

09 October 2019

# Dayang Enterprise Holdings

## More Legs to Run

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We upgrade DAYANG to **OUTPERFORM**, with SoP-TP of RM2.00, on the premise of expected stronger quarterly earnings ahead, underpinned by increased number of work orders, on top of higher vessel utilisation. We believe current consensus estimates have yet to take into account the improved earnings outlook ahead, and hence, we still feel that there is more upside from current levels despite the strong share price's performance in recent weeks.

**Stronger quarters ahead?** While DAYANG started the year with an underwhelming 1Q19 with core losses of RM5m, it managed to bounce back in 2Q19 by registering a core profit of RM53.5m – one of its best ever 2Q performances in years. Moving forward into 3Q19, we have reasons to believe that DAYANG could possibly post even stronger earnings, underpinned by increased number of work orders in topside maintenance, on top of higher vessel utilisation. This is in-line with Petronas' guidance of a higher capex spend in 2H19, with focus on upstream oil and gas, jiving with the Petronas' latest Activity Outlook. Looking at a longer-term view (i.e. beyond FY19), DAYANG could still benefit from higher decommissioning activities, while solid order-book (~RM3b) provides visibility for the next 2-3 years.

**Debt restructuring still in the pipelines.** To recap, DAYANG had earlier announced plans for its debt restructuring in May 2019, which entails (i) 1-for-10 rights issue, and (ii) proposed private placement of ~10% of total share capital. The company had recently concluded its required EGM earlier last week, with the rights issue on track to be concluded by end of 2019, although the proposed private placement could take up to 1Q20. Post-rights, we believe DAYANG's net-gearing could ease to ~0.6x, from 0.7x as at end-2Q19, leading to an interest cost savings of ~RM6-7m/year (based on an illustrative rights issue price of RM0.80).

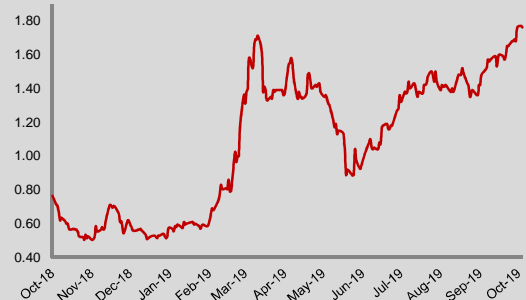
**OUTPERFORM with TP of RM2.00.** Expecting strong earnings outlook ahead, especially for 3Q19, we raised our FY19E/FY20E earnings assumptions extensively by 35%/34%, after accounting for stronger topside maintenance contributions. Following this, our SoP-TP is also raised to RM2.00, from RM1.45 previously (fully-diluted basis), pegged to unchanged valuations of: (i) 16x PER on its topside maintenance segment, and (ii) 0.5x PBV on PERDANA. Our TP implies a forward PER of 16x, which is still slightly below oil and gas sector (excluding Petronas-related counters) average positive PER of 17x.

Hence, our call is also upgraded to **OUTPERFORM** (from UP previously). We believe consensus estimates (and our previous forecast) have failed to take into account stronger upcoming earnings. Catalyst could come from: (i) continued earnings growth delivery, and (ii) contract win announcements. **Risks to our call include:** (i) weaker-than-expected work orders, (ii) lower-than-expected vessel utilisation, (iii) poorer-than-expected margins, and (iv) falling through of corporate exercises.

**OUTPERFORM** ↑

Price : RM1.76  
Target Price : RM2.00 ↑

### Share Price Performance



KLCI 1,558.79  
YTD KLCI chg -7.8%  
YTD stock price chg 225.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DEHB MK Equity
Market Cap (RM m)	1,698.1
Shares outstanding	964.8
52-week range (H)	1.78
52-week range (L)	0.50
3-mth avg daily vol:	11,465,810
Free Float	35%
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	269.1	280.6
PBT	220.0	202.0	217.7
<b>Net Profit (NP)</b>	<b>164.2</b>	<b>146.4</b>	<b>158.2</b>
<b>Core Net Profit</b>	<b>164.2</b>	<b>146.4</b>	<b>158.2</b>
Consensus (NP)	-	116.7	134.0
Earnings Revision (%)		34.9	33.6
Core EPS (sen)	14.2	12.6	13.7
Core EPS growth (%)	N.M.	-10.8	8.0
BV/share (RM)	1.0	1.1	1.2
DPS (sen)	0.0	0.0	0.0
Core PER (x)	12.4	13.9	12.9
PBV (x)	1.8	1.6	1.5
Gearing (x)	0.8	0.8	0.5
Dividend Yield (%)	0.0	0.0	0.0

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**Sum-of-Parts Valuation**

<b><u>Division</u></b>	<b><u>Value</u></b>	<b><u>Remarks</u></b>
Offshore TMS	2171.0	Based on 16x PER of FY20E
PERDANA	139.4	60.5% stake in PERDANA @ 0.5x PBV
<b>Fair value</b>	<b>2310.3</b>	
No. of shares	1157.8	Fully-diluted basis
<b>SoP value/share (RM)</b>	<b>2.00</b>	

*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	387.0	376.4
Depreciation	-124.5	-125.5	-111.0	-117.9	-95.9
Operating Profit	178.0	31.4	292.9	269.1	280.6
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	202.0	217.7
Taxation	-24.7	-88.4	-72.0	-50.5	-54.4
Minority Interest	0.6	8.3	16.2	-5.1	-5.1
<b>Net Profit</b>	<b>54.5</b>	<b>-143.9</b>	<b>164.2</b>	<b>146.4</b>	<b>158.2</b>
<b>Core Net Profit</b>	<b>-3.5</b>	<b>-58.9</b>	<b>164.2</b>	<b>146.4</b>	<b>158.2</b>

### 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	157	311
Total Assets	3,123	2,697	2,685	2,860	2,964
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
<b>Net Assets</b>	<b>1,270</b>	<b>949</b>	<b>1,128</b>	<b>1,240</b>	<b>1,399</b>
Share Capital	439	673	673	673	673
Reserves	832	276	455	567	726
<b>Equity</b>	<b>1,270</b>	<b>949</b>	<b>1,128</b>	<b>1,240</b>	<b>1,399</b>

### Cashflow Statement

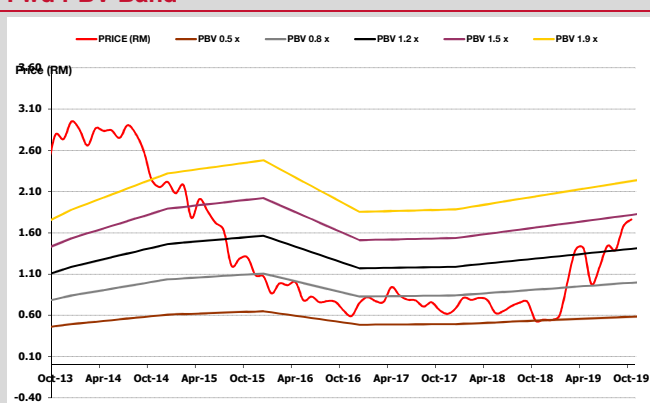
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	329	223	293	265	255
Investing CF	-24	3	24	-31	-31
Financing CF	-265	-341	-278	50	-70

Source: Kenanga Research, Bloomberg, Bursa Malaysia

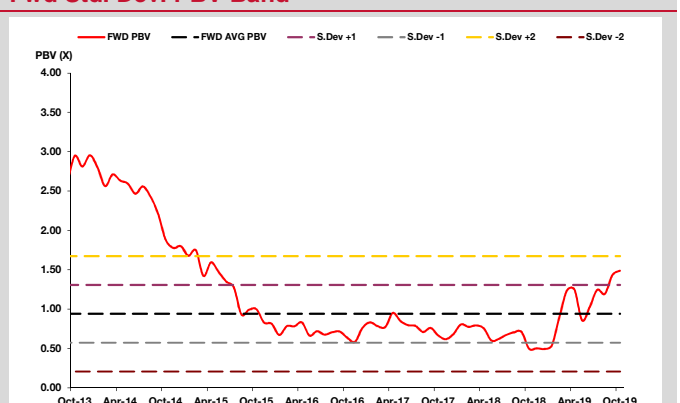
### Financial Data & Ratios

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
<b>Growth</b>					
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	11.4	-2.7
PBT	-61.3	-181.2	-444.7	27.2	7.8
Core Net Profit	-68.3	-364.0	-379.0	1.1	8.0
<b>Profitability (%)</b>					
EBITDA Margin	42.7	22.6	43.1	33.8	31.5
Operating Margin	25.1	4.5	31.2	23.5	23.5
PBT Margin	11.1	-9.2	23.5	17.6	18.2
Core Net Margin	-0.5	-8.5	17.5	12.8	13.2
Effective Tax Rate	31.4	-138.4	32.7	25.0	25.0
ROE	4.3	-12.5	14.6	10.3	10.0
ROA	1.7	-4.9	6.1	5.3	5.4
<b>DuPont Analysis</b>					
Net Margin (%)	-0.5	-8.5	17.5	12.8	13.2
Assets Turnover(x)	0.2	0.3	0.3	0.4	0.4
Leverage Factor(x)	2.5	2.8	2.4	2.3	2.1
ROE (%)	-0.3	-6.2	14.6	11.8	11.3
<b>Leverage</b>					
Debt/Asset (x)	0.5	0.5	0.4	0.4	0.4
Debt/Equity (x)	1.3	1.3	0.9	0.9	0.7
Net (Cash)/Debt	1,345.8	1,058.4	866.4	961.0	737.3
Net Debt/Equity(x)	1.1	1.1	0.8	0.8	0.5
<b>Valuations</b>					
EPS (sen)	-0.3	-5.1	14.2	12.6	13.7
DPS (sen)	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	1.1	0.8	1.0	1.1	1.2
PER (x)	-581.0	-34.6	12.4	13.9	12.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	1.6	2.1	1.8	1.6	1.5

### Fwd PBV Band



### Fwd Std. Dev. PBV Band



Source: Bloomberg, 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	0.350	2,056.8	N	12/2019	-15.9%	0.0%	34.4%	2.3%	9.1	6.8	6.6	0.6	0.6	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.76	1,698.1	Y	12/2019	22.2%	4.4%	-10.8%	8.1%	10.3	11.6	10.7	1.5	1.5	12.8%	0.0%	2.00	OP
DIALOG GROUP BHD	3.39	19,113.9	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.7	34.1	31.1	5.0	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.820	1,312.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	90.5	37.8	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.84	34,995.8	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	26.5	20.3	19.3	1.0	1.0	4.9%	3.8%	8.80	OP
PANTECH GROUP HOLDINGS BHD	0.490	367.5	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.4	8.3	7.8	0.7	0.6	7.6%	3.3%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.17	57,360.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.5	16.5	14.4	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	23.18	23,028.3	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.5	24.4	22.6	3.9	3.7	15.6%	2.9%	22.45	MP
SAPURA ENERGY BHD	0.260	4,144.2	Y	01/2020	5.9%	20.7%	-	236.1%	N.A.	N.A.	50.9	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.27	6,270.5	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.3	14.0	12.3	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.975	312.0	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	32.2	14.8	10.3	0.7	0.6	4.2%	0.0%	0.610	UP
VELESTO ENERGY BHD	0.315	2,587.9	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	170.3	67.6	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.635	489.2	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.8	9.6	11.7	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.69	7,229.5	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.5	33.5	20.1	4.2	3.8	11.9%	0.9%	7.75	OP

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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