

Dayang Enterprise Holdings Berhad

(5142 | DEHB MK) Energy | Energy Infrastructure, Equipment & Services

Maintain NEUTRAL

Challenging operating environment ahead

Revised Target Price: RM1.42

(Previously RM2.69)

KEY INVESTMENT HIGHLIGHTS

- Dayang's reported a net profit of RM9.3m in 1QFY20
- Earnings was boosted by higher profit margins on topside maintenance work and high vessel utilization rate of 55% in 1QFY20
- Earnings supported by improved offshore PBT margin of 29.6% from 27.9% in 1QFY19
- Current orderbook at RM4.0b
- FY20-21F earnings reduced by -27.7% and -17.7% respectively
- Maintain NEUTRAL with revised TP of RM1.42 per share

Dayang's 1QFY20 earnings surged by >100.0%yoy to RM9.3m.

Dayang Enterprise Holdings Berhad's (Dayang) 1QFY20 reported net profit came in at RM9.3m. The profit was within our but above consensus' full-year earnings estimates. Despite only meeting <5.0% of our full-year earnings estimate; we deem the results in-line as first quarter is typically the weakest quarter for Dayang. Comparing against 1QFY19, revenue grew +10.0%yoy whilst earnings surged by >100.0%yoy respectively following: (i) better revenue recognition from its topside maintenance works and; (ii) higher vessel utilization rate at 55% vs 36% in 1QFY19. Meanwhile on a quarterly sequential basis; revenue and earnings dipped by -39.6%qoq and -89.9% respectively. This was primarily attributable to the lower utilization rate of its vessels during the quarter which was recorded at 55% vs 76% in 4QFY19.

Perdana Petroleum normalized earnings grew by >100.0%yoy to RM1.4m. Perdana Petroleum's reported a net loss of -RM13.9m in 1QFY20. However, its normalized earnings excluding impairment loss on PPE of RM10.9m and net unrealized forex loss of RM4.4m came in at RM1.4m which is >100.0% higher year-over-year. This was mainly attributable to improved vessel utilization rate during the quarter at 64% vs 36% in 1QFY19. The higher utilization rate was primarily due to improved work orders/contracts awarded by oil majors during the quarter.

Higher productivity and efficiency boosted margins. Aside from the better revenue recognition from its work orders, the improved earnings recorded by Dayang in 1QFY20 was also attributable to higher productivity and improved efficiencies in work orders performed under its topside maintenance contracts. This had resulted in higher profit margins recorded for the maintenance work orders during the quarter.

Orderbook amounts to RM4.0b as of 23 June 2020. Dayang's orderbook as at 23 June 2020 amounts to RM4.0b (vs RM4.5b in February 2020) and this is expected to last Dayang until 2025. This is inclusive of its recent win of two I-HUC contracts back in December 2019 from Petronas Carigali and another contract from Carigali-PTTEPI secured back in early February 2020.

RETURN STATISTICS

Price @ 23 rd June 2020 (RM)	1.29
Expected share price return (%)	+9.8
Expected dividend yield (%)	+0.0
Expected total return (%)	+9.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.5	-6.1
3 months	12.2	20.1
12 months	13.9	26.7

KEY STATISTICS

FBM KLCI	1,507.04
Syariah compliant	Yes
Issue shares (m)	969.04
Estimated free float (%)	30.21
Market Capitalisation (RM'm)	1404.76
52-wk price range	RM0.71 - RM3.01
Beta vs FBM KLCI (x)	1.84
Monthly velocity (%)	0.00
Monthly volatility (%)	64.42
3-mth average daily volume (m)	24.19
3-mth average daily value (RM'm)	30.79
Top Shareholders (%)	
Naim Holdings	26.42
Urusharta Jamaah Sdn Bhd	7.92
Ling Suk Kiong	7.69

Analyst(s)


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The contract from Carigali-PTTEPI is for a period of three years with two-years of optional extensions for the provision of modification works.

Earnings impact. We are reducing Dayang's FY20-21F earnings estimates by -27.7% and -17.7% respectively given we are expecting FY20 to be a challenging year for Dayang as PETRONAS has recently announced a cut in its planned capital expenditure (CAPEX) for FY20 by about -20.0% to RM39.0b from RM50.0b initially. Though PETRONAS mentioned that it plans to maintain its local CAPEX spending and cut back on international spending; we opine that there is still a potential scale back on maintenance spending during the year as PETRONAS adopt a more cautious spending approach and prioritise certain ventures.

As bulk of Dayang's topside maintenance works are performed for PETRONAS under its umbrella contract, we anticipate that Dayang will more or less be impacted from this recent decision by PETRONAS.

Maintain NEUTRAL with a revised TP of RM1.42. All things considered, we are maintaining our **NEUTRAL** recommendation on Dayang with a revised target price of **RM1.42**. Our TP is premised on a revised PER21 of 6.1x pegged to EPS21 of 23.2sen. Our revised target PER is based on the average of Dayang's 5-year historical PER. We opine that this is fair given that: (i) all the positives have been priced in at this juncture; (ii) challenging operating environment for most oil and gas players following the global spread of the novel coronavirus (Covid19) which has stunted demand for crude oil and crude oil derivatives as well as; (iii) the oil price war that has resulted in the weakening of the oil price.

That said, we expect Dayang to emerge from the current volatile operating environment successfully given its: (i) improving profit margins on work orders; (ii) improving vessel utilization and financials by Perdana Petroleum and; (iii) strong and proven track record as one of the leading MCM service provider which we opine, will ensure a stable earnings trajectory for Dayang in FY20. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	937.6	1,046.2	1,216.7	1,362.7	1,437.7
Operating expenses	(552.2)	(547.2)	(565.0)	(667.7)	(704.5)
Gross profit	385.4	499.0	651.7	695.0	733.2
Operating profit	292.9	399.9	360.6	512.2	542.9
Profit before tax	220.0	335.2	293.7	337.5	360.0
Tax expense	(72.0)	(108.0)	(105.8)	(113.6)	(117.1)
Profit after tax	148.1	227.2	187.9	223.9	242.9
PATAMI	164.2	236.3	187.9	223.9	242.9
PATAMI ex-EI	137.9	232.2	187.9	223.9	242.9
EPS (sen)	9.1	22.4	19.5	23.2	25.2
EPS growth (%)	159.3	146.2	(13.2)	19.2	8.5
PER (x)	14.2	5.8	6.6	5.6	5.1
Dividend per share (sen)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-

Source: Company, MIDFR

DAYANG ENTERPRISE HOLDINGS BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	156.4	285.0	172.1	(39.63)	10.01
Operating expenses	(129.8)	(110.6)	(112.4)	1.63	(13.47)
Gross profit	26.6	174.5	59.7	(65.78)	124.78
Other income	1.4	11.0	0.1	(99.22)	(93.84)
Admin expenses	(21.3)	(42.3)	(26.3)	(37.79)	23.54
Other operating expenses	(0.0)	(3.6)	(4.4)	20.43	>100
Operating profit	6.6	139.5	29.1	(79.17)	>100
Finance costs	(15.1)	(19.8)	(10.0)	(49.26)	(33.42)
Profit before tax	(8.5)	119.7	19.0	(84.11)	>100
Tax expense	(8.7)	(42.5)	(10.8)	(74.66)	23.97
Profit after tax	(17.2)	77.2	8.2	(89.32)	>100
Minority interest	(13.0)	(1.0)	(1.1)	6.53	(91.73)
PATAMI	(4.1)	78.2	9.3	(88.08)	>100
Exceptional Items (EI)	-	(6.5)	-	>100	nm
PATAMI ex-EI	(4.1)	84.7	9.3	(88.99)	>100
Basic EPS (sen)	(0.43)	8.78	0.88	(89.99)	>100
DPS (sen)	-	-	-	nm	Nm
				<i>+ / (-) ppts</i>	
Gross profit margin (%)	17.0	61.2	34.7	(26.51)	17.72
Operating profit margin (%)	4.2	48.9	0.2	(48.78)	(4.07)
PBT margin (%)	(5.4)	42.0	11.1	(30.95)	16.47
PATAMI margin (%)	(2.6)	27.4	0.1	(27.39)	2.70
Tax rate (%)	(102.7)	35.5	56.6	21.13	>100
Segmental					
Revenue:					
Investment Holdings	1.3	1.1	1.3	20.19	(0.63)
Offshore	127.3	239.5	133.5	(44.26)	4.84
Marine Charter	45.7	93.3	71.1	(23.84)	55.66
Equipment rental	1.9	4.7	4.5	(5.02)	>100
Elimination	(19.7)	(53.6)	(38.3)	(28.57)	93.88
PBT:					
Investment Holdings	(8.9)	(15.9)	(14.5)	(9.10)	61.78
Offshore	34.4	125.5	39.5	(68.53)	14.97
Marine Charter	(34.0)	10.4	(19.1)	>100	(44.01)
Equipment rental	0.2	1.8	2.1	16.31	1,168.26
PBT margin:				<i>+ / (-) ppts</i>	
Investment Holdings	(703.70)	(1,514.76)	(1,145.64)	369.12	(441.94)
Offshore	26.98	52.40	29.58	(22.82)	2.61
Marine Charter	(74.57)	11.17	(26.82)	(37.99)	47.75
Equipment rental	8.87	38.39	47.00	8.62	38.14

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.