DELEUM

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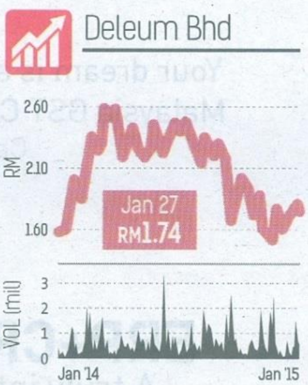
Power and machinery segment boosts Deleum

Analyst Reports

DELEUM BHD
By Kenanga Research
Trading Sell
Target Price: RM1.65



DELEUM Bhd has managed to show positive growth in its third quarter of 2014 results with the sequential quarter-on-quarter growth of 6% mostly due to the power and machinery segment that earned higher pre-tax profit of 76.9% on retrofit works, according to Kenanga Research.

It said this had helped outflank the lower pre-tax profit from the oil fields services division, which was down by 36.7% due to lower margins from its chemical business and its associate earnings attributable to lower throughput of Malaysian Mud and Chemicals.

"There were also higher slickline activities in the third quarter of 2014 compared with the same period last year. This, along with sustained power and machinery business, has helped Deleum to achieve a 17.2% year-on-year net profit growth.

"Deleum has also nearly deployed the requisite slickline units of about 46 units for the Pan-Malaysia Slickline contracts. The full contribution of earnings from the contracts will be seen in financial year 2015," said the research house.

It said Deleum's order book stood at RM3.94bil, while tender book was guided at RM500mil.

It added the order book included a sponge jet blasting contract worth RM100mil to RM150mil, adding that from the order book, 70% was taken up by the power and machinery division while oil field services accounted for about 25% and maintenance, repair and overhaul the balance 5%.

Although the crude oil price crash was significant, Kenanga said forecasts by consensus were only trimmed by 2.3% to 2.9% for financial year 2014 (FY14) to FY15, which translated to earnings per share of 13.9 to 16.5 sen.

"Deleum is currently trading at an estimated FY15 price-to-earnings ratio of 10.5 times," said the research house, which believes that the stock is fully-valued at the moment, given the uncertain oil and gas macroeconomic environment.