

Company Update

Dyna-Mac Holdings

Singapore | Energy

Ada Lim
Equity Research

Rating BUY (as at 10 August 2023)
Last Close SGD 0.410
Fair Value SGD 0.505

Shipsape

- **Impressive 1H23 results underpinned by strong execution capabilities**
- **Expansion of yard space will provide additional fabrication capacity and unlock further value for shareholders**
- **Attractive growth prospects given high potential to secure more orders going forward**

Investment thesis

Dyna-Mac Holdings Ltd. (Dyna-Mac) is a leading fabricator of offshore topside modules and facilities, such as floating production storage and offloading (FPSO) vessels. Its strategy to remain focused on niche topside module construction and to differentiate itself through its commitment to quality and reliable, timely deliveries positions it well to capture burgeoning demand for FPSO modules amidst a shortage in capacity. We also think that Dyna-Mac could deploy cash to expand its current yard capacity or to grow inorganically in a manner that is accretive to earnings, backed by its healthy net cash position. Its share price has performed well, up 118% year to date (YTD) and 17.1% since we initiated coverage based on the last close price of SGD0.35. We continue to see further upside for Dyna-Mac given a stronger-than-expected upcycle and potential catalysts ahead for the company, and revise our fair value estimate upwards from SGD0.415 to SGD0.505.

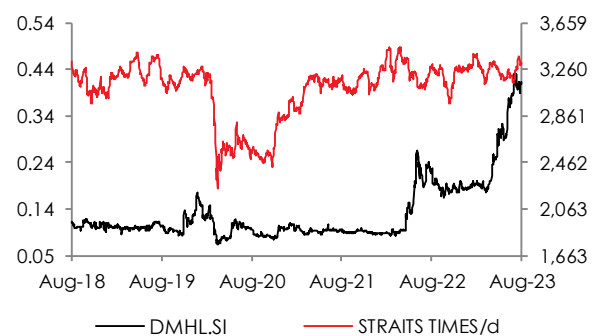
Investment summary

- **Impressive 1H23 results underpinned by strong execution capabilities** – Dyna-Mac posted an outstanding set of results for 1H23, exceeding our expectations. Revenue grew by 47% year-on-year (YoY) to SGD182.3m, on the back of higher progressive recognition from projects executed during the period. Tight cost control and improved productivity – accompanied by a 43.1% YoY increase in other income to SGD3.5m due to higher interest income – resulted in a 96.8% and 218.8% YoY surge in gross profit and net income to SGD24.6m and SGD10.2m respectively. This represents a 19.7% return

Security information

Ticker	DMHL.SI
Market Cap (SGD b)	0.4
Daily turnover (SGD m)	7.5
Free Float	59%
Shares Outstanding (m)	1,031
Top Shareholder	Estate of Lim Tze Jong 32.3%

Price performance chart



Financial summary

SGD m	FY22	FY23E	FY24E
Revenue	291.5	389.5	496.8
EBITDA	15.8	25.3	33.5
PATMI	13.1	21.1	28.5
EPS (\$ cents)	1.2	2.0	2.7
DPS (\$ cents)	0.29	0.52	0.70

Key ratios

%	FY22	FY23E	FY24E
Net revenue growth	32.4	33.6	27.6
EBITDA growth	136.3	59.9	32.1
Net income margin	4.6	5.6	5.9
EPS growth	137.4	60.5	34.4

Source: Refinitiv, Internal estimates

on equity (ROE) and earnings per share (EPS) of 0.98 Singapore cents. As of June 2023, Dyna-Mac had a sizeable net orderbook worth SGD542.7m. Management has guided that it is seeing strong levels of inquiries for projects in both Singapore and China, and we remain confident in Dyna-Mac's ability to secure and execute on more orders going forward.

- Further catalysts ahead** – Previously, we posited that Dyna-Mac has the potential to deploy cash to either expand its existing yard space, or to acquire synergistic peers or competitors in a manner that will be accretive to the company's earnings, on the back of a strong balance sheet and healthy net cash position. Indeed, the company has announced that it is currently pursuing a JTC lease for a piece of land along Gul Road, which will provide additional fabrication capacity for current and future projects. We see this as a positive for Dyna-Mac to grow its top line significantly in the coming years and, given management's track record in improving margins, we expect this expansion of yard space to unlock further value for shareholders.
- Increase fair value estimate from SGD0.415 to SGD0.505** – Long-term fundamentals for the offshore oil and gas (O&G) industry remain sound, supported by an increased demand for energy (especially in Asia) and years of catch-up spending. We adjust our forecasts and key assumptions accordingly to reflect expectations that Dyna-Mac will secure a larger dollar value of orders going forward amidst the strong upcycle. Our cost of equity increases slightly from 8.67% to 8.74% on the back of higher beta assumption on a five-year rolling basis, but this is more than offset by higher expected growth rates, so that our fair value estimate is lifted from SGD0.415 to SGD0.505.

ESG Updates

- Getting on board with environmental sustainability** – As a participant of the Carbon Pricing Leadership Coalition (CPLC) and LowCarbonSG, Dyna-Mac is working towards reducing carbon emissions from its business operations. This includes increased green energy consumption by 30% in 2022, compared to 25% in 2021, as well as reducing material waste and scrap. In 2021, Dyna-Mac was awarded the Eco Manufacturing (Champion) and Eco Assessment Resource awards by the Singapore Environment Council (SEC), as a testimony to the company's continuous commitment to sustainability practices.
- Managing relationships with its workforce and society** – Internally, Dyna-Mac believes in building a diverse and inclusive work environment to attract, retain, and grow talent, as well as to boost the morale and productivity of its employees. The company has

Results highlights

SGD m	1H22	1H23	% chg
Revenue	124.0	182.3	47.0%
Gross profit	12.5	24.6	96.8%
EBITDA	6.1	12.4	103.3%
Other income	2.5	3.5	40.0%
Net income	3.2	10.2	218.8%
Return on equity (%)	9.4	19.7	109.6%
EPS (\$ cents)	0.3	1.0	226.7%

Source: Company, Internal estimates

adopted the TAFEP Tripartite Standards since 2018 and achieved 4,945.75 training hours in FY21. Externally, Dyna-Mac pays attention to effective stakeholder engagement with customers, investors, vendors, and regulators. This includes discussions on environmental impact with the communities that Dyna-Mac operates within.

- **Commitment to full compliance with legal and industry requirements** – Dyna-Mac has established corporate policies covering areas such as whistle-blowing, anti-corruption and anti-bribery, dealing with securities, as well as gifts, hospitality and entertainment, to ensure full compliance with laws and regulations. It is mandatory for all employees to undergo code of conduct training. The company has also put in place an Enterprise Risk Management Framework to manage its risk exposure in the face of emerging scenarios and environments.

Potential catalysts

- Higher value contract wins due to stronger than expected FPSO market upcycle
- Synergistic acquisitions or other expansion plans accretive to earnings
- Strategic partnerships enabling Dyna-Mac to expand its operations and production capacity

Investment risks

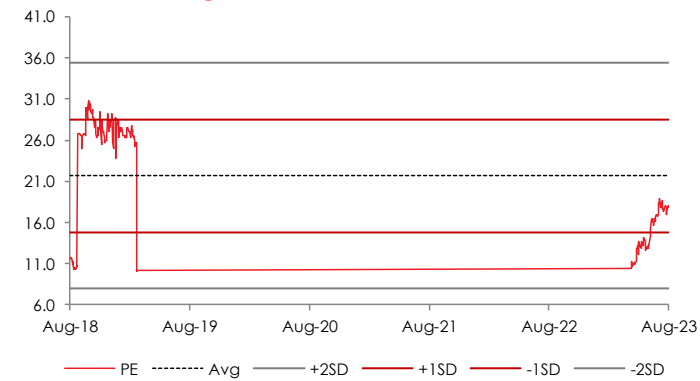
- Difficulties securing new orders amidst a slowing macroeconomic backdrop
- Inability to pass on higher costs to customers weighs on project margins
- Execution risks and cost overruns

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
DYNA-MAC HOLDINGS LTD (DMHL.SI)	22.8	17.8	N.A	N.A	15.6	12.0	1.2	1.7	N.A	N.A
BOMESC OFFSHORE ENGINEERING CO LTD (603727.SS)	N.A	82.6	1.2	1.2	N.A	N.A	N.A	0.8	(3.3)	1.4
MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BHD (MHEB.KL)	12.8	12.6	0.7	0.7	3.9	3.6	1.5	1.8	3.8	3.8
YINSON HOLDINGS BERHAD (YINS.KL)	10.9	9.5	1.3	1.2	8.1	6.7	1.3	1.4	14.1	14.1

Source: Refinitiv

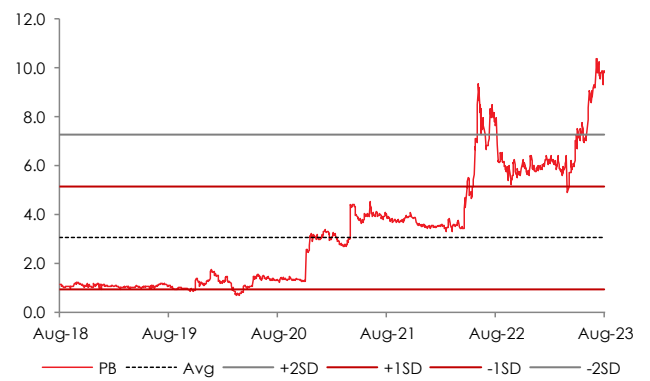
Price/Earnings chart



Source: Refinitiv

Note: P/E estimates not available from Mar 2019 till Apr 2023 as there were no active analysts covering the company.

Price/Book chart



Source: Refinitiv

Company overview (as of 15 April 2023)

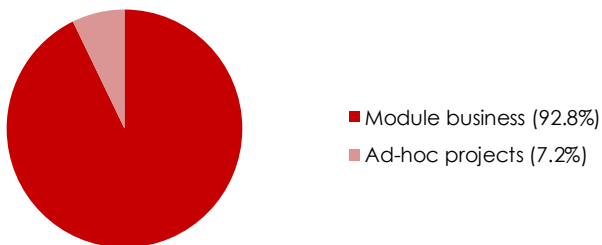
Company description

Dyna-Mac Holdings is a service provider primarily focusing on the fabrication of offshore topside modules and facilities for floating production storage and offloading (FPSO) vessels, floating storage and offloading (FSO) vessels, floating liquefied natural gas (FLNG) vessels, and floating storage and regasification units (FSRUs). In recent years, Dyna-Mac has also started to increase its emphasis on sustainability, by including modules for offshore and onshore renewables and green energy sectors in its product mix, with a focus on liquefied natural gas (LNG), green hydrogen, and ammonia.

Dyna-Mac was headquartered in Singapore in 1990, but has a presence in China, Malaysia, Philippines, and Indonesia through its subsidiaries and strategy partnerships. With more than 30 years of experience in the oil and gas industry, the company is ISO accredited and has successfully delivered more than 300 modules to date. Dyna-Mac was listed on the Mainboard of the Singapore Stock Exchange in March 2011.

FY22 Revenue breakdown

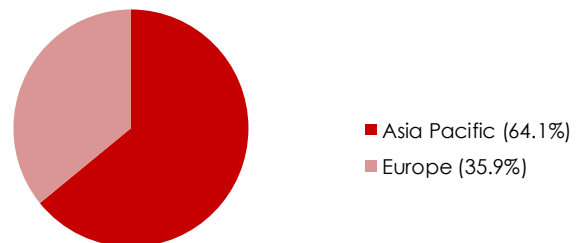
By segment



Source: Company, Internal estimates

FY22 Revenue breakdown

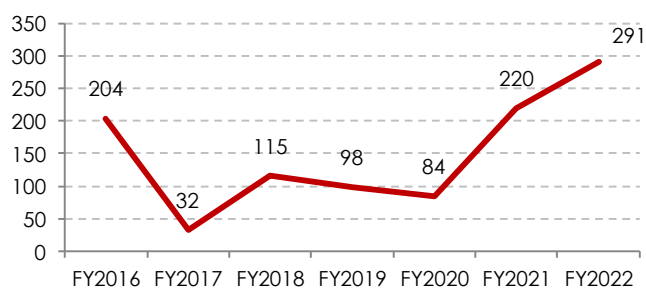
By geography



Source: Company, Internal estimates

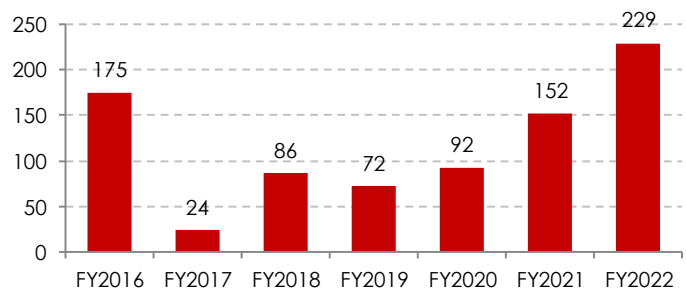
Revenue comparison over 5 years

SGD m



Source: Company, Internal estimates

Projects delivered (SGD m)



Source: Company, Internal estimates

Company financials

Income Statement

In Millions of SGD except Per Share	FY2018	FY2019	FY2020	FY2021	FY2022
12 Months Ending	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
Revenue	115.3	97.8	84.0	220.2	291.5
- Cost of Revenue	92.7	96.1	114.5	197.1	259.1
Gross Profit	22.6	1.7	-30.5	23.1	32.4
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	20.7	25.1	27.2	18.0	19.8
Operating Income or Losses	1.8	-23.4	-57.7	5.2	12.6
- Interest Expense	0.4	0.5	0.8	1.0	0.8
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	--	--	--	--	--
Pretax Income	1.5	-24.0	-58.4	4.2	11.8
- Income Tax Expense (Benefit)	0.0	0.0	0.0	-1.4	-1.6
Income Before XO Items	1.5	-24.0	-58.4	5.6	13.4
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	0.0	-0.3	0.0	0.1	0.3
Net Income/Net Profit (Losses)	1.5	-23.7	-58.4	5.5	13.1
Net Inc Avail to Common Shareholders	1.5	-23.7	-58.4	5.5	13.1
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	2.2	-23.9	-56.5	4.9	13.5
Basic Earnings per Share	0.0	0.0	-0.1	0.0	0.0
Basic Weighted Avg Shares	1,023.2	1,023.2	1,023.2	1,024.5	1,028.2
Diluted EPS Before Abnormal Items	0.0	0.0	-0.1	0.0	0.0
Diluted EPS Before XO Items	0.0	0.0	-0.1	0.0	0.0
Diluted EPS	0.0	0.0	-0.1	0.0	0.0
Diluted Weighted Avg Shares	1,023.2	1,023.2	1,023.2	1,024.5	1,028.2

Profitability Ratios

12 Months Ending	FY2018	FY2019	FY2020	FY2021	FY2022
	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
Returns					
Return on Common Equity	1.46	-25.50	-111.84	20.72	35.89
Return on Assets	0.98	-15.01	-36.55	2.89	5.32
Return on Capital	11.35	10.69	14.71	22.83	20.73
Return on Invested Capital	15.71	-	-	-68.05	-15.48
Margins					
Operating Margin	1.59	-23.95	-68.63	1.96	4.06
Incremental Operating Margin	-0.01	-15.02	2.87	-0.03	2.07
Pretax Margin	1.28	-24.50	-69.55	1.90	4.05
Income before XO Margin	1.32	-24.24	-69.50	2.49	4.48
Net Income Margin	1.32	-24.24	-69.50	2.49	4.48
Net Income to Common Margin	1.32	-24.24	-69.50	2.49	4.48
Additional					
Effective Tax Rate	-1.15	-	-	-34.41	-13.50
Dvd Payout Ratio	-	-	-	-	22.82
Sustainable Growth Rate	-	-	-	-	35.80

Credit Ratios

12 Months Ending	FY2018	FY2019	FY2020	FY2021	FY2022
	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
Total Debt/EBIT	6.15	-2.29	-0.61	8.02	2.16
Net Debt/EBIT	-1.50	-0.87	0.24	-20.02	-14.02
EBIT to Interest Expense	9.07	-35.36	-70.12	3.87	14.49
Long-Term Debt/Total Assets	0.01	17.81	16.13	11.86	8.11
Net Debt/Equity	-0.04	0.21	-0.54	-2.55	-3.70

Source: Refinitiv

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