

25 May 2018 | 1QFY18 Results Review

Dayang Enterprise Holdings Bhd

Clear results from offshore works seen

INVESTMENT HIGHLIGHTS

- **Dayang Enterprise 1QFY18 normalised earnings excluding unrealised forex losses very encouraging at +RM8.1m**
- **Reported earnings however in the red**
- **Revenue increased +26%yoy premised on higher work orders**
- **Reiterate BUY with unchanged target price of RM1.06 per share**

Normalised earnings encouraging. Dayang reported 1QFY18 losses of -RM21.3m. However, excluding unrealised forex losses, Dayang posted an encouraging normalised earnings of +RM8.1m. The commendable earnings is premised on upbeat revenue of RM148.8m, representing an increase of +26.2%yoy. The surge in sales is largely attributable to higher work orders received and performed under the topside maintenance services. We are pleasantly surprised by the commendable normalised earnings as we expected 1QFY18 results to be negatively affected by Perdana Petroleum Berhad. Nonetheless, we remain optimistic and maintain our expectations of stronger 2QFY18 and 3QFY18. Our expectation is based on strong activity levels until October 2018.

Perdana still work-in-progress. Dayang's profitability from the engineering segments (PBT: +RM43.3m) has been hampered by Perdana Petroleum Berhad (LBT: -RM68.0m) as the latter's fleet utilisation rate is low at 27%. In addition, the reported earnings is impacted by unrealised forex losses from its borrowings.

Current jobs at hand. The company guided that activity levels for the Maintenance, Construction and Modifications Contract (MCM) and Topside Maintenance Services works under the Pan Hook-up and Commissioning Contract (Pan HUC) improved in 1QFY18 despite the typical cyclical monsoon months. The company's current orderbook stands at approximately RM2b lasting through to 2022.

Tenderbook. The company has participated in approximately RM8b worth of projects, in particular the Pan MCM tenders. The company remains fairly confident of winning a portion given its track record and successful campaigns in similar projects.

Dayang's forte. Dayang is no stranger to Petronas' maintenance, construction and modification (MCM) works as it was the incumbent for the previous HUC contracts from 2013.

Maintain BUY

Unchanged Target Price (TP): RM1.06

RETURN STATS

Price (24 May 2018)	RM0.585
Target Price	RM1.06
Expected Share Price Return	+81.2%
Expected Dividend Yield	-
Expected Total Return	+81.2%

STOCK INFO

KLCI	1,775.66
Bursa / Bloomberg	5141 / DEHB MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	964.5
Market cap. (RM'm)	564.4
Price over NA	0.75x
52-wk price Range	RM0.56 – RM0.87
Beta (against KLCI)	1.90
3-mth Avg Daily Vol	2.5m
3-mth Avg Daily Value	RM1.95m
Major Shareholders (%)	
Naim Holdings Bhd	26.42
Kumpulan Wang Persaraan	12.74
Lembaga Tabung Haji	8.19
Ling Suk Kiong	7.59
Ahmad Shahrudin Yusuf	6.83
Vogue Enterprise	6.35

Currently, Dayang on its own has: (i) 6 work vessels and; (ii) 2 supply boats with an average age of approximately 6.5 years old. All of which are fit for purpose, within the stringent specifications required by Petronas and its production sharing contractors.

Earnings upcycle to start in 2QFY18. From the offshore activity levels that are currently taking place, we believe that the earnings upcycle for Dayang could start as early as 2QFY18.

Reiterate BUY. We are reiterating our **BUY** recommendation on Dayang with an unchanged TP of **RM1.06** per share. Our **BUY** recommendation is premised on: (i) Large potential share price upside; (ii) Earnings up-cycle in FY18; (iii) Improving operating climate with higher activity levels and improving UR and; (iv) Improving conditions for Perdana Petroleum. Our valuation is premised on PER18 of 14x pegged to EPS18 of 7.6sen. Our target PER is based on the company's two-year historical average PER.

Recent share price retreat presents buying opportunity. The recent sell down in share price this week presents buying opportunity. We believe that: (i) company fundamentals remain intact; (ii) clear direction of management to reduce gearing and to rejuvenate Perdana Petroleum and; (iii) high orderbook quality obtained through track record and company merits.

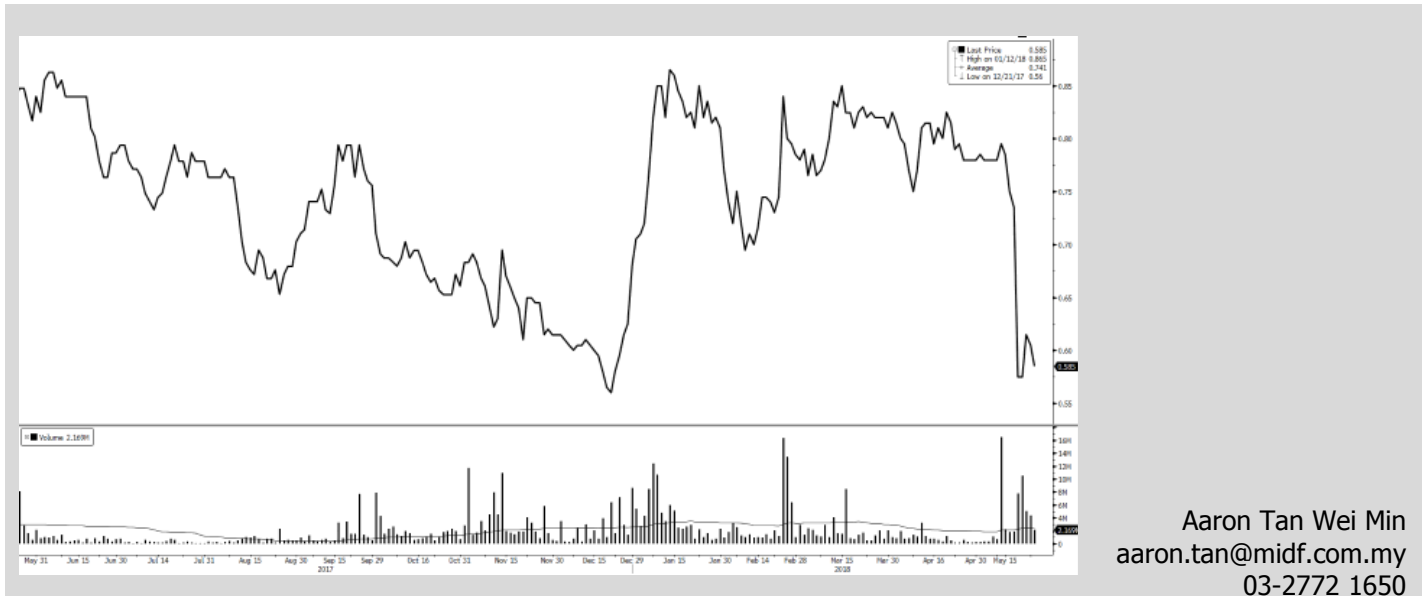


INVESTMENT STATISTICS

Statement of Income (RMm)	2015	2016	2017	2018F	2019F
Operating Revenue	779.1	694.6	695.5	804.4	1037.7
Direct Operating Costs	(440.5)	(436.4)	(479.5)	(385.3)	(509.4)
Gross Profit	338.6	258.5	216.0	419.1	528.2
EBITDA	155.8	219.7	170.0	197.3	247.7
EBIT	258.4	190.6	31.2	197.3	247.7
Associates	-6.3	-	-19.0	-18.0	-17.0
Profit before tax	147.0	80.0	(63.8)	153.1	190.6
Tax	(53.2)	(25.7)	(88.4)	(79.7)	(86.2)
PAT	202.0	54.9	(152.2)	73.4	104.4
Standardized EPS (sen)	19.6	6.3	(15.4)	7.6	10.8
Net Margin (%)	25.9	7.9	-21.9	9.1	10.1
PER (x)	6.6	9.3	nm	7.7	5.4
Dividend yield (%)	5.4	0.0	0.0	0.0	0.0

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

Current orderbook profile

No.	Contracting Party	Contract details	Contract Period (Years)
1	Petronas Carigali	Bardegg-2 and Baronía EOR Development	3
2	Petronas Carigali	HUC and Topside Major Maintenance	5
3	Sarawak & Sabah Shell	HUC and Topside Maintenance	5
4	Murphy Sarawak Oil	HUC and Topside Major Maintenance	5
5	JX Nippon Oil & Gas Exploration	Provision of HUC and Topside Major Maintenance Services	5
6	Kebabangan Petroleum Operating Company	Provision of Topside Maintenance	2
7	Malaysia LNG	Onshore maintenance	2
8	Petronas Carigali	Maintenance, Construction and Modification (MCM)	5
9	Perdana Petroleum Contracts (External only)	Charter of vessels	2-5

Source: Company, MIDFR

1QFY18 RESULTS SUMMARY

FYE DEC (RM m)	Quarterly Results				
	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	117.9	173.8	148.8	-14.4	26.2
Operating expenses	-97.6	-130.9	-111.9	-14.5	14.6
Gross profit	20.3	42.9	36.9	-13.9	81.9
Other income	0.1	4.9	2.1	-57.6	2467.9
Admin expenses	-25.8	-12.0	-24.2	101.5	-6.2
Finance costs	-23.0	-22.8	-22.0	-3.5	-4.7
PBT	-36.8	-6.3	-36.0	471.8	-2.1
Tax	-6.7	-53.4	-11.7	-78.2	73.1
PATAMI	-42.6	-23.6	-21.3	-9.8	-50.0
EPS (sen)	-4.9	-5.6	-2.2	-60.9	-54.6
Segmental -					
Revenue:					
Investment Holdings	1.3	1.3	1.3	0.1	-0.5
Offshore	105.3	143.1	137.5	-3.9	30.5
Marine Charter	27.3	48.2	28.5	-40.9	4.5
Equipment rental	2.4	3.8	2.7	-27.4	15.0
Elimination	-18.3	-22.5	-21.2	-6.2	15.5
PBT:					
Investment Holdings	-8.4	-6.9	-7.5	10.0	-9.8
Offshore	27.0	18.8	43.3	129.7	59.9
Marine Charter	-50.3	-40.4	-68.0	68.5	35.3
Equipment rental	-1.9	0.9	-0.6	-165.1	-70.0
Elimination	-3.3	22.3	-3.1	-114.0	-5.9

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.