

Dyna-Mac (DMHL SP)

FY23E likely strong; FY24E should be solid

FY23E likely ended strong

We believe Dyna-Mac will likely end FY23E with a bang, with estimated revenue of SGD367m and NPAT of SGD20.7m, representing 28.4% YoY EPS growth (4Q results due end feb). Most importantly, we expect stronger FY24 growth as it grew capacity by 50-60%. We expect cost savings from lower logistics and warehousing expenses to be enough to cover the recent acquisition, which cost USD8.25m. We also expect order wins of SGD200-400m by 1H24E, potentially lifting its orderbook (SGD630.7m at 2 Oct-23). As FPSO charter rates are still rising and with FPSO orders in the pipeline, we expect Dyna-Mac to continue to benefit significantly from this trend. Maintain BUY and TP of SGD0.38, based on a target 16.5x FY24E P/E.

Cost savings should cover acquisition cost

After expanding by leasing more land from JTC, Dyna-Mac said it will acquire Exterran Offshore (not listed). The acquisition comes with about 4.5ha of yard facilities next to its main facility with lease until 2030. This will extend its waterfront length by 680 metres. The acquisition costs USD8.25m, but comes with USD2.51m cash and net book value is USD3.65m. The net cost of the acquisition is USD6.1m, equivalent to about USD1.02m a year. We understand that Dyna-Mac previously used third-party warehousing due to the lack of capacity and this incurred additional logistics cost. We expect cost savings to easily cover the USD1.02m/year for the acquisition. It will also re-organise the layout of the entire facility, which should help lift operating efficiency.

FPSO charter rates and outlook still strong

FPSO charter rates are still trending up due to the lack of supply. FPSO new builds have been increasing, with the pipeline of upcoming FPSOs still strong. We expect Dyna-Mac to secure SGD200-400m more orders by 1H24.

Dyna-Mac is a conviction pick

We believe increase in capacity through this acquisition signals management's bullishness of winning new orders, which would likely lead to higher revenue and profits. Dyna-Mac remains one of our top SMID conviction picks.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	220	291	367	459	528
EBITDA	4	12	19	27	31
Core net profit	6	13	21	29	33
Core EPS (cts)	0.5	1.3	1.7	2.3	2.6
Core EPS growth (%)	nm	136.3	28.4	38.6	14.2
Net DPS (cts)	0.0	0.3	0.5	0.7	0.8
Core P/E (x)	16.6	14.5	14.8	10.6	9.3
P/BV (x)	3.2	4.5	4.8	3.3	2.5
Net dividend yield (%)	0.0	1.5	2.0	2.7	3.1
ROAE (%)	21.3	36.8	38.8	37.0	30.5
ROAA (%)	2.9	5.3	7.0	8.3	8.1
EV/EBITDA (x)	nm	0.9	4.2	1.1	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	21	29	33
MIBG vs. Consensus (%)	-	-	(0.2)	0.1	(0.1)

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BUY

Share Price	SGD 0.25
12m Price Target	SGD 0.38 (+55%)
Previous Price Target	SGD 0.38

Company Description

Dyna-Mac undertakes engineering, procurement, fabrication, onshore pre-commissioning & commissioning of topside modules mainly in the O&G industry

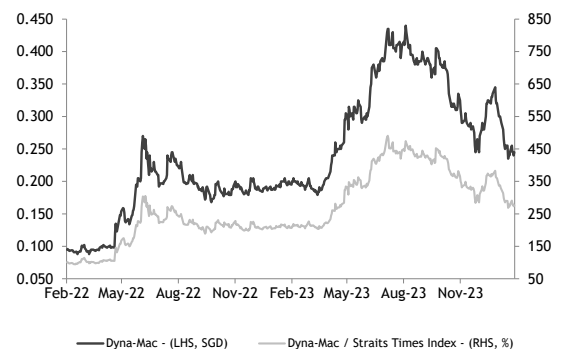
Statistics

52w high/low (SGD)	0.44/0.18
3m avg turnover (USDm)	1.2
Free float (%)	38.2
Issued shares (m)	1,243
Market capitalisation	SGD304.6M
	USD227M

Major shareholders:

Estate of Tze Jong Lim	32.4%
Keppel Corp. Ltd.	24.3%
TEO BOON HWEE	2.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(29)	(22)	23
Relative to index (%)	(28)	(25)	30

Source: FactSet

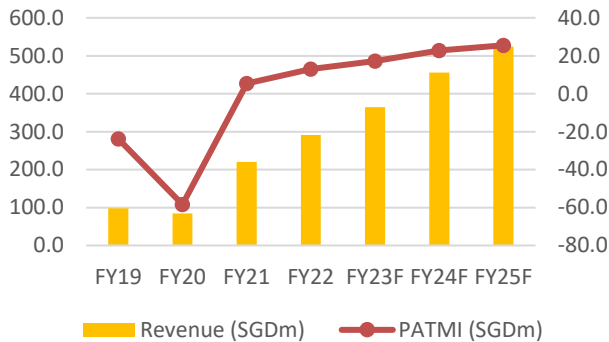
FPSO - Floating, production, storage and offloadingEPC - Engineering, procurement and construction

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Global EPC service provider to the world’s energy market. Dyna-Mac has 2 fabrication yards in Singapore totalling 140,000 sqm.
- Zero debt and SGD128.5m net cash, which could fund inorganic growth to fast track earnings growth.
- Riding the O&G industry’s tailwind; we forecast 30% earnings CAGR for the next 2 years despite being loss-making in FY20.
- We expect Dyna-Mac to continue to win larger contracts.
- It has clear ESG policies and strategies.

Revenue and net profit trend

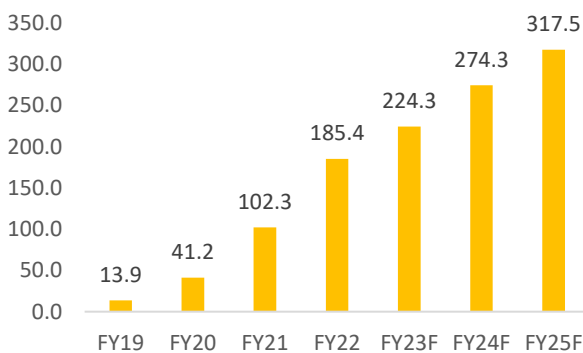


Source: Company

Financial Metrics

- Revenue more than doubled since new management came on board in FY20, and we forecast 30% growth pa for the next 2 years.
- Turned around from a loss of SGD58.4m in FY20 to a profit of SGD13.4m in FY22.
- Strong net cash position with no debt.

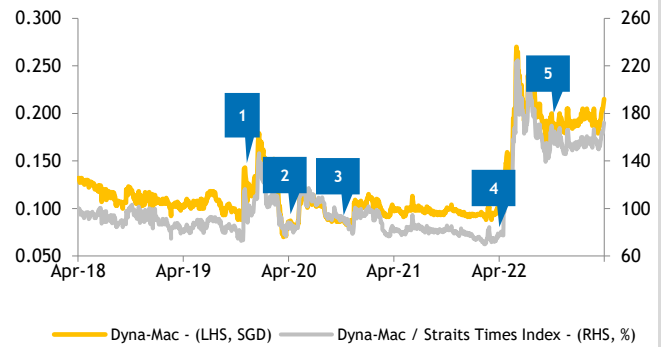
Dyna-Mac is in a net cash position (SGDm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. In Feb’20, issued profit warning of a loss for FY19.
2. In Mar’20, the new CEO and management team joined the company.
3. In Feb’21, announced FY20 loss of SGD58.4m.
4. In May’22, said it won a SGD180m order and subsequently announced a strong outlook for 2022.
5. Oil price weakened due to fears of a global recession after the spike caused by the Russia-Ukraine war.

Swing Factors

Upside

- Riding the boom in the O&G sector.
- We expect Dyna-Mac to win larger contracts, boosting its revenue and order book, which is already at a high.
- Inorganic growth through acquisitions due to net cash balance sheet.
- We forecast strong organic earnings growth of at least 30% CAGR for the next 2 years.

Downside

- Decline in oil price will reduce investments in the O&G space.
- Higher labour costs will reduce margins.
- New competitors entering the industry may temporarily reduce Dyna-Mac’s market share.

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Risk Rating & Score ¹	Not Rated
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- As a global multi-disciplinary contractor for the O&G industry, the group places significant emphasis on protecting the environment. Dyna-Mac has also ventured into adjacent areas like LNG modules and renewable energy in decarbonisation with a focus on green hydrogen/ammonia production modules. By diversifying and leveraging its core capabilities, Dyna-Mac is poised to move up the value chain and ride the changing demands of the energy industry.
- The group has restructured payment terms with customers (i.e. requesting more up-front payment for contracts), repaid all its debts as well as focusing on its key expert area (FPSOs), which has seen growing investments by O&G producers. Dyna-Mac also streamlined its operations and improved efficiency, boosting margins as a result.
- The key risk would be another downturn in the O&G industry, which would result in a lull period and drop in profits. However, the group is actively looking for inorganic means to diversify into a more sustainable revenue source via maintenance or servicing revenue.

Material E issues

- The electricity usage in the yards is mainly for welding machines, CNC plasma cutting machines, band saw/pipe cutting machines, bevel machines of pipe joints, electrical hand tools, and main air-compressors and workshop lights. During 2021, Dyna-Mac implemented measures to reduce energy consumption.
- Fuel consumption is mainly diesel oil to operate vehicles and machines. Dyna-Mac schedules regular maintenance of vehicles and machines to ensure efficient working condition. To support the green initiative, the company has started to use electric forklifts instead of diesel-powered forklifts for the entire warehouse and use electric compressors instead of diesel-engine air compressors.
- Dyna-Mac recognises that proper waste management is crucial to protect the environment and ensure health and safety of the communities it operates in. Managing the proper disposal of waste is especially important for this industry. By shifting towards adoption of the 3Rs (Reduce, Reuse, Recycle), it can also reap cost savings for the business.

Material S issues

- To better manage and improve site operational efficiency, Dyna-Mac partnered with a licensed private HCP in June 2021 and was approved by the Ministry of Health to conduct the self-swab Rostered Routing Testing Polymerase Chain Reaction testing at the company's designated premises.
- The Flexible Work Arrangement Policy was established on 1 July 2021 to give employees work-life balance while upholding a strong sense of personal responsibility of work standards.

Key G metrics and issues

- The board has six directors, including the Executive Chairman, the CEO and four non-executive directors, of which two are independent.
- 40% of the board are females, which demonstrates good diversity.
- Under the Board Diversity Policy, the board strives to have one member with relevant experience in the Group's businesses or markets; and one member with professional qualification in accounting, legal or other professional backgrounds or disciplines as may be determined by the board to be necessary and/or beneficial to the Group.
- Management has also implemented the whistle-blowing policy by setting out the procedures that provide for the well-defined mechanism and accessible channel by which employees, vendors, contractors, service providers, customers and other stakeholders may in confidence, raise concerns about possible improprieties, misconduct, irregularities or malpractices relating to the company and its officers without fear of harassment or victimization.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Changes to our FY23-25 forecasts

	FY23E			FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	367.3	367.3	0.0	459.1	440.7	4.2	527.9	506.8	4.2
Gross profit (SGDm)	50.4	50.4	0.0	64.7	60.5	7.0	74.5	69.6	7.0
EBIT (SGDm)	19.3	19.3	0.0	26.8	24.2	10.3	30.5	27.6	10.5
EBITDA (SGDm)	19.3	19.3	0.0	26.8	24.2	10.3	30.5	27.6	10.5
Core net profit (SGDm)	20.7	20.7	0.0	28.6	25.9	10.3	32.7	29.6	10.5
EPS (SGD)	0.02	0.02	0.0	0.02	0.02	10.3	0.03	0.02	10.5
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margin	13.7%	13.7%	0.0	14.1%	13.7%	0.4	14.1%	13.7%	0.4
Net Margin	5.6%	5.6%	0.0	6.2%	5.9%	0.3	6.2%	5.8%	0.4

Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	18.0	12.6	14.8	10.6	9.3
Core P/E (x)	16.6	14.5	14.8	10.6	9.3
P/BV (x)	3.2	4.5	4.8	3.3	2.5
P/NTA (x)	(28.7)	12.7	7.9	4.4	2.9
Net dividend yield (%)	0.0	1.5	2.0	2.7	3.1
FCF yield (%)	67.3	44.3	14.4	20.0	18.5
EV/EBITDA (x)	nm	0.9	4.2	1.1	nm
EV/EBIT (x)	nm	0.9	4.2	1.1	nm
INCOME STATEMENT (SGD m)					
Revenue	220.2	291.5	367.3	459.1	527.9
EBITDA	4.3	11.8	19.3	26.8	30.5
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	4.3	11.8	19.3	26.8	30.5
Net interest income /(exp)	(0.1)	(0.0)	0.0	0.0	0.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	4.2	11.8	19.3	26.8	30.5
Income tax	1.4	1.6	1.4	1.9	2.1
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	5.6	13.4	20.7	28.6	32.7
Core net profit	5.6	13.4	20.7	28.6	32.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	106.3	185.4	223.4	275.9	322.9
Accounts receivable	57.8	30.1	38.0	47.5	54.6
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	33.4	28.7	24.8	21.7	19.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	30.4	31.4	30.3	30.2	30.2
Total assets	227.9	275.6	316.4	375.3	426.9
ST interest bearing debt	1.1	0.0	0.0	0.0	0.0
Accounts payable	75.7	79.0	96.3	119.8	137.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	3.0	0.0	0.0	0.0	0.0
Other liabilities	118.0	153.0	157.0	164.0	166.0
Total Liabilities	197.7	231.6	253.0	284.1	303.8
Shareholders Equity	29.6	43.2	63.3	91.3	123.1
Minority Interest	0.5	0.8	0.0	0.0	0.0
Total shareholder equity	30.2	44.0	63.3	91.3	123.1
Total liabilities and equity	227.9	275.6	316.4	375.3	426.9
CASH FLOW (SGD m)					
Pretax profit	4.2	11.8	19.3	26.8	30.5
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	0.9	(0.5)	0.0	0.0	0.0
Change in working capital	50.2	67.0	24.0	33.0	25.1
Cash taxes paid	0.0	0.3	2.6	3.1	2.9
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	63.6	88.6	46.0	62.9	58.5
Capex	(0.7)	(2.2)	(2.0)	(2.0)	(2.0)
Free cash flow	62.9	86.3	44.0	60.9	56.5
Dividends paid	0.0	0.0	(6.0)	(8.4)	(9.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(3.2)	(6.3)	0.0	0.0	0.0
Other invest/financing cash flow	(1.0)	(4.8)	0.0	0.0	0.0
Effect of exch rate changes	0.5	(0.2)	0.0	0.0	0.0
Net cash flow	59.2	75.1	37.9	52.6	46.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	162.0	32.4	26.0	25.0	15.0
EBITDA growth	nm	173.7	63.2	38.6	14.2
EBIT growth	nm	173.7	63.2	38.6	14.2
Pretax growth	nm	182.5	63.4	38.6	14.2
Reported net profit growth	nm	138.6	54.1	38.6	14.2
Core net profit growth	nm	138.6	54.1	38.6	14.2
Profitability ratios (%)					
EBITDA margin	2.0	4.1	5.3	5.8	5.8
EBIT margin	2.0	4.1	5.3	5.8	5.8
Pretax profit margin	1.9	4.1	5.3	5.8	5.8
Payout ratio	0.0	22.4	29.2	29.2	29.2
DuPont analysis					
Net profit margin (%)	2.6	4.6	5.6	6.2	6.2
Revenue/Assets (x)	1.0	1.1	1.2	1.2	1.2
Assets/Equity (x)	7.7	6.4	5.0	4.1	3.5
ROAE (%)	21.3	36.8	38.8	37.0	30.5
ROAA (%)	2.9	5.3	7.0	8.3	8.1
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	71.1	54.3	33.4	33.5	34.8
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	117.0	107.2	99.6	98.7	102.3
Dividend cover (x)	nm	4.5	3.4	3.4	3.4
Current ratio (x)	1.0	1.1	1.2	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.2	1.3	1.3	1.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	30.9	nm	nm	nm	nm
Debt/EBITDA (x)	0.9	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.3	0.8	0.5	0.4	0.4
Net debt/ (net cash)	(102.3)	(185.4)	(223.4)	(275.9)	(322.9)

Source: Company; Maybank IBG Research

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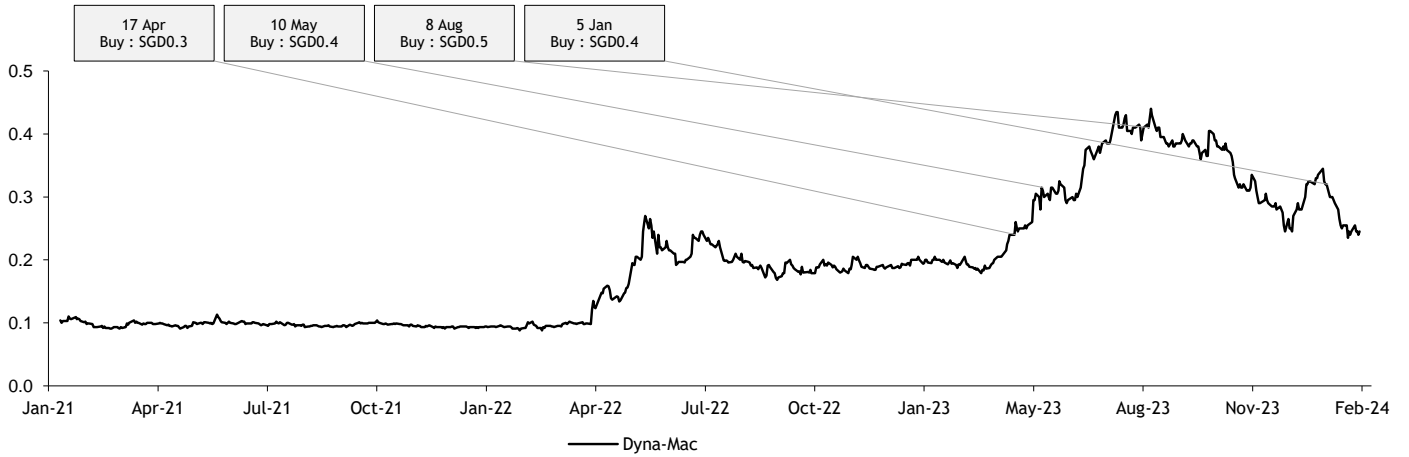
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