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Malaysia Miscellaneous

Reuters DIAL.KL
Bloomberg DLG MK

Priced on 5 June 2009

KLSE Comp @ 1,075.5

12M hi/lo RM1.45/0.53

12M price target RM1.40
±% potential +13%
Target set on 22 Apr 09

Shares in issue 1,413.2m
Free float (est.) 63.4%

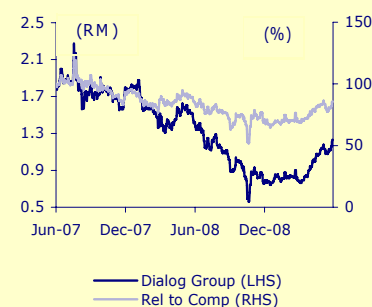
Market cap US\$502m

3M average daily volume
RM5.4m (US\$1.5m)

Major shareholders
Employees Provident Fund 15.2%
Wide Synergy Sdn Bhd 11.6%

Stock performance (%)

	1M	3M	12M
Absolute	7.8	54.0	(13.3)
Relative	2.6	22.9	0.7
Abs (US\$)	8.7	63.8	(19.2)



Source: Bloomberg

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Johor deepwater terminal

The Pengerang deepwater terminal (500 acres) is aimed to be the largest and first independent deepwater terminal in SE Asia. Upon full completion, the terminal could have a storage capacity of up to 5 mil m³, making it up to 12x bigger than the existing Kertih storage terminal. The forecasted construction value of the entire project will be in the range of RM5.0-6.0 bil. Buy maintained with TP RM1.40.

South East Asia's largest independent deepwater terminal

Dialog has inked a Memorandum of Understanding (MoU) with the Johor state government to conduct a feasibility study of a new deepwater terminal in Pengerang. To be built on over 500 acres of reclaimed land, it will be the largest and first independent deepwater terminal in SE Asia, targeting VLCCs and large LNG tankers. While management has yet to commit to any large off-taker as yet, they have alluded to a potential new shareholder, on top of the Johor state government, that could add further credibility to the project.

Modelling it against Kertih and Tg Langsat

Upon full completion, the terminal could have a storage capacity of up to 5 mil m³, making it up to 12x bigger than the existing Kertih storage terminal. The forecasted construction value of the entire project will be in the range of RM5.0-6.0 bil, and similar to the model in Tg. Langsat and Kertih, Dialog will likely undertake the entire EPCC portion of the project, as well as an equity stake in the concession thereafter. The project will be launched in phases, and will only be constructed upon the signing of an off-taker (which is most likely on take-or-pay as well).

Could add up to RM0.70 per share to SOTP

We estimate that this project, assuming that it will reach about 20% of its full potential by 2013, could accrue up to RM1.5 bil in EPCC revenue between 2011-2012, and RM100 mil in cumulative EPCC EBITDA (assuming 7% profit margins). It will also generate recurrent annual EBITDA upon completion, in the rough range of RM130-150 mil, which will enhance our SOTP by RM0.50-0.70 per share. Although the fundamental nature of the tank-farm business deviates significantly from Dialog's traditional "asset light" businesses, the contracts (as a whole) are able to generate IRRs in the range of 14 - 18%. We continue to advocate our Buy call on Dialog with a TP of M\$1.40, although we emphasize that the deepwater project is not factored into our estimates and SOTP as yet. We view the successful completion of the MoU and the on-boarding of a new shareholder as catalyst for further re-rating.

Financials

Year to 30 Jun	07A	08A	09CL	10CL	11CL
Revenue (RMm)	476.63	797.27	942.63	1,095.18	1,042.89
Net profit (RMm)	54.35	75.95	87.36	119.99	136.67
EPS (sen)	4.0	5.6	6.4	8.8	10.0
CL/consensus(10)(EPS%)	-	-	105	102	119
EPS (% YoY)	15.0	39.6	14.9	37.4	13.8
PEX (@RM1.24)	31.2	22.3	19.4	14.1	12.4
Dividend yield (%)	2.1	2.2	1.5	2.1	2.3
FCF yield (%)	0.8	0.2	(0.2)	2.0	3.4
ROAE (%)	17.0	21.6	21.3	24.9	23.9
Price/book (x)	5.2	4.5	3.9	3.2	2.7
Net gearing (%)	(17)	(14)	(11)	(12)	(14)

Source: CLSA Asia-Pacific Markets

Update

MoU with the Johor government

A deepwater terminal in the making

MoU with the Johor government Dialog has inked a Memorandum of Understanding (MoU) with the Johor state government in conducting a feasibility assessment of a new deepwater terminal in Pengerang.

Figure 1

Location of Pengerang deepwater petro-terminal



Source: CLSA Asia-Pacific Markets, News Straits Times

What's exciting about this project?

Salient features of this project are:

1. **Terminal and tank farm** – To be built on over 500 acres of reclaimed land, the JV company will be in control of the tank farms as well as the terminal (unlike Tg. Langsat where Dialog is *not* in control of the terminal, and only the tank farm)
2. **Depth** - It will likely be the largest and first independent deepwater terminal in SE Asia with 26 meters of draft. This is sufficient to handle VLCCs and large LNG tankers.
3. **Location** - The site is located at Pengerang, which is to the South East of Johor. Pengerang is also co-incidentally the connecting site slated for the 3rd Singapore-Malaysia bridge link
4. **Capacity** - Upon completion, the terminal will have a storage capacity of up to 5 mil m³. (This makes it up to 12x bigger than the existing Kertih storage terminal and Phase 1 of Tg Langsat terminal respectively)
5. **EPCC value** - The forecasted construction value of the entire project will be in the range of RM5.0-6.0 bil (Almost 10x the construction value of Kertih and Tg. Langsat respetively)
6. **Business model** – Similar to the model in Tg. Langsat and Kertih, Dialog will likely undertake the entire EPCC portion of the project, as well as an equity stake in the concession thereafter. The project will be launched in phases, and will only be constructed upon the signing of an off-taker.
7. **Take-or-pay** – Similar to Kertih and Tg. Langsat tank farms, the new deepwater terminal will likely be engaged on a take-or-pay basis as well, usually on the back of a long-term charter agreement stretching

Strong global demand for storage facilities

Scalable business

Pengerang terminal will follow the same ownership style as Kertih and Tg. Langsat

anywhere from 20-30 years. Dialog can afford to take on debt within the JV Company, and secure it against the take-or-pay agreement.

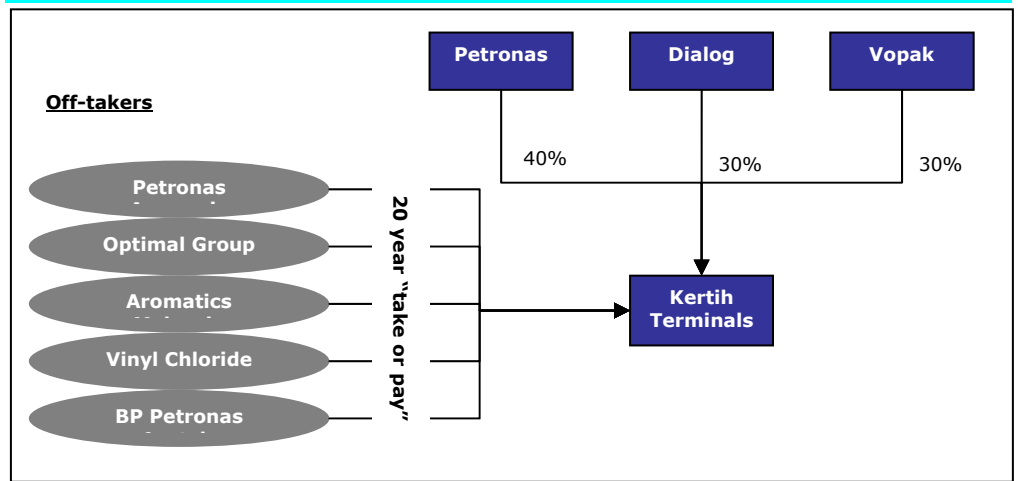
- 8. **Another big shareholder on its way** – While management has yet to commit any large off-taker as yet, they have alluded to a potential new shareholder that could further add more credibility to the project.
- 9. **Government** – The Johor state government will be an equity shareholder, with no capital commitments other than the land rights.

We have and will continue to maintain our positive stance on Dialog’s terminal and tank farms business, on the basis of strong long-term demand. The volatility of crude oil price continues to support the surge in global demand for petrochemical and physical oil storage, in the form of floating platforms (FPSOs), or land-based tank farms as well as underground tank-farms.

While we have previously argued that Dialog’s tank farm and terminals business is easily scalable, this deepwater terminal project in Johor serves as further testimony to our thesis.

Figure 2

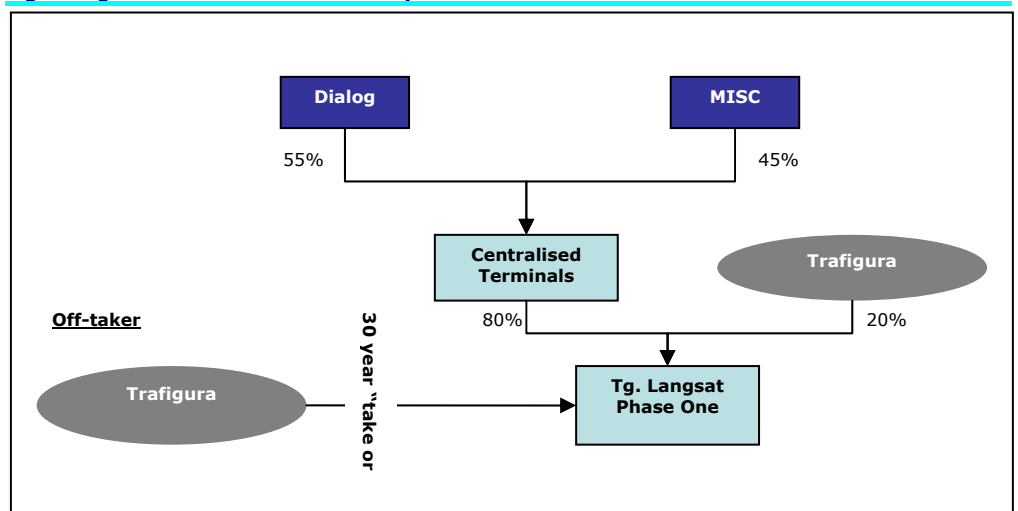
Kertih Tank Farm Ownership Structure



Source: CLSA Asia-Pacific Markets, Dialog

Figure 3

Tg. Langsat Tank Farm Ownership Structure



Source: CLSA Asia-Pacific Markets, Dialog

Figure 4

Pengerang Terminal – Could be similar to Kertih and Tg. Langsat	
Baseline Assumptions	
Contract	Take-or-pay
WACC (%)	9.0%
Revenue Growth (% pa)	6.0 - 7.0%
Terminal Growth (%)	3.0%
EBITDA Margins (%)	80.0-85.0%
Annual Capex (% NBV)	2.0%
Pricing (per m3)	c.M\$14.00/m ³ per month.
Kertih Tank Farm	
Dialog's Effective Stake (%)	30.0%
Capacity (m3)	400,000 m ³
Concession Remaining (years)	12 years
SOTP Contribution (M\$/shr)	M\$0.40
Tg. Langsat Tank Farm	
Dialog's Effective Stake (%)	44.0%
Capacity (m3)	400,000 m ³
Concession Remaining (years)	21 years
SOTP Contribution (M\$/shr)	M\$0.30

Source: CLSA Asia-Pacific Markets

Based on our current FY11CL, tank-farm terminal related earnings will contribute up to 35% in pre-tax profit, essentially adding to the recurrent portfolio of earnings. In the long-run, we anticipate this business to contribute up to 50-60% of profits once Tg. Langsat is fully developed.

Figure 5

Segmental Breakdown of Revenue and Gross Profit			
	2009CL	2010CL	2011CL
Revenue	942.6	1095.2	1042.9
EPCC	419.0	400.0	250.0
Catalyst Handling	52.7	84.2	101.1
Plant Maintenance	210.0	300.0	360.0
Base Oil	260.0	295.0	300.0
Tank Farms	0.0	15.0	30.8
Gross Profit	98.9	127.9	147.9
EPCC	33.5	28.0	17.5
Catalyst Handling	7.9	12.6	20.2
Plant Maintenance	31.5	45.0	54.0
Base Oil	26.0	29.5	30.0
Tank Farms	0.0	12.7	26.2

Source: CLSA Asia-Pacific Markets

Buy - TP RM1.40

Although the fundamental nature of the tank-farm business deviates significantly from Dialog's traditional "asset light" businesses, the contracts (as a whole) are able to generate IRRs in the range of 14 – 18%.

We estimate that the Johor deepwater terminal project, assuming that it will reach about 20% of its full potential by 2013, could accrue up to

- RM1.5 bil in EPCC revenue between 2011-2012, and RM100 mil in cumulative EBITDA assuming 7% profit margins
- RM130-150 in sustainable EBITDA from 2013 and beyond, which is likely to generate c.RM160-170 mil in annual FCF
- RM0.50-0.70 DCF value enhancement to the SOTP

Tank Farms make up 35% of pre-tax profits

CTF business is NOT "asset light", but in general, generates 14-18% IRR

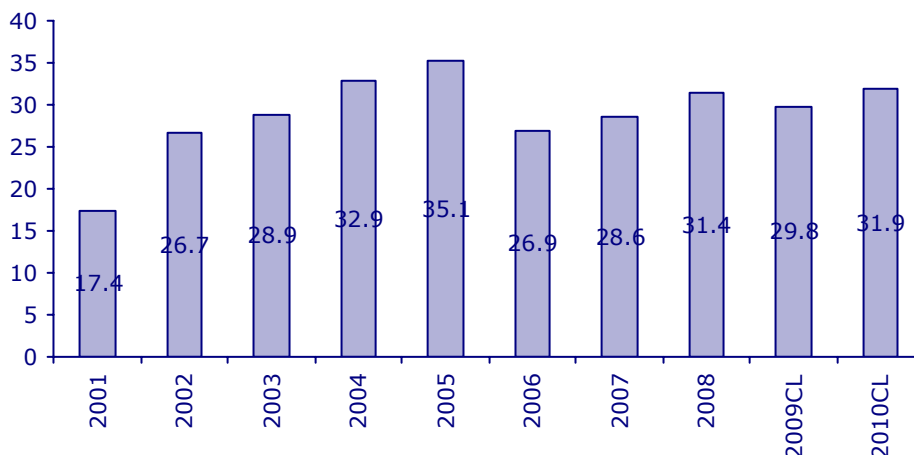
Kertih tank farm is generating steady income stream

The Johor deepwater terminal project is not factored into our estimates and SOTP yet.

The recurrent nature of the terminals business is further emphasized by the stable annual cash flows that we are currently observing for Kertih.

Figure 6

Annual P&L Associate Income – Kertih Contribution (M\$ mil)



Source: CLSA Asia-Pacific Markets, Dialog

Based on our assumptions, we continue to advocate our Buy call on Dialog with a TP of M\$1.40. At M\$1.40, the stock implies a 1-yr forward P/E of 17x, and an EV/EBITDA of 15x, on the back of 21% 3-yr earnings CAGR. The Johor deepwater terminal project is not factored into our estimates and SOTP yet.

Figure 7

Dialog – SOTP (June 2010CL)

	M\$ mil	M\$/shr	%
DCF value of 30% stake in Kertih CTF	557.1	0.40	29%
DCF value of 44% of Tg. Langsat Phase 1	368.0	0.30	21%
Total valuation of terminals	925.2	0.70	50%
Catalyst Handling (PER 8x FY12E - discounted back to FY10E)	160.4	0.20	14%
Oil & Gas EPCC (PER 8x FY10E)	224.0	0.20	14%
Other earnings (PER 6x FY10E)	335.3	0.30	21%
June-10 SOTP	1644.9	1.40	100%
Implied P/E from June-10 SOTP (x)		16.5	
Implied EV/EBITDA from June-10 SOTP (x)		14.9	
3-yr earnings CAGR		22%	

Source: CLSA Asia-Pacific Markets

Summary P&L forecast (RMm)

Year to 30 June	2007A	2008A	2009CL	2010CL	2011CL
Revenue	477	797	943	1,095	1,043
Operating Ebitda	40	79	99	128	148
Operating Ebit	31	67	78	116	136
Interest income	5	0	0	0	0
Interest expense	0	(1)	(2)	(2)	(2)
Other items	29	31	30	32	34
Profit before tax	64	98	105	146	168
Taxation	(7)	(16)	(16)	(22)	(25)
Minorities and other	(2)	(6)	(2)	(4)	(6)
Profit	54	76	87	120	137

Summary cashflow forecast (RMm)

Operating Ebit	31	67	78	116	136
Depreciation/amort	10	12	22	13	13
Working capital - trade	(24)	24	(19)	(5)	3
Other operating items	42	(20)	0	0	0
Operating cashflow	59	84	81	123	151
Net interest/taxes/other	(3)	(11)	(18)	(24)	(27)
Cashflow	56	73	63	99	124
Capital expenditure	(42)	(70)	(66)	(66)	(66)
Acq/inv/disposals	28	15	23	22	6
Free Cashflow	43	18	20	55	64
Ord div paid/Other items	(42)	(22)	(23)	(38)	(43)
Decrease in net debt	0	(5)	(3)	17	21

Summary balance sheet forecast (RMm)

Cash & equivalents	60	82	107	152	172
Debtors - trade	150	206	207	240	229
Inventories - trade	23	23	35	40	37
Other current assets	3	23	23	23	23
Fixed assets	108	166	210	264	317
Intangible assets	0	0	0	0	0
Other term assets	136	154	160	171	199
Total assets	480	653	742	889	977
Short-term debt	0	11	39	66	66
Creditors - trade	133	213	207	241	229
Other current liabs	3	9	9	9	9
Long-term debt/CBs	0	16	16	16	16
Other long-term liabs	2	3	3	3	3
Minorities/other equity	16	22	28	31	34
Shareholder funds	325	379	440	523	619
Total liabs & equity	480	653	742	889	977

Ratio analysis

Revenue growth (%)	36.4	67.3	18.2	16.2	(4.8)
Op Ebitda growth (%)	15.1	95.2	25.9	29.1	15.6
Op Ebit growth (%)	15.5	117.7	16.6	48.9	17.4
Op Ebitda margin (%)	8.5	9.9	10.5	11.7	14.2
Op Ebit margin (%)	6.4	8.3	8.2	10.6	13.0
Net profit margin (%)	11.4	9.5	9.3	11.0	13.1
Dividend payout (%)	64.3	48.0	29.0	28.9	28.9
Tax rate (%)	11.5	16.1	14.9	15.0	15.0
Ebitda/net int exp (x)	(8.3)	221.6	50.9	65.8	76.1
Net debt/equity (%)	(17.4)	(13.6)	(11.1)	(12.5)	(13.8)
Gross debt/equity (%)	0.2	6.8	11.7	14.9	12.6
Net debt/op Ebitda (x)	(1.5)	(0.7)	(0.5)	(0.5)	(0.6)
Gross debt/op Ebitda (x)	0.0	0.3	0.6	0.6	0.6
Return on equity (%)	17.0	21.6	21.3	24.9	23.9
ROCE (%)	21.6	31.2	28.2	32.7	32.4
Return on assets (%)	12.2	13.4	12.5	14.7	14.7

Source: CLSA Asia-Pacific Markets

Recommendation history - Dialog Group DLG MK

Date	Rec level	Closing price	Target
22 April 2009	BUY	1.01	1.40

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: **BUY** = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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Note: In the interests of timeliness, this document has not been edited.

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