

Stock Snippet – Dayang

We met the management two days ago and the key takeaways are as follows:-

Strong Earnings Visibility

Dayang's current outstanding order book stands at approximately RM5.3bn after recent wins of 4 major Pan-Malaysia HUC jobs secured from the Murphy Sarawak (RM314m), JX Nippon (RM100m), Petronas Carigali (RM1.3bn) and Sarawak Shell & Sabah Shell (RM2.4bn) in May 2013. We see strong earnings visibility from the recently secured RM4.1bn worth of Pan-Malaysia HUC contracts. Based on the FY10-12 average offshore maintenance net margin of 23%, we estimate that these 4 major contracts will likely to contribute circa RM190m per annum to the Group's bottom-line. As the management guided that the HUC jobs may need to go through an approximately 6 months of mobilization period, we estimate contribution from these 4 new major contracts will have minimal impact to FY13's earnings but full impact to the FY14's earnings onwards.

Concern of Execution Risk

We believe the current share price consolidation premise from the fact that market is concern of its execution risk given its unprecedented order book size of RM5.3bn. Management too acknowledged the problem of scarcity of skill workers in the oil and gas (O&G) industry but is confident to overcome the issue to ensure that it will continue to deliver just like in the past. We reckon that manpower shortage will not be too great of an issue for Dayang given that they have been building on its workforce since a year ago and their past experience in supply of manpower business will give Dayang an edge over its competitors. Dayang's superior margin over its competitors is also an advantage as they can afford to pay more to attract workforce.

Harvesting Time

Management has also guided that the Group will temporarily stop tendering for more jobs to focus on the execution of the existing huge contracts. We see this would be a good strategy for the Group as result delivery is much more important for the Group now. We expect the Group may start tendering again next year.

Maintaining 26% Stake in Perdana

Dayang is the single largest shareholder with 26.1% stake in Perdana Petroleum (Perdana). With the strategic tie-up with Perdana, Dayang will have an extensive savings on upfront capex outlay on marine assets and share on Perdana's profit turnaround backed by RM500m offshore supply vessels contract won in Jan 2013. According to the management, the Group will continue to maintain its current 26.1% stake in Perdana to enjoy the associate profit without the intention to add on additional stake for the time being.

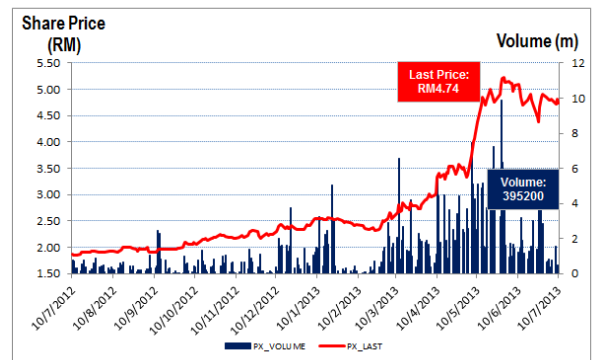
Reiterate 'Buy'

Dayang's impressive growth trajectory over the next five years following the recent RM4.1billion worth of 4 major Pan-Malaysia HUC contracts won in May 2013 has significantly drove the share price to reach its all-time high of RM 5.35. Year to date, Dayang's share price has registered a gain of 99%. Assuming a smooth execution on the existing RM5.3b contracts, we expect Dayang to achieve a net profit of approximately RM230m pa started FY14. Based on the FY14F PER of 11.3x, we reiterate 'Buy' on Dayang.

Summary

Share Price (RM)	4.74
52-Week Low/High (RM)	1.91 – 5.35
Market Value (RM m)	2,607.0
Shares Outstanding (RM1.00 par)	550m
Dividend Yield	2.1%
Return on Equity	17.0%
FY2014F EPS	42 sen
P/E	11.3x

Chart 1: Price and Volume (1 Yr)



Source: Bloomberg

Financial (FYE 31 Dec)

	2008	2009	2010	2011	2012
Revenue (RMm)	181	197	255	382	401
EPS (sen)	31.5	12.7	14.0	15.4	18.4
Dividend (sen)	10.4	5.0	10.0	10.0	10.0

Source: Bloomberg

Contract Details	Balance Value 'as at May 13 (RM'm)	Contracts End
Petronas Carigali: TSM*	580	Feb-16
Petronas Carigali: HUC#	40	Mar-12
Murphy Sabah: TMM**	80	Mar-13
Brunei Shell Petroleum: Dayang Zamrud Charter	90	Feb-17
Sarawak Shell & Sabah Shell: TSM	270	Mar-15
Talisman TSM	110	Oct-15
Murphy Sarawak: HUC#	314	May-18
Sarawak Shell & Sabah Shell: HUC#	2,400	May-18
Petronas Carigali: HUC#	1,300	May-18
JX Nippon: HUC#	100	May-18
Total	5,284	

*TSM=Topside Structural Maintenance

#HUC=Hook-up & Commissioning

**TMM=Topside major maintenance

Source: Company Corporate Presentation

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For Phillip Capital Management Sdn Bhd



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