DELEUM

(DLUM MK EQUITY, DLEU.KL)

BUY (MAINTAINED)	Price: RM1.14 Target Price (% return): RM1.30 (19%) 52-week High/Low: RM1.54/RM1.09	**Oil & Gas** Rationale for report: Company Result

Resetting expectations

Deleum's 1H26 earnings miss warrants a reset in expectations, with slower work-order conversion and sharp margin compression prompting us to cut FY26F–FY28F earnings. Nevertheless, its RM2.39bil order book (5.2x of market cap) and expected recovery in activity underpin a more resilient 2H26 and FY27F recovery. We see the current weakness as delayed earnings conversion amid operational transition, rather than a deterioration in medium-term outlook.

- **Maintain BUY with a lower TP of RM1.30** (from RM1.60), pegged to an unchanged 8x FY27F PE.
- **Earnings miss on weaker activity and margins.** Deleum's 1H26 core net profit of RM20mil (-39% YoY) came in 26% of ours and consensus FY26F estimate. Revenue fell modestly by 10% YoY, yet segment profit fell 45% as margins compressed sharply. Power and Machinery (P&M) was the main drag, with segment profit down 47% as margin declined by 7.6ppt to 11%, while Oilfield Integrated Services (OIS) profit declined 36% on weaker activity. Accordingly, we cut our FY26F–FY28F earnings by 46%/19%/16%, reflecting slower conversion.
- **FY26 reset; recovery increasingly deferred.** Order-book visibility remains strong at RM2.39bil (5.2x of market cap), comprising RM1.52bil P&M and RM869mil OIS. Conversion has been slower than expected as operatorship transitions of temporarily disrupted field activities and delayed work programmes. This includes the broader transition of upstream assets from Carigali to Searah. P&M's near-term outlook is also mixed: remaining Pengerang materials-related orders should be recognised by Dec-26, while the services-related turnaround has shifted to 2027, deferring part of the anticipated recovery.
- **More resilient 2H26, but execution is key.** Management expects activity to improve in 2H26, led by a recovery in Well Intervention Services and continued contribution from chemicals and well stimulation, alongside progressive execution of its existing order book. However, following the sharp 1H26 margin compression, we believe a sustained earnings recovery will depend not only on higher activity but also on better operating leverage and margin normalisation.

YE to Dec	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	997.1	727.8	939.3	999.3
Core net profit (RM mil)	71.1	40.4	64.9	72.1
FD Core EPS (sen)	17.7	10.1	16.2	18.0
FD Core EPS growth (%)	(4.2)	(43.2)	60.7	11.1
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	9.3	5.0	8.1	9.0
PE (x)	6.4	11.3	7.0	6.3
EV/EBITDA (x)	1.6	2.0	1.2	0.9
Div yield (%)	8.5	4.6	7.4	8.2
ROE (%)	14.8	8.0	12.2	12.8
Net Gearing (%)	net cash	net cash	net cash	net cash

Source: Deleum , AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	↓
EPS:	↓

Stock and Financial Data

Shares Outstanding (million)	401.6
Market Cap (RMmil)	457.8
Book Value (RM/Share)	1.24
P/BV (x)	0.9
ROE (%)	14.8
Net Gearing (%)	(41.1)
Free Float	56.8
Avg Daily Value (RMmil)	0.3

Major Shareholders

Lantas Mutiara	(20.4%)
Hartapac	(12.0%)
Nathan Vivekananthan M V	(10.8%)

Price performance	3mth	6mth	12mth
Absolute(%)	(8.8)	(7.3)	(24.5)
Relative(%)	(11.4)	(7.7)	(31.7)

Source: Deleum , AmInvestment Bank Bhd.

Price Chart

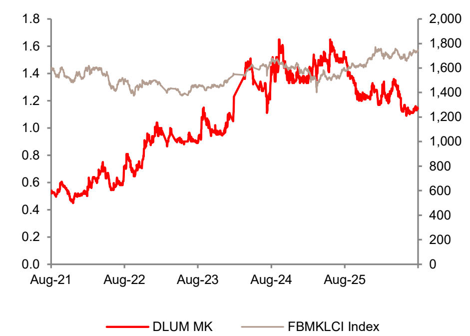


EXHIBIT 1. Changes in earnings

	FY26F			FY27F			FY28F		
RMmil	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	1,033.7	727.8	-30%	1,073.7	939.3	-13%	1,117.7	999.3	-11%
Earnings	75.5	40.4	-46%	80.4	64.9	-19%	85.7	72.1	-16%
OIS OB recognition	19%	8%	-11.0ppt	19%	13%	-6.2ppt	19%	13%	-5.6ppt
P&M OB recognition	17%	8%	-8.5ppt	17%	13%	-3.7ppt	17%	13%	-3.1ppt

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 2. 1H26 earnings summary

FYE Dec (RM mil)	2Q25	1Q26	2Q26	QoQ %	YoY%	6M25	6M26	YoY%
Revenue	236.9	184.9	191.5	3.5	-19.2	416.3	376.4	-9.6
Cost of sales	-170.1	-138.5	-141.2	2.0	-17.0	-292.3	-279.7	-4.3
Gross profit	66.7	46.5	50.3	8.2	-24.7	124.0	96.7	-22.0
Other operating income	1.7	1.8	2.1	18.3	25.6	3.3	3.9	19.6
Selling and distribution costs	-11.1	-11.2	-12.2	8.7	10.4	-22.8	-23.5	2.7
Administrative expenses	-20.3	-19.7	-22.7	15.0	11.8	-39.8	-42.4	6.5
Other operating gains/(losses)	-2.3	0.1	-1.6	<-100	-31.4	-2.5	-1.5	-41.9
Operating profit	34.8	17.4	15.9	-8.5	-54.3	62.0	33.3	-46.4
Finance costs	-0.2	-0.4	-1.3	<-100	<-100	-0.4	-1.7	<-100
Share of results of a joint venture	0.3	0.2	0.1	-71.1	-72.9	0.5	0.3	-39.4
Share of results of an associate	1.4	0.6	1.1	78.9	-23.6	2.4	1.7	-28.9
Profit before tax	36.3	17.8	15.7	-11.6	-56.6	64.5	33.6	-48.0
Tax expense	-9.4	-4.7	-4.1	-13.0	-56.1	-17.2	-8.8	-48.5
PAT	26.9	13.1	11.6	-11.2	-56.7	47.4	24.7	-47.8
NCI	-7.3	-4.1	-1.3	-68.6	-82.2	-15.4	-5.4	-64.7
PATAMI	19.6	9.0	10.3	15.4	-47.2	32.0	19.3	-39.7
Eis	-0.6	-1.9	2.6	>100	>100	0.7	0.7	-0.5
Core PATAMI	19.0	7.1	13.0	82.9	-31.7	32.7	20.0	-38.8
Diluted EPS (sen)	4.88	2.23	2.57	15.2	-47.3	7.97	4.80	-39.8
DPS declared (sen)	4.00	0.00	3.50	n.a	-12.5	4.00	3.50	-12.5
Key Ratios								
Gross profit margin	28.2%	25.1%	26.2%	1.1ppt	-1.9ppt	29.8%	25.7%	-4.1ppt
Operating profit margin	14.7%	9.4%	8.3%	-1.1ppt	-6.4ppt	14.9%	8.8%	-6.1ppt
PBT margin	15.3%	9.6%	8.2%	-1.4ppt	-7.1ppt	15.5%	8.9%	-6.6ppt
Core PATAMI margin	8.0%	3.8%	6.8%	2.9ppt	-1.2ppt	7.9%	5.3%	-2.5ppt
Effective tax rate	25.9%	26.5%	26.1%	-0.4ppt	0.3ppt	26.6%	26.3%	-0.2ppt

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 3. Segmental Breakdown

Segment Revenue	2Q25	1Q26	2Q26	QoQ %	YoY%	6M25	6M26	YoY%
Power and Machinery	164.5	136.6	127.2	-6.9	-22.7	297.1	263.7	-11.2
Oilfield Integrated Services	72.2	48.1	64.1	33.1	-11.2	118.8	112.2	-5.5
Other non-reportable segment	0.2	0.2	0.2	12.7	12.2	0.4	0.4	6.4
Total Group revenue	236.9	184.9	191.5	3.5	-19.2	416.3	376.4	-9.6

Segment Results	2Q25	1Q26	2Q26	QoQ %	YoY%	6M25	6M26	YoY%
Power and Machinery	27.9	14.8	15.1	2.2	-45.8	56.4	30.0	-46.9
Oilfield Integrated Services	9.6	4.5	2.9	-36.2	-70.0	11.5	7.4	-35.8
Other non-reportable segment	0.0	0.0	0.0	16.7	10.5	0.0	0.0	5.4
Segment results	37.6	19.4	18.1	-6.7	-51.9	68.0	37.4	-45.0
Unallocated income	0.0	0.1	0.1	-3.9	85.0	0.1	0.2	39.8
Unallocated corporate expenses	-3.0	-2.5	-3.5	44.0	16.9	-6.5	-6.0	-7.0
Share of results of a joint venture	0.3	0.2	0.1	-71.1	-72.9	0.5	0.3	-39.4
Share of results of an associate	1.4	0.6	1.1	78.9	-23.6	2.4	1.7	-28.9
Tax expense	-9.4	-4.7	-4.1	-13.0	-56.1	-17.2	-8.8	-48.5
Profit for the period	26.9	13.1	11.6	-11.2	-56.7	47.4	24.7	-47.8

Margin	2Q25	1Q26	2Q26	QoQ %	YoY%	6M25	6M26	YoY%
Power and Machinery	17%	11%	12%	1.1ppt	-5.1ppt	19%	11%	-7.6ppt
Oilfield Integrated Services	13%	9%	4%	-4.9ppt	-8.8ppt	10%	7%	-3.1ppt
Segment results margin	16%	10%	9%	-1.0ppt	-6.4ppt	16%	10%	-6.4ppt

Source: Company, AmInvestment Bank Bhd.

Valuation

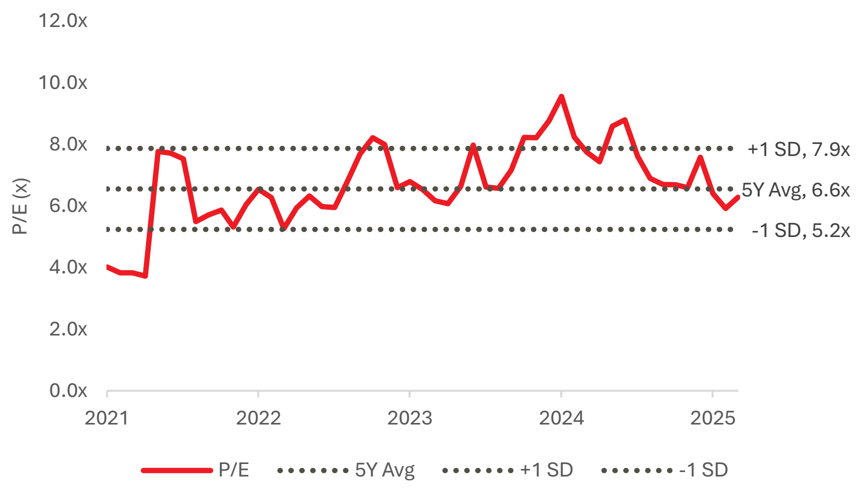
We value Deleum using P/E multiples, in line with OGSE peers, as its earnings are driven by contract flow, service execution, utilisation and margins. This best captures Deleum's recovery from higher brownfield maintenance, slickline and well intervention activity.

EXHIBIT 4. Valuation

Target PE (x)	8
FY27F EPS (sen)	16.2
ESG premium	-
12-month target price (RM)	1.30 (v. 1.60 previously)

Source: Company, AmInvestment Bank Bhd.

EXHIBIT 5. 1-year forward PE



Source: Company, AmInvestment Bank Bhd.

Company profile

Deleum Berhad, established in 1982, is a Malaysian investment holding company specializing in providing a wide range of products and services to the oil and gas industry, particularly in the exploration and production sectors. Its operations are divided into two main segments: Power and Machinery, which includes gas turbine packages, turbomachinery services, and industrial power generation solutions, and Oilfield Integrated Services, offering slickline equipment, wellhead maintenance, drilling services, and other oilfield-related products.

Key subsidiaries include Deleum Services Sdn. Bhd., which focuses on gas turbine and power generation equipment, and Deleum Oilfield Services Sdn. Bhd., which provides oilfield equipment and services. Other subsidiaries, like Deleum Chemicals Sdn. Bhd., specialize in developing solid deposit removal solutions and specialty chemicals, while Penaga Dresser Sdn. Bhd. handles valves and flow regulators.

Deleum's CEO Ramanrao Abdullah emerged as substantial shareholder with 20.36% indirect stake following its share acquisition from Lantas Mutiara, owned by Deleum chairman Datuk Izham Mahmud.

Investment thesis

Recovery delayed, not derailed. 1H26 earnings disappointed on slower activity and margin compression, but management expects a more resilient 2H26 led by improving Well Intervention Services/slickline, chemicals and well stimulation, with part of the P&M turnaround recovery shifting into FY27.

Strong backlog supports visibility. Deleum's RM2.39bil order book provides solid earnings cover; the key is now faster work-order conversion as operatorship transitions normalise.

Balance sheet supports dividends. Strong liquidity and a 50% dividend payout policy provide downside support while earnings recover.

Valuation Methodology

We apply a FY27F PE of 8x to arrive at Deleum's target price of RM1.30/share. The PE is +1SD of 5-year average for Deleum.

Risk factors

i) Lower commodity prices, reduced spending by key clients

ii) Cost overruns due to delays or operational inefficiencies

iii) Concentrated client risks

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	907.5	997.1	727.8	939.3	999.3
EBITDA	182.7	161.2	94.7	146.9	161.7
Depreciation/Amortisation	(53.0)	(30.8)	(22.5)	(29.0)	(30.9)
Operating income (EBIT)	129.8	130.3	72.2	117.9	130.8
Other income & associates	6.9	4.7	5.2	5.7	6.3
Net interest	(0.5)	(1.3)	(1.4)	(1.4)	(1.4)
Exceptional items	-	-	-	-	-
Pretax profit	**136.2**	**133.7**	**76.0**	**122.2**	**135.7**
Taxation	(35.3)	(32.8)	(18.6)	(29.9)	(33.3)
Minorities/pref dividends	(26.8)	(29.9)	(17.0)	(27.3)	(30.3)
Net profit	**74.2**	**71.1**	**40.4**	**64.9**	**72.1**
Core net profit	74.2	71.1	40.4	64.9	72.1

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	91.3	106.1	110.1	115.2	120.7
Intangible assets	0.2	36.6	36.6	36.6	36.6
Other long-term assets	84.1	82.1	89.7	98.1	107.3
Total non-current assets	**175.6**	**224.8**	**236.5**	**250.0**	**264.7**
Cash & equivalent	197.4	242.2	291.4	299.5	337.4
Stock	45.4	23.1	16.8	21.7	23.1
Trade debtors	301.4	327.5	239.0	308.4	328.2
Other current assets	13.2	7.3	12.5	16.1	17.1
Total current assets	**557.4**	**600.1**	**559.7**	**645.8**	**705.8**
Trade creditors	148.1	133.6	97.5	125.8	133.9
Short-term borrowings	7.4	10.5	5.5	4.4	3.5
Other current liabilities	62.8	73.7	54.1	71.4	76.4
Total current liabilities	**218.2**	**217.8**	**157.1**	**201.7**	**213.8**
Long-term borrowings	7.8	27.6	22.1	17.7	14.1
Other long-term liabilities	8.9	14.0	15.3	16.7	18.3
Total long-term liabilities	**16.7**	**41.6**	**37.4**	**34.4**	**32.4**
Shareholders' funds	**463.0**	**496.3**	**515.4**	**546.3**	**580.5**
Minority interests	35.1	69.2	86.2	113.5	143.8
BV/share (RM)	1.15	1.24	1.28	1.36	1.45

Cash Flow (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	136.2	133.7	76.0	122.2	135.7
Depreciation/Amortisation	53.0	30.8	22.5	29.0	30.9
Net change in working capital	12.1	19.8	37.7	(35.4)	(10.1)
Others	(149.6)	(51.5)	(23.8)	(35.6)	(39.5)
Cash flow from operations	**51.7**	**132.9**	**112.4**	**80.1**	**117.0**
Capital expenditure	(52.8)	(36.3)	(26.5)	(34.2)	(36.4)
Net investments & sale of fixed assets	-	0.1	-	-	-
Others	25.3	(13.0)	-	-	-
Cash flow from investing	**(27.5)**	**(49.3)**	**(26.5)**	**(34.2)**	**(36.4)**
Debt raised/(repaid)	(23.1)	16.3	(7.3)	(4.4)	(3.5)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(37.1)	(37.3)	(21.2)	(34.1)	(37.9)
Others	2.3	(24.1)	(8.3)	0.8	(1.4)
Cash flow from financing	**(57.9)**	**(45.2)**	**(36.8)**	**(37.7)**	**(42.8)**
Net cash flow	**(33.7)**	**38.4**	**49.1**	**8.2**	**37.8**
Net cash/(debt) b/f	**198.2**	**188.5**	**242.2**	**291.4**	**299.5**
Net cash/(debt) c/f	**164.0**	**225.1**	**291.4**	**299.5**	**337.4**

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	14.6	9.9	(27.0)	29.1	6.4
EBITDA growth (%)	62.6	(11.8)	(41.2)	55.1	10.1
Pretax margin (%)	15.0	13.4	10.4	13.0	13.6
Net profit margin (%)	8.2	7.1	5.6	6.9	7.2
Interest cover (x)	266.8	98.5	53.5	85.6	93.1
Effective tax rate (%)	25.9	24.5	24.5	24.5	24.5
Dividend payout (%)	50.0	52.5	52.5	52.5	52.5
Debtors turnover (days)	121	120	120	120	120
Stock turnover (days)	25	11	11	11	11
Creditors turnover (days)	80	66	66	66	66

Source: Company, AmInvestment Bank Bhd.

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