Dialog Group (DLG MK)

1QFY27: Upstream Volumes Still Down; Looking Forward To 2Q

Highlights

- **1QFY27 results were in line with our expectations**. Although we do not have confirmed details of the segmental earnings mix, we believe upstream earnings were lacklustre considering the positive volatility in oil prices. This was because the maintenance activity for a Production Sharing Contract (PSC) remains in place since 3QFY26. We also believe earnings from the producing Cendramas PSC have not been recognised in 1QFY27.
- **2QFY27 will be the quarter to look out for**. As expected and highlighted by Royal Vopak, the storage earnings are flattish qoq as the midstream segment is at peak cycle earnings, but it will be sustainable. While we retain our forecasts, we anticipate the debut of Cendramas and Baram Junior Cluster (BJC; which had early first gas production) PSCs in upcoming 2QFY27 results. Maintain BUY with a target price of RM2.95.

1QFY27 Results

(RMm)	1QFY27	Qoq % chg	Yoy % chg	Note: Vopak's accounts is Year to 31 Dec
Revenue	787.0	1.6	19.8	
- Malaysia	510.9	10.6	17.9	
- Overseas	276.1	(11.6)	23.5	Storage is already at peak cycle earnings. Upstream concession in
JV/associates	81.0	17.1	32.3	Thailand achieved RM11.4m in JV profit (4QFY26: RM8m)
Finance costs	(13.7)	5.9	3.0	EBITDA was similar yoy at RM189m
PBT	191.8	(6.0)	19.2	
- Malaysia	172.3	(10.0)	23.4	EI* for 1QFY27 was only RM4.8m net forex gain. Note in 1QFY26,
- Overseas	19.5	53.4	(8.4)	a RM25m forex loss (as a reversal) was applied in JV/.associate
PBT margin (%)	*24.4%*	*-2.0%*	*-0.1%*	For 4QFY26, a huge RM31.8m write-down to net realisable value
Tax	(21.7)	(40.6)	(26.5)	was incurred in Australia/New Zealand region. In FY26 Annual
Net Profit	165.1	(1.4)	17.9	Report (AR), DLG attributed these to RM9.8m for inventories, and
Core Profit	160.2	(15.5)	(1.7)	RM21m for property development costs

Source: Dialog (DLG) Group **Note: Exceptional Item (EI)*

Analysis

- **1QFY27 profit in line with market expectation, comprising 24%/25% of ours/consensus forecast.** We make several assumptions, pending detailed guidance on segmental performance, relative to Dialog Group's (DLG) disclosure of a 25:50:25 earnings mix across upstream/midstream/downstream operations for FY26. Firstly, for the JV/associate income, we assume only the Thailand upstream JV business had substantial qoq gains due to higher realised oil prices. 1QFY27 Malaysian JV profit of RM70m was in line with normal quarterly run-rate (1QFY26: RM56m; this was before reversing a RM25m forex loss). The JV storage business performance is aligned to Royal Vopak's 3Q26 EBITDA disclosure from its Asian JV tank terminals.

Key Financials

Year to 30 June (RMm)	2025	2026	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 (%)	-	1.7	-	-	-
Consensus net profit	-	-	649	672	723
UOBKH/Consensus (x)	-	-	1.01	1.01	0.87

Source: Dialog Group, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM1.87
Target Price	RM2.95
Upside	+57.8%

Stock Data

Sector	Energy
Bloomberg ticker	DLG MK
Shares issued (m)	5,643.2
Market cap (RMm)	10,665.6
Market cap (US$m)	2,607.3
3-mth avg daily t'over (US$m)	3.3

Price Performance (%

52-week high/low				RM2.36/RM1.54
1mth	**3mth**	**6mth**	**1yr**	**YTD**
1.1	(3.1)	(11.3)	2.2	12.5

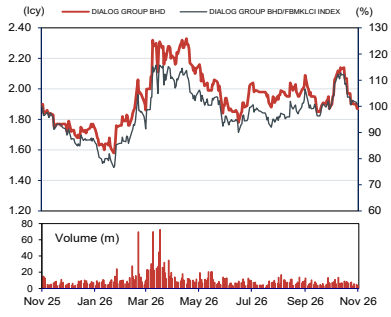
Major Shareholders (%)

EPF	24.9
Ngau Boon Keat	18.3
Azam Utama	7.6

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 three 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: Sustainable peak cycle earnings reiterated by Vopak.** In Vopak's 3Q26 briefing, an investor posted a question in relation to oil storage already achieving peak performance and comprising over 40% of Vopak's proportional EBITDA mix. Vopak responded with a casual remark that market predictions on peak oil demand had been wrong for the last two decades. However, Vopak remains cautious on changing business conditions and highlighted that storage terminals at good locations will have redevelopment opportunities to transition (or be repurposed) into lower carbon fuels.
- **Rising interest rates unlikely to dent new storage investments.** Vopak acknowledges the risks of rising interest costs despite having an 80% portfolio on fixed interest rates vs 20% floating. However, they do not foresee that the rising interest rate environment will delay investment decisions, either by the group themselves or with their JV partners like Dialog. We note that DLG's entire bank loans of RM0.9b are of floating rate.
- **Upstream: Benefits from higher oil price, though volumes not yet optimal.** According to the US Energy Information Administration (EIA), Brent price averaged US$96/bbl in 3Q26, vs the US$103/bbl average in 2Q26 and US$69/bbl in 3Q25. DLG's upstream business clearly benefitted from higher oil prices. Its Thailand onshore JV concession recorded rising profits from RM4m in 2QFY26, to RM8m by 4QFY26, and subsequently RM11m in 1QFY27. However, we believe upstream earnings mix remained the same, as volume was still down since a major local field maintenance was undertaken since 3QFY26 and remains ongoing.
- **The producing Cendramas Production Sharing Contract (PSC),** of which DLG owns a 25% stake (Medco Energi being the operator), was contractually effective 23 Sep 26. However, since management's latest guidance was for 2QFY27 commencement, we assumed there was also maintenance being carried out while the asset was being handed over from Petrofac, which might explain the lacklustre 1QFY27 upstream earnings. If this is the case, we still assume Cendramas will contribute immediately from 2QFY27 as the asset handover had been executed gradually for months. As an example, Petrofac had exercised the option to purchase the PSC's key offshore asset, the FPSO Cendor from MISC in May 26, and therefore the FPSO handover was also guaranteed.
- **1HFY27 marks a new milestone for the group, with upstream boost from Cendramas and Baram Junior Cluster (BJC).** By 2QFY27, DLG's 25% stake in the Production Sharing Contract (PSC) Cendramas is expected to commence earnings. Cendramas was the legacy PM-304 PSC operated by Petrofac. Management's guidance at this stage is very limited, but they updated that the field's production rate had been stable. Also, BJC had officially achieved first gas production, highlighting a potential early first gas startup (Oct/Nov 26) for the Baram Junior Cluster (BJC) PSC, vs DLG's initial guidance of FY27. We noted that DLG's capital commitments for upstream operations surged qoq from RM523m (FY26) to RM872m, and these are mainly for the development of Baram Junior Cluster (BJC) Small Field Asset (SFA) PSC and the Bayan Oilfield Services Contract (OSC).

Valuation/Recommendation

- **Maintain BUY; target price of RM2.95.** This implies 27x/22x FY27F PE and EV/EBITDA respectively. 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

- **Unchanged.**

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

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

Vopak's MENA* JV Terminals (Top) EBITDA vs Dialog's JV (Bottom)



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

DLG's JV/Associate Income

RMm	FY24	FY25	FY26
PITSB	95.5	102.9	105.9
PLNG2	59.7	64.7	62.6
POES (Thailand upstream)	40.1	33.6	23.4
Others, including PT2SB	114.6	92.0	88.8
Total JV/associate	309.9	293.2	280.7

Source: DLG
**Note: Pengerang Independent Terminals SB (PITSB); Pengerang Liquefied Natural Gas (Two) (PLNG2); Pan Orient Energy Siam (POES); Pengerang Terminals (Two) SB (PT2SB)*

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

Source: UOB Kay Hian

Profit & loss

Year to 30 June (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 June (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 June (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 June (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

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