

26 September 2013

Daya Materials

Solidifying its Upstream Presence

INVESTMENT MERIT

- 2nd contract win a pleasant surprise.** In our last piece, we had initially expected DAYA to secure only one long-term contract in the near-term and were proven so when in Aug-13, it announced a 7-year bare-boat charter contract win from Technip, with a firm 100-175 day requirements. However, we were surprised by another contract win from Technip; for a 3-year bare-boat charter contract with a firm 100-176 day charter in Sep-13. While both these contracts do not entail full-utilisation (~360days) of the vessels (the two contracts are linked to two vessels from Siem Offshore), it is nonetheless a signal that DAYA has paired up with a reputable partner (Siem Offshore) and has been successful in breaking through into a market that is considered to be relatively matured and competitive.
- Aspire to deliver and build track record.** DAYA is fully aware that its project execution for these two maiden contracts has to be flawless in order to build its track record in the upstream business. As such, we understand that management is busy securing additional projects to bring its utilisation rate up to 85-90% (from the 27-50% currently implied by the two Technip projects above). We believe this should not be an issue given the speedy take-up rate of these vessels by Technip (Siem Daya 1 was only delivered in 4QCY13 and Siem Daya 2 will only be delivered in 1QCY14).
- Potential purchase of Siem Daya 2?** DAYA has stated its intention to purchase a 51% stake in the second vessel that it is currently chartering on bareboat from Siem Offshore with the intention to internalise some costs and assume ownership. For now, management is assessing its financing options.
- Still see value in stock.** Post tweaking our FY14 EPS by 3.7% to RM40.7m (from RM38.4m) to account for better utilisation of the two vessels, we note that the stock still trades attractively at only 9.8x CY14 PER, a discount to bareboat charterers like Perisai Petroleum (MP; RM1.42) that trades at 12.9x CY14 PER. We firmly believe that investor interest traction will improve as DAYA proves their execution capabilities. We now value the stock at RM0.40 (from RM0.38 previously) on the back of unchanged target PER of 12x (similar to small-cap stocks like Coastal Contract and Pantech). **This implies an upside of c.23% from current share price making the stock a Trading Buy for now.**

SWOT ANALYSIS

- Strength:** (i) Asset-light business model implies lower balance sheet risk; and (ii) Stable existing ventures imply recurrent baseline earnings.
- Weaknesses:** Short track record in upstream oil and gas segment could lead to difficulties in securing more contracts.
- Opportunities:** RSC and SPAC provide potential prospects.
- Threats:** Lower-than-expected vessel utilisation and contract replenishment.

TECHNICALS

- Resistance:** RM0.330 (R1), RM0.365 (R2), RM0.400 (R3)
- Support:** RM0.315 (S1), RM0.300 (S2), RM0.280 (S3)
- Views:** Bullish in the S-T & M-T

Comments: DAYA's technical picture looks positive as the share price edged up towards the Andrew's pitchfork uptrend median line (RM0.335) to mark a resumption of the previous up-cycle. Should the crucial RM0.365 resistance is taken out as well, we believe that could clear the way up towards RM0.400 soon, based on objective measurement.



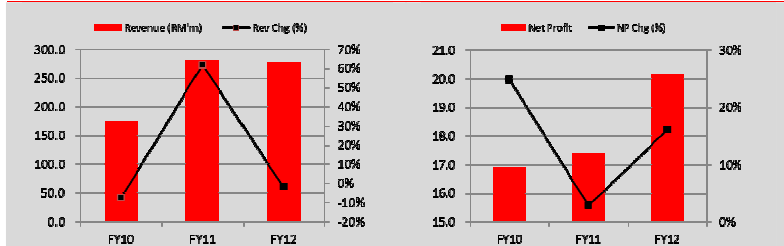
Source: Bloomberg

Rating

Fair Value

Current		RM0.32
Kenanga	Trading Buy	RM0.40
Consensus	Buy	RM0.37

FINANCIALS



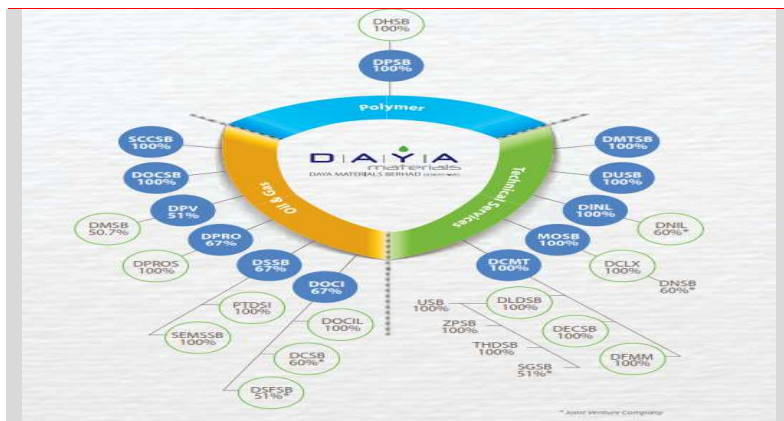
FY Dec (RMm)	2Q12	2Q13	YoY	1Q12	2Q13	QoQ
Revenue	75.4	131.1	73.9%	100.2	131.1	30.9%
PBT	9.0	10.0	10.9%	7.5	10.0	33.0%
Net Profit	5.7	6.7	17.9%	5.0	6.7	34.0%
EPS (sen)	0.5	0.5	14.9%	0.4	0.5	31.7%
DPS (sen)	0.0	0.0	N.M.	0.0	0.0	N.M.

Source: Company

	2011A	2012A	2013F
PER	13.4	11.2	11.7
PBV	1.1	1.0	1.5

Source: Bloomberg, Company

CORPORATE STRUCTURE



Sources: Company

BUSINESS OVERVIEW

DAYA is a Malaysian company with diversified offerings such as: (i) downstream oil and gas services, (ii) construction, office maintenance and recycling services, and (iii) manufacturing of advanced materials for the power cables and wires industry and the trading of related polymer compounds. It is looking to going further upstream in the oil and gas segment which offers compelling margins and better earnings prospects.

BUSINESS SEGMENTS

- Oil and gas.** The segment is involved in trading and distribution of specialty chemicals and catalysts, provision of heavy machineries and related manpower services, maintenance services for air-conditioning and ventilation system, onshore crane services, and automatic welding services for offshore pipeline installation to the oil and gas industry.
- Technical services.** The segment performs services in the construction, office maintenance and recycling services.
- Polymer.** The segment is involved in manufacturing of advanced materials for the power cables and wires industry and the trading of related polymer compounds.



DAYA MATERIALS BHD

Industry: Chemicals

Industry Sub-Sector: Chemicals-Plastics

Currency: MYR

Exchange: Bursa Malaysia

Stock ID	Price @	% Chg 1 yr	% Chg 3 mth	% Chg 1 mth	% Chg 5 day	\$ Chg 1 day	% Chg YTD
0091	26-Sep-13						
DAYA MK	0.32	64.10	33.33	4.92	3.23	-1.54	72.97
KLCI	1784.06	10.17	2.49	3.57	0.71	-0.47	5.63

Daya Materials Berhad is an oil & gas company. The Company, along with its subsidiaries, provide oil and gas products and services, specialty chemicals, advanced polymers, and technical services. Daya's companies produces and markets downstream chemicals, and also provides engineering and construction, specialized lifting and material handling services to the oil & gas industry.

Ownership Statistics

Institutional Ownership	0.0%
Retail Ownership	75.6%
Insider Ownership	24.4%

Ownership Type



Financial Stats		FY10	FY11	FY12	FY13F	FY14F
12/2012	MYR	(mil)	(mil)	(mil)	(mil)	(mil)
Revenue		174	282	277	589	576
EBITDA		28	26	32	59	72
OP		24	21	27	52	63
Pretax		23	24	28	47	57
Net Profit		17	17	20	34	41
EPS (SEN)		1.5	1.4	1.6	2.7	3.3

Balance Sheet

Non-CA	178	190	204	247	288
CA	114	189	195	219	221
Total Assets	292	378	399	466	509
CL	55	115	127	165	174
Non-CL	60	53	41	41	41
Shareholders fund	177	211	231	260	294
Minority interest	1	-	(0)	(0)	(0)
Total Equity & Liabilities	292	378	399	466	509

Cash Flow

Operating CF	(5.9)	28.3	3.9	3.2	56.7
Investing CF	(64.4)	(20.4)	(7.9)	(51.1)	(50.9)
Financing CF	41.3	12.1	11.8	0.8	(1.4)
Change in Cash	(28.9)	20.0	7.8	(47.2)	4.4

Valuation Stats

	FY10	FY11	FY12	FY13F	FY14F
PER (x)	14.3	13.4	11.2	11.7	9.7
P/BV (x)	1.4	1.1	1.0	1.5	1.3
EV/EBITDA	9.9	9.3	7.6	8.0	6.6
DPS (SEN)	0.2	0.3	0.2	0.4	0.5
Dividend Yield (%)	1.1	1.3	1.4	1.3	1.6
ROE (%)	10.6	9.0	9.1	13.7	14.7
ROA (%)	6.6	5.2	5.2	7.8	8.4
EPS Growth (%)	12.9	(6.0)	12.8	67.2	20.9
Revenue Growth (%)	(7.4)	61.7	(1.7)	112.6	(2.2)
OP Margin (%)	13.6	7.5	9.8	8.9	10.9
NP Margin (%)	9.7	6.2	7.3	5.7	7.1

Domestic Peers Comparison (CY12)

	PER	P/BV	P/NTA	P/CF	Div Yield	Mkt Cap
DAYA MATERIALS BHD	18.82	1.60	5.14	N.A.	0.94	398
YINSON HOLDINGS BHD	37.54	0.82	3.33	N.A.	N.A.	1,076
PERISA PETROLEUM TEKNOLOGI	12.22	2.21	1.97	6.95	N.A.	1,431
ALAM MARITIM RESOURCES BHD	22.58	2.18	2.04	9.09	0.47	1,190
PERDANA PETROLEUM BHD	43.26	1.85	1.95	47.69	0.43	960
WAH SEONG CORP BHD	21.22	1.23	1.56	9.67	2.41	1,342
SIMPLE AVG	25.94	1.65	2.67	18.35	1.06	
FTSE Bursa Malaysia KLCI	16.73	2.33			5.95	

Market Cap (mil)	398.3
Total Debt (mil)**	0.1
Total Assets (mil)**	0.5
Total Capital (mil)**	0.4
Tot Debt/Tot Asst (%)**	28.4
Tot Debt/Tot Cap (%)**	35.1
Tot Debt/Com Eqy (%)**	54.0
Tot Debt/EBITDA (%)**	3.47 x
Book Value (x)**	0.20
Number of Shares Outstanding (mil)	1244.8
Avg 6M Daily Vol Traded (mil)	19.6
Avg 6M Daily Value Traded (mil)	5.7
Net Gearing (x)	0.4
Free Float (%)	64.8
Share Price 52 Week High	0.37
Share Price 52 Week Low	0.18
Altman's Z-Score	3.2
Interest Coverage Ratio	8.0
Top 3 Major Shareholders:	%
MAZLIN BIN MD JUNID	12.2
KOH KIN LIP	6.3
THAM JOOI LOON	6.0

**Trailing numbers as of the most recent quarter End: 2013 Q2

Quarterly Financial Data

	2Q12	3Q12	4Q12	1Q13	2Q13
Revenue	75.4	72.9	95.8	100.2	131.1
OP	7.2	7.2	6.8	8.3	10.7
Pretax	9.0	8.1	6.5	7.5	10.0
Net Profit	5.7	6.3	4.7	5.0	6.7
EPS	0.5	0.5	0.4	0.4	0.5
EPS Growth (QoQ)	95.8%	10.6%	-26.9%	7.9%	31.7%
Revenue Growth (QoQ)	9.5%	9.9%	7.1%	8.3%	8.2%
OP Margin	9.5%	9.9%	7.1%	8.3%	0.0%
DPS	N.A.	N.A.	N.A.	N.A.	N.A.

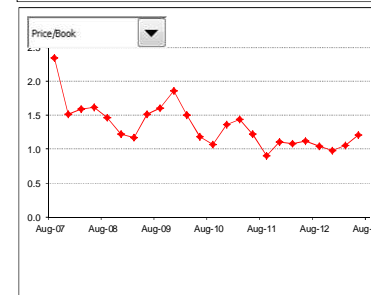
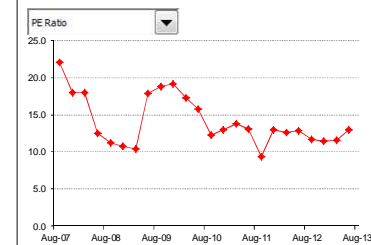
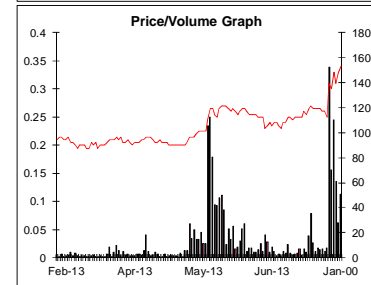
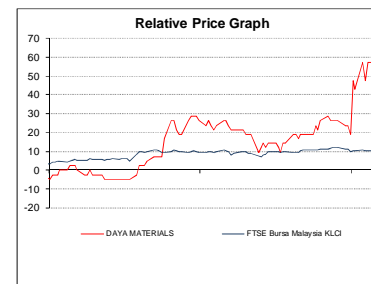
Revenue Breakdown

	2010	2011	2012	2013
Technical Services	92.1	53%	160.8	57%
Oil & Gas	51.5	30%	101.6	36%
Polymer	30.6	18%	19.3	7%
Investment Holding &	0.6	0%	0.0	0%
Inter Segment Revenue	(0.6)	0%	N.A.	N.A.
Total	174.2		281.7	276.9

Geographic Breakdown - Revenue

	2010	2011	2012	2013
Malaysia	174.2	100%	281.0	100%
Other Asian Countries	N.A.	N.A.	0.8	0%
Total	174.2		281.7	276.9

Return on Capital (%)**	8.0
Return on Assets (%)**	5.3
Return on Common Eqy (%)**	9.7
Sales Growth **	73.9
Diluted EPS Cont Ops**	0.01
Current Qtr EPS Est	N/A
Current Yr EPS Est	0.03
Beta (x)	0.64
Relative Index	FTSE Bursa Malaysia KLCI
Index Weighting	N/A
Alt. Relative Index	FTSE BURSA MALAYSIA EMAS
Alt. Index Weighting	0.02
2nd Alt. Relative Index	FTSE Bursa Mal Small Cap
2nd Alt. Index Weighting	0.50
Consensus Target Price	0.37
Target Price (H)	0.37
Target Price (L)	0.37
Consensus Recommendation	BUY
Expected Earnings Report Date	11/21/2013
Last Gross DPS (sen)	0.3
Last Net DPS (sen)	0.3
Last Dividend EX Date	7/29/2013



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