

04 July 2019

Dayang Enterprise Holdings

Negatives All Priced-in

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We upgrade DAYANG to MARKET PERFORM with a FD-TP of RM1.35, on possible earnings recovery in coming quarters, after disappointing losses in 1Q19. The company is also in active tenders for Petronas' i-HUC contract, with forward earnings to be driven by current order-book of >RM3b. While corporate exercise is expected to mildly dilute share base (by ~20%), we believe any overhang will be short-lived given its relatively palatable size.

Expecting better results. After disappointing losses in 1Q19, we believe that DAYANG could stage a possible earnings recovery in its upcoming 2Q19 results. This is because the company could potentially see a surge in work orders, coming off on the back of a quiet monsoon season in 1Q19, coupled with an anticipated stronger utilisation for its offshore vessels. To recap, despite the losses in 1Q19, its offshore vessels' utilisation actually surged to 36% (from 27% in 1Q18 and 24% in 1Q17), dragged only by its poorer-than-expected topside maintenance. Thus, it is likely to see a stronger vessel utilisation trajectory for the rest of the year, while the slower maintenance work orders in 1Q19 could also mean a cascade of work flows to 2Q19.

Tendering for new contract. Currently, the company is in active tender for Petronas' I-HUC contract. The contract covers topside hook-up, commissioning, and maintenance works for Petronas, and carries a gross contract value of ~RM4b, with award date expected by end-2019. Given DAYANG's industry-leading expertise in the offshore maintenance space, we reckon it is likely that the company could possibly win a portion of the gross contract, guesstimated at a value of ~RM1b. Meanwhile, current forward earnings will be largely underpinned by its existing order-book of >RM3b after it successfully secured a slew of new 5-year PM-MCM contracts over last year.

Little overhang expected from rights issue. To recap, the company had recently announced a series of proposed corporate exercises, entailing rights issue and private placement, to raise ~RM187m. While this is expected to tentatively dilute its share base by ~20% (based on illustrative exercise prices), we feel that any shares overhang, if any, could be short-lived given its relatively palatable size. This is also expected to lead to an interest savings cost of RM6.6m per annum.

Upgrade to MARKET PERFORM (from UNDERPERFORM previously), as we believe all negatives have been well priced-in (e.g. anticipated announcement of rights issue, and expected weaker 1Q19 results).

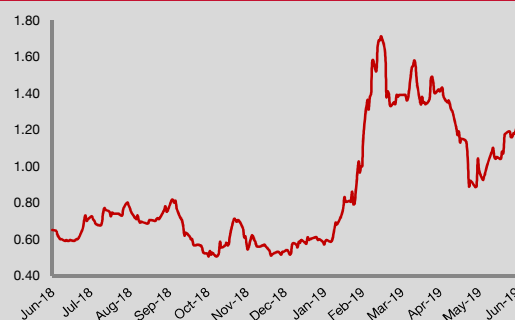
We raised our SoP-TP to RM1.35 (from RM0.80 previously), as we (i) raised our FY19-20E earnings by 16-22% on better margins assumptions and lowered finance costs, (ii) taking into account the fully diluted share-base post-corporate exercises, and (iii) raising our PER valuations on topside maintenance to 15x (from 9x before) – in-line with sector average valuations. Our TP implies PBV of 1.3-1.2x, and PER of 14-13x (in-line with 5-year average).

Risks to our call include: (i) weaker-than-expected work orders, (ii) weaker-than-expected vessel utilisation, and (iii) poorer-than-expected margins.

MARKET PERFORM ↑

Price : **RM1.28**
FD-Target Price : **RM1.35** ↑

Share Price Performance



KLCI	1,690.05
YTD KLCI chg	0.0%
YTD stock price chg	137.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DEHB MK Equity
Market Cap (RM m)	1,235.0
Shares outstanding	964.8
52-week range (H)	1.75
52-week range (L)	0.50
3-mth avg daily vol:	25,112,890
Free Float	58%
Beta	1.3

Major Shareholders

Naim Holdings Bhd	26.4%
Urusharta Jamaah Sdn	7.9%
Ling Suk Kiong	7.6%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Revenue	937.6	1,145.4	1,195.4
EBIT	292.9	218.6	227.6
PBT	220.0	151.5	164.7
Net Profit (NP)	164.2	108.5	118.4
Core Net Profit	164.2	108.5	118.4
Consensus (NP)	-	118.8	128.8
Earnings Revision (%)		16.2	16.4
Core EPS (sen)	14.2	9.4	10.2
Core EPS growth (%)	N.M.	-33.9	9.1
BV/share (RM)	1.0	1.0	1.1
DPS (sen)	0.0	0.0	0.0
Core PER (x)	9.0	13.7	12.5
PBV (x)	1.3	1.3	1.2
Gearing (x)	0.8	0.9	0.7
Dividend Yield (%)	0.0	0.0	0.0

04 July 2019

Sum-of-Parts Valuation

<u>Division</u>	<u>Value</u>	<u>Remarks</u>
Offshore TMS	1439.0	Based on 15x PER of FY20E
PERDANA	139.4	60.5% stake in PERDANA @ 0.5x PBV
Fair value	1578.4	
No. of shares	1157.8	Fully-diluted share base
SoP value/share (RM)	1.35	

Source: Company, Kenanga Research

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Income Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	708.2	695.5	937.6	1145.4	1195.4
EBITDA	302.5	156.9	403.9	336.5	323.4
Depreciation	-124.5	-125.5	-111.0	-117.9	-95.9
Operating Profit	178.0	31.4	292.9	218.6	227.6
Interest Expense	-99.3	-95.2	-77.8	-67.1	-62.9
Associate	0.0	0.0	0.0	0.0	0.0
PBT	78.7	-63.8	220.0	151.5	164.7
Taxation	-24.7	-88.4	-72.0	-37.9	-41.2
Minority Interest	0.6	8.3	16.2	-5.1	-5.1
Net Profit	54.5	-143.9	164.2	108.5	118.4
Core Net Profit	-3.5	-58.9	164.2	108.5	118.4

Balance Sheet

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	1,802	1,474	1,450	1,568	1,503
Intangible Assets	679	666	0	666	666
Oth. Fixed Asse.	74	77	735	77	77
Inventories	5	7	7	8	8
Receivables	245	204	271	335	350
Oth. Curr. Assets	25	49	19	49	49
Cash	292	221	202	81	195
Total Assets	3,123	2,697	2,685	2,785	2,849
Payables	182	190	202	243	253
ST Borrowings	348	921	1,044	1,094	1,024
Other ST Liability	5	8	34	8	8
LT Borrowings	1,290	358	24	24	24
Other LT Liability	19	70	76	70	70
Minority Interest	8	201	177	181	186
Net Assets	1,270	949	1,128	1,165	1,283
Share Capital	439	673	673	673	673
Reserves	832	276	455	492	610
Equity	1,270	949	1,128	1,165	1,283

Cashflow Statement

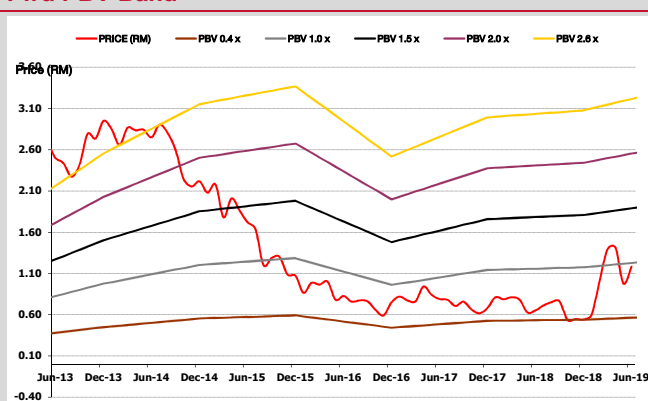
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	329	223	293	227	215
Investing CF	-24	3	24	-31	-31
Financing CF	-265	-341	-278	50	-70

Source: Kenanga Research, Bloomberg, Bursa Malaysia

Financial Data & Ratios

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Growth					
Revenue	-9.0	-1.8	34.8	4.2	4.4
GP	-24.1	-15.5	81.5	4.2	4.4
EBITDA	18.4	-48.1	157.5	13.4	-3.9
PBT	-61.3	-181.2	-444.7	39.9	8.7
Core Net Profit	-68.3	-364.0	-379.0	1.5	9.1
Profitability (%)					
EBITDA Margin	42.7	22.6	43.1	29.4	27.1
Operating Margin	25.1	4.5	31.2	19.1	19.0
PBT Margin	11.1	-9.2	23.5	13.2	13.8
Core Net Margin	-0.5	-8.5	17.5	9.5	9.9
Effective Tax Rate	31.4	-138.4	32.7	25.0	25.0
ROE	4.3	-12.5	14.6	8.1	8.1
ROA	1.7	-4.9	6.1	4.0	4.2
DuPont Analysis					
Net Margin (%)	-0.5	-8.5	17.5	9.5	9.9
Assets Turnover(x)	0.2	0.3	0.3	0.4	0.4
Leverage Factor(x)	2.5	2.8	2.4	2.4	2.2
ROE (%)	-0.3	-6.2	14.6	9.3	9.2
Leverage					
Debt/Asset (x)	0.5	0.5	0.4	0.4	0.4
Debt/Equity (x)	1.3	1.3	0.9	1.0	0.8
Net (Cash)/Debt	1,345.8	1,058.4	866.4	1,036.8	852.8
Net Debt/Equity(x)	1.1	1.1	0.8	0.9	0.7
Valuations					
EPS (sen)	-0.3	-5.1	14.2	9.4	10.2
DPS (sen)	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	1.1	0.8	1.0	1.0	1.1
PER (x)	-422.6	-25.2	9.0	13.7	12.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	1.2	1.6	1.3	1.3	1.2

Fwd PBV Band



Source: Bloomberg, Kenanga Research

Fwd Std. Dev. PBV Band



04 July 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BUMI ARMADA BERHAD	0.215	1,263.5	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.6	4.0	4.0	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.28	1,235.0	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	7.5	11.4	10.4	1.1	1.1	9.5%	0.0%	1.35	MP
DIALOG GROUP BHD	3.30	18,606.4	Y	06/2019	-22.9%	14.8%	10.1%	13.5%	43.4	39.4	34.7	5.3	5.1	13.2%	1.0%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.735	1,176.0	Y	12/2019	-10.1%	-25.6%	845.5%	123.4%	N.A.	81.1	36.3	0.5	0.5	0.6%	0.0%	0.770	MP
MISC BHD	7.23	32,272.9	Y	12/2019	0.8%	-2.9%	21.2%	10.1%	24.4	20.1	18.3	0.9	0.9	4.6%	4.1%	6.65	MP
PANTECH GROUP HOLDINGS BHD	0.560	419.8	Y	02/2020	1.3%	5.9%	1.3%	6.4%	9.6	9.5	8.9	0.8	0.7	7.6%	2.9%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	8.60	68,800.0	Y	12/2019	-9.8%	7.7%	-15.9%	17.0%	13.8	16.4	14.0	2.3	2.1	13.2%	3.0%	8.75	MP
PETRONAS DAGANGAN BHD	25.60	25,432.4	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	30.4	22.9	22.4	4.3	4.1	18.4%	3.1%	24.95	MP
SAPURA ENERGY BHD	0.305	4,861.5	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	100.7	28.1	0.4	0.4	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.07	5,976.8	Y	12/2019	18.6%	9.7%	12.2%	8.0%	15.6	13.9	12.9	2.9	2.5	19.4%	2.2%	4.80	OP
UZMA BHD	0.695	222.4	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	4.3	30.9	10.5	0.5	0.4	1.5%	0.0%	0.760	MP
WAH SEONG CORP BHD	0.705	543.2	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.6	10.6	13.0	0.6	0.6	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	6.24	6,740.8	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	25.6	27.6	17.7	3.9	3.5	13.5%	1.0%	7.75	OP

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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