



Headline : New Petronas jobs to provide openings for Deleum
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New Petronas jobs to provide openings for Deleum

Deleum Bhd (March 16, RM1)

Maintain buy with an unchanged target price of RM1.18: To recap, although Deleum Bhd's reported earnings for the fourth quarter of financial year 2016 (4QFY16) declined by 25.9% year-on-year to RM9.9 million, they grew twofold on a quarterly sequential basis to RM9.9 million, corroborating our view that earnings would continue to improve from 4QFY16 into FY17. Excluding exceptional items such as impairments and write-offs on property, plant and equipment and inventories and foreign exchange losses, the company's full FY16 normalised earnings would have been RM36.6 million.

Deleum guided that activity levels for the power and machinery segment was more vibrant in 4QFY16 compared with the first two months of FY17 as clients were managing their respective allocations for operating expenditure before the end of the year. Management guided that there was a sizeable number of market surveys for oilfield services (OS) for the first two months of FY17. These surveys involved new work scopes and Deleum has so far participated in around RM90 million worth of bids in the OS segment.

Deleum Bhd

FYE (RM MIL)	2014	2015	2016	2017F	2018F
Revenue	657.3	649.4	608.7	674.2	742.9
Gross profit	158.0	149.2	12.5	168.6	185.7
Operating profit	82.2	72.2	54.2	74.7	83.5
PBT	92.0	71.2	49.8	68.2	77.6
Tax expense	-21.4	-16.7	-16.9	-15.7	-17.8
Net profit	70.6	54.5	26.5	52.6	59.7
Earnings per share (sen)	14.8	11.4	6.6	13.1	14.9
Dividend per share (sen)	7.5	5.5	3.5	4.1	4.6
PER (x)	6.7	8.8	8.7	7.6	6.7

Sources: MIDFR, Company

Deleum's order book remains buoyant at approximately RM2.21 billion representing a burn rate of around four years. Earnings visibility continues to remain intact. There are no changes to earnings estimates — second half of FY17 (2HFY17) is expected to be stronger than 1HFY17.

Management guided that they have received notifications from Petrolim Nasional Bhd (Petronas) to extend the bid validity period for the maintenance, construction and modification works for the Malaysian production sharing contractors. We remain optimistic that the contract will be announced and that Deleum's portion, approximately RM500 million, will be booked under its Integrated Corrosion Solu-

tions division. Additionally, there are five new projects which have been sanctioned by Petronas for 2017. These projects are new and would likely involve offshore platforms. These new projects provide opportunities for Deleum as it will require power turbines to operate.

For the past week, global Brent crude oil price has declined by approximately 11%, from US\$56 (RM248.08) per barrel to US\$50 per barrel. However, Deleum's share price has managed to maintain within the stable range of RM1 to RM1.03. We believe that this is attributable to its solid order book and niche positioning in the oil and gas services value chain. — MIDFR Research, March 16