

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)

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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

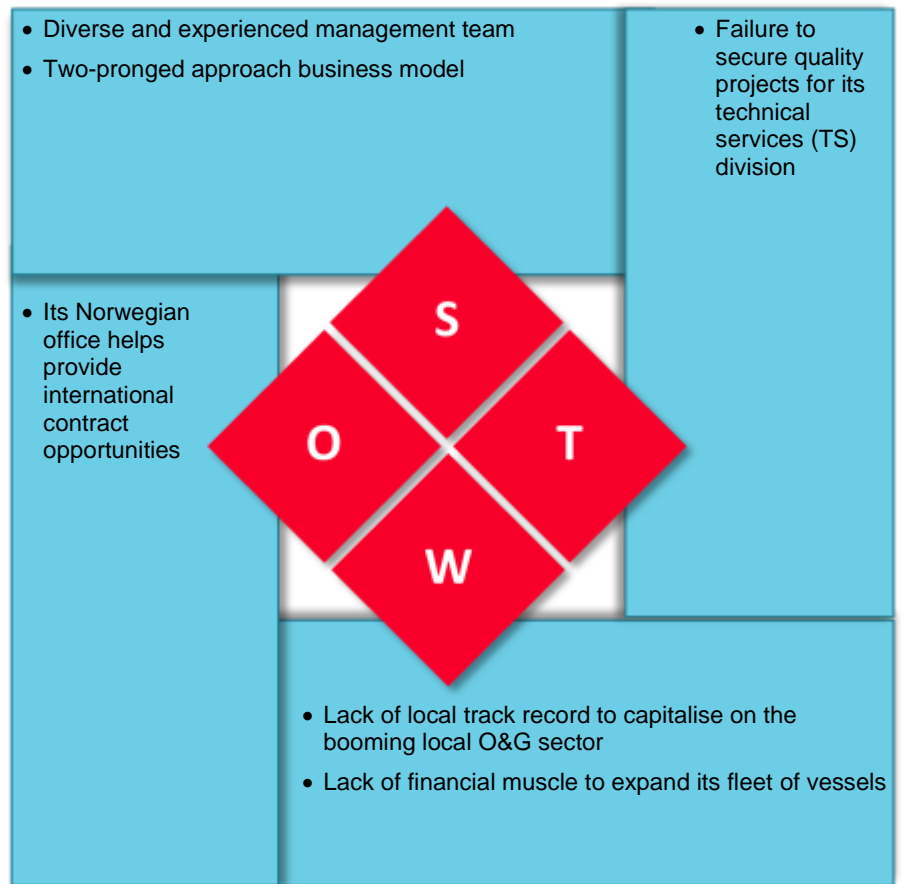
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	63	66	70	35	-
Inventories	14	14	17	71	83
Accounts receivable	87	74	127	142	168
Other current assets	25	42	54	57	55
Total current assets	189	196	268	305	306
Total investments	6	13	28	20	22
Tangible fixed assets	100	106	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

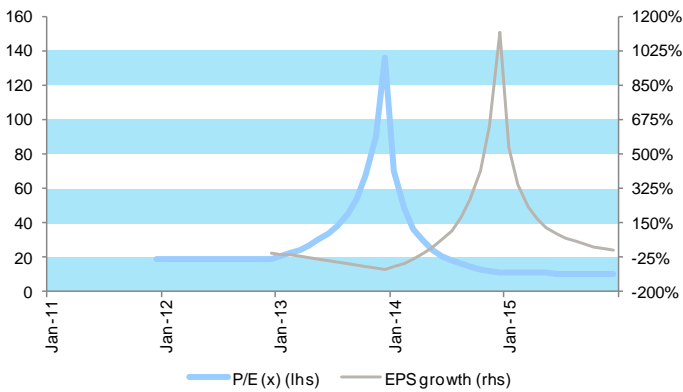
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	61.7	5.3	76.6	23.4	18.4
Operating profit growth (%)	(11.9)	(22.8)	(25.4)	436.9	30.9
Net profit growth (%)	25.0	2.9	(84.0)	1122.3	10.2
EPS growth (%)	10.8	(2.0)	(85.9)	1118.5	10.2
Bv per share growth (%)	9.1	6.6	(7.1)	17.4	11.9
Operating 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

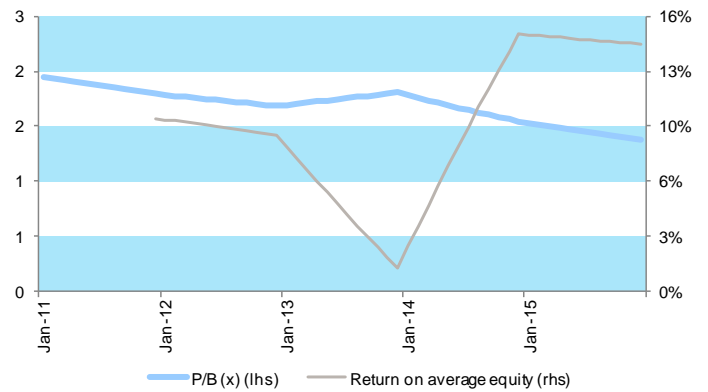


P/E (x) vs EPS growth



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
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