Dialog Group (DLG MK)

4QFY26 Results Preview: No Surprises, Upstream "Debut" For FY27

BUY (Maintained)

Share Price	RM1.98
Target Price	RM2.95
Upside	+49.0%

Highlights

- **FY26 results unlikely to surprise.** After several quarters of outperformance, we expect 4QFY26 to be largely consistent qoq, despite the temporarily high O&G prices triggered by the US-Iran conflict. Storage (midstream) will continue to reflect multi-cycle highs, though our analysis of Royal Vopak's 2Q26 results (showing a flattish MENA JV income qoq) seems to hint that any upside to storage ancillary income are not material catalysts.
- **Upstream will "reboot for debut" and be the centre of attention in FY27.** For 4QFY26 upstream, we understand that the maintenance activities which impaired 3QFY26 upstream results (25% earnings mix), were still ongoing and volumes were gradually recovering. However, DLG's upstream portfolio will see accretion from several new PSCs including BJC. The material gas field has good progress for early first gas by Oct/Nov 26 (vs initial expectation of 2027). We see early startup track record and improving upstream data transparency as key factors to rerate DLG's upstream valuation in our SOTP. Maintain BUY and target price of RM2.95.

Analysis

- **Royal Vopak's 2Q26 insights detailed the resiliency of the storage terminal business against geopolitical conflicts and trade disruptions.** Vopak highlighted how some of its existing storage terminals had a greater and instrumental role in navigating higher demand for national energy sovereignty and energy affordability. They often require reliable control over diverse and competitively priced global supply sources. These more than offset the negative shocks impacting the Fujairah terminals. Also, there is an urgent systemic need to decarbonise – as by doing so, energy independence can be formed from traditional energy sources, but long-term resilience of power grids must not be overlooked. Hence, these justifies the higher future capex allocation to Battery Energy Storage System.
- **Storage remains stable and at multi-cycle highs.** Vopak's 2Q26 MENA JV EBITDA was similar qoq at US$22m. This is a reliable indication of Dialog Group's (DLG) upcoming 4QFY26 Malaysian JV income by 20 Aug 26 (3QFY26: RM74m), and corroborates our view that despite the heighted energy security demand, storage occupancy and rates will remain at multi-cycle levels (>90% uptime, monthly storage rates capped at average S$6-7/cbm). Although we were guided of increased throughput activities (which implies higher ancillary income), we take a more prudent view by assuming this is not a major catalyst.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,152	2,502	2,641	2,798	2,715
EBITDA	788	546	808	836	877
Operating profit	455	216	439	440	458
Net profit (rep./act.)	580	300	610	663	593
Net profit (adj.)	595	452	610	663	593
EPS	9.5	7.2	9.7	10.5	9.4
PE	20.9	27.6	20.4	18.8	21.0
P/B	2.5	2.6	2.4	2.2	2.1
EV/EBITDA	11.3	15.9	10.5	10.1	9.9
Dividend yield	1.9	1.4	2.0	2.1	1.9
Net margin	18.4	12.0	23.1	23.7	21.8
Net debt/(cash) to equity	2.2	n.m.	n.m.	n.m.	n.m.
Interest cover	12.2	11.2	15.9	15.1	14.0
ROE	13.9	7.4	14.3	14.9	12.8
Consensus net profit	-	-	578	619	684
UOBKH/Consensus (x)	-	-	1.06	1.07	0.85

Source: Dialog, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Energy
Bloomberg ticker	DLG MK
Shares issued (m)	5,642.6
Market cap (RMm)	11,179.0
Market cap (US$m)	2,795.0
3-mth avg daily t'over (US$m)	7.4

Price Performance (%)

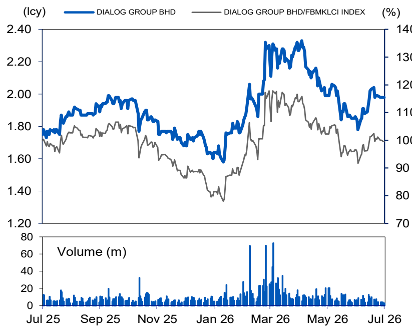
52-week high/low: RM2.36/RM1.54

1mth	3mth	6mth	1yr	YTD
6.5	(13.6)	20.7	17.1	17.9

Major Shareholders

Major Shareholders	%
EPF	23.0
Ngau Boon Keat	18.3
Azam Utama	7.6

Price Chart

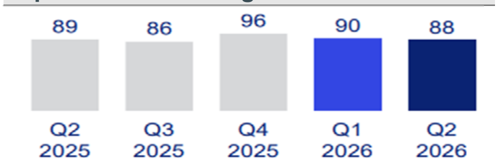


Source: Bloomberg

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)

Vopak's MENA Storage Utilisation



Note: Middle East And North Asia (MENA);
Source: Royal Vopak Results Presentation

- **Upstream: 3QFY26 volumes impaired by maintenance downtime...**The effect of benefitting from high oil prices was muted in the last quarter due to a heavy maintenance downtime. We now understand 4QFY26 will not see a full, but gradual recovery of those volumes. Nevertheless, we draw attention to new projects. We were early to reveal our channel checks on the Baram Junior Cluster Small Field Asset Production Sharing Contract (BJC SFA PSC), whereby its final investment decision was valued at US$235m, on a potential early first gas by Oct/Nov 26. Following our update that the Salbiah Wellhead Platform had an early sailaway by Apr 26, we understand that a greenfield transportation and installation (T&I) campaign during 25 Apr 26-30 July 26 was executed for the Salbiah platforms and drilling (SLDP-A) and Baronia (BNCCP-B) pipelines.
- **…but new projects progressed fast, hinting that upstream production increment is near.** Dialog recently updated that a routine flaring activity, part of standard well unloading operations, started on 13 Jul 26. Most recently, we understand that the T&I campaign is completed. We deem BJC's early startup as a material catalyst because: a) BJC's volume is significant (5,000-23,000 boepd) relative to D35 (3,000 boepd), this is based on guidance from Petronas on the potential production rate of 70-200mmscf/d; b) Petronas will recognise BJC as the first successful Discovered Resource Opportunity; and c) an early startup will also help capture high O&G prices if the war prolongs. In this case, the gas price will be referenced to Malaysia Reference Price (MRP), which typically lags a few months vs Brent movements.
- **Transparency for upstream assets to improve once earnings mix rise to >25% of group profit.** The Securities Commission and Bursa had taken steps since 2013 to enhanced public market disclosure of listed companies engaging in mineral, oil & gas (MOG) activities. For listed companies, the threshold for additional disclosure is if the MOG activity is >25% of group profit, expenses, or asset. Additional disclosures include updated data on reserves and contingent resources, and appointing a competent valuer. Based on this, we conclude that DLG was previously exempted from this rule despite having a 25% upstream earnings mix in certain quarters, as that data included Bayan but we assume Bayan does not qualify as MOG because it is merely an oilfield service contract. We expect additional disclosures once BJC kicks in.

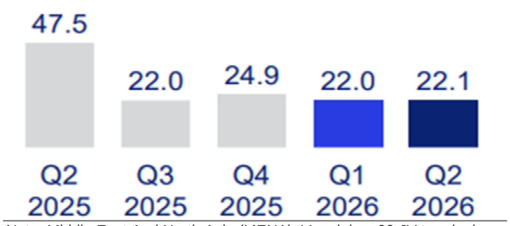
Valuation/ Recommendation

- **Maintain BUY with a target price of RM2.95** This implies 27x FY27F PE and 22x EV/EBITDA respectively after forecasts upgrades. 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. But in the larger context, the rebalancing of DLG's earnings mix away from storage (when DLG used to trade at >30x EV/EBITDA historically) may imply that its long-term EV/EBITDA should more closely reflect integrated peers like ExxonMobil (11x) vs pure upstream producers like Hibiscus Petroleum (<2x). Also, improving transparency on upstream earnings will allow a higher revaluation of DLG's upstream portfolio in the future.

Earnings Revision/ Risk

- **2026-28 earnings retained.**

Vopak's MENA JV Terminals EBITDA



Note: Middle East And North Asia (MENA); Vopak has 22 JV terminals under its MENA portfolio of 27 terminals, with total capacity of 10.3m cbm. The three Malaysian terminals (Kertih, PITSB and PT2SB) accounted for 3.7m cbm or 36% of MENA JV terminals combined.
Source: Royal Vopak Results Presentations

Royal Vopak 2Q26 Insights

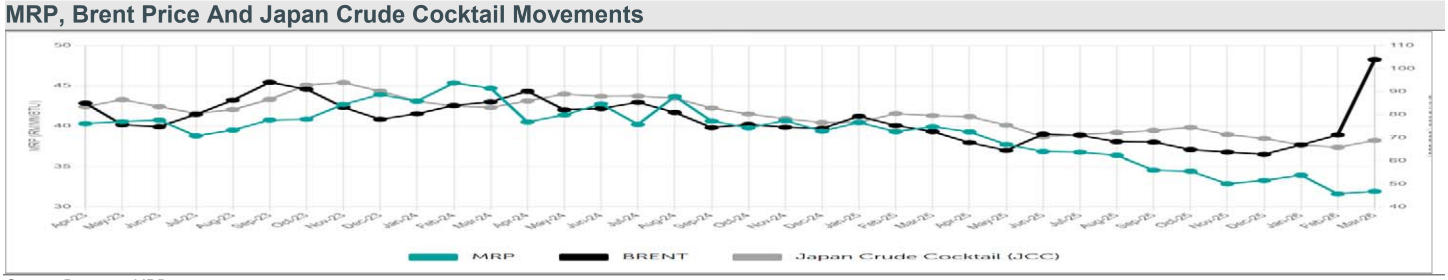
Vopak confidently raised, again, full-year 2026 EBITDA, with updates on the ground as the following:
i) Its gate terminal (Netherlands) provided liquefied natural gas (LNG). Capable of meeting Northwest Europe the needed flexibility to import 1/3 of Netherland's natural gas consumption, the scale was significant to Europe's energy security
ii) The persistent Middle East conflict has opened more alternative supply sources to the Asian market. One example is its Canadian Ridley Island Energy Export Facility (REEF) that exports liquefied petroleum gas (LPG) from Canada's West Coast to Asia in just 10 days, vs >25 days from US Gulf Coast.
iii) Fujairah's 18m cbm of storage capacity make it the world's third-largest storage hub (ranking behind Rotterdam and Singapore). Within this, Vopak's JV terminal is 2.6m cbm
iv) Although global utilisation remained strong at 91%, MENA was the sole portfolio (of 27 terminals) with a qoq decline from 90% to 88%. A back-of-envelope estimate suggests Fujairah's activity was really low, with utilisation likely at 40%.
v) Vopak confirmed this (without disclosing standalone utilisation) and added the damaged, taken-out-of-service capacity as another factor for its low occupancy. Vopak quantified a negative exposure of US$5m from the conflict.
vi) Vopak believes Fujairah will be more strategically important, but disagreed that South Africa, despite seeing rising spot storage, will overtake Fujairah as an alternative storage hub
vii) Aside from Fujairah, India also saw lower activity as the nation struggled to recalibrate the supply chain from a major disruption of Middle East LPG.

Source: Vopak

Environmental, Social and Governance

Environmental
-Carbon (CO2) emission reduction. Although greenhouse gas emissions increased in FY21, DLG is installing solar power generation assets to offset this. -Safety (HSE). Nil Lost Time Injury (LTI) frequency in FY22 (FY21: 0.00).
Social
-Diversity. 9% female representation in the management team. ->RM440m donations since inception of MyKasih (set up by the founder).
Governance
-Five out of nine board members are independent with diverse backgrounds, even though there is family representation in the management team.

MRP, Brent Price And Japan Crude Cocktail Movements



Source: Petronas, MRP

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	2,502	2,641	2,798	2,715
EBITDA	550	674	676	778
Deprec. & amort.	329	370	397	420
EBIT	220	305	279	358
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	293	284	352	263
Net interest income/(expense)	(49)	(51)	(55)	(63)
Pre-tax profit	372	673	736	659
Tax	(66)	(47)	(52)	(46)
Minorities	(6)	(15)	(22)	(20)
Net profit	452	610	663	593

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,644	2,862	3,074	3,253
Other LT assets	2,522	2,822	3,122	3,375
Cash/ST investment	1,670	2,006	2,241	2,386
Other current assets	418	442	468	454
Total assets	8,622	9,165	9,869	10,523
ST debt	721	957	1,042	971
Other current liabilities	747	532	604	683
LT debt	861	1,191	1,352	1,530
Other LT liabilities	21	21	21	21
Shareholders' equity	5,741	6,107	6,505	6,861
Minority interest	502	524	520	638
Total liabilities & equity	8,622	9,165	9,869	10,523

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	1,012	1,332	1,255	1,109
Pre-tax profit	376	673	736	659
Tax	(80)	(47)	(52)	(46)
Deprec. & amort.	329	368	396	420
Working capital changes	273	222	53	(52)
Other operating cashflows	115	117	121	129
Investing	(475)	(800)	(800)	(763)
Capex (growth)	(76)	250	250	250
Investments	(91)	(51)	(55)	(63)
Others	(251)	(394)	(415)	(387)
Financing	(418)	(195)	(220)	(200)
Proceeds from borrowings	(76)	250	250	250
Loan repayment	(91)	(51)	(55)	(63)
Others/interest paid	(251)	(394)	(415)	(387)
Net cash inflow (outflow)	120	337	235	146
Beginning cash & cash equivalent	1,572	1,669	2,006	2,241
Changes due to forex impact	(22)	0	0	0
Ending cash & cash equivalent	1,670	2,006	2,241	2,386

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.0	31.2	31.1	33.8
Pre-tax margin	15.0	26.6	27.9	23.9
Net margin	12.1	24.0	24.9	21.3
ROA	4.7	8.0	8.0	6.9
ROE	11.2	12.2	12.3	10.8
Growth				
Turnover	(1.3)	(14.9)	(14.4)	(9.2)
EBITDA	56.3	91.8	92.3	121.3
Pre-tax profit	1.9	55.6	64.4	49.0
Net profit	3.0	75.6	83.6	66.6
Net profit (adj.)	57.9	79.4	87.5	70.1
EPS	57.9	79.4	87.5	70.1
Leverage				
Debt to total capital	25.4	25.9	27.7	29.3
Debt to equity	27.6	28.1	30.0	32.1
Net debt/(cash) to equity	-	-	0.5	1.7
Interest cover (x)	11.3	13.5	12.5	12.8