

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

20 May 2016

Deleum Bhd (DLUM MK) : HOLD

Mkt. Cap: US\$113m | 3m Avg. Daily Val: US\$0.18m

Last Traded Price : RM1.15

Price Target : RM1.25 (9% upside) (Prev RM1.25)

Shariah Compliant: Yes

Analyst

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No excitement seen

- **Weak 1Q16 results below expectations, dragged by lower margins from across all segments**
- **Maintain our earnings as 1Q16 has always been the weakest quarter due to seasonality**
- **Maintain HOLD with unchanged TP of RM1.25**

Seasonally weak 1Q16

Deleum reported a headline net profit of RM6m (-17% -y-o-y, -53% q-o-q), which made up 12% of our full-year forecast. Generally, 1Q is a seasonally weak quarter as a result of the monsoon season which in the past achieved c.15% of annual forecast. Revenue was however in line with our forecast at 23%. The deviation from our forecast was mainly due to weaker-than-expected margins for power and machinery (P&M) coupled with integrated corrosion solution (ICS) segment whose bottomline swung back to a loss.

Stronger revenue y-o-y but lower margins

1Q16 revenue improved 11.8% y-o-y from RM135.9m to RM151.9m, mainly due to stronger P&M (+18.8% y-o-y) and ICS (+109.3%) revenues. P&M's higher revenue was mainly supported by exchange engines orders previously secured; while ICS benefited from the increased work orders for corrosion protection and maintenance from Pan Malaysia Blasting contract. Earnings, however, slid 17.2% y-o-y to RM6m pressured by lower margins from P&M and ICS segments.

All segments saw weaker q-o-q performance

Net profit fell by 52.9% q-o-q on the back of weaker revenue – which fell 25.1% as a result of declines in all three segments (P&M: -24.5%, oilfield services: -14.3% and ICS: -60.4%). Of the three segments, oilfield services managed to boost its bottomline by 223% to RM2.3m on lower admin and finance costs, while P&M profit declined by 48% with ICS swung from profit to loss, down 149%.

Outlook

Deleum's business operation, which is almost exclusively brownfield, remains the silver lining – together with its RM3.1bn long-term orderbook visibility until 2023 – to drive earnings. P&M continues to make up big part of its orderbook at 70% (mainly from its long term service gas turbine agreement 10-year contract), followed by oilfield services at 20% and ICS at 10%. All in all, we were not surprised by the 1Q16 results as management had guided previously that the P&M growth is expected to be muted and margins will continue to be pressured from all fronts.

Valuation

We reiterate our Hold call on Deleum with an unchanged target price of RM1.25, based on 10x FY16F EPS of 12.5 sen. Our earnings forecasts are intact. Its dividend yield remains decent at 5.4%, on a dividend payout assumption of 50% (in line with internal dividend policy).

Flash Note

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	4Q2015	1Q2016	% chg yoy	% chg qoq
Revenue	136	203	152	11.8	(25.1)
Cost of Goods Sold	(107)	(159)	(124)	16.2	(21.8)
Gross Profit	28.9	43.8	27.5	(4.7)	(37.2)
Other Oper. (Exp)/Inc	(18.6)	(21.6)	(15.0)	(19.3)	(30.7)
Operating Profit	10.4	22.2	12.6	21.5	(43.5)
Associates & JV Inc	3.57	(0.1)	0.36	(89.9)	nm
Net Interest (Exp)/Inc	(2.0)	(1.6)	(1.4)	27.5	12.1
Pre-tax Profit	11.9	20.6	11.5	(3.7)	(44.1)
Tax	(2.7)	(5.6)	(3.8)	40.1	(33.1)
Minority Interest	(2.1)	(2.3)	(1.8)	(13.3)	(22.0)
Net Profit	7.2	12.7	6.0	(17.2)	(52.9)
Net profit bef Except.	7.2	12.7	6.0	(17.2)	(52.9)
EBITDA	21.0	30.5	21.2	1.0	(30.5)
Margins (%)					
Gross Margins	21.3	21.6	18.1		
Opg Profit Margins	7.6	11.0	8.3		
Net Profit Margins	5.3	6.2	3.9		

Segmental Analysis (RMm)

FY Dec	1Q2015	4Q2015	1Q2016	% chg yoy	% chg qoq
Revenue Breakdown					
Power & Machinery	96.5	151.9	114.6	18.8	(24.5)
Oilfield Services	36.7	37.0	31.7	(13.8)	(14.3)
Integrated Corrosion Solution	2.6	13.8	5.5	109.3	(60.4)
Total	135.9	202.7	151.8	11.7	(25.1)
Segment Results					
Power & Machinery	11.0	19.2	10.0	(9.3)	(47.9)
Oilfield Services	2.6	0.7	2.3	(9.5)	223.0
Integrated Corrosion Solution	(2.9)	1.3	(0.6)	(77.9)	(149.1)
Total	10.7	21.2	11.7	9.6	(45.1)
Margins					
Power & Machinery	11.4	12.6	8.7	(2.7)	(3.9)
Oilfield Services	7.0	1.9	7.3	0.3	5.4
Integrated Corrosion Solution	(112.2)	9.5	(11.8)	100.4	(21.4)
Total	7.8	10.5	7.7	(0.2)	(2.8)

Source of all data: Company, AllianceDBS Research

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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