

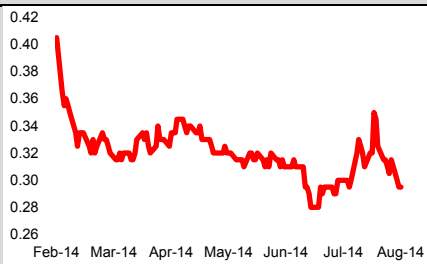


DESCRIPTION

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

12-Month Target Price	RM0.330
Current Price	RM0.295
Expected Return	11.9%
Market	Main
Sector	Oil & Gas
Bursa Code	0091
Bloomberg Ticker	DAYA MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.27-0.46
3-Month Average Vol ('000)	12,358.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-1.7	-7.8	-31.4
Relative Returns	-1.4	-9.5	-32.1

KEY STOCK DATA

Market Capitalisation (RM m)	409.7
No. of Shares (m)	1,388.8

MAJOR SHAREHOLDERS

	%
Dato' Mazlin Bin Md. Junid	8.5
Tan Sri Dato' Sri Koh Kin Lip	5.8
Nathan Tham Jooi Loon	5.4

Research Team

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Disappointing Earnings

Daya Materials' (Daya) 1HFY14 revenue is within expectations, recording RM303.4m (+31.2% YTD YoY, +34.6% QoQ), but earnings was compressed to RM5.6m (-52.2% YTD YoY, +>100% QoQ) from prolonged higher operating expenses and set-up costs in the subsea business. Following a weak set of results, we are reducing our earnings forecast for FY14F in anticipation for potential receivables provision of <RM26m for the TLO job. Albeit the severe reduction, we assume with the full utilisation charter of SD1 and SD2 next year onwards would meet our FY15F reduced estimates, but with potential further upside from its growing technical services and polymer divisions. The RM2.2bn order book moreover should sustain performance thus maintaining our call at **Neutral** with TP of RM0.33. We are also expecting the acquisition of DP1 and DP2 to be completed by the end of the year, and to remain Shariah-compliant as the RM600m is of a 7-year term Islamic vessel financing.

- **1HFY14.** Improvement in revenue is attributed to the increase in sales on downstream chemical and contribution from subsea contract in the North Sea. This is further enhanced by 95.6% utilisation of SD1 and SD2 for the long-term contract with Technip in 2QFY14. We expect this trend going forward, up until the end of the respective contracts' life.
- **Polymer (Revenue: 3% contribution),** as per last quarter remains constant, from slow growth of the industry coupled with continued foreign competition. Daya will continuously be looking for alternative business models to ensure the consistency of this division's contribution.
- **O&G (Revenue: 55% contribution),** will continue to be Daya's main growth driver, enhanced by i) assumed full utilisation of SD1 and SD2 which have been deployed to the North Sea since March 2014, ii) associate contributions from Reach Energy (initial amount RM10m) who is expected to identify a qualifying acquisition by this year, iii) downstream chemicals and specialised lifting services, iv) going forward, improved margins upon acquisition of SD1 and SD2.
- **Technical Services (Revenue: 41% contribution)** saw improved progress in several of its projects that were previously delayed, thus higher revenue was recognized this year. Daya will continue to leverage on its engineering expertise to build and execute its >RM1bn orderbook.
- **Neutral.** We are not overly enthused about the multiple fund raising proposals to acquire SD1 and SD2, which will severely dilute the Group's EPS. Our FY15F earnings is maintained as we see that any savings from the operational side from owning the vessels will be negated by heightened financing costs.

KEY FORECAST TABLE

FYDec (RMm)	2012A	2013A	2014F	2015F	2016F	CAGR
Revenue	296.6	523.8	672.4	818.7	900.6	32.0%
Operating Profit	31.9	17.2	25.0	80.2	88.2	28.9%
Pre-tax Profit	28.4	11.5	17.3	75.3	83.4	30.9%
Core Net Profit	20.2	3.6	12.8	55.7	61.7	32.2%
EPS (Sen)	1.7	0.3	0.9	4.1	4.5	28.6%
P/E (x)	17.6	95.1	31.0	7.1	6.4	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Dividend Yield	0.9%	0.9%	0.9%	0.9%	0.9%	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>2Q14</u>	<u>2Q13</u>	<u>1Q14</u>	<u>QoQ Chg</u>	<u>YoY Chg</u>	<u>YTD 14</u>	<u>YTD 13</u>	<u>YoY Chg</u>	<u>Comments</u>
Revenue	174.1	131.1	129.3	35%	33%	303.4	231.2	31%	Higher revenue contribution from O&G and Technical Services segments.
Cost of sales	-143.9	-110.3	-113.4	27%	30%	-257.3	-195.3	32%	
Gross profit	30.2	20.8	15.9	90%	46%	46.1	35.9	29%	
Other income	1.4	0.9	0.6	>100%	67%	2.1	1.4	52%	
Other expenses	-20.7	-10.1	-11.7	77%	104%	-32.4	-17.0	91%	
Operating profit	11.0	11.5	4.8	>100%	-5%	15.8	20.2	-22%	
Finance costs	-2.3	-1.6	-2.0	14%	44%	-4.3	-2.9	48%	
Share of results of associated companies	0.1	0.1	0.2	-46%	-26%	0.3	0.2	27%	
Pre-tax profit	8.8	10.0	3.0	>100%	-12%	11.8	17.6	-33%	Lower due to higher operating expenses and set up costs in the subsea business.
Tax	-3.0	-2.9	-2.0	48%	4%	-5.0	-5.4	-7%	Higher effective tax rate of 34% this qtr, due to losses incurred on some of the subsidiaries of the Group and certain expenses were not deductible for tax purposes.
Net profit	5.8	7.1	1.0	>100%	-19%	6.8	12.2	-44%	
Minorities	-1.1	-0.4	-0.1	>100%	178%	-1.2	-0.4	>100%	
Core net profit	4.7	6.7	0.9	>100%	-31%	5.6	11.8	-52%	
EPS (sen)	0.3	0.5	0.1	>100%	-37%	0.4	1.0	-57%	
Gross Margin	0.2	0.2	0.1	41%	10%	0.3	0.3	-4%	
Pre-tax Margin	0.1	0.1	0.0	>100%	-34%	0.1	0.2	-51%	
Net Margin	0.0	0.1	0.0	>100%	-48%	0.0	0.1	-66%	
Revenue	174.1	131.1	129.3	35%	33%	303.4	231.2	31%	
Polymer	5.9	6.0	5.7	3%	-1%	11.6	11.7	0%	
Oil & Gas	96.6	79.1	52.8	83%	22%	149.4	114.4	31%	Higher sales on downstream chemical and contribution from subsea contract in the North Sea.
Technical Services	71.6	46.0	70.8	1%	56%	142.4	105.2	35%	Increase in revenue is due to improved progress in several of its projects which were previously delayed, hence higher revenue recognised this qtr.

Source: Company

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RMm)	2012A	2013A	2014F	2015F	2016F
Revenue	296.6	523.8	672.4	818.7	900.6
Operating Profit	31.9	17.2	25.0	80.2	88.2
Other Income	16.5	5.4	6.9	8.4	9.2
Selling & Distribution Expenses	-1.0	-1.1	-1.4	-1.7	-1.9
Administration Expenses	-29.2	-65.3	-74.0	-65.7	-72.2
Pre-tax Profit	28.4	11.5	17.3	75.3	83.4
Income Tax	-8.3	-7.2	-4.3	-18.8	-20.8
Effective Tax Rate (%)	29.1	63.1	25.0	25.0	25.0
Minorities	0.1	-0.6	-0.2	-0.8	-0.8
Core Net Profit	20.2	3.6	12.8	55.7	61.7
Growth					
Revenue (%)	0.1	0.8	0.3	0.2	0.1
Gross Profit (%)	0.1	0.7	0.2	0.5	0.1
Net Profit (%)	0.2	-0.8	2.6	3.4	0.1

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RMm)	2012A	2013A	2014F	2015F	2016F
Property, plant and equipment	100.0	143.8	176.8	182.9	188.4
Inventories	14.2	17.5	31.7	37.2	41.0
Trade receivables	88.9	127.0	163.0	198.4	218.3
Cash and bank balances	62.8	70.0	129.3	119.1	173.6
Total Assets	378.1	525.2	662.4	699.5	783.4
ST Borrowings	17.9	77.8	85.9	35.0	35.0
LT Borrowings	48.9	63.3	63.3	63.3	63.3
Trade Payables	94.5	138.3	179.7	210.9	232.0
Minority Interests	0.0	1.3	1.5	2.2	3.0
Total Liabilities	167.5	283.3	332.8	313.1	334.2
Total Equity	210.6	242.0	329.6	386.4	449.2
Total Equity and Liabilities	378.1	525.2	662.4	699.5	783.4

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2012A	2013A	2014F	2015F	2016F
Book Value Per Share	0.2	0.2	0.2	0.3	0.3
NTA Per Share	0.2	0.2	0.2	0.3	0.3
EPS (Sen)	1.7	0.3	0.9	4.1	4.5
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.2	0.9	0.3	0.1	0.1
ROA (%)	5.3	0.8	2.0	8.1	8.0
ROE (%)	9.6	1.8	4.0	14.7	14.0

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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