

Malaysia Equity Explorer

Daya Materials

Bloomberg: DAYA MK | Reuters: DAYA.KL

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DBS Group Research . Equity

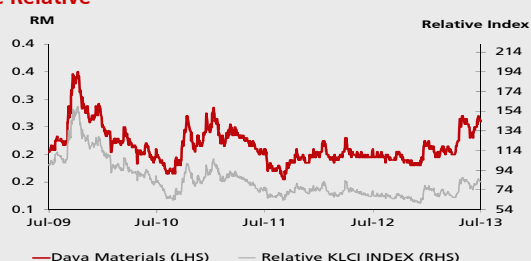
31 Jul 2013

NOT RATED RM0.25 KLCI : 1,795.08

Return *: 1

Risk: Moderate

Potential Target * : 12-Month RM 0.45 (80% upside)

AnalystQUAH He Wei, CFA +603 2711 2222
hewei@hwangdbsvickers.com.my**Price Relative****Forecasts and Valuation**

FY Dec (RM m)	2012F	2013F	2014F	2015F
Turnover	277	591	715	785
EBITDA	34	51	71	80
Pre-tax Profit	28	42	61	70
Net Profit	20	31	45	52
Net Pft (Pre Ex.)	17	31	45	52
EPS (sen)	1.6	2.5	3.7	4.2
EPS Pre Ex. (sen)	1.4	2.5	3.7	4.2
EPS Gth (%)	13	53	46	14
EPS Gth Pre Ex (%)	20	80	46	14
Diluted EPS (sen)	1.6	2.5	3.7	4.2
Net DPS (sen)	0.3	0.3	0.3	0.3
BV Per Share (sen)	18.7	21.0	24.4	28.3
PE (X)	15.3	10.0	6.8	6.0
PE Pre Ex. (X)	17.9	10.0	6.8	6.0
P/Cash Flow (X)	115.4	5.2	5.2	5.1
EV/EBITDA (X)	9.5	5.7	3.5	2.7
Net Div Yield (%)	1.0	1.0	1.0	1.0
P/Book Value (X)	1.3	1.2	1.0	0.9
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE (%)	9.1	12.6	16.2	15.9

Consensus EPS (sen): 2.3 2.8 3.4
Other Broker Recs: B: 1 S: 0 H: 0

ICB Industry : Industrials

ICB Sector: Industrial Engineering

Principal Business: O&G integrated service provider and engineering & construction player

Up-and-coming O&G play

- Under-appreciated O&G proxy with solid fundamentals and strong growth prospects
- Clear earnings visibility with its RM1.3bn order book to drive 3-year earnings CAGR of 37%
- Newbuild *Siem Daya 1* set to be the game-changer, vying for huge contract in Norway
- Fair value of RM0.45 based on 12x FY14 EPS

The Business

Integrated O&G service provider. DAYA is a fast-growing integrated O&G player, servicing the likes of Petronas, Exxon, Shell, Schlumberger, Technip, SapuraKencana etc in both upstream and downstream segments. It is also the largest mobile crane and lifting service provider for Malaysia's O&G sector.

Explosive earnings growth anticipated. DAYA is currently undertaking the RM186m Tapis Enhanced Oil Recovery project which entails installation works via *Bourbon Evolution 803*, where the bulk of earnings will be recognized in 2H13. Meanwhile, FY14 is set to be an exciting year with the arrival of its DP2 subsea construction vessel, *Siem Daya 1* in Aug13. We believe that a long-term contract is in the pipeline, taking the cue from its committed 5-year charter (+ 2-year extension) for the vessel from Oslo-listed Siem Offshore.

The Stock

RM0.45 fair value is based on 12x FY14 EPS, in line with its historical mean. Trading at 7x FY14 EPS, DAYA is among the cheapest Malaysian-listed O&G stocks with strong earnings visibility (RM1.3bn outstanding order book) and healthy balance sheet (10% net gearing).

Riding on O&G wave. We are upbeat on its strong prospects in view of burgeoning contract awards in Malaysia. Securing a long-term contract for *Siem Daya 1* will be a huge re-rating catalyst. Further strategic collaboration between DAYA and Siem may pave the way for more exciting M&As.

At A Glance

Issued Capital (m shrs)	1,247
Mkt. Cap (RMm/US\$m)	312 / 96.2
Major Shareholders	
Bin Md Junid Mazlin (%)	12.1
Kin Lip Koh (%)	6.3
Loon Tham Jooi (%)	5.9
Free Float (%)	65.3
Avg. Daily Vol.('000)	17,016

Source of all data: Company, DBS Vickers, Bloomberg Finance L.P.
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*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

REVENUE DRIVERS

Positioned for the next quantum leap. O&G business is the largest earnings contributor (~70%) for DAYA, thanks to its aggressive expansion over the past few years. For downstream business, DAYA derives recurring income (~RM45m revenue) from a wide spectrum of services, including supplying chemicals and catalysts, providing deodorisation and technical services. Major customers include Petronas Gas, Gas Malaysia and Esso. DAYA also provides subsea engineering, offshore construction, transport & installation services which cater to the upstream business. Its ongoing Tapis EOR project (~RM186m) which will be completed by end-13, is set to be the key earnings driver for the impressive 53% growth in FY13.

Technical services to complement growth. Apart from O&G, DAYA has an established engineering & construction arm which counts some of the globally-renowned MNCs as clients. Existing order book of RM1bn is the largest ever achieved by the company, thanks to its strong track record. Some of its major ongoing jobs are from Boustead (RM198m), B Braun (RM536m) and Yuk Tung (RM270m). DAYA has also expanded its work scope within the technical services division into high-rise construction and O&G industrial parks from its traditional focus of industrial plants to further drive growth.

COST STRUCTURE

Drive for operational efficiency. Despite the volatile economic environment over the past few years, DAYA's operating margins have been fairly stable, averaging 11% over FY09-12. O&G business stands out as the star performer for the group given its 20% EBIT margin in FY12. Notwithstanding the cost escalation, we expect O&G margins to remain healthy, premised on prudent cost management initiatives.

Asset-light approach to minimise risk. DAYA has an asset-light business model given its external charter of key operating vessels to service its O&G contracts. For instance, it is now engaging *Bourbon's Evolution 803* (offshore construction vessel) for its Tapis EOR job. While this may imply relatively lower margins, it also shields the company from the risk of having idle vessels.

KEY OPERATING ASSETS

Quality marine asset. DAYA will take delivery of its DP2 subsea construction vessel, *Siem Daya 1* in Aug13 under a 5-year charter arrangement (+2 yearly extension options) with Oslo-listed Siem Offshore. We believe that a long-term contract is in the pipeline given its long-term commitment for the vessel. We understand that management could be looking at vessel acquisitions via partnerships if the opportunities arise as subsea construction vessels could cost as much as US\$200m.

Crane Services. The company currently owns c.30 mobile cranes which are used for a wide range of material lifting and handling services in Malaysia for O&G and petrochemical clients. It also owns a warehouse and tank facilities on a 5 acre site in Teluk Kalong, Kemaman, Terengganu.

Chart 1 : Revenue Segmental Breakdown

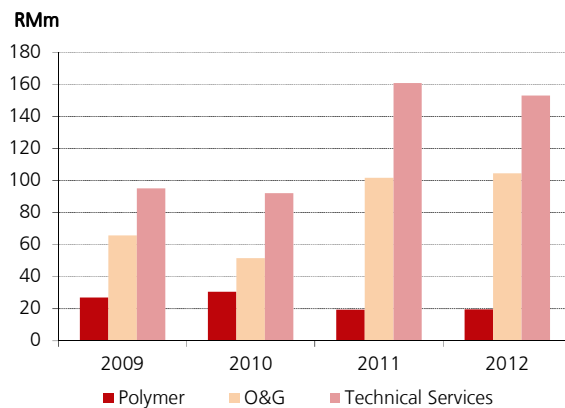


Chart 2: EBIT Segmental Breakdown

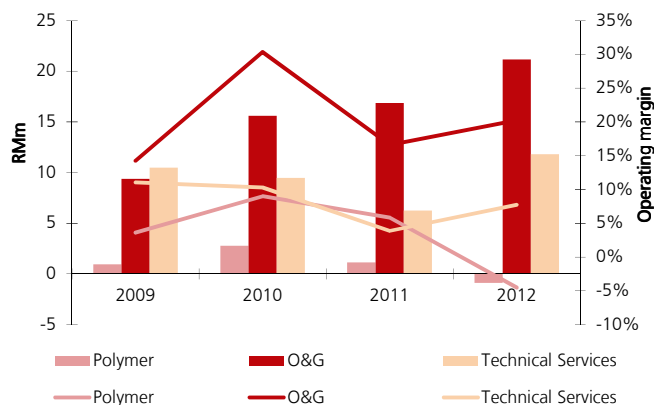
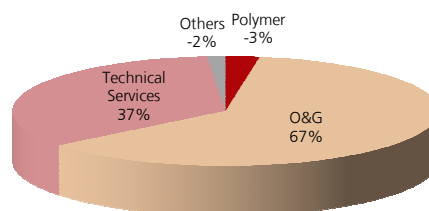


Chart 3: FY12 EBIT contributions



Source: Company, DBS Vickers

GROWTH PROSPECTS

Robust outlook for O&G. DAYA is moving forward with an aggressive expansion plan to penetrate into the European market via *Siem Daya 1*, the first-of-its kind vessel in Malaysia. This vessel is chartered together with crews, enabling the company to compete with major players in the O&G sector. We have imputed contribution from the vessel in FY14 and FY15, though DAYA will take delivery in Aug13. If it manages to secure a contract soon, we estimate that our FY13F earnings could be raised by 7%, assuming contribution in 4Q13. Meanwhile, the downstream business is expected to be resilient given the recurring nature of the jobs. Overall, its O&G order book stands at ~RM430m, which provides earnings visibility for the next 2 years.

Moving up the value chain. Longer term, its upstream subsidiaries - Daya Petroleum Ventures and Daya Maxflo - are also looking into brown fields and marginal fields in Asia via its strategic alliances with international oil companies. Last year, DAYA tied up with Australia-based HydraEnergy to bid for the Tembikai and Cenang marginal fields which were subsequently aborted by Petronas.

Leveraging on technical services. DAYA bought a 38-acre land in Kimanis, Sabah for RM10m in FY12 which is being developed into an O&G industrial park. The first phase of 29 units of semi-detached factories (RM1.2m ASP) was launched in Apr13 and secured 55% take-up. This has indeed turned out to be a successful venture, thanks to its bargain purchase of this strategically located land. In addition, DAYA entered into a JV agreement in Jun13 to develop a piece of 0.8 ha land at Penampang, Sabah for mixed development (83 retail shops, 320 SOVOs). Therefore, we expect its technical services to continue to sustain its strong momentum going forward.

Wildcard on polymer business. While its polymer business does not contribute meaningfully (7% of FY12 revenue), it is likely to turnaround from a slight operating loss in FY12. Management is willing to hive off the polymer business in the future given the shift of focus into O&G.

MANAGEMENT & STRATEGY

Experienced team. President and Group CEO, Dato' Mazlin bin Md Junid is the single largest shareholder with 12.1% stake in the company. Meanwhile, the Tham brothers own a collective stake of 9.1%. In addition, the remaining directors have a combined interest of 11.2%.

Strategic expansion. DAYA's aggressive expansion into the O&G sector should place them among the major players in the future. It has a team of seasoned O&G professionals, which would help to ensure smooth execution for the technically-challenging O&G projects. Asset acquisition is in the pipeline which should be comfortably financed by its healthy balance sheet (10% net gearing).

Table 1: Order book

O&G			
Order book	Duration	Contract RMm	Outstanding RMm
TL Offshore	2013	186	168
MLNG	2009-2016	170	104.2
Odorant	2013-2018	50	44.5
Talisman	2013-2018	7.8	7.4
Catalysts	2013-2018	75	71.8
KLCC	2013-2018	35	32.5
		523.8	428.4
Technical Services			
Boustead	2013-2018	118.6	118.6
B Braun	2012-2013	232.7	144.5
B Braun	2013-2014	303.2	303.2
Yuk Tung	2012-2015	270	249.9
Malaysian Automotive Lighting	2012-2013	62.4	6.1
VAT	2012-2013	10.9	0.2
Gemis	2012-2013	29	8.2
Others	2012-2013	77.9	12
		1104.7	842.7
	Total	1,629	1,271

Source: Company, DBS Vickers

Table 2: Board of Directors

Name	Position
Dato' Azmil Khalili bin Dato' Khalid	Independent Non-Executive Chairman
Dato' Mazlin bin Md Junid	President and Group CEO
Nathan Tham Jooi Loon	Group MD
Fazrin Azwar Bin Md Nor	Independent Non-Executive Director
Dato' Sri Koh Kin Lip	Independent Non-Executive Director
Lim Soon Foo	Independent Non-Executive Director
Ronald Lim Hai Liang	Alternate Director to Mr. Lim Soon Foo

Key Assumptions

FY Dec	2010A	2011A	2012F	2013F	2014F	2015F
Polymer EBIT margin (%)	9.0	5.9	(4.5)	4.0	5.0	5.0
O&G EBIT margin (%)	30.3	16.6	20.3	12.5	15.0	15.0
Technical Services EBIT	10.3	3.9	7.7	5.0	6.0	6.0
O&G order win (RMm)					100.0	150.0

Sensitivity Analysis

2014	
O&G margin +/- 1%	Net Profit +/- 4%
Technical services margin +/- 1%	Net Profit +/- 7%

Segmental Breakdown

FY Dec	2010A	2011A	2012F	2013F	2014F	2015F
Revenues (RM m)						
Polymer	31	19	20	22	24	26
O&G	51	102	105	216	255	305
Technical Services	92	161	153	354	436	453
Others	0	0	0	0	0	0
Total	174	282	277	591	715	785
EBIT (RM m)						
Polymer	3	1	(1)	1	1	1
O&G	16	17	21	27	38	46
Technical Services	9	6	12	18	26	27
Others	(1)	(1)	0	0	0	0
Total	27	24	32	45	65	74
EBIT Margins (%)						
Polymer	9.0	5.9	(4.5)	4.0	5.0	5.0
O&G	30.3	16.6	20.3	12.5	15.0	15.0
Technical Services	10.3	3.9	7.7	5.0	6.0	6.0
Total	15.6	8.4	11.4	7.6	9.1	9.4

Supported by integrated O&G services

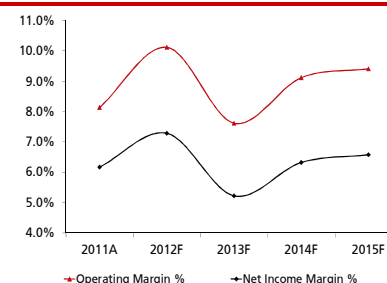
Premised on record high order book of >RM1bn

Expect marginal contribution

Income Statement (RM m)

FY Dec	2010A	2011A	2012F	2013F	2014F	2015F
Revenue	174	282	277	591	715	785
Cost of Goods Sold	(127)	(239)	(221)	(485)	(575)	(629)
Gross Profit	47	43	55	106	140	156
Other Opng (Exp)/Inc	(23)	(20)	(27)	(61)	(75)	(82)
Operating Profit	24	23	28	45	65	74
Other Non Opng (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	1	1	1	1	1
Net Interest (Exp)/Inc	(3)	(4)	(4)	(4)	(6)	(6)
Exceptional Gain/(Loss)	1	3	3	0	0	0
Pre-tax Profit	23	24	28	42	61	70
Tax	(6)	(6)	(8)	(11)	(16)	(18)
Minority Interest	0	0	0	0	0	0
Preference Dividend	0	0	0	0	0	0
Net Profit	17	17	20	31	45	52
Net Profit before Except.	16	14	17	31	45	52
EBITDA	29	29	34	51	71	80
Growth						
Revenue Gth (%)	(7.4)	61.7	(1.7)	113.6	20.8	9.8
EBITDA Gth (%)	16.0	0.2	17.7	49.7	40.6	12.5
Opg Profit Gth (%)	11.8	(5.9)	22.2	60.8	44.6	13.3
Net Profit Gth (%)	24.9	2.8	16.1	53.2	46.3	14.2
Margins & Ratio						
Gross Margins (%)	27.0	15.2	20.0	18.0	19.6	19.8
Opg Profit Margin (%)	14.0	8.1	10.1	7.6	9.1	9.4
Net Profit Margin (%)	9.7	6.2	7.3	5.2	6.3	6.6
ROAE (%)	10.6	9.0	9.1	12.6	16.2	15.9
ROA (%)	6.6	5.2	5.2	6.5	7.6	7.6
ROCE (%)	8.3	6.3	6.7	9.9	12.7	12.8
Div Payout Ratio (%)	17.0	17.7	15.3	10.0	6.8	6.0
Net Interest Cover (x)	7.7	5.8	6.9	10.1	11.7	13.3

Margins Trend



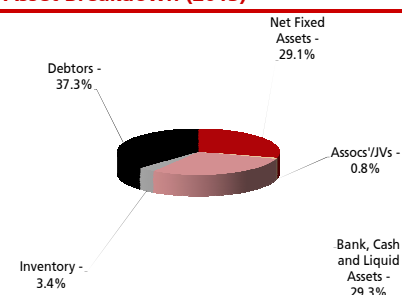
Assume 20% contribution from Siem Daya 1

Source: Company, DBS Vickers

Balance Sheet (RM m)

FY Dec	2010A	2011A	2012F	2013F	2014F	2015F
Net Fixed Assets	91	100	106	121	136	151
Invt in Associates & JVs	1	3	2	3	5	6
Other LT Assets	87	86	96	96	96	96
Cash & ST Invt	34	63	67	122	158	196
Inventory	13	14	14	14	14	14
Debtors	57	87	73	155	187	206
Other Current Assets	9	25	42	42	42	42
Total Assets	292	378	399	554	639	711
ST Debt	15	18	40	60	60	60
Other Current Liab	40	97	87	194	237	261
LT Debt	54	49	41	41	41	41
Other LT Liabilities	6	4	0	0	0	0
Shareholder's Equity	177	211	231	259	301	349
Minority Interests	1	0	0	0	0	0
Total Cap. & Liab.	292	378	399	554	639	711
Non-Cash Wkg. Capital	39	29	42	17	6	1
Net Cash/(Debt)	(34)	(4)	(15)	21	57	95
Debtors Turn (avg days)	89.4	93.1	104.9	70.2	87.4	91.4
Creditors Turn (avg days)	104.3	101.2	151.4	102.0	129.3	135.6
Inventory Turn (avg days)	32.7	21.5	23.8	10.7	9.0	8.2
Asset Turnover (x)	0.7	0.8	0.7	1.2	1.2	1.2
Current Ratio (x)	2.1	1.6	1.5	1.3	1.4	1.4
Quick Ratio (x)	1.7	1.3	1.1	1.1	1.2	1.3
Net Debt/Equity (X)	0.2	0.0	0.1	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.2	0.0	0.1	CASH	CASH	CASH
Capex to Debt (%)	43.1	18.2	3.7	19.8	19.8	19.8
Z-Score (X)	7.2	8.0	9.6	NA	NA	NA

Asset Breakdown (2013)

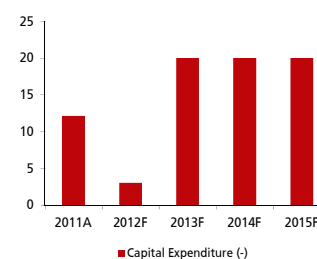


Solid balance sheet

Cash Flow Statement (RM m)

FY Dec	2010A	2011A	2012F	2013F	2014F	2015F
Pre-Tax Profit	23	24	28	42	61	70
Dep. & Amort.	4	4	4	5	5	5
Tax Paid	(8)	(7)	(8)	(1)	(11)	(16)
Assoc. & JV Inc/(loss)	0	(1)	(1)	(1)	(1)	(1)
Chg in Wkg.Cap.	(25)	13	(17)	15	6	3
Other Operating CF	0	(6)	(3)	0	0	0
Net Operating CF	(7)	27	3	59	59	61
Capital Exp.(net)	(30)	(12)	(3)	(20)	(20)	(20)
Other Invt.(net)	(26)	0	(10)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0	0
Div from Assoc & JV	0	1	2	0	0	0
Other Investing CF	(8)	(10)	5	0	0	0
Net Investing CF	(64)	(21)	(7)	(20)	(20)	(20)
Div Paid	(2)	(3)	(3)	(3)	(3)	(3)
Chg in Gross Debt	28	(2)	17	20	0	0
Capital Issues	17	18	(3)	0	0	0
Other Financing CF	(1)	(2)	0	0	0	0
Net Financing CF	41	12	12	17	(3)	(3)
Currency Adjustments	11	10	(4)	0	0	0
Chg in Cash	(18)	29	4	55	36	38
Opg CFPS (sen)	1.7	1.2	1.6	3.6	4.3	4.7
Free CFPS (sen)	(3.3)	1.2	0.0	3.1	3.2	3.3

Capital Expenditure



Excludes any major asset acquisition

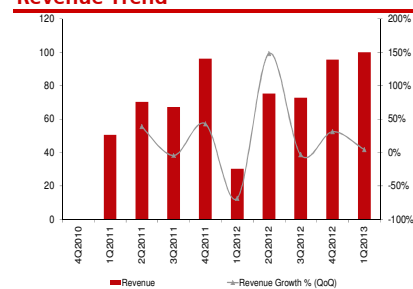
Source: Company, DBS Vickers

Daya Materials

Quarterly / Interim Income Statement (RM m)

FY Dec	4Q2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013
Revenue	96	30	75	73	96	100
Cost of Goods Sold	(81)	(24)	(57)	(60)	(81)	(85)
Gross Profit	12	7	18	13	14	15
Other Oper. (Exp)/Inc	(8)	(5)	(11)	(5)	(7)	(6)
Operating Profit	5	1	8	8	7	9
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	4	1	0	0	0
Net Interest (Exp)/Inc	(1)	(1)	(1)	(1)	(1)	(1)
Exceptional Gain/(Loss)	1	0	2	1	0	0
Pre-tax Profit	5	5	9	8	6	8
Tax	(1)	(2)	(3)	(2)	(2)	(3)
Minority Interest	0	0	0	0	0	0
Net Profit	5	3	6	6	5	5
Net profit bef Except.	3	3	4	5	5	5
EBITDA	5	5	8	8	8	9

Revenue Trend



Seasonally low 1Q

Growth

Revenue Gth (%)	43.0	(68.5)	148.3	(3.3)	31.4	4.5
EBITDA Gth (%)	(25.9)	6.0	59.5	(7.6)	(2.7)	17.2
Opg Profit Gth (%)	(17.4)	(72.9)	507.1	0.6	(2.9)	17.4
Net Profit Gth (%)	(15.0)	(35.8)	94.6	10.7	(26.2)	7.7

Margins

Gross Margins (%)	12.7	21.6	24.1	17.5	15.1	15.1
Opg Profit Margins (%)	4.8	4.1	10.1	10.5	7.8	8.7
Net Profit Margins (%)	4.8	9.7	7.6	8.7	4.9	5.0

Source: Company, DBS Vickers

VALUATIONS

Undemanding valuations. DAYA is currently trading at 7x FY14F EPS, compared to its small-mid cap peers' average of 14x, which makes it the cheapest Malaysian-listed O&G stock under our coverage. We arrived at our fair value of RM0.45, based on 12x PE which is in line with its historical average. We believe that DAYA is ripe for re-rating in view of catalysts in the pipeline, particularly from long-term contracts for its flagship *Siem Daya 1*. We like the company for its strong earnings visibility, healthy balance sheet and entrepreneurial management.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

Expect steady earnings growth and strong balance sheet. DAYA's balance sheet remains strong with net gearing at only 10% (as at Mar13) despite strong growth for its O&G business. Capex requirement is likely to stay low, barring any major vessel acquisition next year.

Chart 4: Historical 12-month forward PE ratio (x)



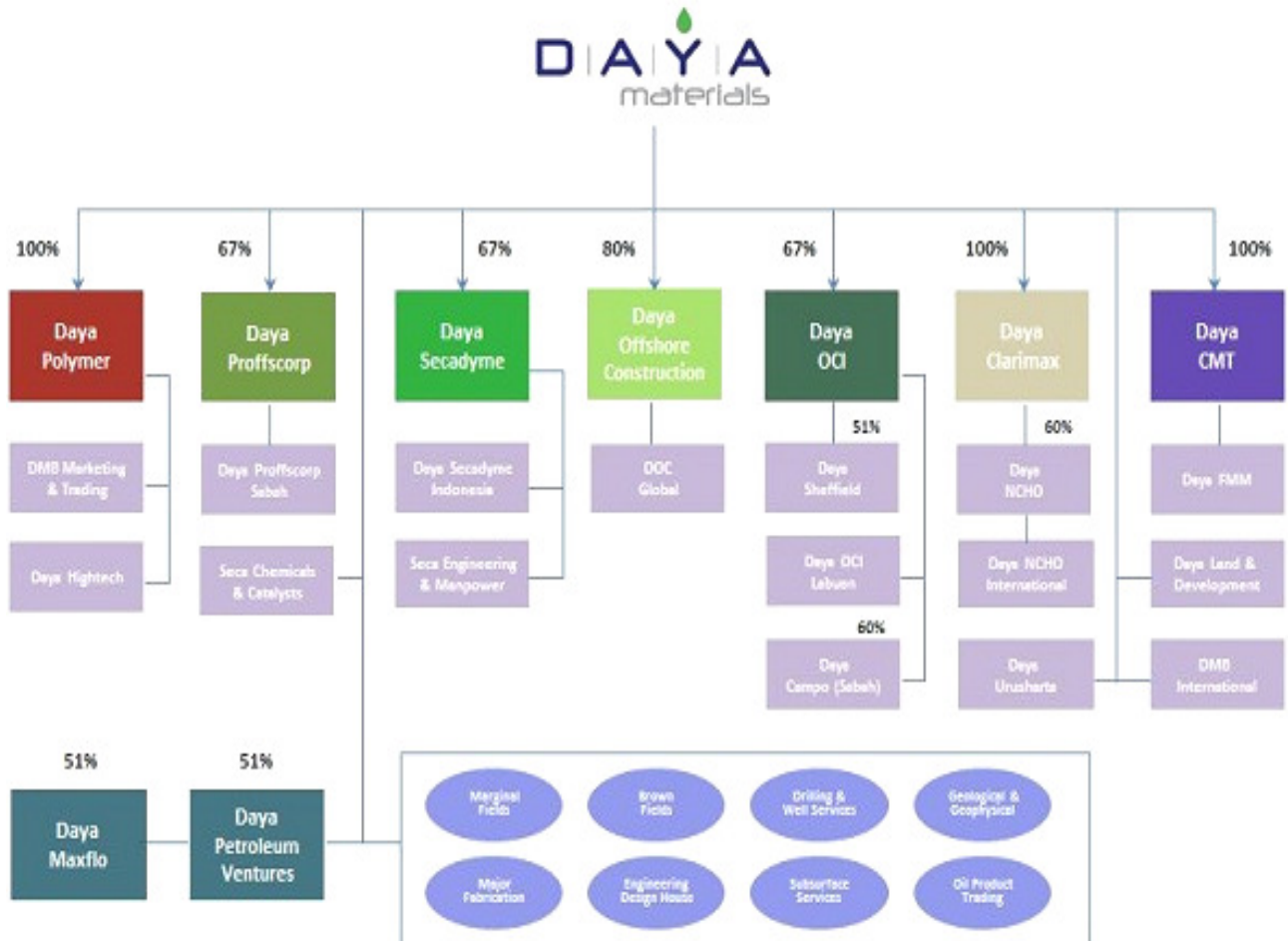
Table 3: Small-mid cap peers' comparisons

Company	Rating	Price (RM)	TP (RM)	Mkt Cap (RM'm)	PE (x) CY13	PE (x) CY14	PBV (x) CY13	PBV (x) CY14	ROE (%)
Dayang Enterprise	Buy	4.78	5.90	2,628	22.2	12.2	4.0	3.2	17.9
Scomi Energy	NR	0.77	NR	1,803	n.a.	17.9	n.a.	2.7	n.a.
Wah Seong	Hold	1.91	1.70	1,473	26.5	16.9	1.5	1.4	5.6
Perisai Petroleum	Buy	1.47	1.80	1,380	14.7	12.1	1.7	1.7	11.8
Alam Maritim	NR	1.48	NR	1,182	14.4	11.4	1.9	1.6	13.5
Perdana Petroleum	NR	1.85	NR	940	17.3	11.7	1.8	1.6	10.5
Petra Energy	NR	2.32	NR	746	33.6	16.9	1.5	1.5	4.6
KNM	Hold	0.45	0.55	653	11.4	10.3	0.3	0.3	3.0
Uzma	NR	3.90	NR	515	14.6	13.1	3.4	2.6	23.0
Deleum	NR	3.28	NR	492	9.9	8.4	2.1	1.8	20.6
Daya Materials	NR	0.25	0.45	312	10.0	6.8	1.2	1.0	11.9

Simple average 17.5 12.5 1.9 1.8 12.2

Source: DBS Vickers, Bloomberg Finance L.P

Corporate structure



Source: Company

DBSV Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- | | |
|---|---|
| 1 | (>20% potential returns over the next 12 months) |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

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