

Dyna-Mac (DMHL SP)

Robust FPSO market spurs growth

Maintain BUY with a higher TP of SGD0.52

We expect Dyna-mac's 50% capacity expansion, high operating leverage and doubling of its orderbook to SGD896m should enable it to reap better net margins as FPSO builders and operators continue to enjoy high prices and rates. We lift our FY24E PATMI by 24.7% and FY25E by 26.9% and raise our TP to SGD0.52, based on a 15x FY24E P/E, from SGD0.46. We believe Dyna-Mac is a key beneficiary of this multi-year FPSO upcycle and it remains one of our Top Picks in the SMID space.

Capacity increase = higher revenue + margins

With its orderbook doubling to SGD896m within 12 months as well as its new land expansion of 50%, we expect Dyna-mac to execute its orderbook at a faster pace. From our channel checks, we also discovered that FPSO builders are enjoying better pricing for each FPSO new-build and we believe that this should flow-down to players like Dyna-mac which would grant them better margins for the new orders won. With better gross margins on new projects and better operating leverage with more efficient use of labour and space, we believe Dyna-mac could perform much better than we initially expected.

New substantial shareholder - an interesting angle

Hanwha Aerospace & Ocean bought over Keppel's stake of 24.1% in May 2024 but purchased another 2.95% before this. We believe Hanwha Ocean may be on a global expansion drive, as it looks to expand its footprint in marine energy solutions and shipbuilding. It also launched a bid for Australian shipbuilder Austal back in Apr 2024 for USD662m. We believe Hanwha Aerospace & Ocean should be a positive addition for Dyna-Mac.

One of our Top SMID Picks

We believe Dyna-Mac will continue to benefit from the current strong demand for FPSO and it should further re-rate as it executes its larger-size contracts and achieves higher profitability. Maintain BUY.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	291	385	481	578	664
EBITDA	12	25	50	59	68
Core net profit	13	29	43	51	59
Core EPS (cts)	1.3	2.3	3.4	4.1	4.7
Core EPS growth (%)	136.3	78.4	49.3	18.0	16.4
Net DPS (cts)	0.3	0.8	1.2	1.5	1.7
Core P/E (x)	14.5	14.5	10.9	9.2	7.9
P/BV (x)	4.5	6.0	4.2	2.9	2.1
Net dividend yield (%)	1.5	2.5	3.3	3.9	4.5
ROAA (%)	5.3	9.2	11.5	11.6	11.6
EV/EBITDA (x)	0.9	8.0	3.8	2.0	0.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	34	43	49
MIBG vs. Consensus (%)	-	-	24.5	18.1	20.6

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BUY

Share Price SGD 0.38
12m Price Target SGD 0.52 (+39%)
Previous Price Target SGD 0.46

Company Description

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

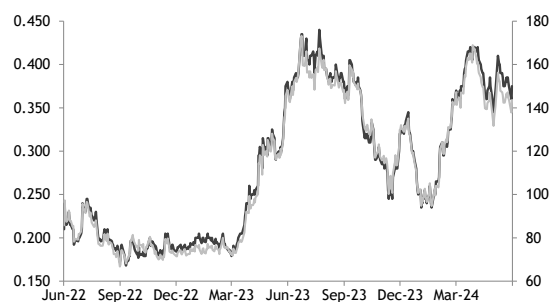
Statistics

52w high/low (SGD) 0.44/0.24
3m avg turnover (USDm) 3.3
Free float (%) 39.3
Issued shares (m) 1,243
Market capitalisation SGD466.3M
USD345M

Major shareholders:

Estate of Tze Jong Lim 32.0%
Hanwha Ocean Co., Ltd. 27.1%
LIM AH CHENG 1.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	3	(1)
Relative to index (%)	3	(1)	(3)

Source: FactSet

Abbreviations explained

FPSO - Floating, production, storage and offloading

Companies mentioned in this report

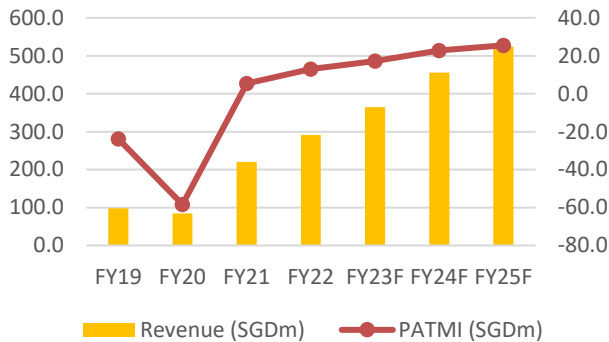
Keppel (KEP SP, CP SGD6.60, not rated)
Hanwha Aerospace & Ocean (012540, CP KRW251,5k, not rated)
Austal (ASB, AUD2.36, not rated)

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

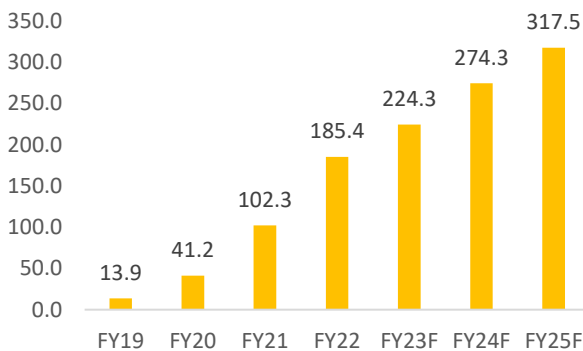


Source: Company

Financial Metrics

- Revenue more than doubled since new management came on board in FY20, and we forecast 20+% 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.

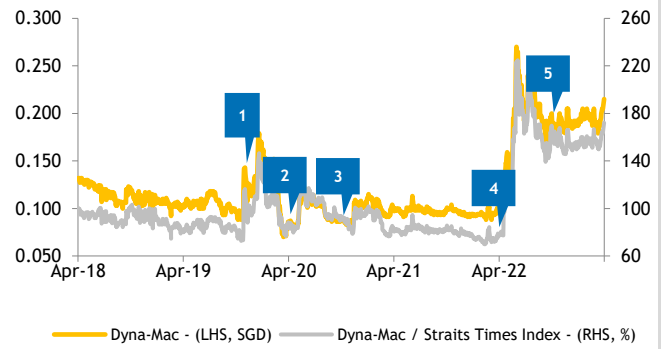
Dyna-Mac is in a net cash position (SGDm)



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 forecasts for Dyna-Mac

(SGDm)	FY24E			FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	481.5	404.4	19.0	577.8	465.1	24.2	664.4	534.9	24.2
Gross profit	85.8	64.3	33.5	103.0	78.4	31.3	118.5	90.2	31.3
EBIT	50.4	33.3	51.1	59.5	46.9	26.9	67.7	53.3	27.0
EBITDA	50.4	33.3	51.1	59.5	46.9	26.9	67.7	53.3	27.0
Core net profit	42.8	34.4	24.7	50.6	39.8	26.9	58.9	46.4	27.0
EPS (SGD)	0.03	0.03	24.7	0.04	0.03	26.9	0.05	0.04	27.0
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross Margin	17.8%	15.9%	1.9	17.8%	16.9%	1.0	17.8%	16.9%	1.0
Net Margin	8.9%	8.5%	0.4	8.8%	8.6%	0.2	8.9%	8.7%	0.2

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	12.6	13.0	10.9	9.2	7.9
Core P/E (x)	14.5	14.5	10.9	9.2	7.9
P/BV (x)	4.5	6.0	4.2	2.9	2.1
P/NTA (x)	12.7	9.9	5.7	3.4	2.4
Net dividend yield (%)	1.5	2.5	3.3	3.9	4.5
FCF yield (%)	44.3	11.1	15.6	19.5	21.0
EV/EBITDA (x)	0.9	8.0	3.8	2.0	0.6
EV/EBIT (x)	0.9	8.0	3.8	2.0	0.6
INCOME STATEMENT (SGD m)					
Revenue	291.5	385.2	481.5	577.8	664.4
EBITDA	11.8	25.2	50.4	59.5	67.7
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	50.4	59.5	67.7
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	50.4	59.5	67.7
Income tax	1.6	3.6	(7.6)	(8.9)	(8.8)
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	42.8	50.6	58.9
Core net profit	13.4	28.7	42.8	50.6	58.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	185.4	216.1	273.6	346.5	423.4
Accounts receivable	30.1	37.9	37.9	37.9	37.9
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	22.1
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	60.5	61.2	62.6
Total assets	275.6	345.2	401.4	470.8	545.9
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	79.0	80.0	94.5	113.4	130.4
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	196.0	195.0	196.0
Total Liabilities	231.6	274.8	290.1	308.2	326.0
Shareholders Equity	43.2	69.9	111.2	162.6	219.9
Minority Interest	0.8	0.4	0.0	0.0	0.0
Total shareholder equity	44.0	70.3	111.2	162.6	219.9
Total liabilities and equity	275.6	345.1	401.3	470.8	545.9
CASH FLOW (SGD m)					
Pretax profit	11.8	25.1	50.4	59.5	67.7
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	11.9	19.5	18.5
Cash taxes paid	0.3	4.1	12.6	13.9	13.8
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	88.6	49.3	74.8	93.0	99.9
Capex	(2.2)	(3.2)	(2.0)	(2.0)	(2.0)
Free cash flow	86.3	46.0	72.8	91.0	97.9
Dividends paid	0.0	(3.0)	(15.3)	(18.1)	(21.0)
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	57.5	72.9	76.9

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	32.4	32.1	25.0	20.0	15.0
EBITDA growth	173.7	112.8	100.3	18.0	13.7
EBIT growth	173.7	112.8	100.3	18.0	13.7
Pretax growth	182.5	112.2	101.1	18.0	13.7
Reported net profit growth	138.6	114.0	49.3	18.0	16.4
Core net profit growth	138.6	114.0	49.3	18.0	16.4
Profitability ratios (%)					
EBITDA margin	4.1	6.5	10.5	10.3	10.2
EBIT margin	4.1	6.5	10.5	10.3	10.2
Pretax profit margin	4.1	6.5	10.5	10.3	10.2
Payout ratio	22.4	36.0	35.7	35.7	35.7
DuPont analysis					
Net profit margin (%)	4.6	7.4	8.9	8.8	8.9
Revenue/Assets (x)	1.1	1.1	1.2	1.2	1.2
Assets/Equity (x)	6.4	4.9	3.6	2.9	2.5
ROAE (%)	na	na	na	na	na
ROAA (%)	5.3	9.2	11.5	11.6	11.6
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	54.3	31.8	28.3	23.6	20.5
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	107.2	85.4	79.4	78.8	80.4
Dividend cover (x)	4.5	2.8	2.8	2.8	2.8
Current ratio (x)	1.1	1.1	1.3	1.5	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.3	1.4	1.5	1.7
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	0.4	0.3	0.3
Net debt/ (net cash)	(185.4)	(216.1)	(273.6)	(346.5)	(423.4)

Source: Company; Maybank IBG Research

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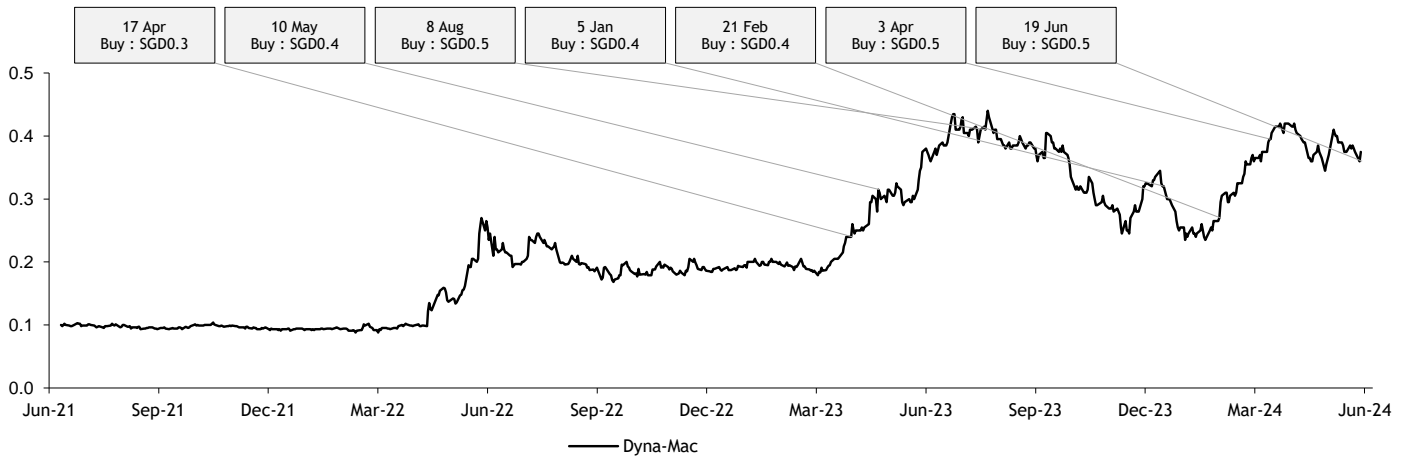
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