



DAYA MATERIALS BERHAD

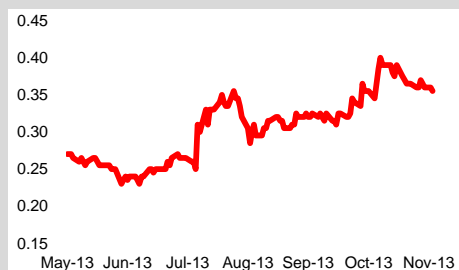
Outperform

DESCRIPTION

The Group involves in upstream and downstream O&G activities i.e. offshore pipeline services, subsea installation, automated welding, production chemical, FPSO desludging and others. Sub-segment also includes engineering and industrial plant construction.

12-Month Target Price	RM0.450
Current Price	RM0.355
Expected Return	27%
Market	Main
Sector	Oil & Gas
Bursa Code	0091
Bloomberg Ticker	DAYA MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.18-0.41
3-Month Average Vol ('000)	24,272.1

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	16.4	43.4
Relative Returns	1.1	17.8	31.7

KEY STOCK DATA

Market Capitalisation (RM m)	446.5
No. of Shares (m)	1,257.8

MAJOR SHAREHOLDERS

	%
Dato' Mazlin Bin Md. Junid	11.5
Tan Sri Dato' Sri Koh Kin Lip	6.2
Nathan Tham Jooi Loon	5.9

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Primed To Impress Further

Daya may secure new price re-negotiations with Technip for its long-term contracts for both SD1 and SD2 simultaneously to commence earlier than expected. We acknowledge Daya's ability to cement contracts with international oil players, while management is also confident in concluding its negotiations and followed by contract awards earliest by Dec this year. In view of the fact that the Group is primed to impress further, we upgrade Daya to **Outperform** from Neutral with a revised TP of RM0.45 (from RM0.37 previously) in anticipation of Technip re-negotiation arrangement as well as lower effective tax rate going forward.

- **To fully utilise SD1.** Recall that SD1 has clinched contracts with i) Technip (Sept 2013), ii) Allseas UK (Oct-Nov 2013) and iii) Technip (for a long-term contract expected to start in April 2014) (SD1 charter timeline is depicted in Figure 1). We believe several clients have been potentially finalised to fill in the contract gap (Dec 2013 to March 2014) with the best possible deal. Meanwhile, the Group is in talks with Technip to convert existing contracts for longer period simultaneously securing higher rates given the vessel's design specification meets the highest requirements. Worst case scenario, the gap will remain idle which we have already factored-in by taking only 300-day charter a year.
- **Finalising purchase of SD2 for USD130m.** Daya is firming up the negotiation on the purchase of SD2, to be financed through i) Private placement (RM40m), ii) Convertible bonds (RM100m) and iii) Long-term vessel financing (RM288m), and targeted to be completed in Jan 2014. Margins are likely to improve tremendously from 15%-20% to 25%-30% once it owns the vessel (Funding structure is shown in Figure 2).
- **SD3 on the way?** The Group is expected to continue to grow and strengthen its position in the O&G industry by adding more assets. SD3 is expected to be ready in May 2014 and is currently in discussions with Siem Offshore (Norwegian supplier) on a joint ownership at 51:49. Meanwhile, SBM Offshore (leader in floating production and mooring systems) has agreed to sell a newbuild Diving Support and Construction Vessel (DSCV - to be named Installer) to Daya for USD180m. We believe financing will be done through private equity funds and expect to close the transaction in 1Q2014. Note that we have not factored-in contributions from SD3 and DSCV in our forecasts until we have clarity, to which we will closely monitor developments.
- **Upgrade to Outperform with revised TP of RM0.45.** We revise our earnings forecasts for FY2014 and FY2015 upwards by about 20% to account for the potential new price re-negotiations or spot charter and the effect of lower tax rate from 27% to 20% due to the vessels being Labuan-owned. The resulting effect is the raising of our TP to RM0.45 (from RM0.37 previously), premised on 12x FY14 EPS of 3.71 sen. We are taking a cautious stance by assuming lower-end margins at this juncture due to possible high setup and operational costs. In our view, Daya's potential in securing higher margins is largely dependent on its execution strategy. Outlook remains healthy with order book worth about RM2.1bn.

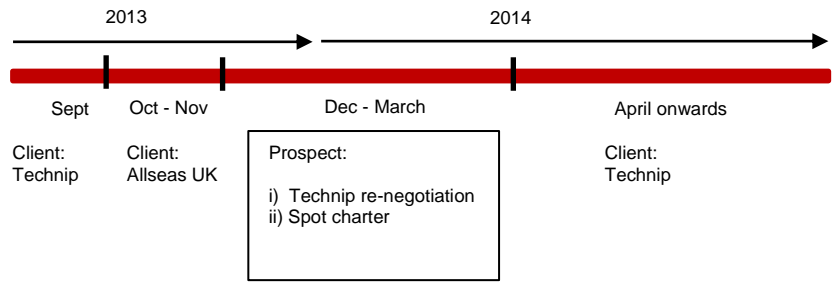
KEY FORECAST TABLE (RM m)

FY Dec	2011A	2012A	2013F	2014F	2015F	CAGR
Revenue	281.7	276.9	453.8	672.4	818.7	23.8%
Operating Profit	26.3	31.0	36.2	56.3	68.6	21.1%
Pre-tax Profit	23.8	28.4	37.9	58.3	70.5	24.3%
Core Net Profit	17.4	20.2	27.3	46.1	55.7	26.2%
EPS (Sen)	1.5	1.7	2.2	3.7	4.5	24.5%
P/E (x)	23.7	21.5	16.1	9.6	7.9	-
DPS (Sen)	0.3	0.3	0.4	0.6	0.8	-
Dividend Yield (%)	0.7	0.7	1.1	1.8	2.1	-

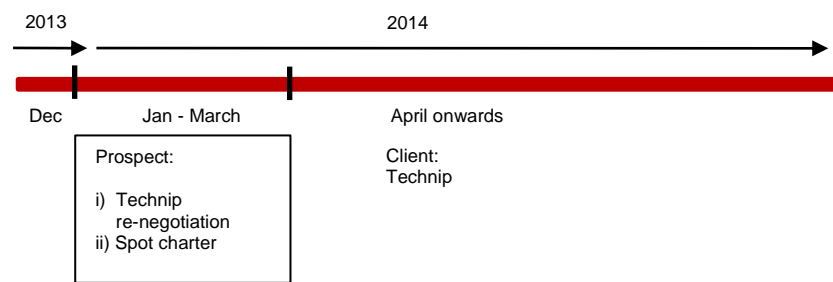
Source: Company, PublicInvest Research estimates

Figure 1: Contract Timeline For SD1 and SD2

SD1: Delivered in Sept 2013

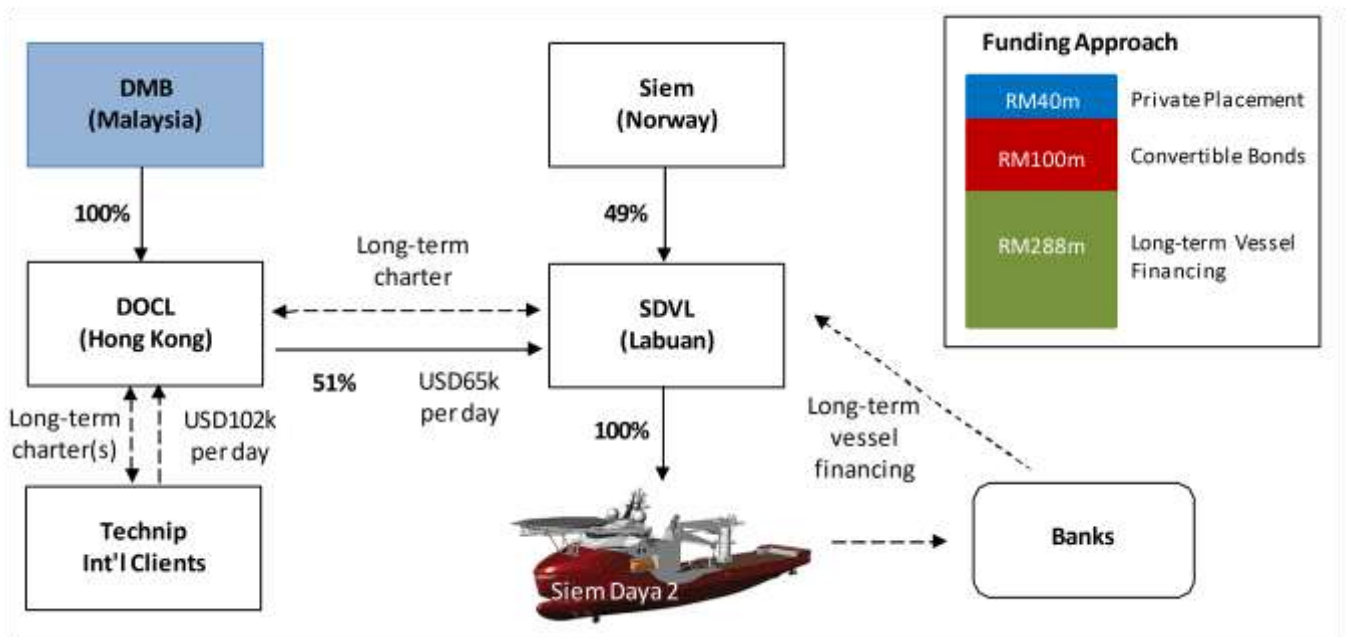


SD2: Delivery expected in Dec 2013



Source: Company, PublicInvest Research

Figure 2: SD2 Funding Structure



Source: Company, PublicInvest Research

INCOME STATEMENT DATA

FYE Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	281.7	276.9	453.8	672.4	818.7
Operating Profit	26.3	31.0	36.2	56.3	68.6
Other Income	6.4	5.7	9.5	14.1	17.2
Other Expenses	-22.2	-29.2	-42.1	-62.3	-75.9
Finance Cost	-4.0	-4.1	-3.3	-3.0	-3.0
Pre-tax Profit	23.8	28.4	37.9	58.3	70.5
Income Tax	-6.3	-8.3	-10.2	-11.7	-14.1
Effective Tax Rate (%)	26.6	29.1	27.0	20.0	20.0
Minorities	-0.1	0.1	-0.4	-0.6	-0.7
Core Net Profit	17.4	20.2	27.3	46.1	55.7
Growth					
Revenue (%)	61.7	-1.7	63.9	48.2	21.8
Gross Operating Profit (%)	3.0	17.6	16.8	55.6	21.8
Net Profit (%)	2.8	16.1	35.2	68.8	21.0

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Property, plant and equipment	100.0	105.6	111.7	121.5	130.8
Inventories	14.2	14.1	16.4	24.2	29.4
Trade receivables	86.5	72.6	119.0	176.3	214.6
Cash and bank balances	62.8	66.4	75.7	105.2	147.2
Total Assets	378.1	399.2	463.3	567.7	662.6
ST Borrowings	17.9	40.3	40.0	35.0	35.0
LT Borrowings	48.9	41.0	20.0	20.0	20.0
Trade Payables	94.5	85.6	147.7	217.8	265.2
Minority Interests	0.0	-0.1	0.3	0.9	1.6
Total Liabilities	167.5	168.3	209.0	274.1	321.5
Total Equity	210.6	230.9	254.3	293.5	341.1
Total Equity and Liabilities	378.1	399.2	463.3	567.7	662.6

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2011A	2012A	2013F	2014F	2015F
Book Value Per Share	0.2	0.2	0.2	0.2	0.3
NTA Per Share	0.2	0.2	0.2	0.2	0.3
EPS (sen)	1.5	1.7	2.2	3.7	4.5
DPS (sen)	0.3	0.3	0.4	0.6	0.8
Payout Ratio (%)	16.7	15.2	17.0	17.0	17.0
ROA (%)	4.6	5.0	6.0	8.2	8.5
ROE (%)	8.3	8.7	10.9	15.9	16.6

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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