

Daya Materials (DAYA MK)

Energy - Oil & Gas Services

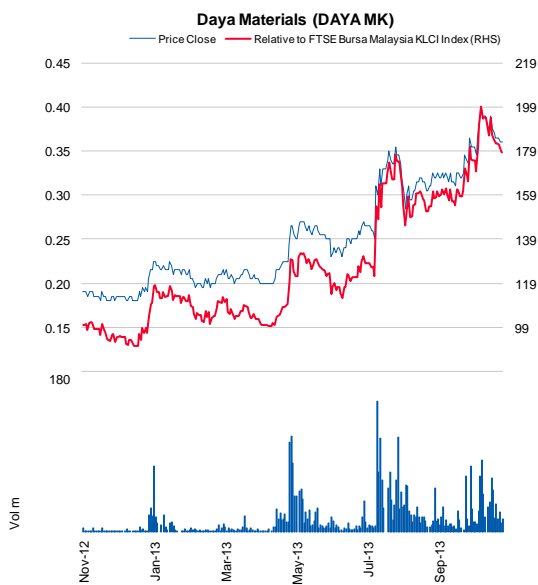
Market Cap: USD142m

Buy (Maintained)

Target Price: MYR0.42

Price: MYR0.36

Look Forward To Better FY14

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	8.42m/2.61m
Cons. Upside (%)	2.8
Upside (%)	16.7
52-wk Price low/high (MYR)	0.18 - 0.40
Free float (%)	65

Shareholders (%)	
Dato' Mazlin bin Md Junid	11.7
Dato' Sri Koh Kin Lip	6.2
Nathan Tham Jooi Loon	5.7

Shariah compliant

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Daya Materials (Daya)'s 9MFY13 core net profit was below our expectation - at 57% of our full-year estimate due to higher costs. We lower our FY13/FY14 earnings estimates by 46%/13% respectively, but remain positive on the company's prospects due to its expanding fleet and higher average daily charter rates. Maintain BUY, but with a lower FV of MYR0.42, based on unchanged target FY14 P/E of 15x.

- ◆ **9MFY13 core net profit below our estimate.** Daya's 9MFY13 core net profit made up 57% of our full-year estimate, largely owing to: i) surging operating costs (+37% y-o-y), ii) higher interest costs (+55% y-o-y), and iii) the 30% effective tax rate was higher than the statutory rate of 25%. Management revealed that the projects currently undertaken by its technical services (TS) division will fetch lower profit after tax (PAT) margin of 2-4% vs the historical 8-11%.
- ◆ **Siem Daya 3 (SD1) to join fleet by April 2015.** Management said it may be deploying SD1 to Brazil at a higher daily charter rate (DCR) of USD130,000/day vs USD102,000/day to Technip Norge. This depends on the vessel's availability since Technip is negotiating to extend the charter period to more than 210 days from 100-175. Management said the delivery of SD3, which is currently under construction and will be chartered from Siem Offshore (SIOFF NO, NR), may be expedited for deployment to the additional contract.
- ◆ **More earnings upside yet to be accounted for.** Management informed us that it will soon be signing a long-term charter with a New York-based private equity (PE) fund for a dynamic positioning diving support vessel (DPDSV). The vessel can be chartered to a third party at a DCR of USD170,000-USD240,000/day, commanding an estimated profit before tax (PBT) margin of 30%.
- ◆ **Maintain BUY, with FV MYR0.42.** We lower our FV to MYR0.42 (from MYR0.48), with an unchanged target FY14 P/E of 15x, as we lower our FY13 and FY14 earnings estimates by 46%/13% respectively. This is to reflect the lower TS division contribution. However, we remain upbeat on Daya's oil & gas (O&G) segment owing to: i) its growing fleet of vessels, leveraging on its tie-up with SIOFF, ii) growing footprint in subsea services, and iii) management's approach in ensuring that its TS division undertakes projects that yield better profit.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover (MYRm)	282	277	574	678	728
Reported net profit (MYRm)	19.5	23.0	23.6	38.7	40.0
Recurring net profit (MYRm)	17.8	20.9	23.6	38.7	40.0
Recurring net profit growth (%)	7.4	17.5	13.1	64.0	3.4
Core EPS (MYR)	0.02	0.02	0.02	0.03	0.03
DPS (MYR)	0.002	0.003	0.002	0.004	0.004
Dividend Yield (%)	0.7	0.7	0.6	1.0	1.1
Core P/E (x)	23.5	21.0	21.1	12.9	12.5
Return on average equity (%)	10.1	10.4	9.5	13.7	12.7
P/B (x)	2.05	1.92	1.88	1.67	1.51
P/CF (x)	16	122	7	8	6
EV/EBITDA (x)	16.8	14.3	12.9	9.6	9.5
Net debt to equity (%)	1.9	6.5	66.2	111.6	147.3
Our vs consensus EPS (%)			0.0	0.0	0.0

Source: Company data, RHB estimates

Figure 1: Review of 3QFY13/9MFY13 results

FYE Dec (MYRm)	3QFY12	2QFY13	3QFY13	q-o-q (%)	y-o-y (%)	9MFY12	9MFY13	y-o-y (%)	Comments
Revenue	72.9	131.1	142.4	8.6	95.3	178.6	373.7	109.2	Higher progressive billing by its TS division through 9MFY13
EBITDA	9.5	12.2	13.9	14.1	46.6	22.8	33.6	47.2	9MFY13 EBITDA did not grow in tandem with revenue due to higher operating costs
<i>EBITDA Margin (%)</i>	13.0	9.3	9.8			12.8	9.0		
Depreciation	(2.4)	(1.5)	(2.7)	81.3	13.3	(4.4)	(4.2)	(3.2)	
EBIT	7.1	10.7	11.2	4.7	57.8	18.5	29.4	59.1	
<i>EBIT Margin (%)</i>	9.7	8.2	7.9			10.3	7.9		
Interest expense	(0.9)	(1.6)	(1.7)	9.3	94.2	(3.0)	(4.6)	54.9	Higher interest costs in 9MFY13 due to borrowings to finance projects undertaken by its TS division and asset acquisitions
Other income	1.8	0.8	0.6	(30.1)	(68.9)	5.1	1.9	(62.7)	
JVs	0.1	0.1	0.1	(21.0)	(21.0)	4.8	0.3	(94.2)	
EI/Others	(1.7)	0.2	0.5	150.0	(129.4)	(3.7)	0.7	(118.9)	9MFY12 recorded gain on disposal of property, plant and equipment of MYR3.7m
Pretax profit	6.4	10.2	10.6	3.9	65.5	21.7	27.7	27.4	Polymer division has returned to profitability in 9MFY13 after suffering a from a loss last year
<i>Pretax Margin (%)</i>	8.8	7.8	7.4			12.2	7.4		
Tax	(1.8)	(2.9)	(3.0)	2.7	65.4	(6.7)	(8.4)	24.3	Management informed that it is working closely to its consultant to manage its tax expenses as its effective tax rate is higher than the statutory rate of 25%
<i>Effective tax rate (%)</i>	(28.1)	(28.4)	(28.1)			(31.0)	(30.3)		
Minority Interest	0.0	(0.4)	0.1	(125.0)	nm	0.0	(0.3)	nm	
Net Profit	4.6	6.9	7.7	11.9	67.8	15.0	19.0	26.7	
Core Profit	6.3	6.7	7.2	7.7	14.6	11.3	19.7	74.5	
<i>Net Margin (%)</i>	8.6	5.1	5.1			6.3	5.3		

Source: Bursa Malaysia, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total turnover	282	277	574	678	728
Cost of sales	(239)	(222)	(471)	(542)	(568)
Gross profit	43	55	103	136	160
Gen & admin expenses	(18)	(25)	(52)	(50)	(58)
Selling expenses	(1)	(1)	(2)	(2)	(2)
Other operating costs	(5)	(5)	(7)	(11)	(15)
Operating profit	20	25	43	73	85
Operating EBITDA	24	30	50	84	100
Depreciation of fixed assets	(5)	(5)	(7)	(11)	(15)
Operating EBIT	20	25	43	73	85
Net income from investments	1	2	2	2	2
Other recurring income	6	6	6	7	7
Interest expense	(4)	(4)	(15)	(23)	(34)
Exceptional income - net	2	3	-	-	-
Pre-tax profit	26	31	35	58	60
Taxation	(6)	(8)	(12)	(19)	(20)
Minority interests	(0)	0	(0)	(0)	(0)
Profit after tax & minorities	20	23	24	39	40
Reported net profit	20	23	24	39	40
Recurring net profit	18	21	24	39	40

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Operating profit	20	25	43	73	85
Depreciation & amortisation	5	5	7	11	15
Change in working capital	13	(17)	46	9	6
Other operating cash flow	(1)	2	7	15	25
Operating cash flow	36	15	103	107	131
Interest received	1	1	-	-	-
Interest paid	(4)	(4)	(15)	(23)	(34)
Tax paid	(7)	(8)	(12)	(19)	(20)
Cash flow from operations	27	4	77	65	77
Capex	(17)	(7)	(200)	(200)	(200)
Other new investments	(1)	(11)	-	-	-
Other investing cash flow	8	5	(33)	(15)	(26)
Cash flow from investing activities	(10)	(12)	(233)	(215)	(226)
Dividends paid	(3)	(3)	(4)	(7)	(7)
Shares repurchased	(0)	(3)	-	-	-
Proceeds from issue of shares	19	-	-	-	-
Increase in debt	(2)	18	210	170	220
Other financing cash flow	(2)	-	-	-	-
Cash flow from financing activities	12	12	206	163	213
Cash at beginning of period	34	63	66	115	129
Total cash generated	29	3	49	14	65
Implied cash at end of period	63	66	116	129	194

Source: Company data, RHB estimates

Financial Exhibits

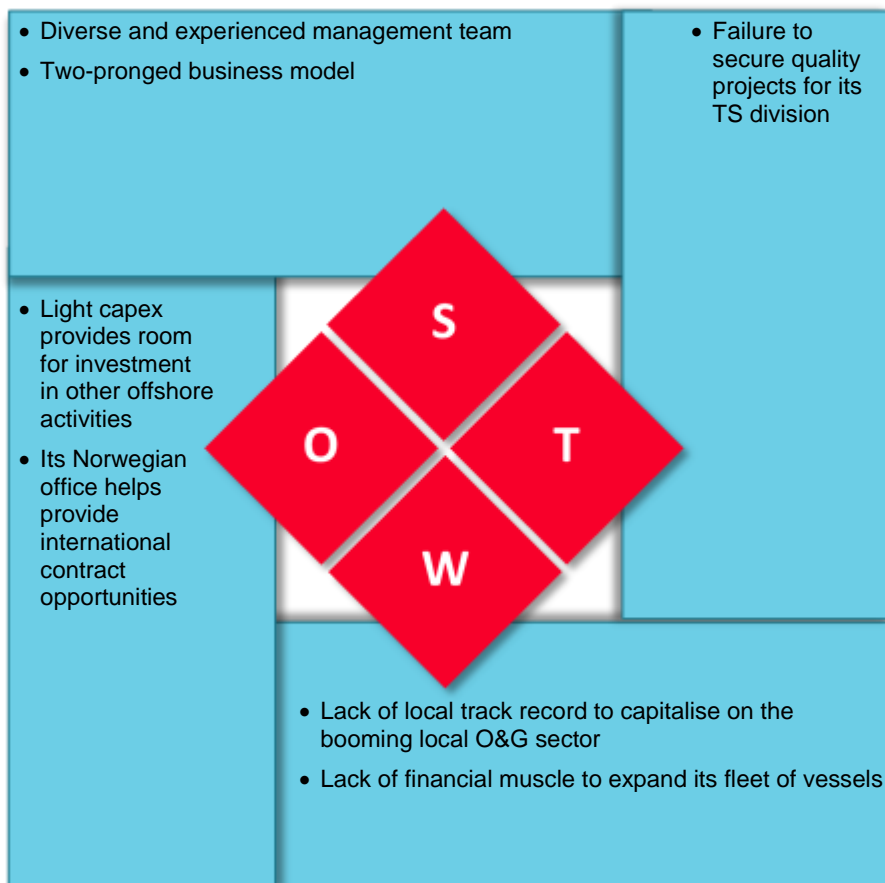
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Total cash and equivalents	63	66	115	129	194
Inventories	14	14	65	74	78
Accounts receivable	87	73	126	149	160
Other current assets	25	42	55	55	55
Total current assets	189	195	361	407	487
Total investments	6	15	16	18	19
Tangible fixed assets	100	106	299	488	674
Intangible assets	84	84	84	84	84
Total non-current assets	190	204	399	590	777
Total assets	378	399	760	997	1,263
Short-term debt	18	40	80	80	80
Accounts payable	95	86	155	178	187
Other current liabilities	2	1	4	4	4
Total current liabilities	115	127	239	262	271
Total long-term debt	49	41	211	381	601
Other liabilities	4	0	45	56	61
Total non-current liabilities	53	41	256	437	662
Total liabilities	168	168	494	699	933
Share capital	120	123	138	138	138
Retained earnings reserve	91	108	127	159	193
Shareholders' equity	211	231	266	298	331
Minority interests	-	(0)	(0)	(0)	(0)
Other equity	-	0	0	(0)	0
Total equity	211	231	265	297	331
Total liabilities & equity	378	399	760	997	1,263

Source: Company data, RHB estimates

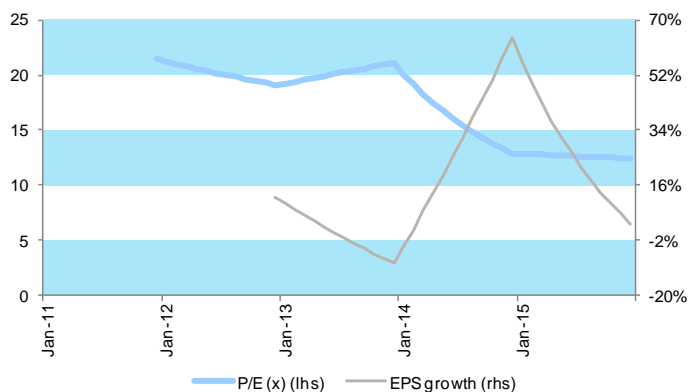
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13F	Dec-14F	Dec-15F
Revenue growth (%)	61.7	(1.7)	107.3	18.1	7.4
Operating profit growth (%)	(11.9)	26.6	69.8	70.1	16.9
Net profit growth (%)	25.0	17.9	2.6	64.0	3.4
EPS growth (%)	10.8	12.3	(9.5)	64.0	3.4
Bv per share growth (%)	9.1	6.6	2.5	12.1	11.2
Operating margin (%)	7.1	9.1	7.5	10.7	11.7
Net profit margin (%)	6.9	8.3	4.1	5.7	5.5
Return on average assets (%)	5.8	5.9	4.1	4.4	3.5
Return on average equity (%)	10.1	10.4	9.5	13.7	12.7
Net debt to equity (%)	1.9	6.5	66.2	111.6	147.3
DPS	0.002	0.003	0.002	0.004	0.004
Recurrent cash flow per share	0.02	0.00	0.06	0.05	0.06

Source: Company data, RHB estimates

SWOT Analysis

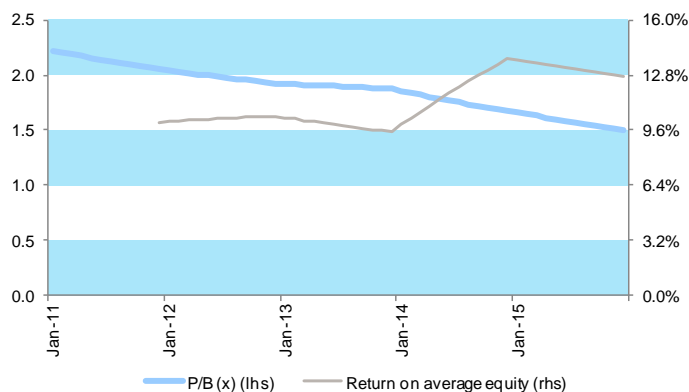


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

Daya Materials Bhd is a small integrated oil & gas (O&G) player that offers mainly offshore and onshore services. Its operation ranges from providing complete logistic, trading and distribution of specialty chemicals & catalysts, technical services to the downstream O&G sector; and subsea, crane and mechanical & engineering services. It also markets and sells specialised polymer compounds with a distributorship network that spans Asia.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-10-31	Buy	0.48	0.40

Source : RHB estimates, Bloomberg

RHB Guide to Investment Ratings

- Buy:** Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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