

26 August 2019

Dayang Enterprise Holdings

2Q19 - Best Ever Results in Years

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DAYANG recorded one of its strongest ever results in 2Q19, broadly within expectations, from improved maintenance work orders coupled with higher vessel utilisation. As such, we posit that the strong momentum could continue well into the 2H, with our numbers (and consensus) already imputing a stronger 2H19. No changes to our **MARKET PERFORM** call, as recent strong share price's appreciation may have reflected most positives, with SoP-TP of RM1.45.

1H19 broadly within expectations. DAYANG recorded 1H19 core net profit of RM48.3m (adjusted for non-core items e.g. unrealised forex, impairments), making up 45% and 40% of our and consensus full-year earnings forecasts, respectively. Nonetheless, we deem this to be broadly within expectations, in anticipation of a seasonally stronger 2H, particularly in the 3Q. No dividends were announced, as expected.

Strong 2Q19 recovery. DAYANG chalked up one of its best ever 2Q results, recording a core net profit of RM53.5m – more than doubled YoY, thanks to higher profit margins mix for topside maintenance work orders (offshore TMS operating margin improved by 8.6ppt YoY), coupled with higher vessel utilisation (79% vs 70%). Sequentially, 2Q19 bounced back from losses QoQ given a seasonally weaker 1Q, driven by higher maintenance work orders (where offshore TMS segmental profit more than doubled) on top of higher vessel utilisation (79% vs 36%). Cumulatively, 1H19 core net profit jumped 65% YoY, similarly due to higher margin mix for maintenance work orders (+3.3ppt) on top of improved vessel utilisation (58% vs 49%).

Follow-through from the strong results. After posting one of its best ever quarterly results in years, we believe this may suggest that the strong job momentum could continue into the 2H, with our numbers and consensus already imputing a slightly stronger 2H19. Meanwhile, we are still awaiting the completion of its proposed debt restructuring by end of the year, which entails: (i) a 1-for-10 rights issue, (ii) private placement of up to 10% of total issued shares, and (iii) issuance of Sukuk of RM682.5m and subscription of PERDANA's RCPS (refer to our report dated 21 May 2019 for further details).

Maintain MARKET PERFORM. Following its incredibly strong results, we raised our SoP-TP slightly to RM1.45 (from RM1.35 previously), after upping valuations for its offshore TMS by a notch to 16x PER (from 15x previously) – still a slight discount to the O&G sector average of 17x. Note that our TP has already taken into account full share-base dilution from the proposed corporate exercises (~20% dilution). No changes were made to our FY19-20E numbers post results.

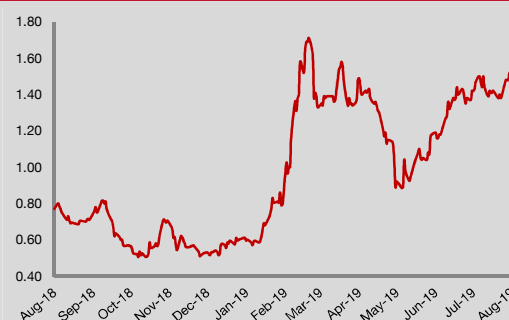
Nonetheless, despite the strong results, we are still somewhat reluctant to call an outright **OUTPERFORM** for now, as recent strong share prices (+68% after bottoming-out from its low in late May) may have already reflected current positives. Our TP, which implies a forward PBV of 1.4x, is already priced near +1SD premium against its 5-year mean.

Risks to our call are: (i) stronger-than-expected work orders, (ii) increase in lump sum orders, (iii) higher-than-expected vessel utilisation, and (iv) falling through of corporate exercises.

MARKET PERFORM ↔

Price: RM1.49
Target Price: RM1.45 ↑

Share Price Performance



KLCI	1,609.33
YTD KLCI chg	-4.8%
YTD stock price chg	175.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DEHB MK Equity
Market Cap (RM m)	1,437.6
Shares Outstanding	964.8
52-week range (H)	1.75
52-week range (L)	0.50
3-mth avg daily vol:	17,811,940
Free Float	58%
Beta	1.3

Major Shareholders

Naim Holdings Bhd	26.4%
Urusharta Jamaah Sdn Bhd	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)	-	119.5	132.0
Earnings Revision (%)	-	-	-
Core EPS (sen)	14.2	9.4	10.2
CNP growth (%)	-379.0	-33.9	9.1
BV/share (RM)	1.0	1.0	1.1
DPS (sen)	0.0	0.0	0.0
Core PER (x)	10.5	15.9	14.6
PBV (x)	1.5	1.5	1.3
Net-gearing (x)	0.8	0.9	0.7
Dividend yield (%)	0.0	0.0	0.0

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Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : Dec (RM' m)	FY19	FY19		FY18		FY19	FY18	
Revenue	247.2	156.4	58.0%	221.3	11.7%	403.6	370.1	9.1%
Operating expenses	(133.3)	(129.8)	2.7%	(139.7)	-4.5%	(263.2)	(251.5)	4.6%
Gross profit	113.8	26.6	328.6%	81.6	39.5%	140.4	118.5	18.5%
Other income	2.7	1.4	92.0%	0.2	1494.6%	3.0	0.3	998.2%
Administration expenses	(28.7)	(21.3)	34.5%	(21.4)	34.0%	(50.0)	(42.5)	17.7%
Other operating income/(expenses)	(1.4)	(0.0)	24016.7%	15.5	-109.3%	(0.4)	(16.4)	-97.8%
EBIT	86.4	6.6	1204.2%	75.9	13.9%	93.0	59.9	55.4%
Finance costs	(15.4)	(16.8)	-8.1%	(20.3)	-24.2%	(32.2)	(41.7)	-22.8%
Finance income	1.4	1.7	-16.3%	1.5	-6.5%	3.1	2.9	7.5%
Net finance costs	(14.0)	(15.1)	-7.2%	(18.8)	-25.6%	(29.1)	(38.8)	-25.0%
Profit/(loss) before tax	72.4	(8.5)	-955.2%	57.0	26.9%	63.9	21.1	203.6%
Income tax expense	(19.4)	(8.7)	123.8%	(14.0)	39.0%	(28.1)	(25.7)	9.6%
Non-controlling interest	2.2	13.0	-83.5%	(4.2)	-151.3%	15.2	22.4	-32.1%
Net profit	55.1	(4.1)	-1432.3%	38.9	41.8%	51.0	17.7	187.2%
Core net profit	53.5	(5.2)	-1124.6%	21.2	152.2%	48.3	29.3	64.7%
Gross margin	46.1%	17.0%		36.9%		34.8%	32.0%	
EBIT margin	35.0%	4.2%		34.3%		23.0%	16.2%	
PBT margin	29.3%	-5.4%		25.8%		15.8%	5.7%	
Net margin	22.3%	-2.6%		17.6%		12.6%	4.8%	
Core net margin	21.6%	-3.3%		9.6%		12.0%	7.9%	
Effective tax rate	26.9%	-102.7%		24.5%		44.0%	121.9%	

Source: Company

Segment Breakdown								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : Dec (RM' mil)	FY19	FY19		FY18		FY19	FY18	
Revenue								
Offshore TMS	201.6	127.3	58.3%	201.5	0.1%	329.0	339.0	-2.9%
Marine Charter	45.6	29.1	56.8%	19.8	130.3%	74.6	31.1	139.9%
EBIT								
Offshore TMS	76.1	33.9	124.5%	58.8	29.5%	110.0	102.0	7.8%
Marine Charter	17.1	(21.0)	-181.3%	26.7	-36.2%	(3.9)	(27.0)	-85.4%
Equipment Rental	1.6	0.2	942.9%	2.0	-20.0%	1.8	1.4	24.0%
Investment Holding	(0.4)	(0.0)	897.7%	0.1	-687.7%	(0.5)	0.2	-291.9%
EBIT margins								
Offshore TMS	37.8%	26.6%		29.2%		33.4%	30.1%	
Marine Charter	37.4%	-72.3%		135.1%		-5.3%	-86.9%	

Source: Company

Sum-of-Parts Valuation			
Division		Value	Remarks
Offshore TMS		1535.0	16x FY20E PER
PERDANA		139.4	60.5% stake in PERDANA @ 0.5x PBV
Fair value		1674.3	
No. of shares		1157.8	Fully-diluted to reflect proposed exercises
SoP value/share (RM)		1.45	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	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.	Price (RM)	
BUMI ARMADA BERHAD	0.225	1,322.2	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.9	4.2	4.1	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.49	1,437.6	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.8	13.2	12.1	1.3	1.2	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.48	19,621.3	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.6	35.0	32.0	5.2	4.9	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.810	1,296.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	89.4	37.3	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.29	32,540.7	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.6	18.9	18.0	0.9	0.9	4.9%	4.1%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.500	375.0	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.22	57,760.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.6	16.6	14.5	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	23.26	23,107.7	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.6	24.5	22.7	3.9	3.7	15.6%	2.9%	22.45	MP
SAPURA ENERGY BHD	0.275	4,383.3	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	90.8	25.3	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.29	6,299.9	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.4	14.0	12.4	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.650	208.0	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	4.0	28.9	9.9	0.5	0.4	1.5%	0.0%	0.760	MP
VELESTO ENERGY BHD	0.305	2,505.8	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	164.9	65.4	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.645	496.9	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.9	9.7	11.9	0.5	0.5	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	6.78	7,325.7	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	27.9	30.0	19.2	4.2	3.8	13.5%	0.9%	7.75	OP
Simple Average					-0.6%	10.5%	197.8%	60.6%	16.3	39.2	20.9	1.7	1.6	8.2%	1.2%		

Source: Bloomberg, Kenanga Research

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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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