

21 November 2022

Dayang Enterprise Holdings

How Dayang Got Its Groove Back

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DAYANG's 9MFY22 results blew expectations away, thanks to higher work orders at its offshore maintenance coupled with stronger vessel utilisation. Looking ahead, we expect call-ups on work orders to escalate in tandem with the overall recovery in activity levels. We raise our FY22F/FY23F earnings by 36%/28%, lift our TP by 31% to RM1.70 (from RM1.30) and maintain our OUTPERFORM call.

Earnings well exceeded expectations. DAYANG's 9MFY22 core net profit of RM111m blew expectations away. The number already surpassed our full-year forecast by 28%, and the full-year consensus estimates by 20%. The variance against our forecast came largely from higher work orders at its offshore topside maintenance (TMS), as well as strong vessel utilisation at its marine charter division.

Strongest set of earnings since the pandemic. 9MFY22 saw a YoY turnaround from losses, driven by the resurgence of demand for its offshore TMS work orders, while vessel utilisation for its marine charter has also surged up to 57%, versus 46% last year.

Outlook continues improving. While we may see seasonally weaker earnings for the upcoming two quarters due to the monsoon, we believe overall outlook for 2023 will continue improving from this year – premised on increasing demand for work orders leading to possible rate revisions, with activities likely to continue at an elevated level. This is further backed by DAYANG's current order book of RM1.6b, which should provide ~2 years of revenue visibility.

Forecasts. Post results, we raise our FY22F/FY23F earnings by 36%/28%, to account for the stronger work orders from offshore TMS, as well as the stronger vessel utilisation for its marine charter.

Maintain OUTPERFORM. Following the earnings upgrade, our TP is also raised to RM1.70 (from RM1.30 previously), pegged to 15x PER on FY23F EPS, which is at a 25% discount versus the average valuation of offshore maintenance peers back in 2014 (being the last year in which Brent crude was trading above USD100/barrel, prior to the recent rally). A discount is applied versus valuations from the previous oil upcycle due to current business climate being much more demanding as clients currently are much more prudent in spending unlike the yesteryears. There is no change to our TP based on its 3-star ESG rating as appraised by us (see Page 4).

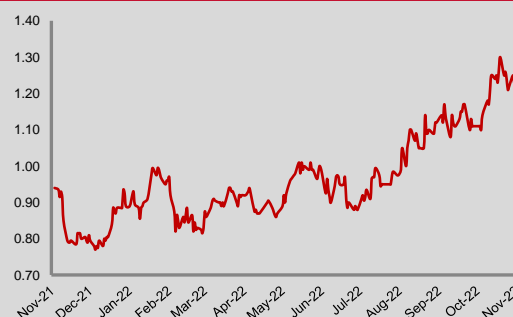
Overall, we like DAYANG given: (i) it is a beneficiary of the rising demand for offshore maintenance works in the coming few years, as guided in Petronas' Activity Outlook, (ii) its market leading position within the offshore maintenance space with the highest market share as competitors are thinning out, and (iii) its improving balance sheet which is expected to turn into a net-cash position in the coming 1-2 years.

Risks to our call include: (i) a sharp decline in oil demand and prices if the global economy slips into a recession, (ii) non-renewal of licenses issued by oil majors, and (iii) the entrance of aggressive new players.

OUTPERFORM ↔

Price: RM1.28
Target Price: RM1.70 ↑

Share Price Performance



KLCI	1,449.32
YTD KLCI chg	-7.5%
YTD stock price chg	59.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DEHB MK Equity
Market Cap (RM m)	1,481.9
Shares Outstanding	1,157.8
52-week range (H)	1.30
52-week range (L)	0.77
3-mth avg daily vol:	5,003,825
Free Float	42%
Beta	1.0

Major Shareholders

Naim Holdings Bhd	24.2%
Ling Suk Kiong	7.1%
Employees Provident Fund	5.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Revenue	667.7	864.0	938.4
EBIT	(380.1)	196.0	214.6
PBT	(406.9)	157.7	173.5
Net Profit (NP)	(318.9)	118.3	130.2
Core Net Profit	43.8	118.3	130.2
Consensus (NP)		92.1	124.8
Earnings Revision (%)		+36.3	+27.6
Core EPS (sen)	3.8	10.2	11.2
CNP growth (%)	-26.7	169.8	10.0
BV/share (RM)	1.1	1.2	1.3
DPS (sen)	1.5	0.0	0.0
Core PER (x)	33.8	12.5	11.4
PBV (x)	1.1	1.0	1.0
Net Gearing (x)	0.1	-0.1	-0.3
Dividend yield (%)	1.2	0.0	0.0

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Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM m)	FY22	FY22		FY21		FY22	FY21	
Revenue	338.3	263.4	28.4%	223.8	51.2%	761.9	467.6	62.9%
Operating expenses	(211.8)	(168.4)	25.8%	(163.4)	29.6%	(498.0)	(381.8)	30.4%
Gross profit	126.6	95.0	33.2%	60.4	109.6%	263.9	85.8	207.6%
Other income	8.1	1.8	347.6%	5.2	55.2%	14.1	6.3	124.9%
Admin expenses	(29.1)	(25.9)	12.2%	(28.5)	2.0%	(80.7)	(74.9)	7.8%
Other expenses	(12.1)	(6.1)	98.5%	(1.0)	1091.7%	(17.4)	(32.1)	-45.8%
EBIT	93.5	64.8	44.2%	36.1	159.1%	179.9	(14.9)	-1306.0%
Finance costs	(7.1)	(7.5)	-5.2%	(8.3)	-13.7%	(19.5)	(27.5)	-29.2%
Finance income	1.9	1.9	1.3%	2.4	-22.2%	5.6	6.4	-13.0%
Net finance costs	(5.2)	(5.7)	-7.3%	(5.8)	-10.2%	(13.9)	(21.1)	-34.1%
Profit/(loss) before tax	88.2	59.1	49.2%	30.2	191.7%	166.0	(36.1)	-560.1%
Taxation	(31.2)	(19.5)	60.0%	(10.1)	208.0%	(60.6)	(17.4)	247.9%
Non-controlling interest	(4.1)	2.4	N.M.	(1.1)	265.9%	3.3	23.0	-85.6%
Net profit	52.9	42.0	25.9%	19.0	178.7%	108.7	(30.4)	-457.0%
Core net profit	56.3	45.1	24.8%	42.7	31.9%	110.6	(8.8)	-1357.0%
Gross margin	37.4%	36.1%		27.0%		34.6%	18.3%	
EBIT margin	27.6%	24.6%		16.1%		23.6%	-3.2%	
PBT margin	26.1%	22.5%		13.5%		21.8%	-7.7%	
Net margin	15.6%	16.0%		8.5%		14.3%	-6.5%	
Core net margin	16.6%	17.1%		19.1%		14.5%	-1.9%	
Effective tax rate	35.3%	33.0%		33.5%		36.5%	-48.3%	

Source: Company

Segment Breakdown								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM m)	FY22	FY22		FY21		FY22	FY21	
Revenue								
Offshore TMS	256.9	224.3	14.5%	181.7	41.3%	614.8	371.5	65.5%
Marine Charter	49.7	25.0	99.0%	29.9	66.2%	94.6	69.1	36.9%
Profit before tax								
Offshore TMS	59.8	62.7	-4.6%	25.5	134.7%	169.3	43.2	291.9%
Marine Charter	34.9	3.0	1068.4%	11.0	216.5%	17.3	(58.0)	-129.8%
Equipment Rental	2.5	1.9	29.1%	3.4	-26.2%	4.5	8.5	-46.4%
Investment Holding	(12.0)	(11.5)	4.4%	(12.2)	-1.6%	(33.9)	(39.2)	-13.6%
PBT margins								
Offshore TMS	23.3%	28.0%		14.0%		27.5%	11.6%	
Marine Charter	70.2%	12.0%		36.9%		18.3%	-83.9%	

Source: Company

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.415	0.630	51.81%	2,456.0	N	12/2022	11.4	11.1	-0.8%	-2.3%	3.6	3.7	0.5	15.5%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.28	1.70	32.81%	1,481.9	Y	12/2022	10.2	11.2	170.1%	10.1%	12.5	11.4	1.0	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.10	3.10	47.62%	11,849.4	Y	06/2023	9.5	9.9	5.1%	4.8%	22.2	21.2	2.2	10.2%	2.8	1.3%
MISC BHD	MP	7.20	7.30	1.39%	32,139.0	Y	12/2022	43.1	33.8	1.9%	-21.6%	16.7	21.3	0.9	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	8.62	11.00	27.61%	68,960.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.9	12.5	1.8	19.0%	43.6	5.1%
PETRONAS DAGANGAN BHD	MP	22.82	22.25	-2.50%	22,670.6	Y	12/2022	54.2	68.5	-1.8%	26.6%	42.1	33.3	4.1	9.6%	54.2	2.4%
SAPURA ENERGY BHD	MP	4.43	4.65	4.97%	1,196.1	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.7	4.5	0.5	20.1%	16.0	3.6%
UZMA BHD	OP	0.390	0.580	48.72%	137.3	Y	06/2023	5.3	7.1	28.6%	32.2%	7.3	5.5	0.3	3.5%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.135	0.160	18.52%	1,109.1	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	12.8	0.5	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	MP	0.570	0.640	12.28%	441.4	Y	12/2022	4.6	7.3	51.9%	56.4%	12.3	7.8	0.7	5.9%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.24	3.15	40.63%	6,490.6	N	01/2023	21.9	24.1	16.3%	10.3%	10.2	9.3	1.7	18.3%	6.0	2.7%
Simple Average								37.1	31.0	19.5%	8.9%	14.0	13.0	1.3	10.3%		1.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	★
	Corporate Social Responsibility	★	★	★
	Management/Workforce Diversity	★	★	★
	Accessibility & Transparency	★	★	
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	★
SPECIFIC	Diversification from pure O&G	★	★	
	Emission Targets and Climate Goals	★	★	★
	Occupational Health and Safety	★	★	★
	Pollution control	★	★	
	Supply chain auditing	★	★	★
	Energy efficiency	★	★	★
OVERALL		★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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