

Dyna-Mac (DMHL SP)

On the fast track

Lift TP to SGD0.42 from SGD0.38

Dyna-mac, one of our SMID conviction picks, reported strong FY23 NPAT of SGD28.69m, up 114% YoY and 39% above our of SGD20.7m forecast. This was driven by a rise in project volumes and improved productivity, tighter cost control and lucrative margins for new orders won. Management will need to reconfigure its production layout with its new land capacity to further improve productivity. This will allow third party warehousing, logistics and more ad-hoc jobs can to be done in-house, further improving margins. We remain bullish on the FPSO outlook and Dyna-mac to be a key beneficiary of this multi-year upcycle. We lift our FY24/25E PATMI by 31% and 34%, and raise our TP to SGD0.42 from SGD0.38, pegged to 15x FY24E P/E from 16.5x, which has accounted for warrant dilution.

Rising capacity to improve productivity, margins

Revenue rose 32.1% YoY to SGD385.2m while NPAT surged 114% YoY to SGD28.7m, well above our SGD20.7m forecast. With capacity up 60% on its new JTC lease and the acquisition of Exterran Offshore (not listed), we expect capex of SGD15-25m to reconfigure its layout and lift productivity. We also expect management to tender and win larger contracts in the range of SGD200-250m to SGD350-400m. We also understand that Dyna-Mac previously used third-party warehousing that incurred additional logistics cost. It also used its China JV partner to carry out certain projects that were maxed out in capacity and which yielded much lower margins. With excess capacity, we expect this to move in-house which will eventually save costs and lift overall margins.

SGD300-600m of potential contracts

FPSO charter rates are still trending up due to lack of supply. FPSO new builds are rising, with the pipeline of upcoming FPSOs still strong. We expect Dyna-Mac to secure SGD300-400m of orders by 1H24 and another 200-300m by 2H24 Order book stands at SGD438.2m, most of which will be recognised in FY24E.

Top conviction pick among sector small caps

We believe an increase in capacity, larger orders with better margins will likely lead to higher revenue and profits. Dyna-Mac remains one of our top SMID conviction picks.

| FYE Dec (SGD m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue | 291 | 385 | 404 | 465 | 535 |
| EBITDA | 12 | 25 | 32 | 37 | 43 |
| Core net profit | 13 | 29 | 34 | 40 | 46 |
| Core EPS (cts) | 1.3 | 2.3 | 2.7 | 3.2 | 3.7 |
| Core EPS growth (%) | 136.3 | 78.4 | 18.6 | 16.3 | 15.7 |
| Net DPS (cts) | 0.3 | 0.8 | 1.0 | 1.1 | 1.3 |
| Core P/E (x) | 14.5 | 14.5 | 9.9 | 8.5 | 7.3 |
| P/BV (x) | 4.5 | 6.0 | 3.3 | 2.4 | 1.8 |
| Net dividend yield (%) | 1.5 | 2.5 | 3.6 | 4.1 | 4.8 |
| ROAA (%) | 5.3 | 9.2 | 9.1 | 9.2 | 9.4 |
| EV/EBITDA (x) | 0.9 | 8.0 | 2.2 | 0.6 | nm |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Consensus net profit | - | - | 29 | 33 | na |
| MIBG vs. Consensus (%) | - | - | 19.0 | 21.0 | na |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | SGD 0.27 |
| 12m Price Target | SGD 0.42 (+56%) |
| 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 | SGD335.7M |
| | USD250M |

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 (%) | 6 | (5) | 38 |
| Relative to index (%) | 3 | (10) | 40 |

Source: FactSet

Abbreviations explained

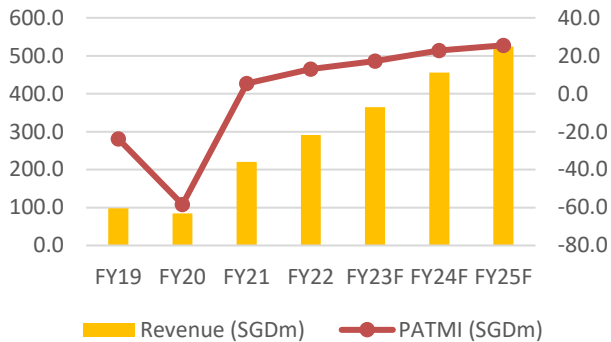
FPSO - Floating, production, storage and offloading
EPC - Engineering, procurement and construction
SMID - Small-Mid Caps
JTC - Jurong Town Council

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 in 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

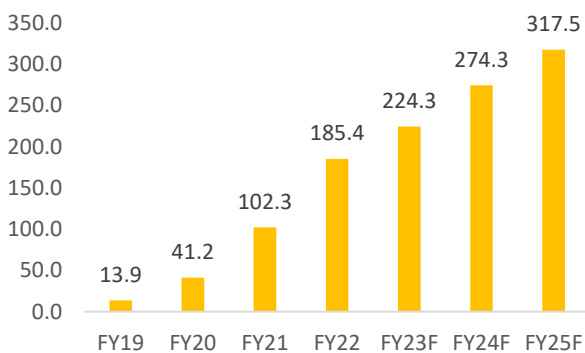


Source: Company

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.

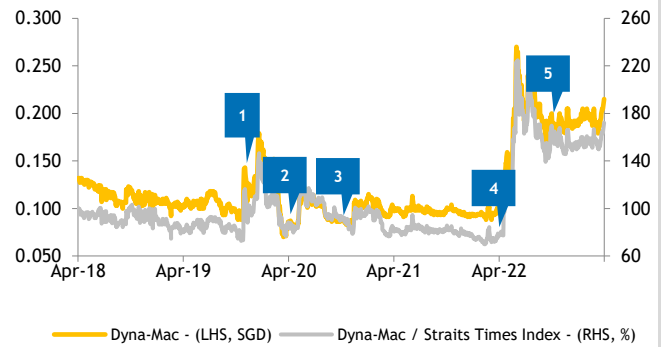
Dyna-Mac is in a net cash position (SGDm)



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

- Declines in oil prices reduce investment 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 FY24-26 forecasts

| | FY24E | | | FY25E | | | FY26E | | |
|------------------------|-------|-------|-----------|-------|-------|-----------|-------|-------|-----------|
| | New | Old | Chg (%) | New | Old | Chg (%) | New | Old | Chg (%) |
| Revenue (SGDm) | 404.4 | 440.7 | -8.2 | 465.1 | 506.8 | -8.2 | 534.9 | 500.0 | 7.0 |
| Gross profit (SGDm) | 60.4 | 60.5 | -0.2 | 69.5 | 69.6 | -0.2 | 79.9 | 70.0 | 14.2 |
| EBIT (SGDm) | 31.8 | 24.2 | 31.2 | 37.0 | 27.6 | 33.8 | 42.8 | 34.0 | 25.8 |
| EBITDA (SGDm) | 31.8 | 24.2 | 31.2 | 37.0 | 27.6 | 33.8 | 42.8 | 34.0 | 25.8 |
| Core net profit (SGDm) | 34.0 | 25.9 | 31.2 | 39.6 | 29.6 | 33.8 | 45.8 | 35.0 | 30.8 |
| EPS (SGD) | 0.03 | 0.02 | 31.2 | 0.03 | 0.02 | 33.8 | 0.04 | 0.03 | 30.8 |
| | | | Chg (ppt) | | | Chg (ppt) | | | Chg (ppt) |
| Gross Margin | 14.9% | 13.7% | 1.2 | 14.9% | 13.7% | 1.2 | 14.9% | 14.0% | 0.9 |
| Net Margin | 8.4% | 5.9% | 2.5 | 8.5% | 5.8% | 2.7 | 8.6% | 7.0% | 1.6 |

Source: Maybank IBG Research

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 12.6 | 13.0 | 9.9 | 8.5 | 7.3 |
| Core P/E (x) | 14.5 | 14.5 | 9.9 | 8.5 | 7.3 |
| P/BV (x) | 4.5 | 6.0 | 3.3 | 2.4 | 1.8 |
| P/NTA (x) | 12.7 | 9.9 | 4.5 | 2.9 | 2.1 |
| Net dividend yield (%) | 1.5 | 2.5 | 3.6 | 4.1 | 4.8 |
| FCF yield (%) | 44.3 | 11.1 | 18.5 | 18.7 | 21.2 |
| EV/EBITDA (x) | 0.9 | 8.0 | 2.2 | 0.6 | nm |
| EV/EBIT (x) | 0.9 | 8.0 | 2.2 | 0.6 | nm |
| INCOME STATEMENT (SGD m) | | | | | |
| Revenue | 291.5 | 385.2 | 404.4 | 465.1 | 534.9 |
| EBITDA | 11.8 | 25.2 | 31.8 | 37.0 | 42.8 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 11.8 | 25.2 | 31.8 | 37.0 | 42.8 |
| Net interest income /(exp) | (0.0) | (0.1) | 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 | 11.8 | 25.1 | 31.8 | 37.0 | 42.8 |
| Income tax | 1.6 | 3.6 | 2.2 | 2.6 | 3.0 |
| 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 | 13.4 | 28.7 | 34.0 | 39.6 | 45.8 |
| Core net profit | 13.4 | 28.7 | 34.0 | 39.6 | 45.8 |
| BALANCE SHEET (SGD m) | | | | | |
| Cash & Short Term Investments | 185.4 | 216.1 | 266.4 | 315.2 | 369.3 |
| Accounts receivable | 30.1 | 37.9 | 41.8 | 48.1 | 55.3 |
| 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) | 28.7 | 28.1 | 29.3 | 25.3 | 25.3 |
| 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 | 31.4 | 63.2 | 65.3 | 68.6 | 69.8 |
| Total assets | 275.6 | 345.2 | 402.8 | 457.1 | 519.7 |
| ST interest bearing debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts payable | 79.0 | 80.0 | 104.6 | 120.2 | 138.3 |
| Insurance contract liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT interest bearing debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | 153.0 | 195.0 | 195.0 | 195.0 | 195.0 |
| Total Liabilities | 231.6 | 274.8 | 299.4 | 315.1 | 333.1 |
| Shareholders Equity | 43.2 | 69.9 | 103.1 | 141.6 | 186.3 |
| Minority Interest | 0.8 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total shareholder equity | 44.0 | 70.3 | 103.5 | 142.0 | 186.7 |
| Total liabilities and equity | 275.6 | 345.1 | 402.8 | 457.1 | 519.7 |
| CASH FLOW (SGD m) | | | | | |
| Pretax profit | 11.8 | 25.1 | 31.8 | 37.0 | 42.8 |
| Depreciation & amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adj net interest (income)/exp | (0.5) | (3.6) | 0.0 | 0.0 | 0.0 |
| Change in working capital | 67.0 | 13.1 | 30.6 | 25.3 | 26.4 |
| Cash taxes paid | 0.3 | 4.1 | 1.8 | 2.4 | 3.0 |
| Other operating cash flow | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Cash flow from operations | 88.6 | 49.3 | 64.2 | 64.6 | 73.2 |
| Capex | (2.2) | (3.2) | (2.0) | (2.0) | (2.0) |
| Free cash flow | 86.3 | 46.0 | 62.2 | 62.6 | 71.2 |
| Dividends paid | 0.0 | (3.0) | (11.9) | (13.9) | (16.0) |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (6.3) | (2.2) | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | (4.8) | (9.4) | 0.0 | 0.0 | 0.0 |
| Effect of exch rate changes | (0.2) | (0.8) | 0.0 | 0.0 | 0.0 |
| Net cash flow | 75.1 | 30.7 | 50.3 | 48.8 | 55.2 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|----------|----------|----------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 32.4 | 32.1 | 5.0 | 15.0 | 15.0 |
| EBITDA growth | 173.7 | 112.8 | 26.4 | 16.3 | 15.7 |
| EBIT growth | 173.7 | 112.8 | 26.4 | 16.3 | 15.7 |
| Pretax growth | 182.5 | 112.2 | 26.9 | 16.3 | 15.7 |
| Reported net profit growth | 138.6 | 114.0 | 18.6 | 16.3 | 15.7 |
| Core net profit growth | 138.6 | 114.0 | 18.6 | 16.3 | 15.7 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 4.1 | 6.5 | 7.9 | 8.0 | 8.0 |
| EBIT margin | 4.1 | 6.5 | 7.9 | 8.0 | 8.0 |
| Pretax profit margin | 4.1 | 6.5 | 7.9 | 8.0 | 8.0 |
| Payout ratio | 22.4 | 36.0 | 35.1 | 35.1 | 35.1 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 4.6 | 7.4 | 8.4 | 8.5 | 8.6 |
| Revenue/Assets (x) | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 |
| Assets/Equity (x) | 6.4 | 4.9 | 3.9 | 3.2 | 2.8 |
| ROAE (%) | na | na | na | na | na |
| ROAA (%) | 5.3 | 9.2 | 9.1 | 9.2 | 9.4 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | nm | nm | nm | nm | nm |
| Days receivable outstanding | 54.3 | 31.8 | 35.5 | 34.8 | 34.8 |
| Days inventory outstanding | nm | nm | nm | nm | nm |
| Days payables outstanding | 107.2 | 85.4 | 96.6 | 102.3 | 102.3 |
| Dividend cover (x) | 4.5 | 2.8 | 2.9 | 2.9 | 2.9 |
| Current ratio (x) | 1.1 | 1.1 | 1.2 | 1.4 | 1.5 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.2 | 1.3 | 1.3 | 1.5 | 1.6 |
| 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) | nm | nm | nm | nm | nm |
| Debt/EBITDA (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex/revenue (%) | 0.8 | 0.8 | 0.5 | 0.4 | 0.4 |
| Net debt/ (net cash) | (185.4) | (216.1) | (266.4) | (315.2) | (369.3) |

Source: Company; Maybank IBG Research

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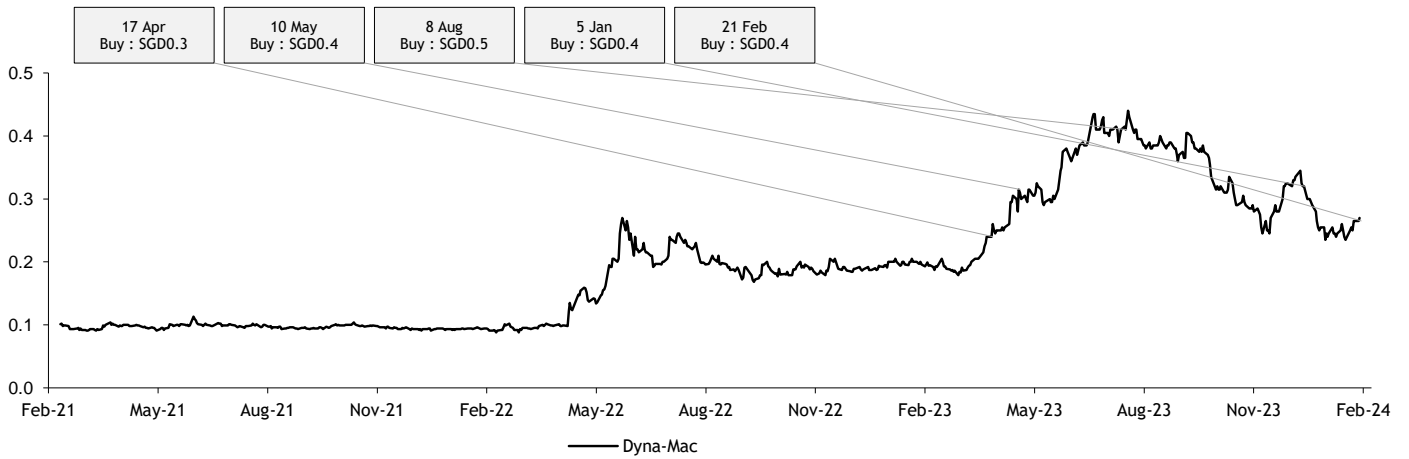
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