

# Company Flash Note

## Dialog Group

Bloomberg: DLG MK | Reuters: DIAL.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

2 Jun 2014

**HOLD RM3.66** KLCI : 1,873.38

Price Target : 12-Month RM 3.25 (Prev RM 3.25)

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Jun (RM m)	2013A	2014F	2015F	2016F
Revenue	2,237	2,152	2,259	2,350
EBITDA	278	332	394	427
Pre-tax Profit	232	283	341	371
Net Profit	193	212	256	278
Net Pft (Pre Ex.)	193	212	256	278
EPS (sen)	8.0	8.7	10.5	11.5
EPS Pre Ex. (sen)	8.0	8.7	10.5	11.5
EPS Gth (%)	(3)	10	21	9
EPS Gth Pre Ex (%)	(3)	10	21	9
Diluted EPS (sen)	8.0	8.7	10.5	11.5
Net DPS (sen)	3.3	3.5	4.2	4.6
BV Per Share (sen)	55.8	61.0	67.3	74.2
PE (X)	45.9	41.9	34.7	31.9
PE Pre Ex. (X)	45.9	41.9	34.7	31.9
P/Cash Flow (X)	25.8	26.5	44.2	43.7
EV/EBITDA (X)	32.7	27.4	23.5	22.1
Net Div Yield (%)	0.9	1.0	1.2	1.3
P/Book Value (X)	6.6	6.0	5.4	4.9
Net Debt/Equity (X)	0.1	0.1	0.2	0.3
ROAE (%)	15.2	15.0	16.4	16.2

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

## Expanding upstream interests

- Dialog has accepted a LOI from ROC Oil for a farm-out of 20% in a PSC for 3 fields off Sarawak
- Positive development as the fields are already producing and there is upside potential with redevelopment and EOR activities
- No changes to estimates yet; deal is pending due diligence and approval from PETRONAS
- Maintain HOLD and RM3.25 TP

**LOI with ROC Oil.** Dialog Group (DLG) has accepted a Letter of Intent (LOI) from ROC Oil (Sarawak) Sdn Bhd (ROC) for a farm-out of 20% of ROC's participating interest in the Production Sharing Contract (PSC) for the 3 fields - D35, D21 and J4 located offshore Sarawak. This would reduce ROC's participating interest in the PSC to 30%. The farm-out is subject to satisfactory due diligence and approval from PETRONAS.

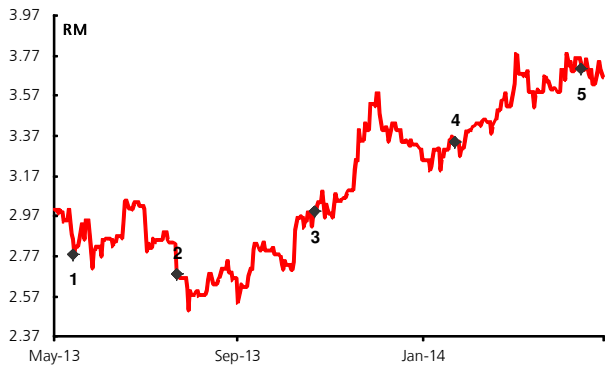
**Fields already producing at 10k boed.** According to data from ROC, the fields are currently producing at a combined rate of about 10,000 bbl/day and 17m cubic feet of gas per day. Dialog's economic interest in 2P reserves from the fields is 4.4 mmboe and based on existing production, we estimate that the fields can realise a profit share of RM30-40m based on the 20% stake.

**Upside potential from redevelopment and EOR activities.** There are 2 phases of planned work to be done at the fields. Phase 1 involves redevelopment with minimum capex of USD70m and maximum of USD250m based on USD22/barrel cost estimate, which would double the field's potential 2P reserves. Phase 2 (planned for 2015) involves an Enhanced Oil Recovery (EOR) programme which could monetize 2C reserves of 79.6 mmboe at the fields.

**Maintain Hold.** We view this development positively as it will generate long term recurring income, but have yet to factor this into our estimates, pending approvals as well as a discussion with management. We maintain our HOLD recommendation on Dialog with a sum-of-parts based TP of RM3.25.

**Target Price & Ratings History**

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S.No.	Date	Closing Price	Target Price	Rating
1:	13 Jun 13	2.78	3.20	Hold
2:	21 Aug 13	2.68	3.00	Hold
3:	20 Nov 13	2.99	2.90	Hold
4:	21 Feb 14	3.34	2.90	Hold
5:	16 May 14	3.70	3.25	Hold

*Note: Share price and Target price are adjusted for corporate actions.*

Source: AllianceDBS

**DISCLOSURE****Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

**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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