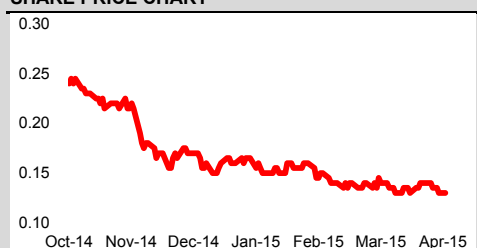


**DAYA MATERIALS BERHAD**
*Neutral*
**DESCRIPTION**

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>	RM0.150
<b>Current Price</b>	RM0.130
<b>Expected Return</b>	15.4%
<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>	0.13-0.36
<b>3-Month Average Vol ('000)</b>	13033.9

**SHARE PRICE PERFORMANCE**

	1M	3M	6M
Absolute Returns	-7.1	-21.2	-44.7
Relative Returns	-9.6	-21.3	-47.0

**KEY STOCK DATA**

<b>Market Capitalisation (RM m)</b>	214.7
<b>No. of Shares (m)</b>	1651.8

**MAJOR SHAREHOLDERS**

	%
Lim Thean Shiang	6.1
Tan Sri Dato' Sri Koh Kin Lip	4.7
Nathan Tham Jooi Loon	4.6

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## Acquires SD1 Only

Daya Materials (Daya) announced last Friday to proceed with the proposed acquisition of Siem Daya 1, a dynamic positioning class 2 (DP2) offshore subsea construction vessel for a purchase consideration of USD120.0m (c.RM435.2m) from its initial proposal on 22 August 2014. The proposal has been re-negotiated and amended to acquire only one vessel instead of the previous proposition of two vessels from Siem Offshore Rederi AS (SORA), with no liabilities or costs to either party. As mentioned in our previous report that we anticipated some changes in plans which could be more positive to the Group as the acquisitions would dilute the Group's EPS severely from higher finance costs, offsetting any anticipated earnings gains. This scenario however would be diminished in the long-run pending the replenishment of its orderbook. We concur that amidst the oil price uncertainties looming that the decision to only take on one vessel onto the Group's balance sheet is more favourable. We retain our **Neutral** call with TP of RM0.15 premised on our FY15F EPS of 1.5sen, pegged to a 10.0x PE. The current orderbook stands at c.RM2.1bn with its longest contract to last until 2020.

- The details.** The SD1 MOA includes the revised SD1 purchase consideration to be adjusted lower to USD120.0m from USD140.0m. The acquisition will then be satisfied by i) USD90.0m (c.RM326.4m) cash consideration, and ii) issuance of RM denominated 4-year redeemable convertible secured bonds equivalent to USD30m. In event of exchange rate fluctuations, the difference between the issue amount and RM30.0m will be paid by Daya in cash.
- SD1 charter contract** is currently on a long-term charter basis to Technip Norge AS (Technip) in the North Sea and North Atlantic regions. The contract is for a period of up to 230 days/yr until year 2020. The scope of works in respect of the contract is for the provision of SD1 and SD2. Depending on the actual utilisation of the vessels, the estimated value of the contract is c.RM440.0m for each vessel for the contract duration of 7 years.
- Less dilutive.** We are pleased that the Group will not proceed with the proposed renounceable rights issue of Daya shares with free detachable warrants to raise gross proceeds of <RM230m before the exercise of warrants. Daya will proceed with the placement of the remaining portion of the ordinary shares of <25% of the issued and paid-up share capital which equates to 347.2m shares. The placement implementation timeline has been approved by Bursa Malaysia to be extended up to 6 months to 25 October 2015. To-date, RM43.4m has been raised via 263m placement shares at RM0.165 per share.

**KEY FORECAST TABLE**

FYE Dec (RMm)	2013A	2014A	2015F	2016F	2017F	CAGR
Revenue	523.8	633.5	691.7	709.9	711.5	8.0%
Operating Profit	17.2	-26.8	42.2	44.7	44.8	27.0%
Pre-tax Profit	11.5	-37.0	35.3	37.8	37.9	34.8%
Core Net Profit	3.6	-32.3	26.1	28.0	28.1	67.1%
EPS (Sen)	0.2	-1.9	1.5	1.6	1.6	61.0%
P/E (x)	65.0	n/a	8.7	8.1	8.1	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	

Source: Company, PublicInvest Research estimates

**Salient terms.** Daya will pay the USD8.6m (c.RM31.2m) balance by 30 June 2015, which will be held in an interest bearing account including the partial deposit of USD0.7m (c.RM2.5m) and monies paid previously in respect of SD2 to be utilised for the purpose of payment of the balance SD1 deposit.

Daya will sign a profit sharing agreement (PSA) with SORA, for the latter to be entitled 60% of Daya's PAT from operations of SD1, subject to the profit share amount to not exceed USD10.0m (c.RM36.3m). SORA will receive a 5-year call option to purchase SD1 at USD120.0m less any depreciation expenses but including interest costs and any profit share payment made. When the cumulative profit share is paid in full, the purchase option will automatically lapse.

**Source of funding.** Daya will fund the SD1 cash consideration of USD90.0m, USD1.6m (c.RM5.8m) for the SD1 Stores and Spares and USD2.3m (c.RM8.3m) for the crane through bank borrowings, internal generated funds and proceeds from the proposed placement.

**Acquiring SD1** will enable Daya to own and operate SD1 rather than chartering SD1 from SORA. This would furthermore enhance the operating cost structure of SD1 which would bode well for the Group's future profitability. We understand that this initiative is in line with Daya's business strategy to own operating assets and to extend its subsea services capabilities in the offshore area of O&G.

**Figure 1: Effect on Issued and Paid-Up Capital and Substantial Shareholder's Shareholding Upon Conversion of Bonds**

Minimum Scenario	:	<p>Based on the assumption:</p> <p>(i) the 3,000 DMB Shares held as treasury shares (“<b>Treasury Shares</b>”) are retained by the Company and are not resold to the market; and</p> <p>(ii) the Bonds will be fully redeemed at the maturity date.</p>
Maximum Scenario	:	<p>Based on the assumption:</p> <p>(i) the 3,000 Treasury Shares are retained by the Company and are not resold to the market; and</p> <p>(ii) the Bonds will be fully converted at the maturity date.</p>

Source: Company

**Figure 2: Issued and Paid-Up Share Capital**

	Minimum Scenario		Maximum Scenario	
	No. of DMB Shares ('000)	RM'000	No. of DMB Shares ('000)	RM'000
Issued and paid-up share capital as at 15 April 2015 <sup>(1)</sup>	1,651,816	165,182	1,651,816	165,182
New DMB Shares to be issued pursuant to the conversion of Bonds <sup>(2)</sup>	-	-	725,300	72,530
<b>Enlarged issued and paid-up share capital</b>	<b>1,651,816</b>	<b>165,182</b>	<b>2,377,116</b>	<b>237,712</b>

Notes:

(1) Based on existing issued and paid-up share capital and excluding 3,000 Treasury Shares as at 15 April 2015.

(2) Based on the assumption that up to approximately RM108.8 million (equivalent to approximately to USD30.0 million) in nominal value of Bonds is issued and the Conversion Price of RM0.15 for the Bonds.

Source: Company

**Figure 3: Net Asset and Gearing**

	Audited as at 31 December 2013 RM'000	Proforma I After adjustment for subsequent events <sup>(2)</sup> RM'000	Proforma II After Proforma I and the Proposed SD1 Acquisition <sup>(3)(4)</sup> RM'000	Proforma III(A) After Proforma II and assuming full redemption of Bonds RM'000	Proforma III(B) After Proforma II and assuming full conversion of <sup>(5)</sup> Bonds RM'000
Share capital	126,304	165,182	165,182	165,182	237,712
Share premium	25,759	71,414	71,414	71,414	107,679
Foreign currency translation reserve	1,121	1,121	1,121	1,121	1,121
Treasury shares	(1,016)	(1)	(1)	(1)	(1)
Equity component of Bonds	-	-	4,186	-	-
Retained earnings	88,516	88,516	86,516	85,127	85,127
<b>Shareholders' funds/NA</b>	<b>240,683</b>	<b>326,232</b>	<b>328,398</b>	<b>322,843</b>	<b>431,638</b>
No. of DMB Shares in issue ('000)	<sup>(1)</sup> 1,257,817	1,651,816	1,651,816	1,651,816	2,377,116
NA per DMB Share (RM)	0.19	0.20	0.20	0.20	0.18
Total borrowings (RM '000)	141,111	141,111	569,880	466,639	466,639
Gearing ratio (times)	0.59	0.43	1.74	1.45	1.08

Notes:

\* Negligible.

(1) Computed net of 5,220,700 Treasury Shares as at 31 December 2013.

(2) Adjustments for subsequent events include:

(a) resale of 5,220,700 DMB Shares held as treasury shares for a total cash consideration of RM2,164,724 and purchase of an additional 3,000 DMB Shares by the Company as treasury shares for a total cash consideration of RM879; and

(b) issuance of 125,781,000 DMB Shares at RM0.345 per DMB Share under a private placement exercise which was completed on 3 January 2014, raising a total cash consideration of RM43,394,445 and net of expenses in relation to the private placement exercise of RM0.9 million; and

(c) Issuance of 233,000,000 DMB Shares at RM0.165 per DMB Share and 30,000,000 DMB Shares at RM0.165 per DMB Share under a private placement exercise which was completed on 19 December 2014 and 31 December 2014, respectively, raising a total cash consideration of RM43,395,000 and net of expenses in relation to the private placement exercise of RM2.4 million.

Source: Company

**Figure 4: SD1 Profile**

Builder of vessel	:	Vard AS Brattvaag, Norway
Type	:	Multi-Purpose Offshore Vessel
Classification	:	Det Norske Veritas (DNV) Germanscher Lloyd (GL)
Design	:	STX OSV 11L
Length overall	:	120.8 metres
Breath	:	22.0 metres
Deadweight tonnage	:	5,000 tonnes
Environmental regulatory number	:	99,99,99,80
Deck space	:	1,300 square metres
Dynamic positioning (DP) system	:	DP II (Kongsberg)
Accommodation	:	110 persons
Main engines	:	4x Wartsila W6L32 D
Main crane	:	250 tonnes (National Oilwell Varco) and 50 tonnes (National Oilwell Varco)
Service life of SD1 to-date	:	19 months
Net book value as at 31 December 2013	:	DMB has used its best endeavour to obtain such information. However, DMB is not privy to the information on the net book value of SD1 and as such is unable to disclose such information.

Source: Company

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

<b>FYE Dec (RMm)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Revenue	523.8	633.5	691.7	709.9	711.5
Operating Profit	17.2	-26.8	42.2	44.7	44.8
Other Income	5.4	6.1	6.7	6.9	6.9
Selling & Distribution Expenses	-1.1	-1.3	-1.4	-1.5	-1.5
Administration Expenses	-65.3	-78.9	-86.2	-88.5	-88.7
Pre-tax Profit	11.5	-37.0	35.3	37.8	37.9
Income Tax	-7.2	3.8	-8.8	-9.5	-9.5
Effective Tax Rate (%)	63.1	10.1	25.0	25.0	25.0
Minorities	-0.6	0.9	-0.4	-0.4	-0.4
<b>Core Net Profit</b>	<b>3.6</b>	<b>-32.3</b>	<b>26.1</b>	<b>28.0</b>	<b>28.1</b>
<b>Growth</b>					
Revenue (%)	0.8	0.2	0.1	0.0	0.0
Gross Profit (%)	0.7	-0.4	1.8	0.0	0.0
Net Profit (%)	-0.8	-10.0	-1.8	0.1	0.0

Source: Company, PublicInvest Research estimates

**BALANCE SHEET DATA**

<b>FYE Dec (RMm)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Property, plant and equipment	143.8	174.0	180.0	185.4	192.1
Inventories	17.5	23.2	42.5	43.6	43.7
Trade receivables	127.0	110.8	120.9	124.1	124.4
Cash and bank balances	70.0	83.6	73.1	133.2	193.9
<b>Total Assets</b>	<b>525.2</b>	<b>604.4</b>	<b>596.8</b>	<b>666.6</b>	<b>734.6</b>
ST Borrowings	77.8	57.5	57.5	57.5	57.5
LT Borrowings	63.3	80.6	80.6	80.6	80.6
Trade Payables	138.3	135.4	130.6	133.7	134.0
Minority Interests	1.3	20.0	20.3	20.7	21.1
<b>Total Liabilities</b>	<b>283.3</b>	<b>283.1</b>	<b>278.4</b>	<b>281.5</b>	<b>281.8</b>
<b>Total Equity</b>	<b>242.0</b>	<b>321.3</b>	<b>318.4</b>	<b>385.2</b>	<b>452.9</b>
<b>Total Equity and Liabilities</b>	<b>525.2</b>	<b>604.4</b>	<b>596.8</b>	<b>666.6</b>	<b>734.6</b>

Source: Company, PublicInvest Research estimates

**PER SHARE DATA & RATIOS**

<b>FYE Dec</b>	<b>2013A</b>	<b>2014A</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</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)	0.2	-1.9	1.5	1.6	1.6
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.9	-0.1	0.2	0.2	0.2
ROA (%)	0.8	-5.5	4.4	4.3	3.9
ROE (%)	1.8	-11.0	8.9	7.8	6.6

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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### **Published and printed by:**

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