

25 November 2019

# Dayang Enterprise Holdings

## One of The Best Quarters

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**DAYANG recorded one of its best ever quarters in 3QFY19, blowing away expectations, thanks to strong work orders from offshore maintenance, on top of high vessel utilisation. This trajectory means FY19 is likely to be one of its strongest ever year, despite 4QFY19 expected to be seasonally weaker, with high demand for work orders to flow well into FY20. With outlook remaining exciting, we maintain OUTPERFORM, with higher TP of RM2.35.**

**3QFY19 results blew expectations.** DAYANG posted one of its stronger (if not the best) quarterly results in 3QFY19, with core net profit of RM96.1m (arrived after stripping-off non-recurring items e.g. gains on bargain purchase, unrealised forex etc) – bringing cumulative 9MFY19 core net profit to RM144.4m, exceeding expectations at 99% of ours and 108% of consensus full-year earnings forecasts. The better-than-expected earnings was due to strong offshore TMS work orders, as well as high utilisation of marine vessel charters. No dividends were announced, as expected.

**One of DAYANG's strongest ever quarters.** The superbly strong results (cumulative 9MFY19 and 3QFY19 more than doubled YoY, while sequentially 3QFY19 jumped 80% QoQ) were driven by both core segments of (i) offshore TMS, from higher work orders performed, and (ii) marine charter, from higher vessel utilisations. In fact, vessel utilisations during the quarter surged up 91%, as compared to 79% QoQ and 84% YoY. Cumulatively, vessel utilisations averaged at 69% for 9MFY19, up from 60% YoY. Note that the period (both 3QFY19 and cumulatively 9MFY19) saw higher value of lump sum work orders, which contributed to higher margins.

**Exciting outlook ahead.** We expect 4QFY19 to be a robust quarter although seasonality could mean that we may naturally see some decline sequentially (recall that 4QFY18 was also a “supernormal” quarter, and hence, we believe should also not be used as a benchmark). Regardless, DAYANG seems on track to post one of its best ever full-year results in years for FY19. Going into FY20, we believe strong demand for top side maintenance work orders could translate to an even better year earnings-wise. This is on top of its current group-wide debt restructuring plan, which could see further interest savings costs as well as increased competitiveness given an optimised capital structure.

**Maintain OUTPERFORM.** Post-results, we raised our FY19E/FY20E earnings by 17%/15%, to account for stronger offshore TMS work orders. As such, our SoP-derived TP has also been raised to RM2.35 (from RM2.00 previously), pegged to unchanged valuations of: (i) 16x PER for its offshore TMS segment, and (ii) 0.5x PBV for its marine segment. Our TP implies a forward PER of 15x, which is still below oil and gas average of 18x. Note that our valuations have also taken into account share base dilution arising from the corporate exercises.

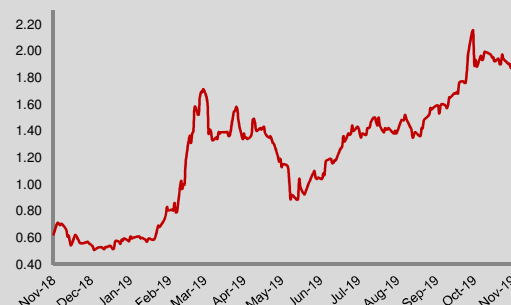
Overall, we continue to like DAYANG, being a prime beneficiary of increased Petronas upstream activities, giving it a very exciting earnings outlook moving forward. We are looking towards the upcoming Petronas Activity Outlook report (expected release in 1-2 months) for further assurance of jobs flow.

**Risks to our call are:** (i) weaker-than-expected work orders, (ii) poorer-than-expected margins, (iii) lower-than-expected vessel utilisation, and (iv) falling through of corporate exercises.

# OUTPERFORM ↔

**Price:** RM2.07  
**Target Price:** RM2.35 ↑

### Share Price Performance



KLCI	1,596.84
YTD KLCI chg	-5.5%
YTD stock price chg	302.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DEHB MK Equity
Market Cap (RM m)	2,106.2
Shares Outstanding	964.8
52-week range (H)	2.12
52-week range (L)	0.48
3-mth avg daily vol:	12,385,110
Free Float	35%
Beta	1.2

### 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	940.6	1,240.6
EBIT	292.9	343.4	353.0
PBT	220.0	276.3	290.1
<b>Net Profit (NP)</b>	<b>164.2</b>	<b>171.7</b>	<b>182.0</b>
<b>Core Net Profit</b>	<b>164.2</b>	<b>171.7</b>	<b>182.0</b>
Consensus (NP)	-	139.0	160.0
Earnings Revision (%)	-	17.3	15.1
Core EPS (sen)	14.2	14.8	15.7
CNP growth (%)	-379.0	4.6	6.0
BV/share (RM)	1.0	1.1	1.3
DPS (sen)	0.0	0.0	0.0
Core PER (x)	14.6	14.0	13.2
PBV (x)	2.1	1.9	1.6
Net-gearing (x)	0.8	0.7	0.4
Dividend yield (%)	0.0	0.0	0.0

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Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
<b>Y/E : Dec (RM' m)</b>								
Revenue	357.6	247.2	44.7%	281.9	26.8%	761.2	652.0	16.7%
Operating expenses	(173.5)	(133.3)	30.1%	(178.6)	-2.9%	(436.6)	(430.1)	1.5%
<b>Gross profit</b>	<b>184.1</b>	<b>113.8</b>	<b>61.7%</b>	<b>103.3</b>	<b>78.2%</b>	<b>324.5</b>	<b>221.9</b>	<b>46.3%</b>
Other income	11.6	2.7	333.2%	1.5	657.1%	14.6	1.8	708.5%
Administration expenses	(28.2)	(28.7)	-1.6%	(21.9)	29.0%	(78.3)	(64.4)	21.5%
Other operating income/(expenses)	(0.1)	(1.4)	-95.0%	5.3	-101.4%	(0.4)	(11.1)	-96.1%
<b>EBIT</b>	<b>167.4</b>	<b>86.4</b>	<b>93.8%</b>	<b>88.3</b>	<b>89.6%</b>	<b>260.4</b>	<b>148.2</b>	<b>75.8%</b>
Finance costs	(16.7)	(15.4)	8.6%	(21.5)	-22.2%	(48.9)	(63.2)	-22.6%
Finance income	0.9	1.4	-33.9%	1.0	-2.1%	4.0	3.8	5.1%
<b>Net finance costs</b>	<b>(15.8)</b>	<b>(14.0)</b>	<b>12.8%</b>	<b>(20.5)</b>	<b>-23.1%</b>	<b>(44.9)</b>	<b>(59.4)</b>	<b>-24.4%</b>
<b>Profit/(loss) before tax</b>	<b>151.6</b>	<b>72.4</b>	<b>109.4%</b>	<b>67.7</b>	<b>123.8%</b>	<b>215.5</b>	<b>88.8</b>	<b>142.7%</b>
Income tax expense	(37.4)	(19.4)	92.1%	(16.4)	127.7%	(65.5)	(42.1)	55.7%
Non-controlling interest	(7.1)	2.2	N.M.	(2.6)	176.9%	8.0	19.8	-59.4%
<b>Net profit</b>	<b>107.1</b>	<b>55.1</b>	<b>94.4%</b>	<b>48.8</b>	<b>119.7%</b>	<b>158.1</b>	<b>66.5</b>	<b>137.7%</b>
<b>Core net profit</b>	<b>96.1</b>	<b>53.5</b>	<b>79.6%</b>	<b>40.2</b>	<b>138.8%</b>	<b>144.4</b>	<b>69.6</b>	<b>107.6%</b>
Gross margin	51.5%	46.1%		36.7%		42.6%	34.0%	
EBIT margin	46.8%	35.0%		31.3%		34.2%	22.7%	
PBT margin	42.4%	29.3%		24.0%		28.3%	13.6%	
Net margin	30.0%	22.3%		17.3%		20.8%	10.2%	
Core net margin	26.9%	21.6%		14.3%		19.0%	10.7%	
Effective tax rate	24.6%	26.9%		24.2%		30.4%	47.4%	

Source: Company

Segment Breakdown								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
<b>Y/E : Dec (RM' mil)</b>								
<b>Revenue</b>								
Offshore TMS	289.0	201.6	43.4%	238.2	21.3%	618.0	577.1	7.1%
Marine Charter	68.6	45.6	50.5%	43.8	56.7%	143.2	74.9	91.3%
<b>EBIT</b>								
Offshore TMS	129.7	76.1	70.4%	62.7	107.0%	239.8	164.7	45.6%
Marine Charter	43.4	17.1	154.1%	31.9	35.8%	39.4	4.9	702.5%
Equipment Rental	1.9	1.6	15.8%	2.8	-31.7%	3.7	4.2	-12.6%
Investment Holding	0.0	(0.4)	-107.2%	0.1	-69.3%	(0.4)	0.3	-227.1%
<b>EBIT margins</b>								
Offshore TMS	44.9%	37.8%		26.3%		38.8%	28.5%	
Marine Charter	63.2%	37.4%		73.0%		27.5%	6.6%	

Source: Company

Sum-of-Parts Valuation		
Division	Value	Remarks
Offshore TMS	2552.6	16x FY20E PER
PERDANA	139.4	60.5% stake in PERDANA @ 0.5x PBV
<b>Fair value</b>	<b>2691.9</b>	
No. of shares	1157.8	Fully-diluted to reflect corporate exercises
<b>SoP value/share (RM)</b>	<b>2.35</b>	

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 BHD	0.505	2,967.6	N	12/2019	-15.9%	0.0%	34.4%	2.3%	13.1	9.8	9.6	0.9	0.9	9.0%	0.0%	0.530	MP
DAYANG ENTERPRISE HLDGS BHD	2.07	2,106.2	Y	12/2019	0.3%	31.9%	4.6%	6.0%	14.6	14.0	13.2	2.1	1.9	14.2%	0.0%	2.35	OP
DIALOG GROUP BHD	3.43	19,339.4	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.1	34.5	31.5	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.895	1,432.0	Y	12/2019	-10.1%	43.0%	-445.8%	121.1%	N.A.	N.A.	63.1	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.31	37,093.7	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	28.1	21.6	20.5	1.0	1.1	4.9%	3.6%	8.90	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	7.11	56,880.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.4	16.4	14.3	1.9	1.8	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	24.10	23,942.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.6	25.3	23.5	4.1	3.9	15.6%	2.8%	22.75	MP
SAPURA ENERGY BHD	0.285	4,542.7	Y	01/2020	5.9%	20.7%	-445.5%	236.1%	N.A.	N.A.	55.8	0.3	0.3	-1.4%	0.0%	0.330	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	0.955	305.6	Y	06/2020	21.4%	2.2%	240.2%	8.8%	31.5	9.3	8.5	0.6	0.6	6.7%	0.0%	1.05	MP
VELESTO ENERGY BHD	0.385	3,163.0	Y	12/2019	5.3%	17.2%	119.7%	298.0%	N.A.	208.1	52.3	1.1	1.1	0.5%	0.0%	0.400	OP
WAH SEONG CORP BHD	1.26	970.8	Y	12/2019	-13.9%	22.7%	-6.2%	26.9%	15.4	16.4	12.9	1.0	1.0	5.3%	0.0%	1.30	MP
YINSON HOLDINGS BHD	6.49	7,004.3	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	26.6	32.5	19.5	4.1	3.7	11.9%	0.9%	7.75	OP
<b>Simple Average</b>					<b>1.3%</b>	<b>17.0%</b>	<b>-34.3%</b>	<b>58.8%</b>	<b>20.9</b>	<b>34.2</b>	<b>24.6</b>	<b>1.9</b>	<b>1.8</b>	<b>8.5%</b>	<b>1.2%</b>		

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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