)</b>	<b>(30.9)</b>	<b>(33.1)</b>
Net profit	370.6	510.4	473.5	547.4	604.8
Core net profit	370.6	444.8	473.5	547.4	604.8
<b>Balance Sheet (RMmil, YE 30 Jun)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Fixed assets	853.0	1,603.0	1,763.4	1,931.0	2,108.0
Intangible assets	173.9	288.4	288.4	288.4	288.4
<b>Other long-term assets</b>	<b>2,030.6</b>	<b>2,106.6</b>	<b>2,264.5</b>	<b>2,479.1</b>	<b>2,720.3</b>
Total non-current assets	3,057.6	3,998.0	4,316.3	4,698.5	5,116.7
Cash & equivalent	1,425.4	1,265.0	1,287.7	1,330.6	1,373.1
Stock	83.9	92.4	94.3	96.1	98.1
Trade debtors	1,233.9	997.5	1,017.5	1,037.8	1,058.6
<b>Other current assets</b>	<b>16.0</b>	<b>12.3</b>	<b>12.3</b>	<b>12.3</b>	<b>12.3</b>
Total current assets	2,759.1	2,367.2	2,411.8	2,476.9	2,542.1
Trade creditors	1,149.0	1,074.8	1,085.5	1,096.4	1,107.3
Short-term borrowings	415.1	377.5	415.3	456.8	502.5
<b>Other current liabilities</b>	<b>45.4</b>	<b>74.9</b>	<b>74.9</b>	<b>74.9</b>	<b>74.9</b>
Total current liabilities	1,609.6	1,527.2	1,575.7	1,628.1	1,684.7
Long-term borrowings	1,008.6	1,232.8	1,257.4	1,282.6	1,308.2
<b>Other long-term liabilities</b>	<b>6.3</b>	<b>5.8</b>	<b>5.8</b>	<b>5.8</b>	<b>5.8</b>
<b>Total long-term liabilities</b>	<b>1,014.9</b>	<b>1,238.6</b>	<b>1,263.3</b>	<b>1,288.4</b>	<b>1,314.1</b>
Shareholders' funds	3,111.5	3,500.9	3,777.1	4,115.9	4,483.9
Minority interests	80.7	98.5	112.1	143.1	176.1
BV/share (RM)	0.55	0.62	0.67	0.73	0.80
<b>Cash Flow (RMmil, YE 30 Jun)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Pretax profit	448.8	628.1	556.3	651.6	717.1
Depreciation/Amortisation	81.7	104.1	100.8	105.8	111.1
Net change in working capital	(66.0)	186.7	(11.1)	(11.4)	(11.7)
<b>Others</b>	<b>(191.9)</b>	<b>42.8</b>	<b>81.8</b>	<b>150.5</b>	<b>177.1</b>
Cash flow from operations	272.6	961.7	727.8	896.5	993.6
Capital expenditure	(83.1)	(816.9)	(200.0)	(200.0)	(200.0)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	<b>3.4</b>	<b>226.3</b>	<b>(329.9)</b>	<b>(4.3)</b>	<b>9.6</b>
Cash flow from investing	(79.7)	(590.6)	(529.9)	(204.3)	(190.4)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(149.4)	(180.4)	(197.3)	(208.6)	(236.8)
<b>Others</b>	<b>9.2</b>	<b>13.5</b>	<b>(14.6)</b>	<b>(15.9)</b>	<b>(16.9)</b>
<b>Cash flow from financing</b>	<b>(140.3)</b>	<b>(166.9)</b>	<b>(211.9)</b>	<b>(224.5)</b>	<b>(253.7)</b>
<b>Net cash flow</b>	<b>52.7</b>	<b>204.1</b>	<b>(14.0)</b>	<b>467.7</b>	<b>549.4</b>
<b>Net cash/(debt) b/f</b>	<b>(457.0)</b>	<b>7.4</b>	<b>69.3</b>	<b>1.6</b>	<b>(345.3)</b>
Net cash/(debt) c/f	7.4	69.3	1.6	(345.3)	(385.0)
<b>Key Ratios (YE30 Jun)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue growth (%)	33.9	(8.3)	15.3	5.6	5.8
EBITDA growth (%)	7.5	26.5	(3.4)	5.5	7.2
Pretax margin (%)	13.2	20.2	15.5	17.2	17.9
Net profit margin (%)	10.9	16.4	13.2	14.5	15.1
Interest cover (x)	nm	nm	27.7	27.0	27.2
Effective tax rate (%)	16.9	15.9	12.4	11.2	11.0
Dividend payout (%)	40.3	35.4	41.7	38.1	39.2
Debtors turnover (days)	107	131	103	99	95
Stock turnover (days)	9	10	9	9	9
Creditors turnover (days)	102	130	110	105	100

Source: Company, AmInvestment Bank Bhd estimates

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