

23 May 2013

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12-month upside potential

Previous target price	2.70
Revised target price	3.49
Current price (as at 22 May)	3.62
Capital upside (%)	-3.6
Net dividends (%)	4.5
Total return (%)	0.9

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	543.0
Shares outstanding (m)	150.0
Free float (%)	18.3
52-week high / low (RM)	3.73 / 1.46
3-mth avg volume ('000)	235.0
3-mth avg turnover (RM m)	0.5

Share price performance

	1M	3M	6M
Absolute (%)	63.8	107.9	105.7
Relative (%)	56.7	89.1	86.6

Share price chart


Source: Bloomberg

Deleum Berhad

Oil & Gas

Neutral ↓
 Bloomberg Ticker: DLUM MK | Bursa Code: 5132

1QFY13: Slow start to the year

Deleum's started FY13 on a slow note, with earnings trickling in at 14% of our full year estimates. This was due to lower offshore activities seen in 1Q as well as deferment of projects into subsequent quarters. Despite the poor showing, we continue to be steadfast with our earnings estimates, as management has noted a pick-up in activities from April onwards. Deleum has risen 68% since our update report on 2 May and we view the stock now fully valued, trading above 10x P/E. As such, we downgrade Deleum to NEUTRAL from buy.

Within expectations

- Deleum's 1QFY13 net profit was recorded at RM6.8m and this made up 14% of full year estimates. Results were soft as we had earlier indicated in a previous report. However, we expect subsequent results to be better as offshore activities have picked up starting April. As such, we deem Deleum's 1QFY13 results to be within expectations.
- No dividends were declared this quarter.

Analysis of results

- Revenue was lower by 44.3% q-o-q but up 4.5% y-o-y. On a q-o-q basis, there was a slowdown in offshore activities which led to lower work orders during the period.
- Profits for the quarter were down 32% q-o-q and 49% y-o-y as besides lower work orders, margins for jobs and product sales carried out during the quarter were also lower.
- Looking into the segments, it was the power and machinery (P&M) segment which led group earnings down. During the quarter, the group saw softer workflow from retrofit projects and noted that projects were being delayed to subsequent quarters.
- As for oilfield services, concurrent with the lower offshore activities, there was less production services activities on a y-o-y basis but improved q-o-q. Q-o-q performance was promising as the segment recorded segment results of RM3m compared to losses of RM1.5m in 4QFY12.

Confident for sustained earnings in FY13

- We view that FY12's stellar earnings are sustainable going forward. To start with, Deleum highlighted that their orderbook was RM1.4bn (lasting until 2018) and is largely made up of long term service contracts in the P&M and OFS segments.
- Gas turbine servicing and also gas turbine related retrofit projects for offshore platforms will provide sustainable income going forward, making up an estimated 60-70% of group core earnings.
- Recurring income is also secured under the OFS segment, where the group has a slick line umbrella contract for Sabah and Sarawak. Continued contribution from MMC and the power plant in Cambodia also underpin earnings going forward.
- Deleum is currently bidding for some RM2bn worth of contracts. Some highlights of this tenderbook include a Pan Malaysia slickline contract and RM250m contract for wellhead services from Brunei Shell. Winning either one of these projects could be a positive surprise to our earnings, depending on the length and size of the projects.

No changes to earnings estimates

- We make no changes to estimates at this juncture.



Downgrade to NEUTRAL with higher TP of RM3.49

- Since our last report on 2 May, Deleum's share price has risen 68%. From a 6.5x forward P/E, Deleum's valuation has caught up to its peers and now trades at FY13 P/E of 11x.
- At these valuation levels, dividend yield has compressed to below 5%.
- We downgrade Deleum to NEUTRAL from buy as we now view that the stock is fully valued. As we are rolling over valuations to FY14 from FY13 previously, we are raising our TP on Deleum to RM3.49 from RM2.70 previously. To note, we now peg FY14 earnings to a 10x P/E, which is more representative of small cap peers average than the group's long term peak cycle P/E of 8.2x.



SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	1QFY13	1QFY12	% y-o-y change	% q-o-q change	Comments
Key financial highlights					
Revenue (RM m)	86.5	82.8	4.5	(44.3)	Lower offshore activities q-o-q across segments
Operating profit (RM m)	7.7	11.8	(34.4)	(48.7)	
Pretax profit (RM m)	11.1	15.3	(27.0)	(42.3)	
Net profit (RM m)	6.8	10.0	(31.8)	(49.4)	
Core net profit (RM m)	6.8	10.0	(31.8)	(49.4)	
Per share data					
EPS (sen)	4.6	6.7	(31.8)	(49.4)	
Core EPS (sen)	4.6	6.7	(31.8)	(49.4)	
Net DPS (sen)	-	-			
BV/share (RM)	1.39	1.26			
Margins					
Pretax (%)	12.9	18.5	(5.6)	3.2	
Net profit (%)	7.9	12.1	(4.2)	(0.8)	
Revenue Breakdown					
Power & Machinery	65.6	51.4	27.7	(37.7)	Q-o-q softer revenue from retrofit project and deferment of certain oil & gas projects into subsequent quarters. Stronger y-o-y from increased equipment sales
Oilfield Services	17.6	28.1	(37.4)	128.5	Lower wireline related jobs y-o-y while q-o-q there was an increase in oilfield services and once off sales of parts
MRO	3.3	3.3	0.3	(60.8)	
Total	86.5	82.8	4.5	(28.8)	
Segment Results					
Power & Machinery	6.7	10.0	(32.3)	(68.4)	Lower margin activities carried out during the period both q-o-q and y-o-y. Equipment and parts sales are typically lower margin while service and maintenance yield higher margins.
Oilfield Services	3.0	3.3	(8.7)	306.8	Lower margin wireline product sales during the period. On a q-o-q basis though, the segment has turned to the black.
MRO	(0.2)	(0.1)	45.0	(74.4)	
Total	9.6	13.2	(27.0)	(50.1)	

Source: Company, Alliance Research

**Figure 2 : Key financial data**

FYE 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	396.3	473.2	571.1	602.0	631.9
EBITDA (RM m)	37.1	47.7	56.2	54.9	53.6
EBIT (RM m)	50.3	62.2	75.9	79.9	83.8
Pretax profit (RM m)	45.7	67.5	85.1	89.8	95.2
Reported net profit (RM m)	29.0	44.5	49.4	52.3	55.7
Core net profit (RM m)	29.0	44.5	49.4	52.3	55.7
EPS (sen)	19.4	29.6	32.9	34.9	37.1
Core EPS (sen)	19.4	29.6	32.9	34.9	37.1
Alliance / Consensus (%)			n/a	n/a	n/a
Core EPS growth (%)	24.9	53.1	11.1	5.9	6.5
P/E (x)	18.7	12.2	11.0	10.4	9.8
EV/EBITDA (x)	9.5	7.2	9.1	9.9	10.6
ROE (%)	15.4	20.6	20.5	19.6	18.9
Net gearing (%)	(0.2)	Net Cash	Net Cash	Net Cash	Net Cash
Net DPS (sen)	9.3	15.0	16.5	17.4	18.6
Net dividend yield (%)	2.6	4.1	4.5	4.8	5.1
BV/share (RM)	1.26	1.44	1.60	1.78	1.96
P/B (x)	2.9	2.5	2.3	2.0	1.8

Source: Alliance Research, Bloomberg



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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