

Daya Materials (NOT RATED)

COMPANY INSIGHT
INDUSTRY: OVERWEIGHT
May 8, 2014
Not Rated
Current Price: RM0.335

Worst is Behind...

Highlights

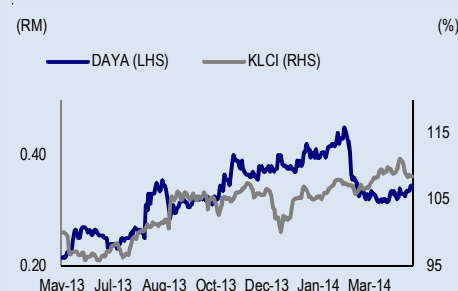
- **No cost overrun in 1QFY14** To recap, Daya's 4Q13 earnings swung from profit to a loss of RM15m mainly due to cost overruns at its first subsea project (Tapis EOR). Given the project is almost near completion, the cost overrun will not repeat in 1QFY14. In addition, the company has submitted some variation order claims to the customers. We are confident that the management will be able to execute Technip job well given the less complex work scope and after hard learned lesson on Tapis project.
- **SD1 and SD2 are sailing well** Siem Daya 1(SD1) and Siem Daya 2 (SD2) commenced works with Technip Norge in beginning of Mar 14. Both vessels contribute US\$8-9m per month translate to \$133k-150k/vessel/day versus our assumption of US\$105k mainly due to additional services provided such as meal, bunker and communication charges.
- **Bidding for short term contract to boost vessel's utilisation** We understand the company is bidding for 6 month duration contract with a big O&G client. The job will be based in West Africa with charter rate of US\$125-130k/day versus our assumption of US\$119k/day.
- **Disposal of non-core asset** Recently, Daya has disposed 30% stake in its technical services for RM18m (implied PER of 6x). The buyer will have an option to buy additional 45% stake from Daya for RM32m (implied PER of 7x) in future. We are positive on the move as this is inline with management strategy to focus on O&G business going forward.
- **1QFY14 result will be weak but in black** Despite absence of cost overruns in 1Q14, both SD1 and SD2 vessel will incur loss of RM7-8m as they only started operation in Mar with fix operating cost incur in Jan and Feb. Nevertheless, overall group earnings will remain in the black. Any weakness due to the result should be a good buying opportunity.
- **Margin expansion from proposed acquisition** The company is working on a fund raising exercise to raise RM930m (combination of debt and equity, Ref Fig 1) to acquire 100% of SD1 and SD2 vessels. Each vessels cost around US\$130-140m. We estimates saving of US\$15-20k/day/vessel under an ownership model (vs. lease model). Management expect the corporate and acquisition exercise to complete in July 14. A potential third vessel acquisition will increase bottom line by RM24m or 33%.
- **Orderbook of RM2.2bn with tenderbook at RM800m** The company is bidding for 4 projects in subsea and 3 projects in technical services. Future growth will focus in Europe market.

Valuation

- After the corporate fund raising to acquire 100% stake in both vessels, Daya is expected to trade at 24x FY14 and 12x FY15 P/E (Ref Fig 1, Scenario1). To note, we see upside risk for FY15 due to i) higher than expected charter rate and ii) lower operating cost (our assumption of US\$70k/day vs management guidance of US\$61k/day).

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| | |
|-----------------------------|---------|
| KLCI | 1,860.4 |
| Expected share price return | NA |
| Expected dividend return | NA |
| Expected total return | NA |

Share price

Information

| | |
|-------------------------|---------|
| Bloomberg Ticker | DAYA MK |
| Bursa Code | 0091 |
| Market cap (RMm) | 465 |
| 3-mth avg volume ('000) | 24,627 |

Price Performance

| | 1M | 3M | 12M |
|------------|-----|-------|------|
| Absolute % | 4.7 | -19.3 | 55.8 |
| Relative % | 4.8 | -21.5 | 48.8 |

Major shareholders (%)

| | |
|---------------------------|------|
| Dato' Mazlin Bin Md Junid | 10.2 |
| Dato' Sri Koh Kin Lip | 5.8 |
| Nathan Tham Jooi Loon | 5.4 |
| Capital Nexus Sdn Bhd | 4.9 |
| Lim Soon Foo | 4.6 |

Figure 1: Corporate Fund Raising Overview and Earning Forecast

| Corporate Fund Raising Exercise | Shares (m) | Value (RM m) | Percentage |
|----------------------------------|--------------|--------------|-------------|
| Current share outstanding | 1,389 | | |
| Estimated of news shares* | 1,257 | 330 | 35% |
| Enlarged share based | 2,646 | | |
| Senior Bank Debt | | 600 | 65% |
| Total | | 930 | 100% |

*Include private placement, right issue and convertible bonds

Assumptions**Revenue components**

| | |
|-------------------------------|---------|
| Long term Charter Rate (USD) | 105,000 |
| Short term Charter Rate (USD) | 119,000 |
| USDMYR | 3.27 |
| Cost of each vessels (US\$ m) | 140 |

Operating cost (incl financing & depreciation)/day

| | |
|--------------|--------|
| Fully owned | 70,000 |
| Fully leased | 85,300 |

| | | |
|---|-------------|-------------|
| Scenario 1: 250/50 days (long term/short term) | FY14 | FY15 |
| Earnings | 37.5 | 72.7 |
| EPS (based on enlarged share of 2.6bn) | 0.01 | 0.03 |
| PER (based on closed price of RM0.335) | 23.7 | 12.2 |
| Net Gearing (x) | 1.10 | 0.98 |
| Scenario 2: 300/0 days (long term/short term) | FY14 | FY15 |
| Earnings | 34.0 | 68.2 |
| EPS (based on enlarged share of 2.6bn) | 0.01 | 0.03 |
| PER (based on closed price of RM0.335) | 26.0 | 13.0 |
| Net Gearing (x) | 1.11 | 1.00 |

* Both Scenario of net profit forecast include ~RM25m PAT from oilfield services (excluide Norway job) and Technical Services.

**Both Scenario also include 60 idle days

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(a) -.

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(a) -.

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| | |
|---------------------|--|
| BUY | Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside. |
| TRADING BUY | Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. |
| HOLD | Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside. |
| TRADING SELL | Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity. |
| SELL | Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months. |
| NOT RATED | No research coverage, and report is intended purely for informational purposes. |

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| | |
|--------------------|--|
| OVERWEIGHT | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months. |
| NEUTRAL | The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months. |
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