Dialog Group (DLG MK)

4QFY26: Downstream's Year; FY27 Sets The Stage For Upstream

Highlights

- **FY26 results beat market expectation but were in line with ours.** Segment-wise, downstream contributed most of the FY26 earnings growth yoy as DLG reverted the segment to sustainable profits following a legacy of loss-making EPCC projects in FY25. Midstream earnings were slightly lower yoy, as storage was already at peak-cycle earnings. Upstream did benefit from higher oil prices, but the quantum was smaller yoy due to equipment maintenance since 3QFY26, which had not fully reverted production volumes to normal levels.
- **FY27 sets the stage for upstream's earnings redebut.** Assuming the US-Iran conflict prolongs, oil prices may remain high despite consensus expectation for oil prices to normalise towards US$70/bbl. Maintain BUY, with a target price of RM2.95.

4QFY26 Results

Year to 30 Jun (RMm)		% chg	% chg	(RMm)	% chg	Note: Vopak's accounts is Year to 31 Dec
Revenue	774.6	11.1	27.3	2,884.7	15.3	
- Malaysia	462.0	(1.8)	35.5	1,868.6	29.9	
- Overseas	312.5	38.2	16.9	1,016.1	(4.5)	
JV/associates	69.2	(6.5)	(25.7)	280.7	(4.2)	Storage is already at peak cycle earnings
Finance costs	(12.9)	(6.2)	2.7	(54.7)	12.0	
PBT	204.1	14.8	12.6	717.7	3,841.0	
- Malaysia	191.4	22.9	12.2	641.1	118.9	
- Overseas	12.7	(42.4)	18.6	76.6	(7.7)	4QFY26 EI*: RM2m forex gain, and a huge
PBT margin (%)	26.4%	0.9%	-3.5%	24.9%	9.9%	RM31.8m inventory write-down from Australia/
Tax	(36.5)	107.5	23.8	(92.9)	40.4	New Zealand region, to net realisable value. We
Net Profit	167.5	12.9	13.6	593.6	95.4	believe this inventory refers to land held for
Core Profit	189.6	29.0	50.5	632.7	38.7	Development (FY25: RM15.0m write-down)

** Exceptional Item (EI)*

Source: Dialog Group

Analysis

- **FY26 profit beat the Street's estimates but was in line with ours, comprising 104%/109% of ours/consensus forecasts.** A final interim DPS was proposed at RM0.03, bringing total FY26 DPS to RM0.047 (FY25:RM0.031). Downstream segment The downstream segment continued to lead the growth for both 4QFY26 and the full-year, generating sustained profits unlike FY25 when Dialog Group (DLG) was still executing the loss-making legacy EPCC projects. Based on DLG's guidance that downstream earnings mix reached 25% for both 4QFY26/FY26, we estimated that the segment's earnings likely tripled in size relative to FY25.

Key Financials

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F	2029F
Net turnover	2,502	2,885	2,971	2,416	2,312
EBITDA	546	857	933	950	939
Operating profit	216	509	525	512	471
Net profit (rep./act.)	300	593	658	676	300
Net profit (adj.)	452	632	658	676	630
EPS (x)	7.2	10.0	10.4	10.7	10.0
PE (x)	12.3	15.9	15.9	14.4	13.9
P/B (x)	2.2	2.1	1.9	1.8	1.7
EV/EBITDA (x)	1.4	2.2	2.2	2.3	2.1
Dividend yield (%)	12.0	18.4	18.4	12.0	12.0
Net margin (%)	12.0	20.6	22.1	28.0	27.2
Net debt/(cash) to equity (%)	4.8	1.7	-	-	-
Consensus net profit	-	-	580	590	-
UOBKH/Consensus (x)	-	-	1.13	1.15	-

Source: Dialog Group, Bloomberg, UOB Kay Hian

Analyst(s)

Kong Ho Meng

homeng@uobkh.com

+603 2147 1987

BUY (Maintained)

Share Price	RM1.96
Target Price	RM2.95
Upside	+48.1%

Stock Data

Sector	Energy
Bloomberg ticker	DLG MK
Shares issued (m)	5,642.6
Market cap (RMm)	11,066.0
Market cap (US$m)	2,766.0
3-mth avg daily t'over (US$m)	7.4

Price Performance (%

52-week high/low				RM2.36/RM1.54
1mth	3mth	6mth	1yr	YTD
(3.9)	(0.9)	9.5	4.8	16.7

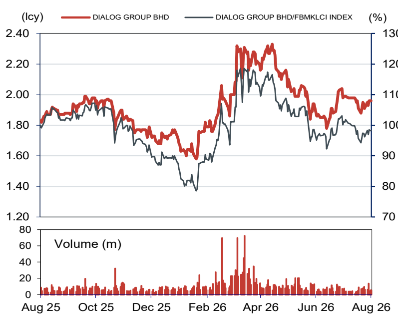
Major Shareholders (%)

Skim Amanah Saham Bumiputera	37.9
Yayasan Pelaburan Bumiputera	11.1

Balance Sheet Metrics

FY27 NAV/Share (RM)	RM1.01
FY27 Net Debt/Share (RM)	n.m.

Price Chart



Source: Bloomberg

Company Description

Dialog provides engineering, procurement, construction and commissioning (EPCC) services and plant maintenance services. The company also owns O&G tank terminals, while marketing specialty chemicals and equipment. Dialog has joint operatorship of 3 storage terminals with Royal Vopak (Vopak), which is the world's largest independent storage player. The terminals are Kertih, Pengerang Independent Terminals SB (PITSB), and Pengerang Terminals (Two) SB (PT2SB)

- **Midstream continued to operate at multi-cycle highs.** Similar to Vopak's reporting on its JV terminals, DLG's JV/associate income was largely driven by storage, which sustains at industry multi-cycle highs ie storage tank occupancy rates at over 94%, and monthly storage rates fixed at S$6.0-6.5/cbm. Hence, there is likely very little room to sustain profits above that level, despite the ongoing US-Iran conflict alongside the Hormuz blockage, which may benefit DLG especially on the ancillary income aspect. In regards to the qoq and yoy decline for that segment, management attributed this as normal fluctuations in the business.
- **Upstream: Benefitted from higher oil prices, though volumes not yet optimal.** According to US Energy Information Administration, Brent price averaged US$103/bbl in 2QFY26, vs US$81/bbl in 4QFY26 and below US$80/bbl in 2HFY25. We can observe how DLG's upstream business benefitted from higher oil prices via its Thailand onshore JV concession, which despite falling production volumes, recorded higher profits from RM4m in 2QFY26, to RM7m in 3QFY26, and subsequently RM8m in 4QFY26. However, upstream earnings quantum for FY26 was still lower yoy, mainly due to volume disruptions since a major local field maintenance was undertaken since 3QFY26. No other details were shared but we understand the maintenance remained ongoing throughout 4QFY26.
- **1HFY27 marks a new milestone for the group.** By end-1QFY27 (Sep 26), DLG's 25% stake in the Production Sharing Contract (PSC) Cendramas is expected to contributing to earnings. Cendramas was the legacy PM-304 PSC operated by Petrofac. Management's guidance at this stage is very limited, but it updated that the field's production rate had been stable. Hence, the only other reliable source is Petrofac's past disclosures on PM-304 PSC's financials (appended on the RHS) and adjusting for the stakes (but we assume for now all other cost bases are similar)
- **We believe DLG's initial earnings from Cendramas may be smaller than Petrofac's 2023**. Given various geopolitical developments, consensus is now expecting 2026/27 oil prices at US$82/bbl and US$70/bbl respectively. Assuming US$70/bbl, we doubt that DLG will repeat the losses Petrofac incurred in 2021, as East Cendor's first oil was in 2022 and production has since doubled. Conservatively, we expect lower earnings (RM0-40m p.a.) vs what Petrofac achieved in 2023, and comparatively smaller vs D35 PSC where DLG recognised a larger net entitlement volume vs Cendramas'.
- **DLG officially guides BJC startup in 2QFY27, aligning with our earlier reports** highlighting a potential early first gas startup (Oct/Nov 26) for the Baram Junior Cluster (BJC) PSC, vs DLG's initial guidance of 2027. We noted that DLG's capital commitments for upstream operations halved yoy from RM1.05b (FY25) to RM523m, coinciding with an increase in intangible assets by RM557m.

Valuation/Recommendation

- **Maintain BUY, with a target price of RM2.95.** This implies 27x FY27F PE and 22x EV/EBITDA. We believe DLG warrants the high EV/EBITDA, relative to its historical three-year average of 12-19x, given the near-term potential for its upstream earnings to surprise on the upside.

Earnings Revision/Risk

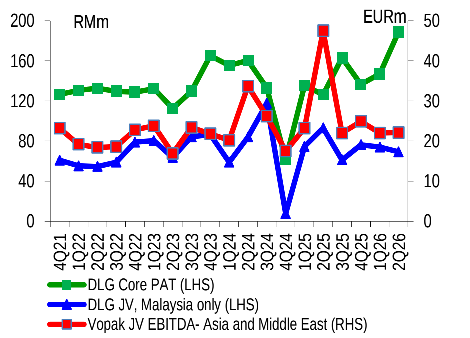
- **We keep our FY27/28 earnings estimates unchanged, and introduce our FY29 forecast.** We largely retain our above-consensus forecasts, but we still leave room for upside surprise pending updates from the new PSC's startup**.**

Segmental Earnings Estimate*

Percentage (%), and RMm in amount	4QFY25	FY25	4QFY26	FY26
Group PATAMI, reported	147.4	440*	167.5	593.6
Upstream mix (%)	*25-30*	*30-35*	*20-25*	*25*
Upstream, RMm	29-38	132-154	34-42	149
Midstream mix (%)	*55-60*	*55-60*	*45-50*	*50*
Midstream, RMm	81-89	242-264	76-84	298
Downstream mix (%)	*10-15*	*5-10*	*25-30*	*25*
Downstream, RMm	15-22	22-44	42-54	149

** The range of percentages constitutes management guidance; RMm amount is our estimates. FY25 group PATAMI adds back RM91m Malic Acid write-off, RM44m loss (Dialog-Jiyou)*
Source: Dialog, UOB Kay Hian

Vopak's MENA* JV Terminals EBITDA Generation vs DLG



**Middle East and North Asia (MENA)*
Source: UOB Kay Hian

Petrofac Integrated Energy Services (IES) Data

FYE Dec, US$m	2021	2022	2023
Net production , kboe	640	1,261	1,260
Net production rate, kboepd	1.8	3.5	3.5
Realised oil price, US$/bbl	75	112	93
US$m			
Revenue	50	137	121
EBITDA..	21	109	.90
EBIT, normalised	(6)	58	34
Net profit, normalised	(5)	53	23
Net book value	84.	86	73
Net lease liabilities	59	52	38

Note: PM304 PSC stakeholders: Petrofac (35.3%), Petronas Carigali (35.3%), KUFPEC (29.4%); expires in 23 Sep 2026;
Note: Jump in 2022 revenue due to East Cendor's first oil in 2021.
Source: Petrofac Annual Reports

Environmental, Social, Governance Updates (ESG)

Environmental

- Carbon (CO2) emission reduction. Although greenhouse gas emissions increased in FY21, DLG is installing solar power generation assets to offset this.
- Safety (HSE). 0.02 Lost Time Injury (LTI) frequency in FY25 (FY24: 0.03).

Social

- Diversity. 27-30% female representation in the management team.

Governance

- Achieved 3.5 rating (FTSE4Good) and 20.7 Ratings/ Medium ESG Risk rating by Sustainalytics

Profit & loss

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Net turnover	2,885	2,971	2,416	2,312
EBITDA	896	933	950	939
Deprec. & amort.	349	408	438	468
EBIT	548	525	512	471
Total other non-op. income	(595)	(685)	(629)	(626)
Associate contributions	281	292	328	328
Net interest income/(expense)	(55)	(30)	(33)	(37)
Pre-tax profit	718	787	806	762
Tax	(93)	(102)	(104)	(99)
Minorities	(31)	(27)	(27)	(33)
Net profit	593	658	675	630
Net profit (adj.)	632	658	675	630

Balance Sheet

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Fixed assets	2,714	3,161	3,393	3,625
Other LT assets	2,453	2,753	3,081	3,409
Cash/ST investment	1,837	2,205	2,389	2,699
Other current assets	751	774	629	602
Total assets	9,502	10,260	10,839	11,681
ST debt	32	276	387	628
Other current liabilities	999	1,037	751	716
LT debt	1,818	1,425	1,604	1,796
Other LT liabilities	27	27	27	27
Shareholders' equity	5,982	6,363	6,755	7,119
Minority interest	521	496	607	607
Total liabilities & equity	9,502	10,260	10,839	11,681

Cash flow

Year to 30 Jun (RMm)	2026	2027F	2028F	2029F
Operating	1,036	1,375	1,228	1,340
Pre-tax profit	718	787	806	762
Tax	(85)	(102)	(104)	(99)
Deprec. & amort.	349	408	438	468
Associates	281	292	328	328
Working capital changes	(177)	74	(122)	(5)
Non-cash items	232	207	210	214
Other operating cashflows				
Investing	1,036	1,375	1,228	1,340
Capex (growth)	(859)	(250)	(250)	(250)
Investment				
Proceeds from sale of assets	(101)	(300)	(328)	(328)
Others				
Financing	88	(206)	(217)	(202)
Dividend payments	312	(426)	(434)	(415)
Proceeds from borrowings	(127)	250	250	250
Loan repayment	(97)	(30)	(33)	(37)
Others/interest paid				
Net cash inflow (outflow)	185	369	184	311
Beginning cash & cash equiv.	1,669	1,836	2,205	2,389
Changes due to forex impact	(17)	0	0	0
Ending cash & cash equiv.	1,837	2,205	2,389	2,699

Key Metric

Year to 30 Jun (x)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	31.1	31.4	39.3	40.6
Pre-tax margin	24.9	26.5	33.4	32.9
Net margin	15.1	15.0	14.7	13.2
ROA	8.7	9.1	9.0	8.0
ROE	15.1	15.0	14.7	13.2
Growth (% yoy)				
Turnover	15.3	3.0	(18.7)	(4.3)
EBITDA	64.2	4.1	1.8	(1.2)
Pre-tax profit	92.9	9.7	2.5	(5.6)
Net profit	39.9	4.0	2.7	(6.8)
Net profit (adj.)	39.9	4.0	2.7	(6.8)
EPS	39.9	4.0	2.7	(6.8)
Leverage				
Debt to total capital	29.9	30.0	31.5	33.6
Debt to equity	32.5	32.4	34.3	36.5
Net debt/(cash) to equity	1.7	-	-	-
Interest cover (x)	16.4	31.5	28.7	25.3

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at this link or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."