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# Deleum exceeds forecasts

## Equipment and services provider set to build on its good growth potential



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**D**ESPITE the gloomy pall hanging over financial markets, many Malaysian companies have exhibited impressive growth in earnings. Even many smaller cap stocks have surprisingly exceeded analyst expectations.

Over the week, specialised equipment and oil and gas services provider Deleum Bhd was one of the companies that delivered results which exceeded its earnings forecast. This was all the more sweeter for Deleum as this was its first full year results since its listing in June last year.

If investors remember, during its IPO exercise, Deleum forecast a net profit of RM23.03mil on the back of RM581.49mil in revenue for its financial year ended December 2007.

On Monday, Deleum announced a revenue increase of 47.23% to RM665.56mil while net profit increased 38.87% to RM25.12mil. This means that net profit and revenue were surpassed by 9% and 15% respectively.

As a reward to shareholders, Deleum further announced a second interim dividend of 10 sen per share for the period. Including the 5 sen interim it had announced in August, the stock is now yielding 5% in dividends.

Great earnings it has, but here's one company that is as fundamental as it gets.

At its earnings per share of 34.52 sen, the stock is trading at a historical price earnings ratio of 8.6 times (x). This is a cheap entry, especially for a sector that is bustling with activity and oil prices that are teasing the US\$100 level.

What is even more interesting to note is that over a four-year period, its investments in its property, plant and equipment (PPE) have been on the rise, indicating that all of its earnings have been ploughed back to the business. In 2004, it had PPE of RM14.47mil. Today, it has PPE of RM44.54mil.

With all the money tied up in equipment, surely the company has to be strapped for cash. And here again, investors will be pleasantly surprised to know that Deleum has a



**Izhah:** Our strong financial position gives us lots of flexibility

tidy sum of RM61.28mil sitting idle in its bank account.

If Deleum were to decide to return this cash hoard to shareholders, this would translate into cash of about 77 sen per share.

And lest we forget, the company is not only a net cash company, but also with zero borrowings!

Certainly, while some may complain that Deleum's margins are rather thin, due to the equipment supply nature of its business, its executive chairman Datuk Izhah Mahmud says this does not mean that the business holds no opportunities.

"We are a supplier of specialised equipment and due to the competitive nature of this business, margins are generally lower. But the sale of equipment will result in us rendering services, repairs and maintenance work that provides a recurring income and higher margins," says Izhah.

### M&A Opportunities

Izhah says the company's strong financial position gives Deleum lots of flexibility in pursuing mergers and acquisition (M&A) to expand its current business.

This isn't just rhetoric, as Deleum has already announced its proposed acquisition of a 51% stake in Penaga Dresser Sdn Bhd for RM7.25mil last September.

"While Penaga Dresser's business is synergistic to Deleum's, a relationship with the Dresser Group will potentially hold more intrinsic value as Dresser is a worldwide industry leader in providing highly engineered products for the global energy infrastructure. We will be able to increase the scope of work because this will get us into the repair and maintenance of control valves and eventually manufacture



**Chandran:** Recurring income make up 40% of Deleum's total revenue

Turbines in Malaysia. This facility is jointly managed by Deleum and Solar Turbines International Company.

Solar Turbines is a wholly-owned subsidiary of Caterpillar Inc and is a global leader in the design and manufacture of industrial gas turbines in the 1-15 MW power range.

"Our main partner Solar Turbines will be using this facility as a hub to service turbines for its regional clients. We invest in the facility and provide local technical support. They provide us after sales support technology. We see this as an

opportunity to expand our regional reach as well as create opportunities for the transfer of high technology into Malaysia," says Chandran.

This could see good potential, as Solar sells, manufactures, and services its products in over 96 countries.

Adds Chandran: "This will be the catalyst that enables us to expand our local and regional reach, apart from giving us new revenue streams."

On the local front, Deleum and Solar Turbines have been actively involved in the industrial power generation business since 1982. To date, Deleum has installed over 200 units of gas turbines and has contracts to do its maintenance works.

Deleum's overhaul gas turbine services are usually on long-term contract (at least three years), thus providing recurring income, while its ongoing maintenance service contracts such as its wireline services are for a period of 5-10 years.

For its FY07 results, about 47% of its profits were generated from the sales of specialised equipment and services while the remainder came from oilfield equipment and services. Chandran says recurring

income make up 40% of its total revenue while 60% can be categorised as project based.

### Services and Power - Moving Forward

In line with its focus on more service-related products, Izhah sees potential in its specialty chemical division, where Deleum is already supplying its drag reducing agent and solid deposit solution.

The solid deposit solution is designed to remove deposits and enhance oil production. It is used during the oil production phase, where changes in temperature, pressure and composition of crude oil can cause solid deposits of wax, and other materials can form in and around the location of the production path.

While its contribution to revenue in this financial year is RM4mil to RM5mil, Chandran sees this solution gaining significantly in revenue contribution moving forward as the technology gets accepted and proven.

An analyst adds that Deleum could see its industrial power generation segment picking up, once the gas pricing issue in Malaysia is addressed.

This is because Malaysia has not changed the regulated price for gas of RM6.40 per million British thermal unit since the pricing was introduced in 1997.

The Government is presently conducting a thorough review of the gas industry to ensure that such natural resources are utilised in an efficient manner.

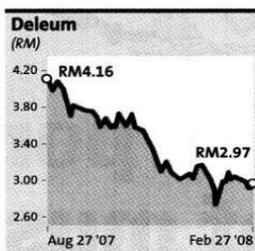
The pricing of gas in Malaysia is low due to heavy government subsidies. Petronas is providing subsidies to Tenaga Nasional Bhd (TNB) and independent power producers.

Hence the expectation is for Petronas to increase the price of gas, and in return, TNB will increase the tariff, as it would definitely want to pass on some of the costs to consumers.

Speculation is still rife that TNB may get fuel-cost pass-through tariff formula after the general election.

"Once the gap between tariffs and gas prices increases, it may be more viable for certain types of industries to set up their own co-generation plant. Deleum may benefit, especially on co-generation plant development," says this analyst.

Coming from its low base and armed with its piles of money, Deleum may have the ability to surprise on the upside.



them locally," says Deleum managing director Chandran Aloysius Rajadurai.

Dresser's broad portfolio of products includes some of the industry's leading valves, actuators, meters, switches, regulators, piping products, natural gas-fuelled engines, retail fuel dispensers and associated retail point of sale systems, and air and gas handling equipment.

Izhah says that Deleum is on the lookout for M&A opportunities domestically and is also looking to expand its market to neighbouring countries such as Brunei and Indonesia, for a start.

"We are assessing several opportunities and we hope to conclude some of them this year," says Izhah.

### New Turbines Centre

On Jan 31, Deleum's new Turboservices and Solar Turbines Integrated Service Centre in Senawang, Negri Sembilan was opened for business.

After having invested RM20mil in this centre, this facility will have the capacity to do overhauls, repairs, reconditioning, modification, servicing and testing of Solar Gas