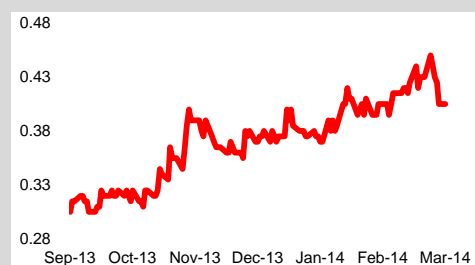


DAYA MATERIALS BERHAD
Outperform
DESCRIPTION

The Group involves in upstream and downstream O&G activities i.e. offshore pipeline services, production chemical, automated welding and FPSO desludging.

12-Month Target Price	RM0.430
Current Price	RM0.405
Expected Return	6.2%
Market	Main
Sector	Oil & Gas
Bursa Code	0091
Bloomberg Ticker	DAYA MK
Shariah-compliant	Yes

SHARE PRICE CHART


52 Week Range (RM)	0.20-0.46
3-Month Average Vol ('000)	25,730.4

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.0	6.6	37.3
Relative Returns	-1.7	8.8	24.7

KEY STOCK DATA

Market Capitalisation (RM m)	562.5
No. of Shares (m)	1,388.8

MAJOR SHAREHOLDERS

	%
Dato' Mazlin Bin Md. Junid	10.2
Tan Sri Dato' Sri Koh Kin Lip	5.8
Nathan Tham Jooi Loon	5.4

Research Team

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An Unexpected Finish

Daya's full year FY13 performance took an unexpected dive in 4Q, attributed to the cost overrun in the cable laying project which was largely completed in October 2013. YTD revenue recorded RM513.5m (+85% YoY) while earnings plunged to RM3.4m (-83% YoY). Management has reassured that the cost overrun issues have been fully accounted for this quarter and hence will start their FY14 balance sheet on a clean slate. Despite our disappointment to this quarter's unfavourable outcome, fundamentally based on the prospect of Daya's O&G segment in particular, its vessel chartering will provide growth for the Group going forward. We are maintaining our **Outperform** call on Daya with an unchanged TP of RM0.43 based on 12x multiple to its FY14 EPS of 3.7 sen.

- **Dragged by Oil and Gas (O&G).** From what we understand, Daya initially recorded higher profits YoY, however due to the cost overrun issue from the cable laying project, a revision had to be made to the profit margin. Albeit this incident, O&G will contribute significantly going forward, premised on i) the LT charter of Siem Daya 1 (SD1) and Siem Daya 2 (SD2) to Technip, which has been deployed in North Sea as of end-February. ii) prospects of exploration and production business via its investment into Reach Energy (soon to be listed SPAC). iii) Downstream chemicals and specialised lifting services. iv) Outstanding orderbook of RM1.7bn.
- **Improving Polymer business.** A slow growing division from the prospects of the industry and continued foreign competition. The Group however had implemented ongoing operational initiatives to deliver better production efficiency and improved cost structure, reflected in the positive results.
- **Technical Services to grow.** Revenue increased due to the progress in several projects which were previously delayed, thus higher revenue was registered this year. A significant contributing division going forward, as the Group continues to build and execute its orderbook.
- **Maintain Outperform.** We continue to recommend Daya based on our PE valuation of 12x implied PER to our FY14F EPS of 3.7 sen. As the Group's vessels SD1 and SD2 have already been chartered out for a LT contract with Technip, earnings visibility is already materialised hence we see our valuation as reasonable at this juncture.

KEY FORECAST TABLE (RM m)

FYE Dec	2011A	2012A	2013A	2014F	2015F	CAGR
Revenue	281.7	276.9	513.5	672.4	818.7	23.8%
Operating Profit	26.3	31.0	17.8	56.3	68.6	21.1%
Pre-tax Profit	23.8	28.4	12.1	58.3	70.5	24.3%
Core Net Profit	17.4	20.2	3.4	46.1	55.7	26.2%
EPS (Sen)	1.5	1.7	0.3	3.7	4.5	24.5%
P/E (x)	27.0	24.5	150.0	10.9	9.0	-
DPS (Sen)	0.3	0.3	0.2	0.6	0.8	-
Dividend Yield (%)	0.6	0.6	0.6	1.7	2.1	-

Source: Company, PublicInvest Research estimates

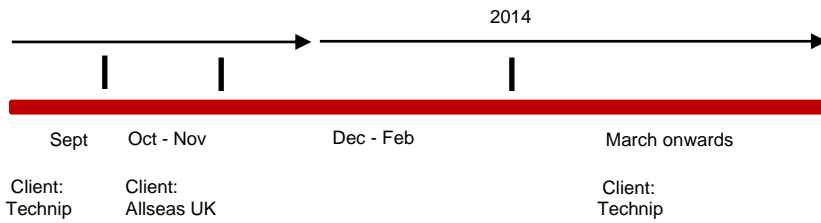
Table 1: Results Summary

<u>FYE Dec</u> <u>(RM m)</u>	<u>4Q13</u>	<u>4Q12</u>	<u>3Q13</u>	<u>QoQ</u> <u>Chg</u> <u>(%)</u>	<u>YoY</u> <u>Chg</u> <u>(%)</u>	<u>YTD 13</u>	<u>YTD 12</u>	<u>YoY</u> <u>Chg</u> <u>(%)</u>	<u>Comments</u>
Revenue	140.0	95.8	142.4	-2%	46%	513.5	276.9	85%	Higher revenue contribution from O&G and TS segments.
Cost of sales	-147.0	-80.4	-117.0	26%	83%	-459.4	-221.5	107%	
Gross profit	-7.1	15.4	25.4	-128%	-146%	54.2	55.4	-2%	
Other income	1.9	0.6	0.6	247%	223%	3.9	5.7	-33%	
Other expenses	-9.1	-7.4	-14.2	-36%	24%	-40.2	-30.2	33%	
Operating profit	-14.2	8.6	11.8	-221%	-265%	17.8	31.0	-43%	
Finance costs	-1.5	-1.1	-1.7	-12%	36%	-6.2	-4.1	52%	
Share of results of associated companies	0.2	-3.4	0.1	194%	-107%	0.5	1.5	-64%	
Pre-tax profit	-15.5	4.2	10.1	-254%	-473%	12.1	28.4	-57%	
Tax	0.3	-1.5	-3.0	-111%	-121%	-8.1	-8.3	-3%	
Net profit	-15.2	2.6	7.1	-314%	-679%	4.1	20.1	-80%	
Minorities	-0.4	0.0	0.1	-467%	-1041%	-0.7	0.1	-1293%	
Core net profit	-15.6	2.7	7.2	-316%	-684%	3.4	20.2	-83%	Decrease in profit, due to cost overrun in the cable laying project.
EPS (sen)	-1.2	0.4	0.6	-3.1	-3.9	0.3	1.7	-84%	
Gross Margin	-0.1	0.2	0.2	-1.3	-1.3	43.7	20.0	118%	
Pre-tax Margin	-0.1	0.0	0.1	-2.6	-3.6	11.2	10.3	9%	
Net Margin	-0.1	0.0	0.1	-3.2	-5.0	4.1	7.3	-44%	
<u>Segmental Results</u>									
Revenue	140.0	95.8	142.4	-2%	46%	513.5	274.4	87%	
Polymer	5.1	4.3	4.5	12%	20%	21.3	19.9	7%	
Oil & Gas	92.3	25.9	85.6	8%	256%	292.2	100.9	189%	Increase in revenue due to higher sales on downstream chemical and progress sales recognised on the cable laying projects during the year.
Technical Services	42.6	65.6	52.3	-19%	-35%	200.1	153.5	30%	Higher revenue in TS was due to improvement progress in several of its previously delayed projects.

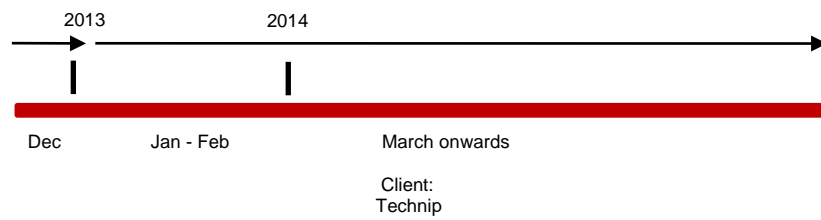
Source: Company, PublicInvest Research estimates

Figure 1: Contract Timeline for SD1 and SD2

SD1: Delivered in September 2013



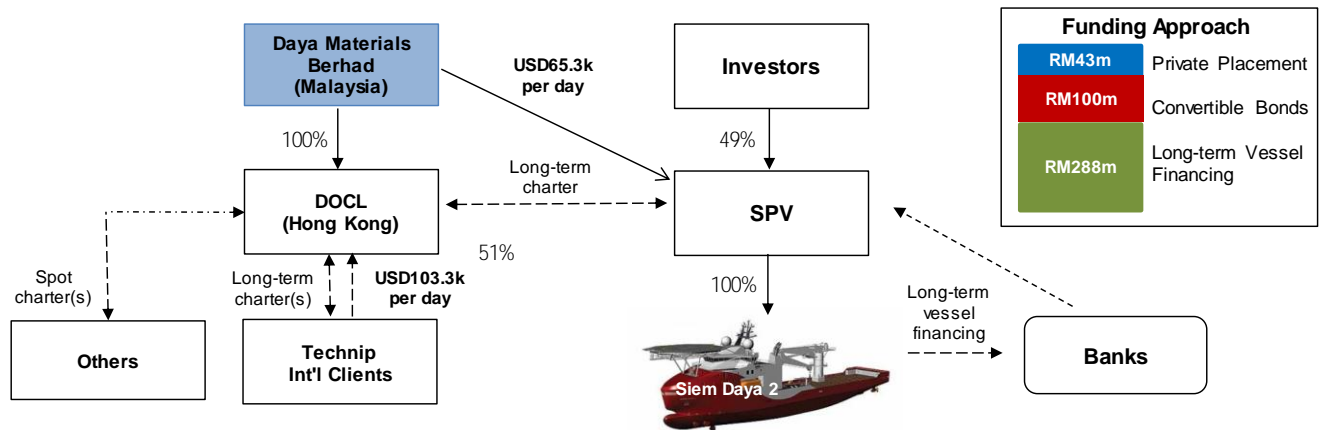
SD2: Delivered in December 2013



*From December to February, both vessels were docked for maintenance with no contracts hence idle time and no utilisation is expected for this period.

Source: Company, PublicInvest Research

Figure 2: Contract Timeline for SD1 and SD2



*Funding approach will vary depending on the acquisition of 1 or 2 vessels.

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RMm)	2011A	2012A	2013A	2014F	2015F
Revenue	281.7	276.9	513.5	672.4	818.7
Operating Profit	26.3	31.0	17.8	56.3	68.6
Other Income	6.4	5.7	3.9	14.1	17.2
Selling & Distribution Expenses	-0.6	-1.0	0.0	-62.3	-75.9
Administration Expenses	-22.2	-29.2	-40.2	-3.0	-3.0
Pre-tax Profit	23.8	28.4	12.1	58.3	70.5
Income Tax	-6.3	-8.3	-8.1	-11.7	-14.1
Effective Tax Rate (%)	26.6	29.1	66.4	20.0	20.0
Minorities	-0.1	0.1	-0.7	-0.6	-0.7
Core Net Profit	17.4	20.2	3.4	46.1	55.7

Growth

Revenue (%)	0.6	0.0	0.9	0.5	0.2
Gross Profit (%)	-0.1	0.3	0.0	0.6	0.2
Net Profit (%)	0.0	0.2	-0.8	0.7	0.2

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RMm)	2011A	2012A	2013A	2014F	2015F
Property, plant and equipment	100.0	105.6	109.8	121.5	130.8
Inventories	14.2	14.1	17.5	24.2	29.4
Trade receivables	86.5	72.6	98.3	176.3	214.6
Cash and bank balances	32.6	40.4	23.9	105.2	147.2
Total Assets	378.1	399.2	494.1	567.7	662.6
ST Borrowings	17.9	40.3	72.4	35.0	35.0
LT Borrowings	48.9	41.0	67.4	20.0	20.0
Trade Payables	94.5	85.6	103.3	217.8	265.2
Minority Interests	0.0	-0.1	1.3	0.9	1.6
Total Liabilities	167.5	168.3	252.0	274.1	321.5
Total Equity	210.6	230.9	242.2	293.5	341.1
Total Equity and Liabilities	378.1	399.2	494.1	567.7	662.6

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2011A	2012A	2013A	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	0.3	3.7	4.5
DPS (Sen)	0.3	0.3	0.2	0.6	0.8
Payout Ratio (%)	0.2	0.2	0.8	17.0	17.0
ROA (%)	4.6	5.0	0.8	8.2	8.5
ROE (%)	8.3	8.7	1.7	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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