23 September 2022

Energy & Petrochemicals | Offshore & Marine

Dayang Enterprise (DEHB MK)

Buy

The Comeback Of Upstream Maintenance; BUY

Target Price (Return):	MYR1.53 (+34%)
Price (Market Cap):	MYR1.14 (USD289m)
ESG score:	2.90 (out of 4)
Avg Daily Turnover (MYR/USD)	3.34m/0.75m

- **Initiate coverage with BUY, MYR1.53 TP based on 14x FY23F P/E, or +1SD from its 5-year mean (2% ESG discount), 34% upside.** As an experienced upstream maintenance player, Dayang Enterprise is set to benefit from the 5-year contract renewal cycle starting next year. While we expect earnings growth of 18-107% in FY22-24F, led by stronger hook-up & commissioning (HUC), and maintenance, construction and modification (MCM) work orders, the potential win of the Safina project could drive fleet rejuvenation, backed by its strong balance sheet.
- **Solid work orders, potential replenishment in FY23.** As of end-2Q22, Dayang's orderbook stood at MYR1.7bn, of which Petronas' MCM and integrated HUC (i-HUC) contracts contributed c.76%. With higher spending from Petronas and other clients, we expect i-HUC and MCM work orders to ramp up. These contracts are due for renewal in FY23, and we see a potential replenishment of c.MYR3.5bn, aside from current tenders worth MYR500m. Management guided that manpower working permits have been largely resolved, with most workers under 6-month permits.
- **Margin improvement.** Overall margins could improve in 2022-2024 on the back of a better operating environment (potential rate revision and higher vessel utilisation) and the relaxation of quarantine requirements and SOPs. Note that Dayang's GPM (ex-impairments) was at 12% in 2021, and could return to FY20's 32% this year. We believe it will take time for its margin to resume to pre-pandemic levels of 40-47% (2018-2019), especially when the company is facing growing pressure in logistics and equipment costs.
- **Perdana Petroleum (Perdana) to break even next year.** 63.7%-owned Perdana's vessel utilisation rate was at 47% in 1H22 – we expect this to improve in 2H22 and 2023. The full-year utilisation rate is targeted at high >50% (FY21: 49%) levels. Most vessels are on spot charters, and daily charter rates are improving. Management expects overall OSV demand to pick up, driven by stronger demand for drilling, plug & abandonment (P&A), and underwater services. Over half of Perdana's vessels will be chartered internally to Dayang to execute its in-house projects. We think Perdana will see minimal losses in FY22 (FY21 core loss: MYR79m) and deliver a small profit in FY23.
- **Project Safina could drive fleet rejuvenation.** With an average fleet age of 12 years, Dayang is looking to kick-start its fleet renewal programme this year. It participated in Petronas' Safina project, involving 16 OSV newbuild charter contracts. We believe it stands a good chance of winning the project, and is capable of growing its fleet by least 2-4 vessels, as its net gearing was at 0.08x as of 4Q21. Downside risks: Lower work orders, softer oil prices – which could limit clients' spending – and higher operating costs.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	731	668	911	992	1,086
Recurring net profit (MYRm)	53	44	91	129	153
Recurring net profit growth (%)	(77.2)	(16.7)	107.1	42.2	18.4
Recurring P/E (x)	25.11	30.13	14.55	10.23	8.64
P/B (x)	0.9	1.0	0.9	0.9	0.8
P/CF (x)	3.84	7.82	16.92	6.81	6.03
Dividend Yield (%)	na	1.3	na	na	na
EV/EBITDA (x)	8.33	na	6.56	5.04	4.01
Return on average equity (%)	3.9	(22.6)	6.7	8.8	9.5
Net debt to equity (%)	15.9	7.2	5.0	net cash	net cash

Source: Company data, RHB

Analyst

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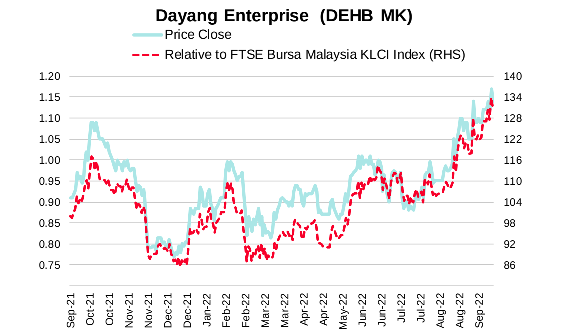
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	41.6	14.0	21.9	28.1	25.3
Relative	49.8	17.3	21.3	37.4	31.2
52-wk Price low/high (MYR)					0.77 – 1.17



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: MODERATE
Dayang is constantly minimising and moderating its GHG emissions. The group has managed to reduce energy consumption by 13% in its energy intensity from the 2014 baseline a year ahead of schedule, due to constant reinforcement of initiatives. While it has lowered GHG emissions intensity through better energy efficiency in FY21, the group does not disclose its GHG emission levels.

S: EXCELLENT
Dayang is committed to provide its employees with safe, conducive, and healthy work conditions. It has effective and efficient management arrangements in place to ensure the wellbeing of staff and others, as well as to minimise adverse impacts to individuals from ill health and injury that could be sustained due to the company's activities. It also gives back to the community through its CSR efforts.

G: GOOD
Dayang has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance. However, the independent directors and female board members are below the suggested guidelines. The group provides clear, timely and reliable information that is compliant with Malaysia's regulatory framework. Shareholder rights are well-protected.

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia
Malaysia
Energy & Petrochemicals
Dayang Enterprise
DEHB MK
Buy

Valuation basis

P/E

Key drivers

i. Stronger-than-expected work orders;
ii. Lower-than-expected operating costs;
iii. Higher-than-expected vessel utilisation..

Key risks

i. Lower-than-expected work orders from clients;
ii. Significantly softer-than-expected oil prices, which could limit clients' spending;
iii. Higher-than-expected operating costs.

Company Profile

Dayang Enterprise is an O&G services contractor principally involved in the provision of maintenance services for topside structures, pipes and valves, electrical and instrumentation, fabrication operations, and hook-up and commissioning (HUC) services. It has a 63.8% equity stake in Perdana Petroleum (Perdana), which owns 16 vessels to provide marine support and vessel chartering for the O&G industry.

Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.05	0.04	0.08	0.11	0.13
DPS	-	0.02	-	-	-
BVPS	1.29	1.13	1.21	1.32	1.45
Return on average equity (%)	3.9	(22.6)	6.7	8.8	9.5

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	25.11	30.13	14.55	10.23	8.64
P/B (x)	0.9	1.0	0.9	0.9	0.8
FCF Yield (%)	22.0	9.7	2.1	10.9	12.8
Dividend Yield (%)	-	1.3	-	-	-
EV/EBITDA (x)	8.33	na	6.56	5.04	4.01
EV/EBIT (x)	15.86	na	9.73	6.89	5.23

Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	731	668	911	992	1,086
Gross profit	232	81	273	298	326
EBITDA	227	(228)	241	285	319
Depreciation and amortisation	(108)	(155)	(79)	(77)	(75)
Operating profit	119	(383)	162	209	244
Net interest	(31)	(27)	(33)	(30)	(26)
Pre-tax profit	88	(410)	129	179	218
Taxation	(56)	(26)	(41)	(47)	(57)
Reported net profit	56	(317)	91	129	153
Recurring net profit	53	44	91	129	153

Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	0	34	(88)	(15)	(17)
Cash flow from operations	344	169	78	194	219
Capex	(53)	(41)	(50)	(50)	(50)
Cash flow from investing activities	(81)	14	29	(50)	(50)
Cash flow from financing activities	(244)	(102)	(50)	(50)	(50)
Cash at beginning of period	268	282	340	397	490
Net change in cash	18	81	57	94	119
Ending balance cash	282	367	397	490	609

Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	424	419	397	490	609
Tangible fixed assets	1,307	1,109	1,080	1,054	1,029
Total assets	2,746	2,323	2,380	2,483	2,619
Short-term debt	180	129	129	129	129
Total long-term debt	526	397	347	297	247
Total liabilities	967	829	797	769	743
Total equity	1,779	1,495	1,582	1,715	1,876
Total liabilities & equity	2,746	2,323	2,380	2,483	2,619

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	(30.1)	(8.7)	36.4	9.0	9.4
Recurrent EPS growth (%)	0.0	(16.7)	107.1	42.2	18.4
Gross margin (%)	31.7	12.2	30.0	30.0	30.0
Operating EBITDA margin (%)	31.0	(34.1)	26.5	28.8	29.4
Net profit margin (%)	7.7	(47.4)	10.0	13.0	14.1
Dividend payout ratio (%)	0.0	(5.5)	0.0	0.0	0.0
Capex/sales (%)	7.2	6.1	5.5	5.0	4.6
Interest cover (x)	2.86	(10.94)	4.87	7.00	9.28

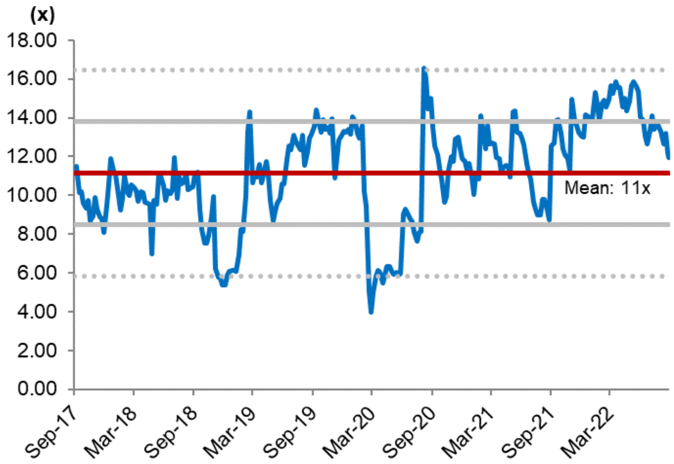
Source: Company data, RHB

Valuation And Recommendation

Initiate with a BUY rating. Based on an ascribed P/E of 14x on 2023F earnings, we derive a TP of MYR1.53 for Dayang. Our ascribed valuations are hovering around +1SD from its 5-year mean. Dayang traded around this valuation in 2019 when the company delivered strong numbers. Although its margins and profit base are yet to recover to 2109 levels, we think Dayang deserves such valuations, especially as next year will see another round of the 5-year contract cycle, where the company – in our view – stands a good chance of scoring contracts compared to other contractors. This is in addition to its continuous balance sheet improvements, as evident from its lower net gearing.

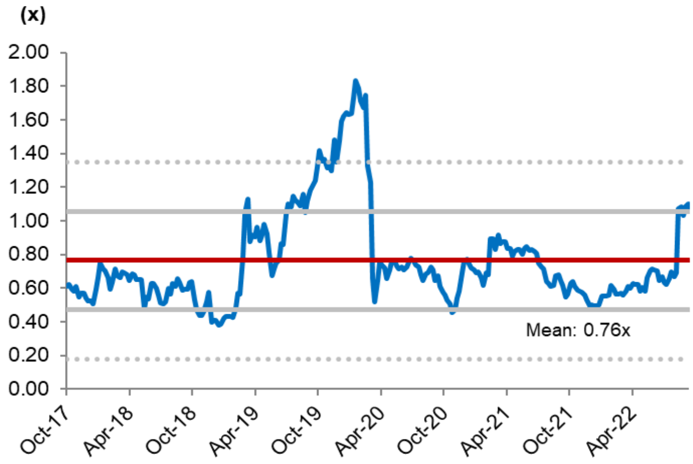
Our fair value implies a FY23 P/BV of 1x, at +1SD from the 5-year mean. Note that we have also incorporated a 2% ESG discount to our TP, based on our ESG score of 2.9. We like the experienced O&G service provider, which operates within the upstream maintenance space. Overall earnings recovery is likely to be backed by a pick-up in HUC and MCM work orders. Maintenance-related players are likely to recover faster than fabricators, as Petronas is not aggressively expanding greenfield projects, but is instead focusing on low-hanging fruit to boost its production.

Figure 1: Dayang's 5-year P/E band



Source: RHB, Bloomberg

Figure 2: Dayang's 5-year P/BV band



Source: RHB, Bloomberg

Key Risks

Key downside risks for the company include:

i. Lower-than-expected work orders from clients;

ii. Significantly softer-than-expected oil prices, which could limit clients' spending;

iii. Higher-than-expected operating costs.

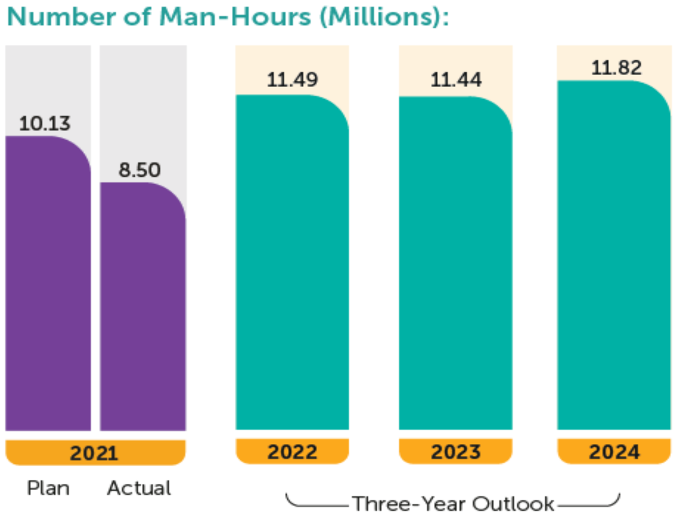
Investment Thesis

Experienced O&G services player within the upstream maintenance space

Established in 1980, Dayang Enterprise is an O&G services contractor principally involved in the provision of maintenance services for topside structures, pipes and valves, electrical and instrumentation, fabrication operations, and HUC services. It has a 63.7% equity stake in Perdana, which owns 16 vessels to provide marine support and vessel chartering for the O&G industry. Apart from that, Dayang also owns marine vessels which are mainly chartered internally to execute projects in hand. It has executed projects for clients like Petronas Carigali, Sarawak Shell, Sabah Petroleum Company, Exxon Mobil Malaysia, Murphy Sarawak Oil and Murphy Sabah Oil, JX Nippon Oil & Gas Exploration (Malaysia), Repsol Oil & Gas Malaysia, and ROC Oil Malaysia (Holdings).

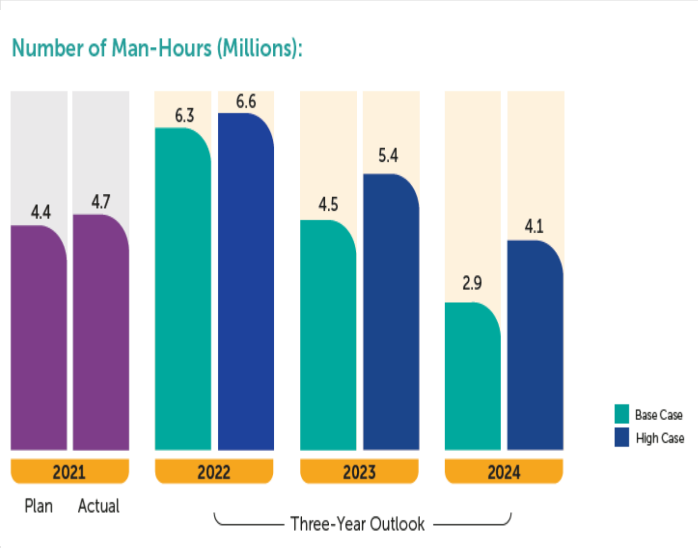
Management. Dayang was founded by Datuk Ling Suk Kiong, who is currently its Executive Deputy Chairman. He has over 30 years of experience in the O&G business. The board of directors include Tengku Dato' Yusof bin Tengku Ahmad Shahruddin, who is also MD of Perdana, and Datuk Hasmi bin Hasnan, MD of Naim Holdings.

Figure 3: Outlook for MCM (2022-2024)



Source: Petronas Activity Outlook 2022-2024

Figure 4: Outlook for HUC (2022-2024)



Source: Petronas Activity Outlook 2022-2024

Industry guidance by Petronas

In the Petronas Activity Outlook 2022-2024 report, the level of activities under both MCM and HUC is guided to increase YoY this year. Petronas executed 8.5m hours of MCM work in 2021 (-24% YoY), accounting for only 84% of its initial projection. The 2022 projection remains at 11.5m hours, implying a 35% YoY increase. The national oil major also lifted its MCM activities by 15% to 11.5m for 2023.

On the other hand – and in contrast with our expectations – Petronas recorded a slightly higher total number of man hours of 4.7m for HUC works in 2021 vs its initial plan of 4.4m hours. This was due to the acceleration of project execution after capex deferments in 2020. The total number of man hours for HUC work was expected to increase by 34% to 6.3m in 2021, and subsequently moderate to 4.5-5.4m in 2023 and 2.9-4.1m in 2024 – depending on the level of project maturity. This implies significant upward adjustments from Petronas' previous projections.

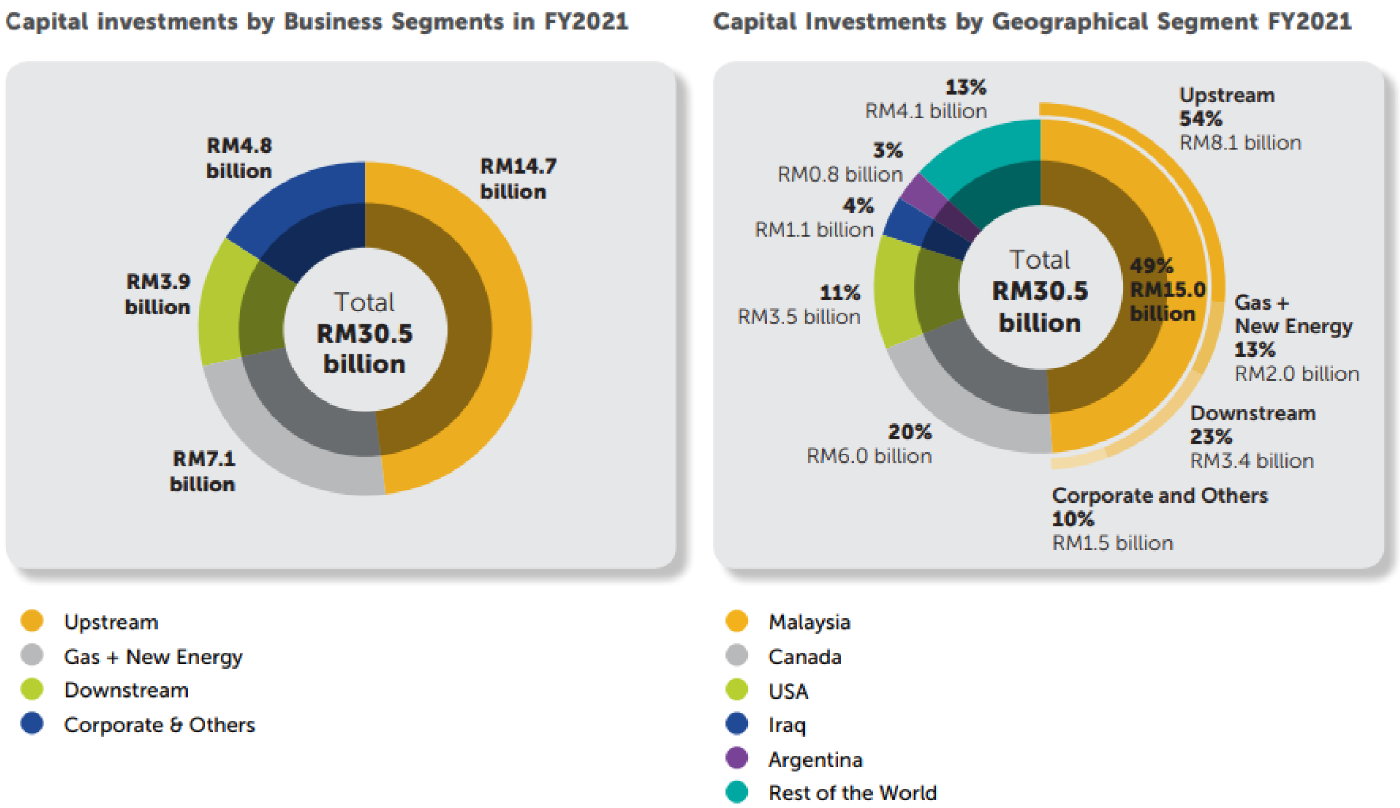
We believe the ramp-up in work orders will continue in 2022 and 2023. Petronas may not fully execute all the planned HUC work in 2022, due to labour constraints, and these activities could then flow through to 2023. The sharp decline in the guidance for HUC work flow in 2023, in our view, may not be a concern, as these projections were established at the end of 2021, with relatively lower oil price projections.

Many of the initially planned projects had to be deferred and rationalised as a result of COVID-19. The projects that survived are expected to resume and only peak in 2025. As such, we believe Petronas could expedite its HUC works in order to leverage on high oil prices.

Capex returning to pre-pandemic levels

In Petronas' annual report 2021, it was reported that 49% of the total MYR30.5bn capex was spent domestically in 2021, of which 54% or MYR8.1bn (-10% YoY) was related to upstream. The lower capex was due to project deferrals as a result of COVID-19 restrictions, and the key projects in Malaysia included Kasawari Gas Field Development, Bakau Gas Field Development, Limbayong Gas Field Development, and Pegaga Gas Field Development.

Figure 5: Petronas' capex spending breakdown for 2021

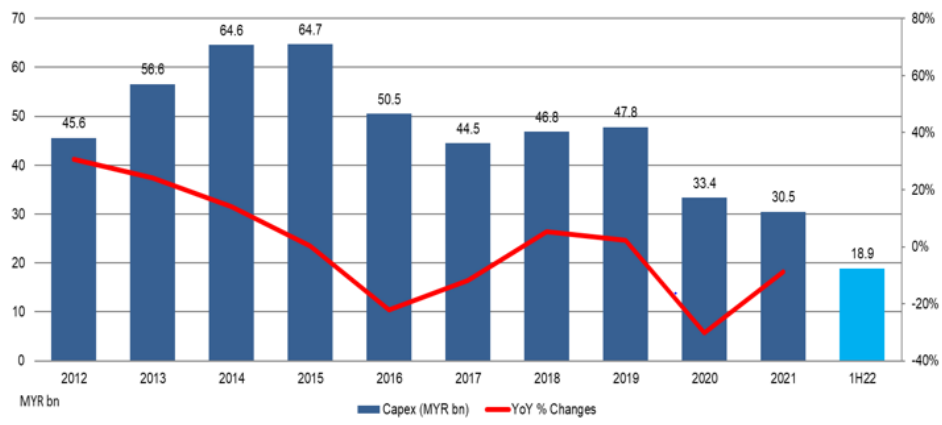


Source: Petronas

Petronas' capex spending ramped up in 2Q22 (+55% QoQ, +93% YoY) to MYR11.5bn, lifting the 6M22 figure to MYR18.9bn (+49% YoY). The upstream segment was the largest contributor at 63%, followed by the gas and downstream divisions with an equal split of 13% each. Overall capex spent in 1H22 represented 32% of the guided capex of MYR60bn in 2022. Although two-thirds or MYR40bn of the guided capex was related to O&G, it still implies a significant ramp-up in 2H22. Domestic capex increased by 30% YoY in order to strengthen the O&G services and equipment (OGSE) system, and activities are likely to escalate in the coming quarters.

Meanwhile, Petronas guided to pay MYR50bn in dividends (from MYR25bn previously) to the Government this year. This will be the second highest dividend payment, following the MYR54bn payment made in 2019. We believe the national oil company is capable of paying such an amount (due to its solid financial performance) without significantly deteriorating its balance sheet. Note that Petronas' 1H22 PAT jumped 1.5x YoY to MYR46.4bn in tandem with its higher EBITDA (+80% YoY), from higher ASPs masking weaker sales volumes. After the MYR9bn dividend payment in 2Q22 (1H22: MYR12bn), its net cash continued to strengthen (+14% QoQ) to MYR103bn, underpinned by stronger operating cash flow (+24% QoQ).

Figure 6: Petronas' capex trend



Source: Petronas, RHB

Potential replenishment riding on new contract cycle in FY23.

Dayang's orderbook stood at MYR1.7bn as of end-2Q22 and these are estimated work orders to be called out by clients. Petronas' MCM and i-HUC contracts contributed almost 76% of the orderbook, with the remainder from other clients. Note that these two contracts will expire in Sep 2022, with a 1-year extension option, and Jul 2023 respectively. Dayang believes that the MCM contract will be extended for another year, until 2023.

Recall that Petronas awarded 5-year MCM contracts to six companies, Carimin Engineering Services, Dayang Enterprise, Deleum Primera, Petra Resources, Sapura Fabrication, and its joint venture partner, Borneo Seaoffshore Engineering. It is on a call-out basis and these upstream maintenance players will have the following year's work orders by the end of the year. According to management, the average work orders pa in the past few years, for MCM and i-HUC contracts for Petronas and other clients, were valued at c.MYR400m and MYR300m. Therefore, there is a potential replenishment of MYR3.5bn up for grab for all these contracts. With its strong track record in the domestic O&G industry, Dayang stands a very good chance of getting either the extension, or a new contract if there is a new bid.

That aside, Dayang is also tendering for MYR500m worth of jobs invoving some smallish transportation & installation (T&I) and EPCC works, which could potentially strengthen its work momentum. These jobs could be awarded in 2023.

Potential rate revision

With Petronas' MCM expiring in September, and Dayang in the midst of finalising the 1-year extension, we believe there could be a potential rate upward revision for this contract, to cater for the rising cost of materials. On the other hand, it was reported in The Edge Weekly on 5 Sep, that Petronas has agreed to discuss the issues of OSV players, including renegotiation of daily charter rates, as stated by President of Malaysian Offshore Supply Vessels Owners Associations (MOSVA) Jamalludin Obeng. The article also highlighted that there have been some improvements in spot charter rates, especially for those supporting EPCC contractors, as those rates are still tied up to the "legacy rates" that were set in 2018 and 2019.

Interestingly, Petronas' overall group costs increased 36% YoY to MYR128.2bn, with a revenue growth of 57% YoY in 1H22. Such an increase is much higher than the mere <1% uplift in 2021, when full-year revenue rose 39% YoY. This could also suggest that Petronas has increased its service rates, apart from just catering for higher material and equipment costs amidst elevated commodity prices.

We believe Dayang, being one of the upstream maintenance service providers, should benefit from a ramp-up in activities and increased domestic capex allocations, coupled with better service rates ahead.

Margin improvement on lower COVID-19 expenses and high productivity

Dayang faced several operating challenges in 2021. Despite receiving work orders at the beginning of 2021, the company was unable to mobilise its crew for offshore execution, and some activities were halted due to enhanced SOPs to contain the pandemic. Its overall margin could improve in 2022-2023 on the back of a better operating environment and the relaxation of quarantine requirements and SOPs (eg individuals that test positive undergo quarantine, rather than the vessel's entire staff). Note that Dayang's GPM (excluding impairments) was at 12% in 2021 and could return to FY20's 32% this year. Dayang has incurred MYR70m in COVID-19 expenses, of which MYR50m has been recovered from Petronas. The remaining claims could be recovered in the next 12 months pending Petronas' approval. At the same time, if Dayang manages to secure higher services rates for MCM and i-HUC contracts, the gross margin is expected to strengthen in the next few years. We believe it will take time for its margin to return to pre-pandemic levels of 40-47% in 2018-2019 – especially when the company is also facing rising cost pressures due to logistics and equipment costs.

Labour shortage impact

O&G services players have been facing labour shortages upon securing working permits from the Sarawak authorities. As of end-2Q22, Dayang's total offshore labour workforce is at c.1,900, and has ramped up to 2,000 by 3Q22. We believe the total workforce will decline in 4Q22 due to seasonally lower activities amidst the monsoon season. Service players are working together with Petronas and other clients to resolve the issue, including expediting the approval process and deploying non-Sarawakians as an alternative – which requires a 2-month application wait period. Management guided that manpower working permits have been largely resolved with most workers under 6-month permits. As permit renewals take about six weeks to proceed, management has to prepare in advance for seamless work flow. As such, Dayang should be able to slowly ramp up its workforce to accommodate the increasing work orders.

Perdana aims to break even next year.

Perdana owns and operates 16 vessels that support exploration, development, facilities installation, HUC, as well as production, operations and maintenance activities for greenfield and brownfield O&G projects. The current fleet comprises eight anchor handling tug supply (AHTS) vessels, six accommodation work barges (AWB) and two accommodation workboats (WB).

Perdana recorded a vessel utilisation rate of 47% in 1H22, and we expect it to improve in 2H22 and 2023. Full-year utilisation is targeted at the higher end of 50% (FY21: 49%). Most vessels are on spot charters, and daily charter rates are improving. Management expects overall OSV demand to pick up, driven by stronger demand for drilling, P&A, and underwater services. Note that more than half of Perdana's vessels will be chartered internally to Dayang to execute the latter's in-house projects. Therefore, we believe Perdana is likely to see minimal losses in FY22 (FY21 core loss: MYR79m) and deliver a small profit in FY23.

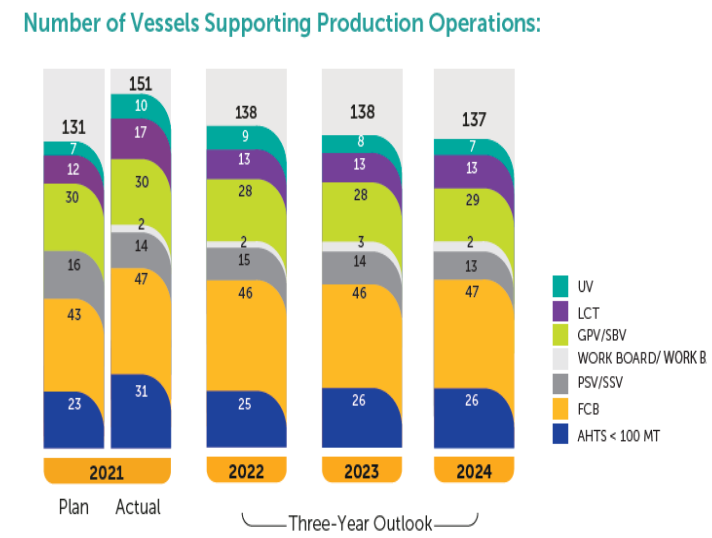
Marine vessel demand to improve in tandem with higher activities

Petronas has utilised 151 vessels to support production operations in 2021 – beyond its initial projection of 131 – to meet quarantine requirements for vessel and marine crews, particularly in Sabah and Sarawak. Hence, the national oil company has also revised up its projections by 11-12% to deploy 138 vessels to support production operations in 2022-2023.

For the number of vessels supporting drilling and projects, Petronas only utilised 138 vessels vs its initial projection of 172 vessels in 2021 – mainly due to slower upstream activity recovery. In 2022, the total number of vessels to support drilling and projects are projected to increase by 43% to 198 but gradually normalise to 187 in 2023 – this is in view of potential vessel optimisation across drilling campaigns. These projections are also 25-42% higher than previous forecasts. The higher demand in 2022 mainly comes from AHTS, fast crew boats or FCBs, platform supply vessels/straight supply vessels or PSVs/SSVs, and work barges. We believe this will improve overall vessel utilisation for local OSV players as local vessels are generally being prioritised.

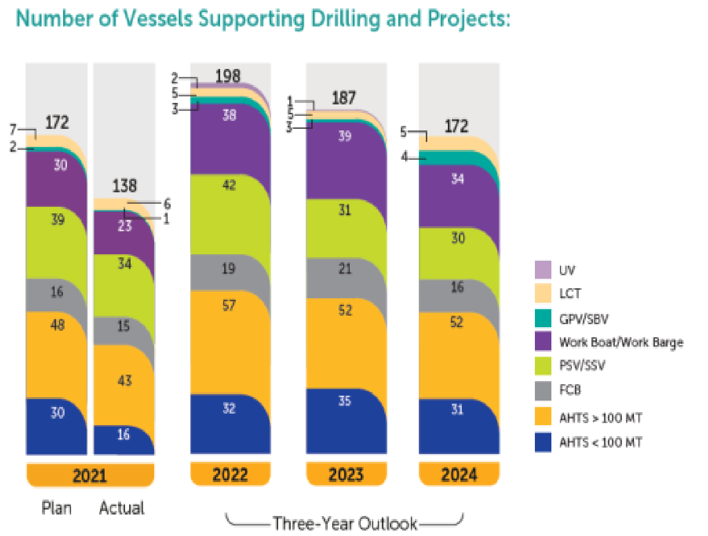
Despite the declining number of vessels required to support drilling and projects in 2023 and 2024, as stated in the report, we do not discount the possibility of further upward revisions in tandem with higher drilling activities in Malaysia. Local jack-up rigs are currently at 100% marketed utilisation, which means none of the readily available rigs (excluding cold stacked ones) could participate in new tenders.

Figure 7: Number of vessels supporting production operations (3-year outlook)



Source: PAO 2022-2024

Figure 8: Number of vessels supporting drilling and projects (3-year outlook)



Source: PAO 2022-2024

Project Safina could drive fleet rejuvenation

With an average fleet age of 12 years, Perdana is looking to kick-start its fleet renewal programme this year. Dayang, via Perdana, has participated in Petronas' Safina project, involving 16 OSV newbuild charter contracts. To protect OSV players and enhance the possibility of securing loans, Petronas is offering long-term contracts (via a 7+3+3+2-year structure) before any vessels are built. We understand that the bid validity has been extended multiple times since the call for tender. One of the key discussions is also regarding charter rate renegotiation – especially as rates submitted for tender may not be reflective of current spot charter rates that are on the rise, and higher vessel building costs in view of elevated material and equipment costs. Dayang is bidding for four vessels in this project, including two landing craft tanks and two AHTS. Debt financing is targeted at 80%, with interest rates at 5.5-7%. Dayang's net gearing was at 0.08x as of 4Q21, and we believe the company is capable of growing its fleet by at least 2-4 vessels.

Financial Overview

Results review

FY21 revenue dropped 9% YoY on a slowdown in HUC, and topside major maintenance activities, as well as weaker vessel utilisation at 44% vs 53% in FY20. As such, core earnings declined by 17% to MYR44m after stripping off multiple impairments, eg goodwill, PPE, and financial instruments. In 2Q22, Dayang recorded core earnings of MYR45m (+3.9x QoQ, +6.6x YoY) after stripping off a MYR1.4m reversal of impairment loss on trade receivables and unrealised FX loss of MYR4.7m. The stellar performance was mainly led by stronger higher work orders being called out by clients and sturdier vessel utilisation at 66% (1Q22: 25%; 2Q21: 50%). As such, Dayang managed to return to the black with a 1H22 core earnings of MYR55m from core losses of MYR19m in 1H21.

Figure 9: Earnings review

FYE Dec (MYRm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)
Turnover	**159.7**	**160.1**	**263.4**	**64.5**	**65.0**	**243.7**	**423.5**	**73.8**
EBITDA	**2.7**	**43.8**	**88.1**	**101.1**	**3,140.0**	**3.5**	**131.9**	**3,643.2**
D&A	-27.4	-22.2	-23.3	5.0	-15.1	-54.5	-45.5	-16.6
EBIT	-24.7	21.6	64.8	199.5	-362.1	-51.0	86.4	-269.5
Interest expense	-8.1	-3.0	-5.7	86.5	-30.4	-15.3	-8.7	-43.2
Pre-tax profit	**-32.9**	**18.6**	**59.1**	**218.0**	**-280.0**	**-66.3**	**77.7**	**-217.2**
Taxation	-3.2	-9.9	-19.5	96.5	503.7	-7.3	-29.4	303.5
PAT	-36.1	8.7	39.7	356.8	-209.9	-73.6	48.3	-165.7
Minority interest	14.2	5.1	2.4	-53.3	-83.3	0.0	0.0	n.m.
Net profit	**-21.9**	**13.8**	**42.0**	**205.3**	**-292.0**	**-49.4**	**55.8**	**-212.9**
Core net profit	**5.9**	**9.3**	**45.3**	**389.5**	**666.8**	**-18.6**	**54.5**	**-393.6**
EPS (sen)	0.5	0.8	3.9	389.5	666.8	-1.6	4.7	-393.6
EBITDA margin	1.7	27.4	33.4			1.4	31.1	
EBIT margin	-15.5	13.5	24.6			-20.9	20.4	
Pre-tax margin	-20.6	11.6	22.5			-27.2	18.4	
Net profit margin	3.7	5.8	17.2			-7.6	12.9	
Effective tax rate	9.8	-53.3	-33.0			11.0	-37.8	

Source: Company data, RHB

Figure 10: Segmental earnings

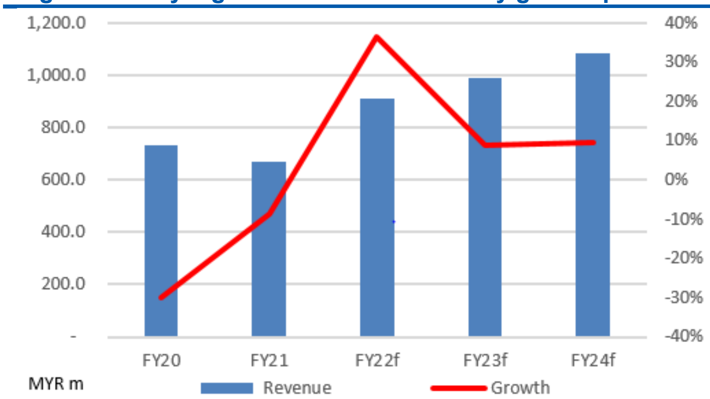
FYE Dec (MYRm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)
Revenue								
Offshore TMS	121.3	133.6	224.3	67.9	84.9	189.8	358.0	88.6
Marine Charter (external)	25.4	19.9	25.0	25.4	-1.5	39.2	44.9	14.5
Elimination	-13.0	-6.6	-14.1	114.2	8.5	-14.8	-20.7	40.0
Group turnover	**146.7**	**153.6**	**249.3**	**62.4**	**70.0**	**229.0**	**402.9**	**75.9**
Segment results								
Offshore TMS	5.5	44.6	55.1	23.7	898.8	15.6	99.7	537.1
Marine Charter (external)	-31.0	-18.8	4.8	-125.3	-115.3	-65.0	-14.0	-78.4
Group EBIT	**-24.7**	**21.6**	**64.8**	**199.5**	**-362.1**	**-51.0**	**86.4**	**-269.5**
EBIT margin								
Offshore TMS	4.5	33.3	24.6	-8.8	20.0	8.2	27.8	
Marine Charter (external)	-50.9	-49.6	5.9			-116.1	-22.7	
Others	51.4	-0.5	33.2			64.3	23.6	
Group PBT margin	**-22.3**	**14.1**	**21.5**			**-22.3**	**21.5**	

Source: Company data, RHB

Anticipating strong earnings growth

Following the strong set of results in 1H22, we expect Dayang to maintain its earnings momentum in 2H22 – registering a comparable profit in 3Q22 before a seasonal slowdown in 4Q22 amidst the monsoon season. All in, we project earnings growth of 107% and 42% YoY to MYR94m and MYR129m for FY22 and FY23 – led by both MCM and HUC work orders and better vessel utilisation rates of 58-65%. Our blended EBIT margin assumption for FY22-23 are estimated at 17-21%, which is higher than FY20's 16% when COVID-19 first struck. The margin recovery was mainly led by higher work orders, elevated charter and services rates, and improvements in vessel utilisation.

Figure 11: Dayang's revenue is on a steady growth path



Source: RHB, Company data

Figure 12: Strong earnings growth in FY22F-24F

Source: RHB, Company data

Solid balance sheet

Dayang used to have a strong balance sheet with low net gearing or was even in a net cash position during the early 2010s prior to the industry downturn – this was coupled with the acquisition of Perdana Petroleum (Perdana) in 2015. Consequently, its balance sheet spiked to as high as 1.3x in 2015. Perdana has been a drag since then, due to massive declines in charter rates and lower vessel utilisation. In order to resolve this issue, Perdana had to undergo debt restructuring via Bank Negara Malaysia's corporate debt restructuring committee or CDRC. Dayang also had to pursue debt restructuring and placements to strengthen its balance sheet.

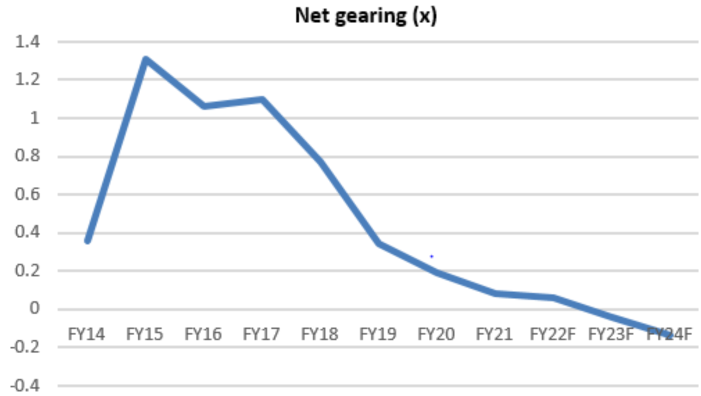
Fast-forward to 2021, Dayang's net gearing is now lowered to close to the pre-Perdana acquisition level – at only 0.08x – on the back of multiple corporate exercises and improvements in earnings performances. We believe this will allow the group to drive Perdana's fleet rejuvenation programme, given that the average fleet age is already at 12 years.

In terms of dividends, Dayang has not been paying cash dividends except for a DPS of 1.5 sen in FY21. Therefore, we would like to remain conservative by assuming zero dividends to be declared, as the marine segment may need to incur higher capex for fleet rejuvenation.

ROE on a gradual recovery

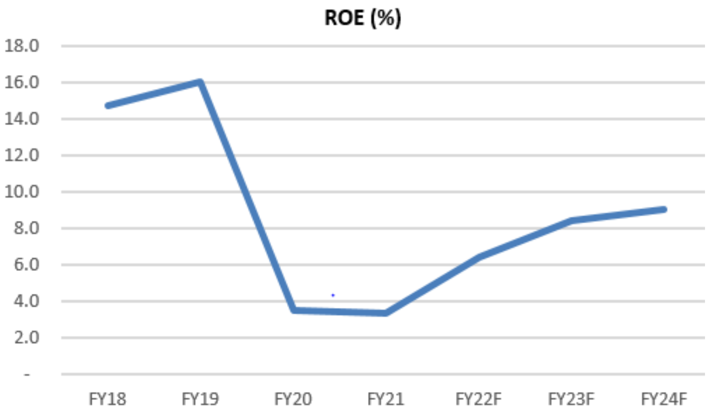
ROE should improve to 6.5% in FY22 from 3.3% and 2.5% in the past two years – it is expected to improve to 8.4% and 9.1% in FY23-24. However, this is still way below the pre-pandemic levels of 14-15% in 2018-2019. Note: Dayang achieved an all-time high profit in 2019, with decent work orders and outstanding net margins of 22%. We only project net margins to reach 10-14.1% in FY22-24, given the elevated cost of doing business.

Figure 13: Net gearing on steady decline



Source: RHB, Company data

Figure 14: ROE on gradual recovery



Source: RHB, Company data

Company Overview

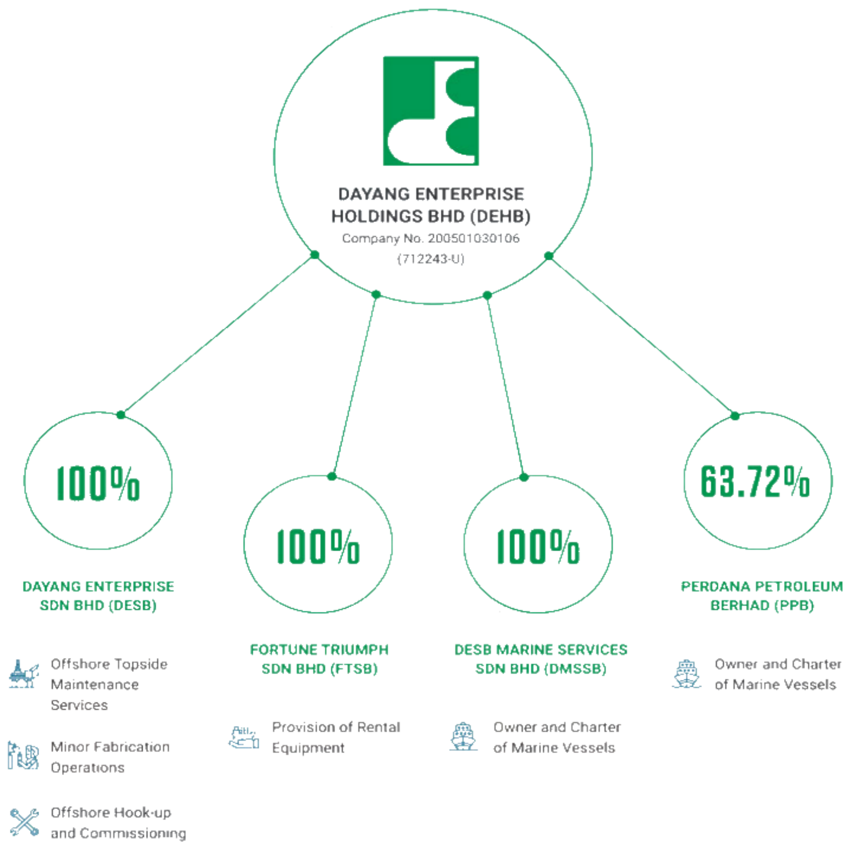
Dayang Enterprise SB (DESB) was founded by Datuk Ling Suk Kiong in 1980 and initially involved in the trading of hardware materials and supply of manpower for the offshore O&G industry. Through its subsidiaries, it has expanded to include provisioning of offshore topside maintenance services, minor fabrication operations, offshore HUC, and charter of marine vessels related to the oil & gas sector. Clients include Petronas Carigali, Sarawak Shell, Sabah Petroleum Company Limited, ExxonMobil Malaysia, Murphy Sarawak Oil and Murphy Sabah Oil, JX Nippon Oil & Gas Exploration (Malaysia), Repsol Oil & Gas Malaysia, SEA Hibiscus, and ROC Oil Malaysia (Holdings).

The group has two strategic business units:

i. **Topside maintenance services** (84.2% of FY21 revenue) – provision of offshore topside maintenance services, minor fabrication works, and offshore HUC services for oil and gas companies. Subsidiary DESB undertakes the overall provision of maintenance services with focus on the following areas: a) Maintenance of topside structure, b) maintenance of pipes and valves, and c) electrical and instrumentation. Dayang has fabrication yards and warehouses located in Labuan, Kemaman, Miri, and Bintulu;

ii. **Marine offshore support services** (15.8% of FY21 revenue) – Dayang has its own marine vessels that are used to provide offshore accommodation for its personnel, as well as work areas and equipment to facilitate the provision of its support services. They also cater for F&B services. Alongside its own marine vessels, DEHB has a 63.7% stake in Perdana, which owns 16 vessels – thereby increasing Dayang's marine and vessels capabilities.

Figure 15: Company structure



Source: Company

Figure 16: Dayang's milestones

1991 - 1999
- Obtained license from Petronas for provision of blasting and painting activities
- Appointed into Petronas Vendor Development Program (VDP)
- Accredited with MS ISO 9001: 2000 Quality Management System

2002 - 2004
- Achieved Health, Safety & Environment System Level 3.0 by Sarawak Shell Berhad/Sabah Shell Petroluem Company Ltd
- Diversify into the marine business with DESB Marine Services Sdn Bhd
- Graduated from VDP

2005
- Dayang Pertama completed and delivered in Apr
- Dayang Maju was purchased and commenced operation under Petronas Carigali contract

2007 - 2009
- Second Workboat Dayang Berlian completed and delivered in Jan 2007
- Dayang Nilam, a vessel accommodation workboat was purchased in Feb 2008
- Dayang Zamrud was completed and delivered in Jul 2009

2011 - 2013
- Dayang Cempaka, a new supply boat was delivered in May 2011
- Dayang Topaz was commissioned and delivered in Feb 2012
- Dayang Opal was completed and delivered in Nov 2013

2014
- Recognition given by Shell Malaysia - Safety Partnership & Collaboration Recognition 2014.
- Award given by Forbes ASIA - Best Under a Billion, The Region's Top 200 Small & Midsize Companies
- Award given by Natural Resources & Environment Board, Sarawak - Merit Award, Large Industries (Oil & Gas), the 6th Sarawak Chief Minister Environmental Awards

2016 - 2017
- Award given by JX Nippon Oil & Gas Exploration (M) Ltd - 2016 HSE Performance Award
- Focused recognition by Petronas Carigali - Certification of Appreciation Dayang Enterprise Sdn Bhd for best Contractor Performance SCM-Contractors Management Sharing session 2012
- Award given by Shell Malaysia - Shell Malaysia Safety Award - Silver Award for Upstream Category

2018 - 2019
- 2 awards given by Shell Malaysia - Grand Prize Winner in Best Safety Leadership Initiative Category and Grand Prize Winner in Best Continuous Improvement Category
- Award given by CP3 Baronia Rejuv - Best Project HSE In appreciation towards outstanding achievement for Offshore Project (28.10.18)
- Miri City Mayor Awards - 2019 Corporate categories

Source: Company

Board of directors

Datuk Hasmi Bin Hasnan, Executive Chairman. He is a Senior Certified Valuer with the International Real Estate Institute, the US, as well as a member of International Real Estate Federation or FIABCI. Datuk Hasmi has been involved in an extensive range of businesses for more than 40 years. These include valuation, project management, property development and management, construction, timber, manufacturing, trading, and publishing. He is also Managing Director of Naim Holdings and a Non-Independent Non-Executive Director of Perdana.

Datuk Ling Suk Kiong, Executive Deputy Chairman. He established DESB in 1980 and has been driving the growth and development of the group since then. With 30 years of experience in the O&G industry, Datuk Ling overlooks the overall strategic business direction of Dayang. He is also a director with several private limited companies in Malaysia.

Datuk Ling is the father of Joe Ling Siew Loung @ Lin Shou Long, who is Dayang's Deputy Managing Director.

Tengku Dato' Yusof Bin Tengku Ahmad Shahruddin, Managing Director. Tengku Dato' Yusuf has more than 30 years of experience in the oil & gas industry since starting his career at Modal Bina as a project engineer. Currently, he also holds directorships in Fortune Triumph and several other private limited companies in Malaysia.

Joe Ling Siew Loung @ Lin Shou Long, Deputy Managing Director. With over 20 years of working experience in the oil & gas industry, Ling is currently responsible for monitoring the management and operations of Dayang. He also holds directorships in Fortune Triumph and DESB Marine Services – subsidiaries of Dayang. Ling is the son of Datuk Ling, Dayang's Executive Deputy Chairman and substantial shareholder in the group.

Jeanita Anak Gamang, Executive Director. Jeanita has been DESB's Head of Administration since 1999 and is responsible for all matters related to administrative and recruitment of office personnel. She was appointed as a Director of DESB in 2006 and DESB Marine Services in 2020.

Ali Bin Adai, Independent Non-Executive Director. Ali worked at CIMB Bank as its Regional Director for East Malaysia (Sabah and Sarawak) until his retirement in 2013. He managed 29 branches and developed the bank's retail, commercial, and enterprise banking businesses in East Malaysia. He is also an Independent Non-Executive Director of Ta Ann Holdings and ABM Fujiya.

Gordon Kab @ Gudan Bin Kab, Non-Independent Executive Director. He has over 30 years of working experience in both the oil & gas and construction industries. Kab was the Senior Head of Construction at Naim Holdings, in charge of the operation and execution of major infrastructure, engineering projects, and building/institutional complexes. He was later appointed as Vice President for the oil & gas division.

Koh Ek Chong, Independent Non-Executive Director. Koh is: i) A fellow member of the Association of Chartered Certified Accountants (UK), ii) a member of the Malaysian Institute of Accountants, iii) an associate member of the Chartered Tax Institute of Malaysia, and iv) a certified member of the Financial Planning Association of Malaysia. He also serves as the executive committee member in various non-governmental organisations or NGOs and became a member of the Special Committee by the Public Services Commission of Malaysia in Jan 2014. Koh is also an Independent Non-Executive Director of Shin Yang Shipping Corp.

Hasmawati Binti Sapawi, Independent Non-Executive Director. Hasmawati joined the Sarawak State Financial Secretary's Office in Jan 2006 and currently holds the post of Deputy State Financial Secretary. Prior to this, she served as the Director of the Corporate Services & Investment Division at the State Financial Secretary Office (Sarawak) – handling corporate finance and investment activities. Hasmawati is on the board of several state government-linked companies.

Chin Hsiun, Independent Non-Executive Director. Chin has vast experience in litigation and also sits as an appointed legal advisor to several registered societies and associations – specialising on societies and related matters. He was also appointed as Miri City Councillor between 2013 and 2019.

Jamalludin Bin Obeng, Non-Independent Executive Director. Jamalludin comes with 30 years of working experience in the oil and gas industry. He started his career in 1990 at Petronas Carigali and was involved in operations, corporate strategies, and business planning activities. He is currently President of Malaysia Offshore Supply Vessel Owners' Association, as well as the Managing Director of Perdana.

Shaharum Bin Ramli, Non-Independent Executive Director. Shaharum is currently the Acting Head of Strategic Planning, Corporate Structuring, and Oil & Gas businesses of Naim Holdings. He is a highly technical person and specialises in mostly oil and gas & geothermal industries – from subsurface to intervention services/solutions to renewable and clean energy developments. Shaharum has been acquiring international exposure in six regions, namely North America, South America, Africa, Middle East, Europe, and Oceania in the course of his work.

Key senior management team

Alias Bin Mat Lazin, Senior Project Manager. With over 25 years of experience in the oil & gas industry, Alias has vast experience in the fields of engineering, onshore and offshore construction, tender strategies, business planning, and operational performance. He has served in local and international companies in various positions. In 2009, he joined DESB as a project manager tasked with the responsibility of establishing Dayang's HUC division. Since then, Alias has successfully led the team in venturing into new segments. He is currently responsible for leading Dayang's business planning and operational performance, overseeing all contracts for West Malaysia and international operations, as well as leading Perdana's fleet operations and chartering division. Alias is currently an Executive Director of Perdana.

Suki Anak Adir, Senior Project Manager. With over 25 years of experience in the oil & gas industry, Suki has vast experience in the fields of engineering, onshore and offshore construction and maintenance, tender strategies, planning and operational performance. In 2002, he joined DESB as a project engineer for various Petronas Carigali maintenance contracts. He was also assigned to manage Petronas' Sarawak operations (SKO) topside structural maintenance or TSM contract in 2010. Suki continued to manage the current offshore modification, construction and maintenance or MCM contract for Petronas Carigali's SKO. Since then, he has been leading the team in managing the maintenance contracts and venturing into new segments, which include EPCC works in the oil & gas sector.

Zaim Husni Omar, Head of Corporate Affairs. Zaim began his career in 1995 as an investment analyst with Permodalan Nasional (PNB) and later was appointed as a fund manager in 2001 to manage PNB's proprietary funds, ie Sekim Amanah Saham Bumiputera and Amanah Saham Malaysia. With more than 20 years of extensive experiences in the corporate and investment fields, Zaim is currently Head of Corporate Affairs for Dayang.

Wa Hui Bing, Senior Corporate Finance. Wa is a Chartered Accountant with Chartered Accountants Australia. She is also a member of the Malaysian Institute of Accountants. Wa has more than 10 years of working experience in accounting and auditing in various industries via Ernst & Young. Her professional experiences include accounting, auditing, and assurance.

ESG Efforts

Environment

Vessel emission reduction. Dayang is constantly minimising and moderating greenhouse gas (GHG) emissions – it does this by managing vessel emissions. All vessels and machines undergo scheduled and periodic maintenance, testing, and repair works. The group continues to explore strategies to ensure that air quality is protected. Furthermore, Dayang has managed to reduce energy consumption by 13% in terms of energy intensity from the 2014 baseline – this was a year ahead of schedule and attributed to the constant reinforcement of its initiatives. Though the group has lowered GHG emissions intensity through better energy efficiency in FY21, it does not disclose its GHG emission levels.

Water conservation, waste, and energy management. Dayang is also focused on minimising its overall environmental footprint. This involves water-saving practices among employees and the adoption of water-efficient technologies and equipment. To be in line with its sustainability efforts, Dayang has introduced initiatives to control water usage. One is through the adjusting of water pressure throughout its head office. The other is by conducting checks and immediately fixing leaks. For waste management, the group avoids unnecessary paper consumption and waste generation. However, for FY21, there was an increase in offshore scheduled waste due to high levels of activities at its offshore facilities and platforms. Dayang is also focused on energy management and aims to conserve electricity at its head office by implementing the following efforts: i) A lighting schedule across key areas, ii) maintenance and replacement of electrical equipment and light fittings to maximise energy efficiency, and iii) a campaign to remind all staff to switch off lighting, water dispensers, air conditioning, and/or other electrical appliances in the office when not required. In FY21, the group recorded MYR1m in fuel consumption – its lowest consumption level in the past five years.

Sustainability in the supply chain. The group has started to explore suitable approaches when it came to considering suppliers' ESG credentials in the lifecycle of the supply chain. With new suppliers, Dayang has started to incorporate sustainability-related criteria in assessing suppliers' business practices, eg occupational health and safety. The group is also attempting to support the local economy by sourcing raw materials and services that are available locally whenever possible.

Social

Employee development. For its employee development strategy, Dayang actively identifies promising talent that may potentially provide leadership and management skills for the medium- and longer-term future. In addition, leaders and managers engage with identified talents to discuss their career developments and training needs during the performance appraisal sessions. The group's human resource department will occasionally arrange trainings for employees to keep them well-informed of the latest developments in their relevant fields and industries. Training hours of employees increased 204% to 20,656 hours in 2021 from 6,800 hours in 2020.

Safe and healthy workplace practices. Dayang is committed towards providing employees with safe, conducive, and healthy workplace conditions. It has effective and efficient management arrangements in place to ensure the wellbeing of staff and others, as well as minimising the adverse impacts to individuals from ill health and injury that could be sustained due to its activities. In FY21, numerous health, safety, security & environment (HSSE) campaigns were launched at offshore locations and yards to increase awareness and enhance worksite HSSE knowledge. These campaigns included the Hand & Finger Injury and Forklift Safety campaigns among others. Dayang has also established a whistleblowing policy to provide an avenue for all stakeholders to report any unethical behaviour, malpractices, illegal acts and/or failure to comply with applicable laws, internal policies, rules, and regulations.

CSR. During the pandemic, the group donated 20 sets of double fowler beds with mid-length sides – complete with beddings and PVC mattresses – to Miri General Hospital to support the fight against COVID-19.

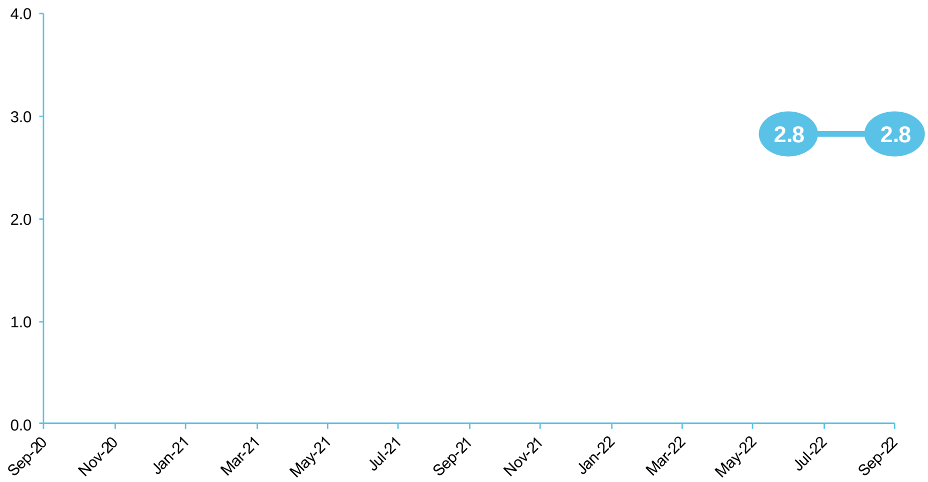
Governance

Corporate governance. Dayang has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance. Directors are skilled and from diverse backgrounds. However, following the recent resignation of Non-Independent Non-Executive Director Chen King Yu and appointment of two new directors – Shaharum Bin Ramli (Non-Independent Executive Director) and Jamalludin Bin Obeng (Non-Independent Executive Director) – the group has 12 board members, of which only two are female and five are independent directors. This falls below the suggested guideline of 30% and 50%. Dayang provides clear, timely, and reliable information that is compliant with Malaysia's regulatory framework. Shareholder rights are also well protected.

Recommendation Chart

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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