

22 December 2017 | Corporate Update

Dayang Enterprise Holdings Bhd

Earnings to stage a massive leap in 2018

Reiterate BUY

Upgraded Target Price (TP): RM0.95
(previously RM0.83)

INVESTMENT HIGHLIGHTS

- **Dayang Enterprise Holdings Bhd's (Dayang) earnings upcycle to start as early as 2QFY18**
- **Perdana Petroleum could possibly see turnaround in FY18**
- **Activity levels currently in high gear owing to robust MCM works despite seasonal monsoon season**
- **Current orderbook in excess of RM3.4b**
- **Reiterate BUY with upgraded TP of RM0.95 per share**

Exciting year ahead. Following high activity levels in 3QFY17, the company reported commendable 3QFY17 normalised earnings of RM9.5m last month. Although 4QFY17 is typically seasonally slower due to the seasonal monsoon season, but we understand that offshore activity levels are remaining at elevated levels compared with that of yesteryears. This is largely owing to the aggressive work callouts by Petronas and its PSCs.

Strong fleet utilisation rate. Currently, the company's utilisation rate (UR) of its 25 (of which 17 from Perdana Petroleum) offshore support vessels are improving. UR for 3QFY17 was above 75% (higher than regional average) compared to only 44% in 2QFY17. Average fleet UR for FY17 now stands at 53%. As for **Perdana Petroleum (unrated)** by itself, the company's current fleet UR (half of which are to be chartered to Dayang's MCM campaigns) average approximately 55%. 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.

Current orderbook. Dayang's current orderbook stands at a robust **RM3.415b**, 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)	RM0.56
Target Price	RM0.95
Expected Share Price Return	+69.6%
Expected Dividend Yield	-
Expected Total Return	+69.6%

STOCK INFO	
KLCI	1,751.21
Bursa / Bloomberg	5141 / DEHB MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	964.5
Market cap. (RM'm)	540.12
Price over NA	0.75x
52-wk price Range	RM0.34 – RM0.70
Beta (against KLCI)	1.35
3-mth Avg Daily Vol	1.22m
3-mth Avg Daily Value	RM2.49m
Major Shareholders (%)	
Naim Holdings Bhd	26.42
Kumpulan Wang Persaraan	11.59
Lembaga Tabung Haji	8.10
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. Based on the abovementioned earnings boosters, we are increasing our earnings forecasts for FY18 by +22.1% to RM73.4m.

Reiterate BUY. We are reiterating our **BUY** recommendation on Dayang with an upgraded TP of **RM0.95** 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 12.5x pegged to EPS18 of 7.6sen. Our target price is still biased towards the conservative end (offering further re-rating opportunities), based on a 0.5-standard deviation discount to the company's five-year average rolling PER of 15x.

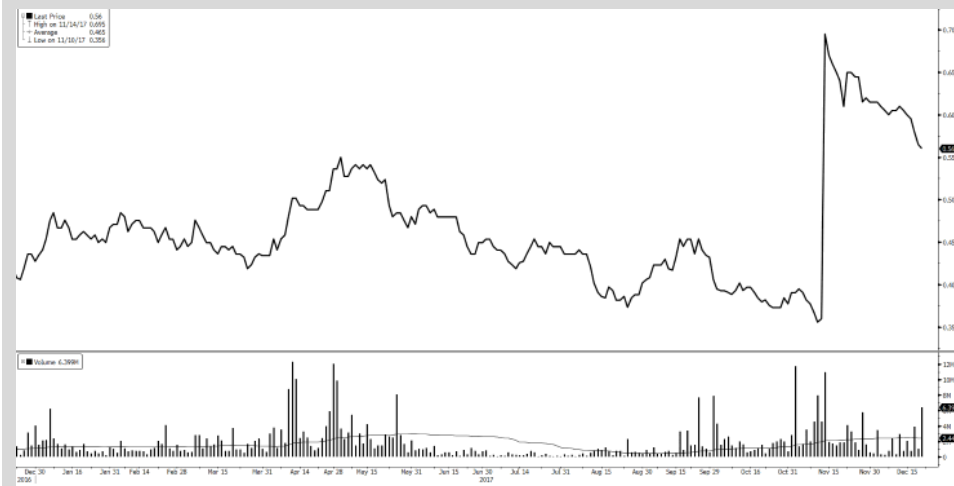


INVESTMENT STATISTICS

Statement of Income (RMm)	2015	2016	2017F	2018F	2019F
Operating Revenue	779.1	694.6	608.2	804.4	1037.7
Direct Operating Costs	-440.5	-436.4	-310.6	-385.3	-509.4
Gross Profit	338.6	258.5	297.6	419.1	528.2
EBITDA	155.8	219.7	161.3	197.3	247.7
Profit before tax	147	80	93	153.1	190.6
PAT	202	54.9	24.4	73.4	104.4
Standardized EPS (sen)	19.6	6.3	2.7	7.6	10.8
Net Margin (%)	25.9	7.9	4.0	9.1	10.1
PER (x)	6.6	8.9	20.9	7.4	5.2

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	Kebabangan 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

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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.