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Deleum maintained at Hold with lower target price

Friday, 6 March 2015

LUMPUR: Alliance DBS Research is retaining its Hold recommendation for Deleum Bhd, an oil and gas services provider, with a target price of RM1.60.

It said on Friday Deleum's RM3.8bil order book provides long term earnings visibility as the group's lengthiest contract extends to 2023.

Key contracts that will support earnings going forward are umbrella contracts for the supply and maintenance of gas turbines (RM2bil to RM2.5bil estimated outstanding value), provision of slickline equipment and services (RM750m est. outstanding value), and smaller contracts for corrosion control and chemical supplies.

But with Petronas cutting opex, the move will dampen growth.

"We expect Petronas' move this year to impact Deleum's contracts which are largely on on-call basis.

"This is especially so for the gas turbine contracts; there will be a lower demand for new gas turbine packages," it said.

However, Alliance DBS Research said carrying the group through FY15 will be the slickline contract, of which 80% of the 55 units rolled out are on a take-or-pay basis.

“For FY15, we expect modest growth of 6% before offshore activities normalise in FY16, driving growth of 11%.

“Maintain Hold. Our target price is adjusted to RM1.60 (10 times price-to-earnings, FY15) from RM1.65 previously, after we factored in higher interest expenses. Our Hold call is supported by a healthy dividend yield of 5% going forward,” it said.