

Daya Materials (DAYA MK)

Energy & Petrochemicals - Oil & Gas Services

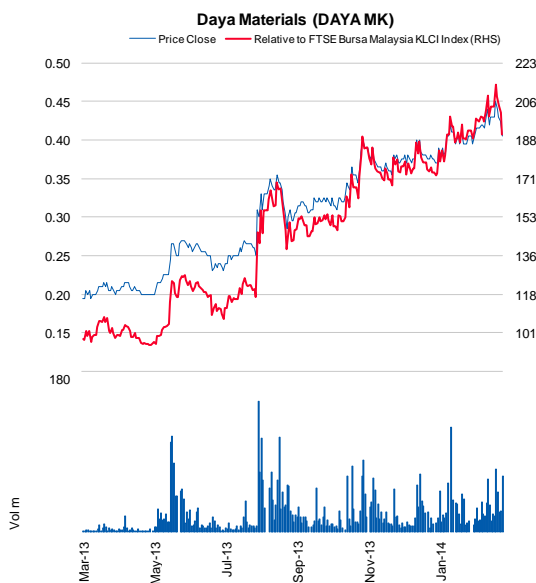
Market Cap: USD172m

Neutral (from Buy)

Target Price: MYR0.48

Price: MYR0.41

FY13 Dragged Down By One-Off Event

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	9.42m/2.86m
Cons. Upside (%)	-9.8
Upside (%)	18.5
52-wk Price low/high (MYR)	0.20 - 0.45
Free float (%)	65

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

Shariah compliant

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DAYA's FY13 net profit made up 14% of our estimate due to cost overruns from its first subsea project. We view this as a one-off event. Other businesses performed decently, cushioning the impact of the weak oil & gas (O&G) division. Hence, proper execution of the Technip project in 2Q14 is paramount to improving this segment. We downgrade DAYA to NEUTRAL with our FV unchanged at MYR0.48 for now.

- ◆ **FY13 only 14% of our estimate.** Daya Materials (DAYA)'s FY13 net profit made up only 14% of our full-year estimate. The massive miss was caused by cost overruns at its first subsea project, a sub-contract work with SapuraKencana Petroleum (SAKP MK, BUY, FV: MYR5.61)'s wholly-owned subsidiary TL Offshore. Its polymer segment swung back to the black with a PBT of MYR0.3m from FY12's MYR0.1m loss.
- ◆ **4Q dragged down full-year results.** DAYA's 4Q13 performance was understandably disappointing, as it bore the brunt of cost overruns at its offshore O&G segment. Its other segments recorded decent quarterly performances, with its polymer segment swinging back into the black after a loss in 4Q12 and weak 1% PBT margin in 3Q13. The technical services segment posted an encouraging 9% PBT margin, in line with historical performance and a significant improvement vs 3Q13's 3%.
- ◆ **Making amends by 2Q14.** 1Q14 will not see significant improvements from 4Q13, but we expect the situation to turnaround by 2Q14. Both DAYA's vessels – *Siam Daya 1 (SD1)* and *Siem Daya 2 (SD2)* – have been deployed to the North Sea and will contribute throughout the entire 2Q14. This has been taken into account in our FY14/15 forecasts. We understand from management that it is also in talks with Technip Norge for the charter of a third similar vessel.
- ◆ **Downgrade to NEUTRAL with an unchanged MYR0.48 FV.** We view DAYA's 4Q13 results as a one-off. We expect its O&G segment to improve in 2Q14 on commencement of its subsea contracts with Technip. Hence, proper execution will be key in offsetting 4Q13's disappointing offshore O&G segment. We downgrade the stock to NEUTRAL with an unchanged FV MYR0.48 for now. The FV is based on a target FY14 P/E of 15x, which is in line with other small- to mid-cap O&G stocks within our coverage universe.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	282	277	514	665	766
Reported net profit (MYRm)	19.5	23.0	3.4	44.0	51.8
Recurring net profit (MYRm)	17.8	20.9	3.4	44.0	51.8
Recurring net profit growth (%)	7.4	17.5	(83.7)	1190.3	17.7
Recurring EPS (MYR)	0.02	0.02	0.00	0.03	0.04
DPS (MYR)	0.002	0.003	0.000	0.005	0.006
Recurring P/E (x)	26	24	164	13	11
P/B (x)	2.31	2.16	2.33	2.02	1.75
P/CF (x)	18	137	na	7	9
Dividend Yield (%)	0.6	0.6	0.1	1.3	1.6
EV/EBITDA (x)	18.9	16.1	28.6	9.7	9.5
Return on average equity (%)	10.1	10.4	1.4	17.0	17.3
Net debt to equity (%)	1.9	6.5	29.5	75.3	106.5
Our vs consensus EPS (%)				0.0	0.0

Source: Company data, RHB estimates

Figure 1: Results review

FYE Dec (MYRm)	4QFY12	3QFY13	4QFY13	q-o-q (%)	y-o-y (%)	FY12	FY13	y-o-y (%)	Comments
Revenue	98.3	142.4	140.0	-2%	42%	276.9	513.5	85%	
COGS	(78.5)	(117.0)	(145.3)			(217.1)	(453.4)		
GP	19.8	25.4	(5.3)	>-100%	>-100%	59.8	60.1	1%	4QFY13 was hit with cost overruns incurred in its first subsea project, a sub-contract work with TL Offshore
Operating expenses	(7.4)	(11.4)	(9.1)			(30.2)	(40.2)		
EBITDA	12.5	13.9	(14.5)	>-100%	>-100%	29.6	19.9	-33%	
Depreciation & amortisation	(1.9)	(2.7)	(1.7)			(4.4)	(5.9)		
OP	10.6	11.2	(16.2)	>-100%	>-100%	25.3	13.9	-45%	
Other income	0.6	0.6	1.9			5.7	3.9		
Interest expense	(1.1)	(1.7)	(1.5)			(4.1)	(6.2)		
Share of results of JVs	(3.4)	0.1	0.2			1.5	0.5		
PBT	6.7	10.1	(15.5)	>-100%	>-100%	28.4	12.1	-57%	
Income tax	(1.5)	(3.0)	0.3			(8.3)	(8.1)		
PAT	5.1	7.1	(15.2)	>-100%	>-100%	20.1	4.1	-80%	
Minority interest	0.0	0.1	(0.4)			0.1	(0.7)		
Net profit	5.2	7.2	(15.6)	>-100%	>-100%	20.2	3.4	-83%	
Margins									
GP	20%	18%	-4%			22%	12%		
EBITDA	13%	10%	-10%			11%	4%		
OP	11%	8%	-12%			9%	3%		
PBT	7%	7%	-11%			10%	2%		
PAT	5%	5%	-11%			7%	1%		
Net profit	5%	5%	-11%			7%	1%		
Effective tax rate	23%	29%	2%			29%	66%		Higher effective tax rate in FY13 due to higher tax-related non-deductible expenses

Source: Company data, RHB estimates

Figure 2: Segmental results review

FYE Dec	4QFY12	3QFY13	4QFY13	q-o-q (%)	y-o-y (%)	FY12	FY13	y-o-y (%)	Comments
Segmental breakdown									
<u>Revenue</u>									
Polymer	3.9	4.5	5.0	11%	28%	19.6	21.3		
Oil & gas	29.5	85.6	92.3	8%	>100%	104.5	292.2		4QFY13 recorded higher revenue as a result of the charter of Siem Daya 1 to Allseas UK Ltd. during the period under review.
Technical services	64.9	52.3	42.6	-19%	-34%	152.8	200.1		Revenue declined 35% y-o-y/19% q-o-q as two of its construction works have reached completion during the period
<u>PBT</u>									
Polymer	0.0	0.1	0.1	80%	>100%	0.0	0.3		
Oil & gas	1.3	11.0	(20.0)	>-100%	>-100%	24.5	6.9		
Technical services	7.1	1.3	4.0	>100%	-44%	14.4	10.1		
<u>PBT margin</u>									
Polymer	0%	1%	2%			0%	1%		
Oil & gas	4%	13%	-22%			23%	2%		
Technical services	11%	3%	9%			9%	5%		

Source: Company data, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	282	277	514	665	766
Cost of sales	(239)	(222)	(459)	(533)	(609)
Gross profit	43	55	54	133	157
Gen & admin expenses	(18)	(25)	(34)	(51)	(59)
Selling expenses	(1)	(1)	-	(8)	(9)
Other operating costs	(5)	(5)	(6)	(8)	(11)
Operating profit	20	25	14	65	78
Operating EBITDA	24	30	20	73	89
Depreciation of fixed assets	(5)	(5)	(6)	(8)	(11)
Operating EBIT	20	25	14	65	78
Net income from investments	1	2	1	2	2
Other recurring income	6	6	4	6	6
Interest expense	(4)	(4)	(6)	(14)	(17)
Exceptional income - net	2	3	-	-	-
Pre-tax profit	26	31	12	58	68
Taxation	(6)	(8)	(8)	(14)	(17)
Minority interests	(0)	0	(1)	(0)	(0)
Profit after tax & minorities	20	23	3	44	52
Reported net profit	20	23	3	44	52
Recurring net profit	18	21	3	44	52

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	20	25	14	65	78
Depreciation & amortisation	5	5	6	8	11
Change in working capital	13	(17)	(50)	26	0
Other operating cash flow	(1)	2	3	7	10
Operating cash flow	36	15	(27)	106	99
Interest received	1	1	1	-	-
Interest paid	(4)	(4)	(6)	(14)	(17)
Tax paid	(7)	(8)	(7)	(14)	(17)
Cash flow from operations	27	4	(39)	78	66
Capex	(17)	(7)	(11)	(200)	(200)
Other new investments	(1)	(11)	-	-	-
Other investing cash flow	8	5	(52)	(59)	(26)
Cash flow from investing activities	(10)	(12)	(63)	(259)	(226)
Dividends paid	(3)	(3)	-	(7)	(9)
Shares repurchased	(0)	(3)	4	-	-
Proceeds from issue of shares	19	-	-	-	-
Increase in debt	(2)	18	51	170	120
Other financing cash flow	(2)	-	(3)	8	16
Cash flow from financing activities	12	12	52	171	127
Cash at beginning of period	34	63	66	68	58
Total cash generated	29	3	(50)	(11)	(33)
Implied cash at end of period	63	66	16	58	25

Source: Company data, RHB estimates

Financial Exhibits

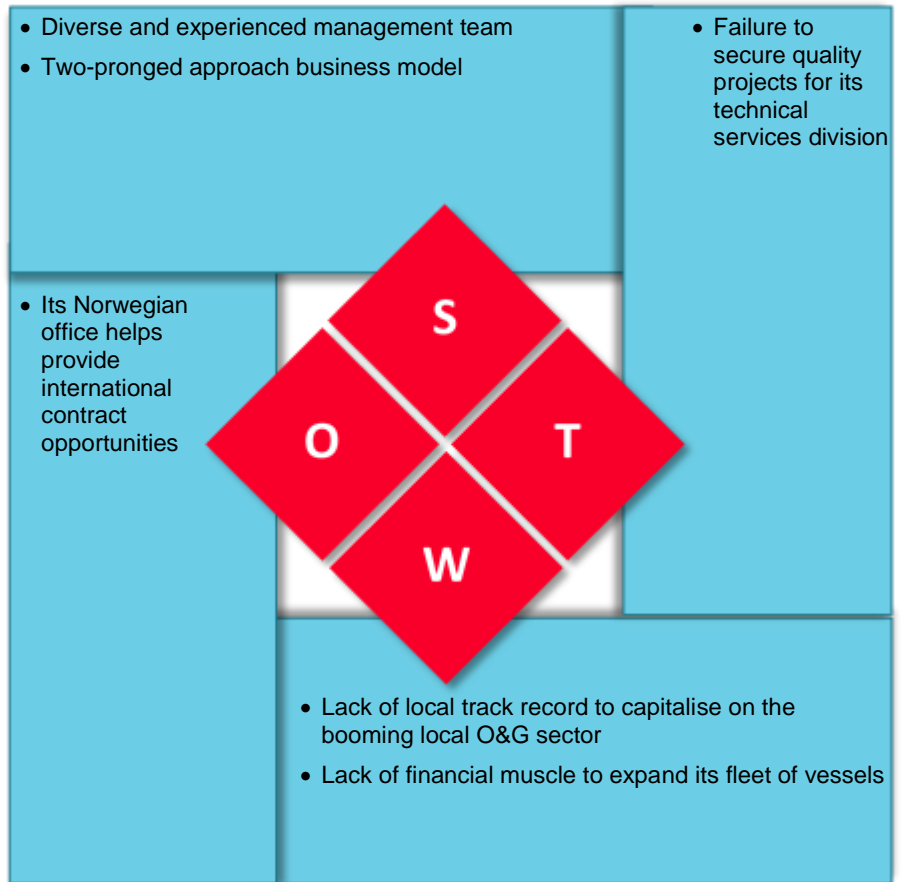
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	63	66	68	58	25
Inventories	14	14	17	29	33
Accounts receivable	87	73	86	119	136
Other current assets	25	42	99	55	40
Total current assets	189	195	271	260	234
Total investments	6	15	29	29	31
Tangible fixed assets	100	106	110	302	491
Intangible assets	84	84	85	84	84
Total non-current assets	190	204	224	415	606
Total assets	378	399	494	675	840
Short-term debt	18	40	72	50	50
Accounts payable	95	86	76	95	117
Other current liabilities	2	1	36	34	34
Total current liabilities	115	127	185	179	201
Total long-term debt	49	41	67	217	317
Other liabilities	4	0	-	-	-
Total non-current liabilities	53	41	67	217	317
Total liabilities	168	168	252	396	518
Share capital	120	123	126	126	126
Retained earnings reserve	91	108	115	151	194
Shareholders' equity	211	231	241	277	320
Minority interests	-	(0)	1	1	2
Other equity	-	0	(0)	0	(0)
Total equity	211	231	242	279	322
Total liabilities & equity	378	399	494	675	840

Source: Company data, RHB estimates

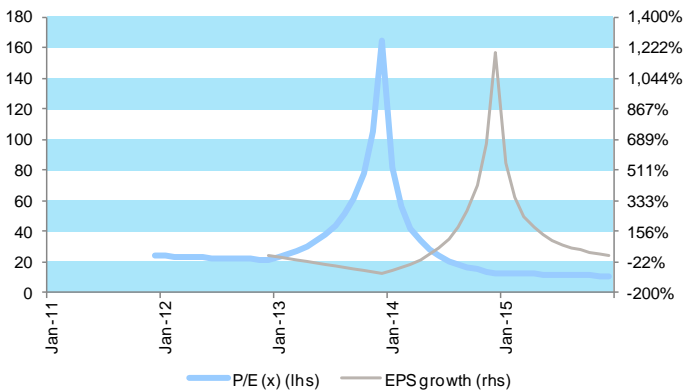
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	61.7	(1.7)	85.5	29.6	15.1
Operating profit growth (%)	(11.9)	26.6	(44.8)	369.9	19.6
Net profit growth (%)	25.0	17.9	(85.2)	1190.3	17.7
EPS growth (%)	10.8	12.3	(86.9)	1190.3	17.7
Bv per share growth (%)	9.1	6.6	(7.0)	15.2	15.5
Operating margin (%)	7.1	9.1	2.7	9.8	10.2
Net profit margin (%)	6.9	8.3	0.7	6.6	6.8
Return on average assets (%)	5.8	5.9	0.8	7.5	6.8
Return on average equity (%)	10.1	10.4	1.4	17.0	17.3
Net debt to equity (%)	1.9	6.5	29.5	75.3	106.5
DPS	0.002	0.003	0.000	0.005	0.006
Recurrent cash flow per share	0.02	0.00	(0.03)	0.06	0.05

Source: Company data, RHB estimates

SWOT Analysis

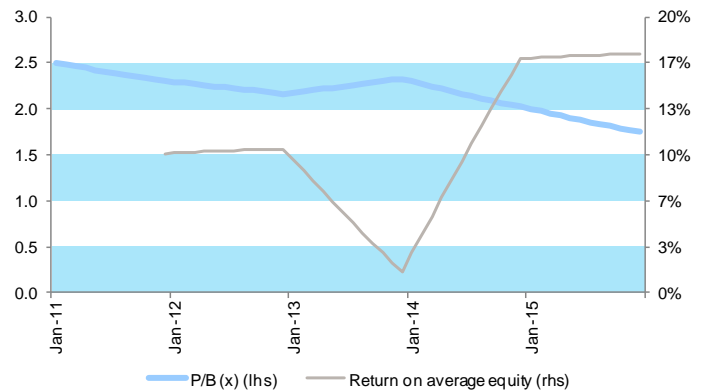


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

Daya Materials is a small integrated oil & gas (O&G) player that offers offshore and onshore services. Its operations range 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 reaches across Asia.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2014-02-21	Buy	0.48	0.43
2013-11-20	Buy	0.42	0.37
2013-10-31	Buy	0.48	0.40

Source: RHB estimates, Bloomberg

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