

26 February 2018 | 4QFY17 Results Review

Dayang Enterprise Holdings Bhd

Earnings up cycle in FY18

Maintain BUY

Upgrade Target Price (TP): RM1.06
(previously RM0.95)

INVESTMENT HIGHLIGHTS

- **Dayang Enterprise's 4QFY17 results recorded a loss as forewarned**
- **Massive impairment charges and unrealised forex losses recorded for the year**
- **High activity levels seen in FY18**
- **Current orderbook in excess of RM3.4b**
- **Reiterate BUY with upgraded TP of RM1.06 per share**

FY17 losses forewarned – Kitchen sinking. Dayang's 4QFY17 results staged a normalised loss of –RM19.5m. Its cumulative FY17 normalised earnings (excluding impairment charges on assets and unrealised forex losses) amounted to –RM49.1m. The loss were further exacerbated by deferred tax expenses of –RM52.8m charged in 4QFY17 bringing full year FY17 tax expense to –RM88.4m.

Commendable utilisation rate. Dayang's fleet utilisation rate for FY17 stood at a commendable 52% despite a drop in average charter rates of approximately 25% during the year. Moving into 2018, Perdana's fleet UR is expected to increase to between **70-80%**. Our assumption is guided by Petronas' Activity Outlook Report 2017-2019. The higher utilisation rate is already being seen in the latter part of 4QFY17 and into 1QFY18.

Positive debt management. Total debts has decreased by approximately RM360m (-22%yoy), partly due to proceeds from private placements.

Current orderbook. Dayang's current orderbook stands at approximately **RM3.4b**, with long term contracts ranging from two to five years. (refer to table below).

Tenderbook. The company is also in the midst of increasing its orderbook, currently participating in RM8b worth of tenders.

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. 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.

RETURN STATS	
Price (21 December 2017)	RM0.84
Target Price	RM1.06
Expected Share Price Return	+26.2%
Expected Dividend Yield	-
Expected Total Return	+26.2%

STOCK INFO	
KLCI	1,861.50
Bursa / Bloomberg	5141 / DEHB MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	964.5
Market cap. (RM'm)	810.4
Price over NA	0.75x
52-wk price Range	RM0.56 – RM0.96
Beta (against KLCI)	1.86
3-mth Avg Daily Vol	2.98m
3-mth Avg Daily Value	RM2.12m
Major Shareholders (%)	
Naim Holdings Bhd	26.42
Kumpulan Wang Persaraan	12.02
Lembaga Tabung Haji	8.19
Ling Suk Kiong	8.01
Ahmad Shahrudin Yusuf	6.83
Vogue Enterprise	6.35

Earnings to stage massive leap. Taking into consideration (i) work orders for Dayang's MCM portion; (ii) Petronas' activity outlook for 2017-2019; (iii) Strong utilisation rate for both Dayang and Perdana's vessels and; (iii) Perdana Petroleum's potential turnaround in 2018, we believe that FY18 will record strong revenue, possibly matching that of FY14 along with strong year-over-year profit.

Earnings upcycle to start in 2QFY18. We were previously expecting the earnings upcycle to only start in the latter part of FY18. However, from the offshore activity levels that are currently taking place, we believe that the earnings upcycle for Dayang could start as early as 2QFY18.

Impact on earnings. No change to earnings estimates

Reiterate BUY. We are reiterating our **BUY** recommendation on Dayang with an upgraded 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 revised PER18 of 14x (previously 12.5x) pegged to EPS18 of 7.6sen. Our target PER is based on the company's two-year historical average PER.

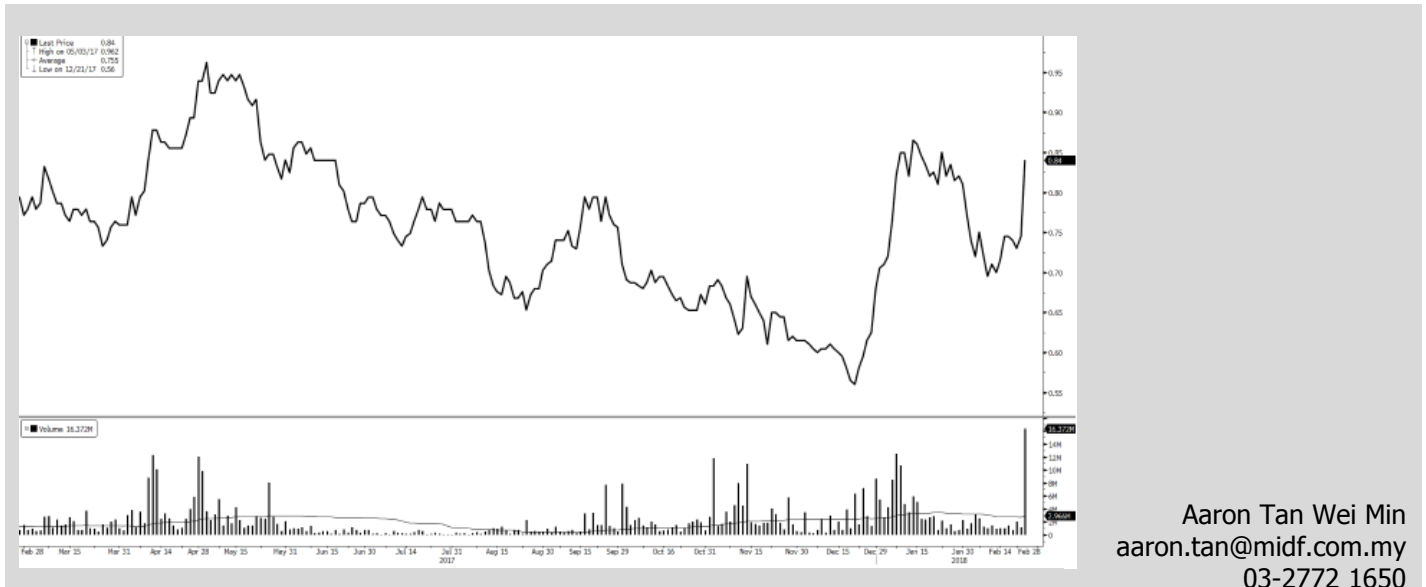


INVESTMENT STATISTICS

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
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	8.9	nm	7.4	5.2
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 as at 20 December 2018

No.	Contracting Party	Contract details	Contract Period (Years)	Remain contract sum (RM million)
1	Petronas Carigali	Bardegg-2 and Baronia EOR Development	3	40
2	Petronas Carigali	HUC and Topside Major Maintenance	5	650
3	Sarawak & Sabah Shell	HUC and Topside Maintenance	5	800
4	Murphy Sarawak Oil	HUC and Topside Major Maintenance	5	150
5	JX Nippon Oil & Gas Exploration	Provision of HUC and Topside Major Maintenance Services	5	30
6	Kebanggaan Petroleum Operating Company	Provision of Topside Maintenance	2	25
7	Malaysia LNG	Onshore maintenance	2	20
8	Petronas Carigali	Maintenance, Construction and Modification (MCM)	5	1300
9	Perdana Petroleum Contracts (External only)	Charter of vessels	2-5	400
			TOTAL	3,415

Source: Company, MIDFR

4QFY17 Earnings Summary

FYE DEC (RM m)	Quarterly Results			Cumulative			Comments
	4Q17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)	
Revenue	173.8	-18.3	-6.4	708.2	695.5	-1.8	Lower activity in earlier part of 4Q
Operating expenses	-130.9	-5.6	2.9	-452.7	-479.5	5.9	
Gross profit	42.9	-42.2	-26.6	255.5	216.0	-15.5	
Other income	4.9	11.6	-86.2	79.6	12.4	-84.4	
Admin expenses	-12.0	-57.9	-41.5	-121.1	-93.0	-23.2	
Finance costs	-22.8	-12.3	-17.1	-99.3	-95.2	-4.2	
PBT	-6.3	-142.5	-114.8	78.7	-63.4	-180.6	
Tax	-53.4	280.0	-1239.7	-24.7	-88.4	257.7	
PATAMI	-23.6	-2206.1	-150.2	54.5	-143.9	-363.9	
EPS (sen)	-5.6	-4783.3	-204.7	6.2	-15.4	-346.9	
Segmental -							
Revenue:							
Investment Holdings	1.3	-99.7	0.0	4.2	500.7	11822.6	Reclassification of Perdana
Offshore	143.1	-20.1	-9.1	586.3	597.5	1.9	
Marine Charter	48.2	-32.8	-28.8	277.7	201.3	-27.5	Lower rates
Equipment rental	3.8	-18.7	36.9	19.9	15.5	-22.3	
Elimination	-22.5	-95.8	-48.1	-180.0	-619.5	244.2	
PBT:							
Investment Holdings	-6.9	-101.4	-124.0	-38.5	457.1	-1287.7	
Offshore	18.8	-47.1	36.3	99.6	139.9	40.5	
Marine Charter	-40.4	686.2	-165.0	-22.6	-177.0	-682.0	
Equipment rental	0.9	-19.7	-148.9	4.1	-1.1	-126.8	
Elimination	22.3	-104.5	-55.8	36.1	-482.7	-1436.9	

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.

