DELEUM

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Deleum’s current order book to sustain earnings until 2020

Deleum Bhd
(March 12, RM5.80)

Maintain buy with target price of RM5.88: Deleum has proposed a bonus issue and share split. The bonus issue entails 50 million bonus shares on the basis of 1 bonus share for every three existing Deleum shares.

Concurrently, the group has also proposed to carry out a share split which will involve subdivision of every one existing share into two shares. After both exercises, Deleum will have an issued and paid up ordinary share capital of RM200 million comprising 400 million shares.

We view this move as positive for Deleum as it could attract more retail participation in the stock, potentially improving liquidity as daily trading volume is typically very thin.

Going forward, we continue to be positive on Deleum's outlook. Financial year 2014 ending Dec 31 (FY14) marks an exciting year for Deleum as it has a record high order book of an estimated RM3.3 billion which was largely secured over FY13. Roughly 60% of the order book is for the power and machinery (P&M) segment and the remainder for oilfield services and maintenance, repair and overhaul segments. Key contracts include: (i) slickline contracts from Petroliam Nasional Bhd, Newfield, ExxonMobil, Petrofac and PCPP Operating Company; and (ii) long term service contract for aftermarket turbomachinery maintenance services for solar gas turbines installed in Malaysia. The current order book will sustain earnings until 2020.

Deleum Bhd

FYE Dec 31 (RM mil)	2012	2013	2014F	2015F	2016F
Revenue	473.2	484.7	581.6	665.9	741.5
Ebitda	66.8	75.6	105.2	121.0	132.4
Ebit	52.3	61.1	78.1	90.8	99.0
Pre-tax profit	67.5	75.6	92.7	105.0	113.4
Reported net profit	44.5	49.6	59.1	67.9	73.7
Core net profit	44.5	49.6	59.1	67.9	73.7
EPS (sen)	29.6	33.0	39.4	45.2	49.1
Core EPS (sen)	29.6	33.0	39.4	45.2	49.1
Core EPS growth (%)	53.1	11.5	19.3	14.8	8.5
PER (x)	18.1	16.2	13.6	11.8	10.9
EV/Ebitda (x)	7.7	10.2	7.5	7.2	6.5
ROE (%)	20.6	20.5	21.8	22.2	21.5
Net gearing (%)	Net Cash	Net Cash	0.1	0.0	0.0
Net DPS (sen)	15.0	17.0	19.7	22.6	24.6
Net dividend yield (%)	2.8	3.2	3.7	4.2	4.6
BV/share (RM)	1.44	1.61	1.81	2.04	2.28
P/BV (x)	3.7	3.3	3.0	2.6	2.3

Source: Alliance Research, Bloomberg

For FY14, we forecast earnings growth of 19.3% and for FY15, we expect growth of 14.8%.

This will be on the back of the group's existing order book and its venture into the asset integrated solutions business. To recap, this is a fairly new area of growth for the group which could start to bear fruit in FY15. It involves services relating to enhanced oil recovery where Deleum could provide either mechanical or chemical solutions to improve productions at underperforming wells, or reactivate idle wells.

We maintain our target price of RM5.88 on Deleum based on a target FY15 price-earnings ratio of 13 times, which is representative of small cap oil and gas service providers in Malaysia.

Ex-bonus issue and share split, our target price will adjust to RM2.21. We maintain our "buy" call on Deleum, citing the stock as a rare find in the oil and gas industry. Deleum offers solid earnings growth which is backed by steady recurring income from long term contracts, as well as a steady dividend payout. — *Alliance Research, March 12*