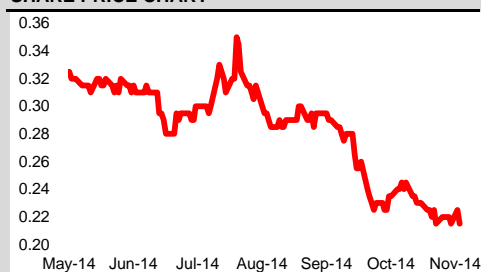


**DAYA MATERIALS BERHAD**
*Neutral*
**DESCRIPTION**

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

<b>12-Month Target Price</b>	RM0.250
<b>Previous Target Price</b>	RM0.330
<b>Current Price</b>	RM0.215
<b>Expected Return</b>	18.6%
<b>Market</b>	Main
<b>Sector</b>	Oil & Gas
<b>Bursa Code</b>	0091
<b>Bloomberg Ticker</b>	DAYA MK
<b>Shariah-compliant</b>	Yes

**SHARE PRICE CHART**


<b>52 Week Range (RM)</b>	0.22-0.46
<b>3-Month Average Vol ('000)</b>	10,272.2

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	-8.5	-28.3	-32.8
Relative Returns	-9.5	-26.2	-31.9

**KEY STOCK DATA**

<b>Market Capitalisation (RM m)</b>	298.6
<b>No. of Shares (m)</b>	1,388.8

**MAJOR SHAREHOLDERS**

	%
Tan Sri Dato' Sri Koh Kin Lip	5.8
Nathan Tham Jooi Loon	5.4
Lim Soon Foo	4.7

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## A Better Quarter

Daya Materials' (Daya) 9MFY14 revenue is within expectations, recording RM482.1m (+29.0% YoY, +2.7% QoQ), with earnings below YoY expectations at RM14.6m (-23.3% YoY, +91.2% QoQ), but which exceeded our estimates however. The Group's results were positive this quarter from higher contributions from the O&G and technical services segments, but YTD remains affected by higher operating expenses and set-up costs in the subsea business. We foresee the Group's challenges to persist for the interim, amplified further by the poor sentiment of the industry from falling oil prices coupled with the vessel acquisitions which would affect the Group's performance. We thus maintain our **Neutral** call with a re-rated TP of RM0.25 premised on our FY15F EPS of 2.5sen, pegged to a 10.0x PE. We have adjusted our earnings estimates to account for the higher costs going forward. Daya's performance despite the re-rating, is supported by SD1 and SD2 tied to LT charters coupled with upside from its growing technical services and polymer divisions to meet our FY15F estimates.

- **Cautious outlook**, pending the acquisition of DP1 and DP2 to be completed 1QFY15. Daya will remain Shariah-compliant as the RM600m is of a 7-year term Islamic vessel financing. Daya's bottom-line performance furthermore remains affected by higher operating expenses such as the prolonged set up costs of the subsea business. From our previous note we discussed our issues of the above acquisition which would potentially severely dilute the Group's EPS from higher finance costs which could offset any anticipated earnings gains. This scenario however would be diminished in the long-run pending the replenishment of orderbook. 3QFY14 saw 3 new contracts worth RM90m added to its orderbook, with its tender book to expand to >RM2.2bn.
- **O&G (Revenue: 48% contribution)**, was spurred by the long-term deployment of SD1 and SD2 in the North Sea since March 2014 whereby both vessel contracts have been extended to 7 years. In 3QFY14, the Group achieved 100% SD1 and 98.9% SD2 utilization rate with this trend expected to continue. Going forward, pending the finalization of the acquisition of SD1 and SD2, Daya should see improved owned-vessel margins. For the downstream business, the downstream chemicals and specialized lifting services continue to contribute positively to the Group.
- **Other segments**. Technical Services will perform well as the Group builds and execute its orderbook. Daya will continue to leverage on its engineering expertise to expand its revenue stream, secure new contracts and build its overall brand equity. Polymer business remains subdued from the 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.

**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	63.8	70.2	21.8%
Pre-tax Profit	28.4	11.5	17.3	59.0	65.3	23.2%
Core Net Profit	20.2	3.6	12.8	43.6	48.4	24.4%
EPS (Sen)	1.7	0.2	0.7	2.5	2.8	14.4%
P/E (x)	13.0	88.2	28.7	8.4	7.6	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Dividend Yield	1.2%	1.2%	1.2%	1.2%	1.2%	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec (RM m)</u>	<u>3Q14</u>	<u>3Q13</u>	<u>2Q14</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	178.7	142.4	174.1	2.7%	25.5%	482.1	373.6	29.0%	Higher revenue contribution from O&G and Technical Services segments.
Cost of sales	-153.1	-117.0	-143.9	6.5%	30.9%	-410.4	-312.4	31.4%	
Gross profit	25.6	25.4	30.2	-15.4%	0.8%	71.7	61.2	17.1%	
Other income	1.7	0.6	1.4	22.2%	211.6%	3.8	1.9	98.5%	
Other expenses	-15.0	-14.2	-20.7	-27.4%	6.2%	-47.4	-31.1	52.2%	
Operating profit	12.3	11.8	11.0	11.9%	4.3%	28.1	32.0	-12.3%	
Finance costs	-2.8	-1.7	-2.3	23.7%	62.1%	-7.1	-4.7	53.1%	
Share of results of associated companies	0.2	0.1	0.1	115.8%	175.9%	0.5	0.3	65.7%	
<b>Pre-tax profit</b>	<b>9.7</b>	<b>10.1</b>	<b>8.8</b>	<b>10.1%</b>	<b>-4.3%</b>	<b>21.5</b>	<b>27.7</b>	<b>-22.4%</b>	<b>Lower due to higher operating expenses and set up costs in the subsea business.</b>
Tax	-3.0	-3.0	-3.0	0.3%	0.6%	-8.0	-8.4	-4.4%	
Net profit	6.7	7.1	5.8	15.1%	-6.4%	13.5	19.3	-30.2%	
Minorities	2.3	0.1	-1.1	-304.3%	2176.0%	1.1	-0.3	-484.8%	
<b>Core net profit</b>	<b>8.9</b>	<b>7.2</b>	<b>4.7</b>	<b>91.2%</b>	<b>23.8%</b>	<b>14.6</b>	<b>19.0</b>	<b>-23.3%</b>	
EPS (sen)	0.6	0.6	0.3	88.2%	10.3%	1.1	1.5	-31.8%	
Gross Margin	0.1	0.2	0.2	-17.6%	-19.7%	0.4	0.5	-9.8%	
Pre-tax Margin	0.1	0.1	0.1	7.2%	-23.8%	0.1	0.2	-42.6%	
Net Margin	0.1	0.1	0.0	86.2%	-1.4%	0.1	0.2	-44.7%	
<b>Revenue</b>	<b>178.7</b>	<b>142.4</b>	<b>174.1</b>	<b>2.7%</b>	<b>25.5%</b>	<b>482.1</b>	<b>373.6</b>	<b>29.0%</b>	
Polymer	4.7	4.5	5.9	-19.6%	4.6%	16.4	16.2	1.1%	
Oil & Gas	86.5	85.6	96.6	-10.4%	1.2%	235.9	199.9	18.0%	Higher sales from long-term subsea contract in the North Sea since March 2014.
Technical Services	87.4	52.3	71.6	22.1%	67.2%	229.8	157.5	45.9%	Increase in revenue is due to improved progress in existing projects and completion of several projects.

Source: Company

**KEY FINANCIAL DATA**
**INCOME STATEMENT DATA**

<b>FYE Dec (RMm)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Revenue	296.6	523.8	672.4	818.7	900.6
Operating Profit	31.9	17.2	25.0	63.8	70.2
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	59.0	65.3
Income Tax	-8.3	-7.2	-4.3	-14.7	-16.3
Effective Tax Rate (%)	29.1	63.1	25.0	25.0	25.0
Minorities	0.1	-0.6	-0.2	-0.6	-0.7
<b>Core Net Profit</b>	<b>20.2</b>	<b>3.6</b>	<b>12.8</b>	<b>43.6</b>	<b>48.4</b>
<b>Growth</b>					
Revenue (%)	0.1	0.8	0.3	0.2	0.1
Gross Profit (%)	0.1	0.7	0.2	0.3	0.1
Net Profit (%)	0.2	-0.8	2.6	2.4	0.1

Source: Company, PublicInvest Research estimates

**BALANCE SHEET DATA**

<b>FYE Dec (RMm)</b>	<b>2012A</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Property, plant and equipment	100.0	143.8	176.8	182.9	188.4
Inventories	14.2	17.5	31.7	38.1	41.9
Trade receivables	88.9	127.0	163.0	198.4	218.3
Cash and bank balances	62.8	70.0	129.3	111.0	152.5
<b>Total Assets</b>	<b>378.1</b>	<b>525.2</b>	<b>662.4</b>	<b>692.3</b>	<b>763.2</b>
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	216.0	237.6
Minority Interests	0.0	1.3	1.5	2.0	2.7
<b>Total Liabilities</b>	<b>167.5</b>	<b>283.3</b>	<b>332.8</b>	<b>318.2</b>	<b>339.8</b>
<b>Total Equity</b>	<b>210.6</b>	<b>242.0</b>	<b>329.7</b>	<b>374.1</b>	<b>423.4</b>
<b>Total Equity and Liabilities</b>	<b>378.1</b>	<b>525.2</b>	<b>662.4</b>	<b>692.3</b>	<b>763.2</b>

Source: Company, PublicInvest Research estimates

**PER SHARE DATA & RATIOS**

<b>FYE Dec</b>	<b>2012A</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Book Value Per Share	0.2	0.2	0.2	0.2	0.2
NTA Per Share	0.2	0.2	0.2	0.2	0.2
EPS (Sen)	1.7	0.2	0.7	2.5	2.8
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	6.4	6.4
ROE (%)	9.6	1.8	4.0	11.9	11.6

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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