

Daya Materials (DAYA MK)

Energy & Petrochemicals - Oil & Gas Services

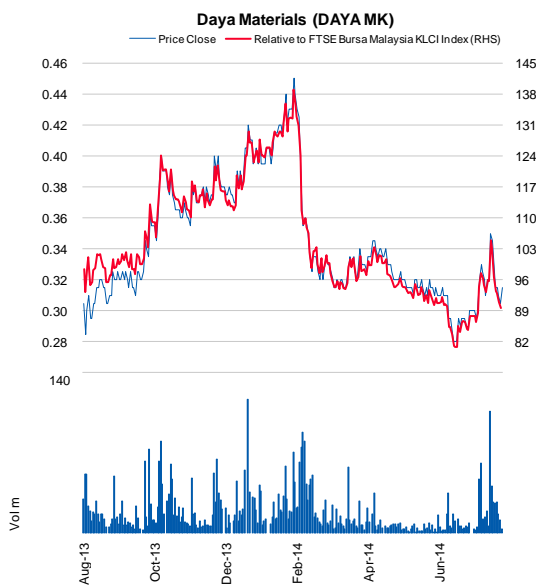
Market Cap: USD138m

Neutral (from Buy)

Target Price: MYR0.35

Price: MYR0.32

Dilution Risks From Full Ownership Of SD1 And SD2

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

| | | | | | |
|------------------------------|-------------|-----|-------|--------|--------|
| Avg Turnover (MYR/USD) | 3.66m/1.15m | | | | |
| Cons. Upside (%) | 40.6 | | | | |
| Upside (%) | 9.9 | | | | |
| 52-wk Price low/high (MYR) | 0.28 - 0.45 | | | | |
| Free float (%) | 68 | | | | |
| Share outstanding (m) | 1,389 | | | | |
| Shareholders (%) | | | | | |
| Dato' Mazlin bin Md Junid | 8.5 | | | | |
| Dato' Sri Koh Kin Lip JP | 5.8 | | | | |
| Nathan Tham Jooi Loon | 5.4 | | | | |
| Share Performance (%) | | | | | |
| | YTD | 1m | 3m | 6m | 12m |
| Absolute | (16.0) | 6.8 | (1.6) | (26.8) | (6.0) |
| Relative | (16.4) | 6.6 | (1.6) | (29.2) | (15.0) |

Shariah compliant

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Daya Materials plans to raise MYR990m mostly to fund its full acquisition of SD1 and SD1 OSCV – both on long-term charters for Technip in the North Sea. While we had expected the asset ownership, we cut our earnings forecasts to assume higher interest and lower spot charters. Downgrade to NEUTRAL (from Buy), with a lower MYR0.35 FV (from MYR0.48). We expect >60% FY15F EPS dilution and our ex-all FV could be MYR0.13-0.15 (vs ex-all price of MYR0.13).

- ◆ **Full ownership of SD1 and SD2.** Daya Materials (Daya) plans to raise MYR906m to acquire 100% ownership of its offshore subsea construction vessels (OSCV), *Siem Daya 1 (SD1)* and *Siem Daya 2 (SD2)* from Siem Offshore. An additional MYR84m will be raised to support working capital and loan repayment. The exercise was within its earlier guidance of MYR950m, but has a target completion by April 2015 (delayed from earlier guidance of 1H14). Daya expects to fund the SD1+SD2 acquisition with bank borrowings of MYR532m, and the remaining MYR374m via a combination of: i) 25% share placement, ii) rights issue with free warrants (1-for-2 rights shares) to raise up to MYR230m, and iii) a maximum of MYR120m 7-year redeemable convertible secured bonds. The prices are not determined, although the share base could increase to 3.65bn shares (from 1.39bn).
- ◆ **Impact on earnings.** Having full vessel ownership (vs chartering) could improve its operating cost structure and strengthen its subsea capability. Daya expected a MYR50m-68m earnings accretion (MYR25m-28m for each vessel) from operational cost-saving, offset by an expected additional interest expense of ~MYR30m (assuming 4-5% interest cost). While we had included most of the net effect of the asset ownership, we cut our FY14/15F forecasts by 16%/20% to factor in more conservative spot charters (<30 days, from 60 days) and higher interest expense for FY15 (at 5%, with additional borrowings). Gross gearing (post-warrants conversion) could increase to a manageable 0.9x (from FY13's 0.6x).
- ◆ **Downgrade to NEUTRAL, with a lower MYR0.35 FV** at 12x FY15F P/E (from MYR0.48, 13x P/E), below our sector valuations as we factored in share price overhang from the potential dilution impact, fund-raising risks and the loss of a key personnel. We expect a better 2Q, given SD1 and SD2's full contributions. Assuming 2-for-3 rights, fixed at a 30% discount to the theoretical ex-rights price (TERP) of MYR0.22 (based on last closing price), and the warrants exercise price equals to TERP, our ex-all FV (fully-diluted) could be MYR0.13-0.15, vs ex-all theoretical share price of MYR0.13. FY15F EPS could be diluted by 63% to MYR0.01.

| Forecasts and Valuations | Dec-11 | Dec-12 | Dec-13 | Dec-14F | Dec-15F |
|-------------------------------------|--------|--------|--------|---------|---------|
| Total turnover (MYRm) | 282 | 297 | 524 | 646 | 766 |
| Reported net profit (MYRm) | 19.5 | 20.1 | 3.2 | 39.2 | 43.2 |
| Recurring net profit (MYRm) | 19.5 | 21.6 | 9.0 | 36.9 | 40.8 |
| Recurring net profit growth (%) | 25.0 | 11.0 | (58.5) | 310.3 | 10.6 |
| Recurring EPS (MYR) | 0.02 | 0.02 | 0.01 | 0.03 | 0.03 |
| DPS (MYR) | 0.002 | 0.003 | 0.000 | 0.005 | 0.006 |
| Recurring P/E (x) | 18.8 | 17.8 | 48.5 | 11.8 | 10.7 |
| P/B (x) | 1.79 | 1.68 | 1.81 | 1.54 | 1.38 |
| P/CF (x) | 13.7 | na | na | 4.8 | 5.9 |
| Dividend Yield (%) | 0.8 | 0.8 | 0.1 | 1.7 | 1.9 |
| EV/EBITDA (x) | 14.8 | 19.0 | 26.4 | 9.6 | 9.0 |
| Return on average equity (%) | 10.1 | 9.1 | 1.4 | 15.0 | 14.4 |
| Net debt to equity (%) | 1.9 | 6.5 | 29.4 | 29.4 | 124.1 |
| Our vs consensus EPS (adjusted) (%) | | | | (14.2) | (18.3) |

Financial Exhibits

◆ **Risks.** Track record of the new management team (upon loss of a key founder and personnel from the team), and the company's inability to secure OCSV spot charters. We expect ~230 days utilisation for the North Sea long-term charters (in line with 200-300 days assumed by major subsea construction companies and higher than the original contracted 180 days). However, the gap can be filled if the vessels can be utilised for spot/accommodation charters in Africa. Spot daily charter rate for diving and subsea contracts in Africa could be higher or comparable to USD120k-130k in North Sea, while accommodation spot charters could be in the range of USD80k-100k

| Profit & Loss (MYRm) | Dec-11 | Dec-12 | Dec-13 | Dec-14F | Dec-15F |
|--|---------------|---------------|---------------|----------------|----------------|
| Total turnover | 282 | 297 | 524 | 646 | 766 |
| Cost of sales | (239) | (247) | (440) | (520) | (609) |
| Gross profit | 43 | 50 | 84 | 126 | 157 |
| Gen & admin expenses | (18) | (29) | (65) | (51) | (59) |
| Selling expenses | (1) | (1) | (1) | (8) | (9) |
| Other operating costs | (5) | (4) | (6) | (6) | (9) |
| Operating profit | 20 | 15 | 11 | 62 | 80 |
| Operating EBITDA | 24 | 20 | 17 | 67 | 89 |
| Depreciation of fixed assets | (5) | (4) | (6) | (6) | (9) |
| Operating EBIT | 20 | 15 | 11 | 62 | 80 |
| Net income from investments | 1 | 1 | 1 | 2 | 2 |
| Other recurring income | 6 | 16 | 5 | 6 | 6 |
| Interest expense | (4) | (4) | (6) | (14) | (27) |
| Exceptional income - net | 2 | - | - | - | - |
| Pre-tax profit | 26 | 28 | 11 | 55 | 61 |
| Taxation | (6) | (8) | (7) | (14) | (17) |
| Minority interests | (0) | 0 | (1) | (1) | (1) |
| Profit after tax & minorities | 20 | 20 | 3 | 39 | 43 |
| Reported net profit | 20 | 20 | 3 | 39 | 43 |
| Recurring net profit | 20 | 22 | 9 | 37 | 41 |

Source: Company data, RHB

| Cash flow (MYRm) | Dec-11 | Dec-12 | Dec-13 | Dec-14F | Dec-15F |
|--|---------------|---------------|---------------|----------------|----------------|
| Operating profit | 20 | 15 | 11 | 62 | 80 |
| Depreciation & amortisation | 5 | 4 | 6 | 6 | 9 |
| Change in working capital | 13 | (16) | (17) | 46 | 8 |
| Other operating cash flow | (1) | 1 | 5 | 7 | 20 |
| Operating cash flow | 36 | 5 | 5 | 120 | 117 |
| Interest received | 1 | - | - | - | - |
| Interest paid | (4) | (4) | (6) | (14) | (27) |
| Tax paid | (7) | (8) | (8) | (14) | (17) |
| Cash flow from operations | 27 | (7) | (10) | 92 | 74 |
| Capex | (17) | (7) | (45) | (200) | (200) |
| Other new investments | (1) | - | (3) | - | - |
| Other investing cash flow | 8 | (8) | (33) | (15) | (26) |
| Cash flow from investing activities | (10) | (15) | (80) | (215) | (226) |
| Dividends paid | (3) | (3) | (3) | (6) | (7) |
| Shares repurchased | (0) | (3) | (0) | - | - |
| Proceeds from issue of shares | 19 | - | - | - | - |
| Increase in debt | (2) | 12 | 51 | 120 | 120 |
| Other financing cash flow | (2) | 5 | 4 | - | - |
| Cash flow from financing activities | 12 | 12 | 51 | 114 | 113 |
| Cash at beginning of period | 34 | 63 | 66 | 70 | 35 |
| Total cash generated | 29 | (10) | (39) | (10) | (39) |
| Implied cash at end of period | 63 | 53 | 27 | 60 | (4) |

Source: Company data, RHB

Financial Exhibits

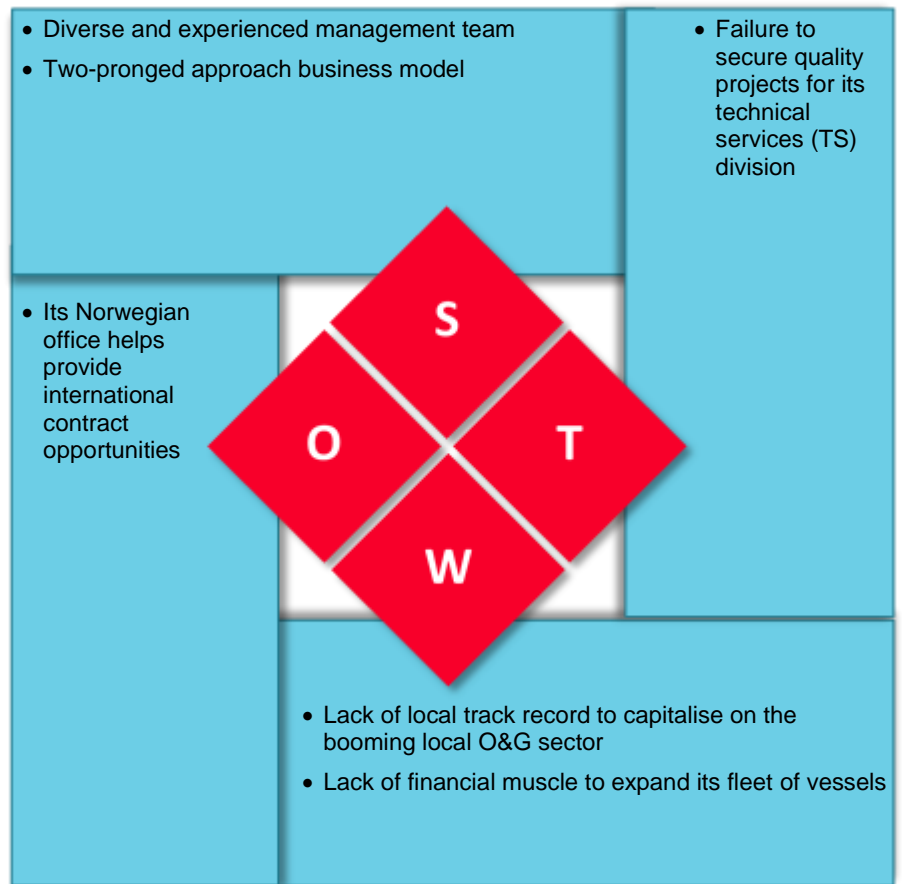
| Balance Sheet (MYRm) | Dec-11 | Dec-12 | Dec-13 | Dec-14F | Dec-15F |
|---------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Total cash and equivalents | 63 | 66 | 70 | 35 | - |
| Inventories | 14 | 14 | 17 | 71 | 83 |
| Accounts receivable | 87 | 74 | 127 | 142 | 168 |
| Other current assets | 25 | 42 | 54 | 57 | 55 |
| Total current assets | 189 | 196 | 268 | 305 | 306 |
| Total investments | 6 | 13 | 28 | 20 | 22 |
| Tangible fixed assets | 100 | 106 | 144 | 338 | 529 |
| Intangible assets | 84 | 84 | 86 | 84 | 84 |
| Total non-current assets | 190 | 203 | 258 | 442 | 635 |
| Total assets | 378 | 399 | 526 | 747 | 941 |
| Short-term debt | 18 | 40 | 78 | 40 | 40 |
| Accounts payable | 95 | 86 | 138 | 163 | 191 |
| Other current liabilities | 2 | 1 | 4 | 4 | 4 |
| Total current liabilities | 115 | 127 | 220 | 207 | 235 |
| Total long-term debt | 49 | 41 | 63 | 233 | 353 |
| Other liabilities | 4 | 0 | 1 | 23 | 35 |
| Total non-current liabilities | 53 | 41 | 64 | 257 | 389 |
| Total liabilities | 168 | 168 | 284 | 464 | 624 |
| Share capital | 120 | 123 | 126 | 138 | 138 |
| Retained earnings reserve | 91 | 108 | 114 | 145 | 179 |
| Shareholders' equity | 211 | 231 | 241 | 283 | 317 |
| Other equity | - | (0) | 1 | 0 | (0) |
| Total equity | 211 | 231 | 242 | 283 | 317 |
| Total liabilities & equity | 378 | 399 | 526 | 747 | 941 |

Source: Company data, RHB

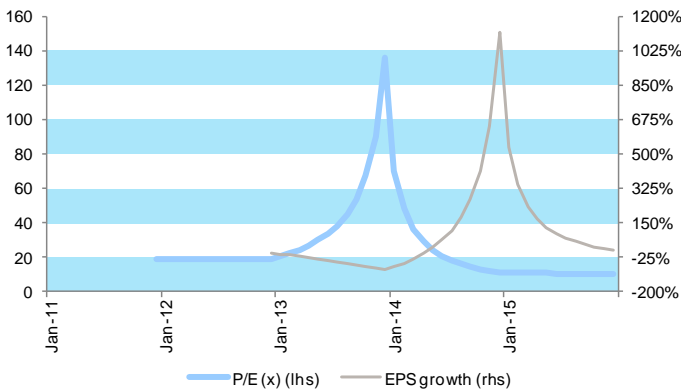
| Key Ratios (MYR) | Dec-11 | Dec-12 | Dec-13 | Dec-14F | Dec-15F |
|-------------------------------|---------------|---------------|---------------|----------------|----------------|
| Revenue growth (%) | 61.7 | 5.3 | 76.6 | 23.4 | 18.4 |
| Operating profit growth (%) | (11.9) | (22.8) | (25.4) | 436.9 | 30.9 |
| Net profit growth (%) | 25.0 | 2.9 | (84.0) | 1122.3 | 10.2 |
| EPS growth (%) | 10.8 | (2.0) | (85.9) | 1118.5 | 10.2 |
| Bv per share growth (%) | 9.1 | 6.6 | (7.1) | 17.4 | 11.9 |
| Operating margin (%) | 7.1 | 5.2 | 2.2 | 9.5 | 10.5 |
| Net profit margin (%) | 6.9 | 6.8 | 0.6 | 6.1 | 5.6 |
| Return on average assets (%) | 5.8 | 5.2 | 0.7 | 6.2 | 5.1 |
| Return on average equity (%) | 10.1 | 9.1 | 1.4 | 15.0 | 14.4 |
| Net debt to equity (%) | 1.9 | 6.5 | 29.4 | 84.0 | 124.0 |
| DPS | 0.002 | 0.003 | 0.000 | 0.005 | 0.006 |
| Recurrent cash flow per share | 0.02 | (0.01) | (0.01) | 0.07 | 0.05 |

Source: Company data, RHB

SWOT Analysis

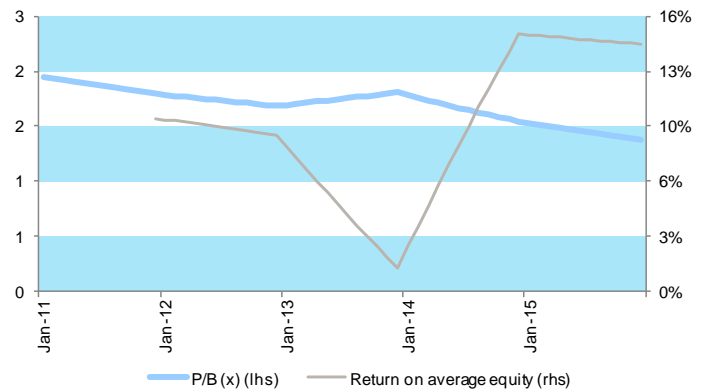


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

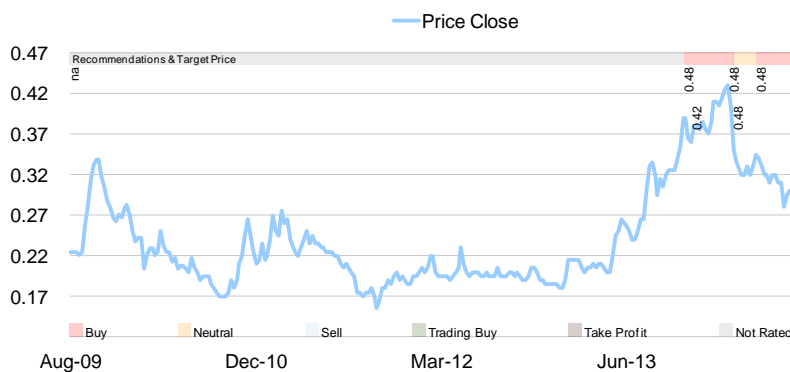


Source: Company data, RHB

Company Profile

Daya Materials Bhd is a small integrated oil and gas (O&G) player that offers mainly offshore and onshore services. Its operation ranges from providing complete logistics, trading and distribution of specialty chemicals and 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 its distributorship network across Asia.

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2014-05-29 | Buy | 0.48 | 0.32 |
| 2014-04-29 | Buy | 0.48 | 0.34 |
| 2014-03-03 | Neutral | 0.48 | 0.37 |
| 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, 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
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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