

21 November 2022

## Dayang Enterprise (DEHB MK)

Strong Boost From Marine Unit; Keep BUY

Energy & Petrochemicals | Offshore & Marine

**Buy** (Maintained)

Target Price (Return): MYR1.58 (+23%)  
Price (Market Cap): MYR1.28 (USD326m)  
ESG score: 2.90 (out of 4)  
Avg Daily Turnover (MYR/USD) 5.33m/1.16m

- **Keep BUY and MYR1.58 TP (14x FY23F P/E), 23% upside with c.1% FY23F yield.** Dayang Enterprise's 9M22 results beat expectations, due to stronger numbers from its offshore topside maintenance services (TMS) and marine divisions. Its marine vessel utilisation rate improved to 80% in 3Q22, lifting the 9M22 figure to 57% (9M21: 47%). Despite the anticipation of a seasonally weaker 4Q22, we remain upbeat on its outlook for 2023, premised on the back of robust work orders and better rates of revision.
- **Beat expectations.** At 122% and 121% of our and Street full-year estimates, 9M22 core earnings of MYR111m came in above expectations due to a better-than-anticipated performance from its offshore TMS and marine units. A 1.5sen DPS was declared.
- **Results review.** 3Q22 core earnings strengthened by 24% QoQ to MYR56m on the back of a stronger marine division, which in turn stemmed from a higher vessel utilisation rate of 80% (2Q22: 66%). This partially offset the lower offshore TMS contribution (-7% QoQ), which was from higher operating costs. As such, Dayang managed to return to the black with 9M22 core earnings of MYR111m, compared with a core loss of MYR5m in 9M21.
- **Outlook.** We expect Dayang's quarterly earnings to tone down in 4Q22 during the monsoon season. That said, we expect its maintenance, construction and modification (MCM) work orders to ramp up next year, with the increase in spending by Petronas. Meanwhile, we understand that there is an upward adjustment of >20% in terms of service rates, to cater for rising material and equipment costs, as well as the cost of doing business. Dayang's orderbook stood at MYR1.6bn as at 3Q22 but it is set to benefit from the 5-year contract renewal cycle starting next year. Overall, we still expect margins to widen in FY23, following the rate revision. At the same time, we also understand that the company is negotiating for better rates to be applied to integrated hook-up and commissioning jobs (HUC), which could further protect margins from rising costs, as mentioned earlier.
- **We increase our earnings estimates for FY22-24 by 3-28%** after imputing better margins for both the marine and offshore TMS divisions. Our TP rises to MYR1.58 is based on unchanged 14x FY23F P/E, or +1SD from its 5-year mean, with a 2% ESG discount applied as per our in-house proprietary methodology. We expect earnings growth of 14-167% in FY22-24F, led by stronger HUC jobs as well as MCM work orders.
- **Downside risks:** A decline in new work orders, softer oil prices (which could limit clients' spending) and higher operating costs.

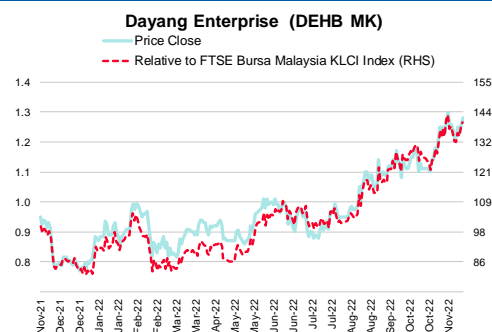
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	59.0	15.3	30.6	43.8	34.7
Relative	66.6	10.8	35.1	50.2	39.7
52-wk Price low/high (MYR)				0.77	1.30



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 capitalization of less than USD0.5bn.

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	117	133	157
Recurring net profit growth (%)	(77.2)	(16.7)	167.3	13.9	17.6
Recurring P/E (x)	28.19	33.83	12.66	11.12	9.45
P/B (x)	1.0	1.1	1.0	1.0	0.9
P/CF (x)	4.31	8.78	14.20	7.68	6.76
Dividend Yield (%)	na	1.2	1.2	1.2	1.2
EV/EBITDA (x)	9.05	na	6.19	5.40	4.45
Return on average equity (%)	3.9	(22.6)	8.6	9.1	9.8
Net debt to equity (%)	15.9	7.2	4.4	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Malaysia	Recurring EPS	0.05	0.04	0.10	0.12	0.14
Energy & Petrochemicals	DPS	-	0.02	0.02	0.02	0.02
<b>Dayang Enterprise</b>	BVPS	1.29	1.13	1.22	1.32	1.44
DEHB MK	Return on average equity (%)	3.9	(22.6)	8.6	9.1	9.8
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	28.19	33.83	12.66	11.12	9.45
P/E	P/B (x)	1.0	1.1	1.0	1.0	0.9
	FCF Yield (%)	19.6	8.6	3.7	9.6	11.4
<b>Key drivers</b>	Dividend Yield (%)	-	1.2	1.2	1.2	1.2
i. Stronger-than-expected work orders;	EV/EBITDA (x)	9.05	na	6.19	5.40	4.45
ii. Lower-than-expected operating costs;	EV/EBIT (x)	17.23	na	8.62	7.26	5.74
iii. Higher-than-expected vessel utilisation rates.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Lower-than-expected work orders from clients;	Total turnover	731	668	911	992	1,086
ii. Significantly softer-than-expected oil prices, which could limit clients' spending;	Gross profit	232	81	273	327	380
iii. Higher-than-expected operating costs.	EBITDA	227	(228)	280	299	332
	Depreciation and amortisation	(108)	(155)	(79)	(77)	(75)
<b>Company Profile</b>	Operating profit	119	(383)	201	222	257
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.	Net interest	(31)	(27)	(33)	(30)	(26)
	Pre-tax profit	88	(410)	168	193	231
	Taxation	(56)	(26)	(54)	(50)	(60)
	Reported net profit	56	(317)	117	133	157
	Recurring net profit	53	44	117	133	157
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	0	34	(88)	(26)	(26)
	Cash flow from operations	344	169	104	193	219
	Capex	(53)	(41)	(50)	(50)	(50)
	Cash flow from investing activities	(81)	14	29	(50)	(50)
	Cash flow from financing activities	(244)	(102)	(85)	(85)	(85)
	Cash at beginning of period	268	282	340	406	481
	Net change in cash	18	81	49	58	85
	Ending balance cash	282	367	388	464	566
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	424	419	406	481	583
	Tangible fixed assets	1,307	1,109	1,080	1,054	1,029
	Total assets	2,746	2,323	2,389	2,474	2,593
	Short-term debt	180	129	129	129	129
	Total long-term debt	526	397	347	297	247
	Total liabilities	967	829	797	758	723
	Total equity	1,779	1,495	1,591	1,717	1,870
	Total liabilities & equity	2,746	2,323	2,389	2,474	2,593
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(30.1)	(8.7)	36.4	9.0	9.4
	Recurrent EPS growth (%)	0.0	(16.7)	167.3	13.9	17.6
	Gross margin (%)	31.7	12.2	30.0	33.0	35.0
	Operating EBITDA margin (%)	31.0	(34.1)	30.7	30.1	30.6
	Net profit margin (%)	7.7	(47.4)	12.9	13.4	14.4
	Dividend payout ratio (%)	0.0	(5.5)	14.8	13.0	11.1
	Capex/sales (%)	7.2	6.1	5.5	5.0	4.6
	Interest cover (x)	2.86	(10.94)	6.03	7.46	9.78

Source: Company data, RHB

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Figure 1: Results review

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)
<b>Turnover</b>	223.8	263.4	338.3	28.4	51.2	467.6	761.9	62.9
<b>EBITDA</b>	64.2	88.1	114.5	29.9	78.4	67.7	246.4	264.0
D&A	-28.1	-23.3	-21.0	-9.9	-25.2	-82.6	-66.5	-19.5
<b>EBIT</b>	36.1	64.8	93.5	44.2	159.1	-14.9	179.9	-1,306.0
Interest expense	-5.8	-5.7	-5.2	-7.3	-10.2	-21.1	-13.9	-34.1
<b>Pre-tax profit</b>	30.2	59.1	88.2	49.2	191.7	-36.1	166.0	-560.1
Taxation	-10.1	-19.5	-31.2	60.0	208.0	-17.4	-60.6	247.9
<b>PAT</b>	20.1	39.7	57.0	43.9	183.6	-53.5	105.4	-297.0
Minority interest	-1.1	2.4	-4.1	-274.6	265.9	23.0	3.3	-85.6
<b>Net profit</b>	19.0	42.0	52.9	25.9	178.7	-30.4	108.7	-457.0
<b>Core net profit</b>	<b>13.9</b>	<b>45.3</b>	<b>56.2</b>	<b>24.2</b>	<b>305.6</b>	<b>-4.7</b>	<b>110.8</b>	<b>NM</b>
EPS (sen)	1.2	3.9	4.9	24.2	305.6	-0.4	9.6	NM
<b>EBITDA margin</b>	28.7	33.4	33.8			14.5	32.3	
<b>EBIT margin</b>	16.1	24.6	27.6			-3.2	23.6	
<b>Pre-tax margin</b>	13.5	22.5	26.1			-7.7	21.8	
<b>Net profit margin</b>	6.2	17.2	16.6			-1.0	14.5	

Source: Company data, RHB

Figure 2: Segmental results

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)
<b>Revenue</b>								
Offshore TMS	181.7	224.3	256.9	14.5	41.3	371.5	614.8	65.5
Marine Charter (external)	29.9	25.0	49.7	99.0	66.2	69.1	94.6	36.9
Elimination	-12.2	-14.1	-31.8	125.6	160.4	-27.0	-52.5	94.5
<b>Group turnover</b>	<b>211.6</b>	<b>249.3</b>	<b>306.5</b>	<b>23.0</b>	<b>44.9</b>	<b>440.6</b>	<b>709.4</b>	<b>61.0</b>
<b>Segment results</b>								
Offshore TMS	24.4	55.1	51.2	-7.2	109.4	40.1	150.9	276.4
Marine Charter (external)	12.7	4.8	36.8	674.0	189.7	-52.3	22.8	NM
<b>Group EBIT</b>	<b>36.1</b>	<b>64.8</b>	<b>93.5</b>	<b>44.2</b>	<b>159.1</b>	<b>-14.9</b>	<b>179.9</b>	<b>NM</b>
<b>EBIT margin</b>								
Offshore TMS	13.4	24.6	19.9			10.8	24.5	
Marine Charter (external)	14.0	5.9	33.5			-47.7	16.9	
Others	51.5	33.2	36.5			104.7	53.1	
<b>Group PBT margin</b>	<b>-3.4</b>	<b>21.5</b>	<b>25.4</b>			<b>-3.4</b>	<b>25.4</b>	

Source: Company data, RHB

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## Recommendation Chart

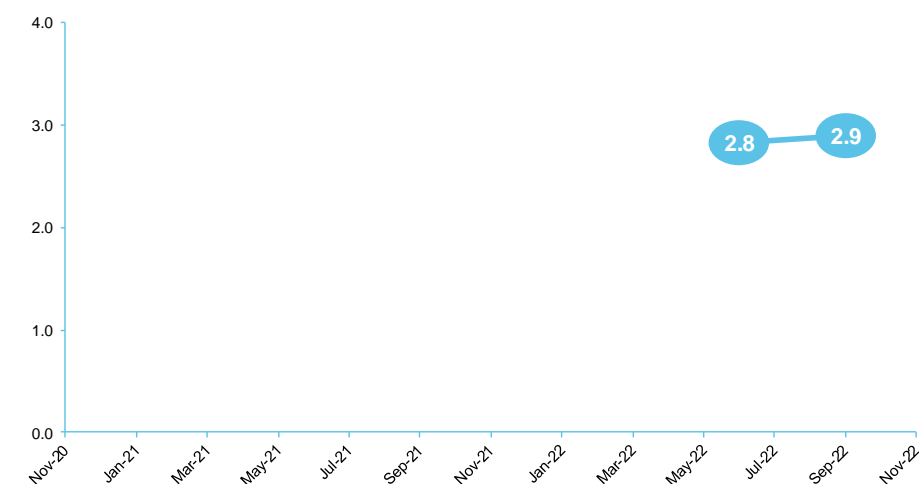


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-09-22	Buy	1.53	1.14
2022-06-01	Not Rated	na	1.01

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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