

Dyna-Mac (DMHL SP)

1H beat - riding the upcycle

Maintain BUY with a higher TP of SGD0.51

Dyna-mac reported strong 1H23 revenue growth of 47% YoY to SGD182.3m and NPAT growth of 319% to SGD10.2m, with gross margins expanding to 13.5% from 10.1%, beating our and the street's estimates, as it truly benefited from the upcycle. Management is pursuing a JTC lease for a plot of land along Gul Road which will potentially expand capacity by 30-40%. It is also exploring M&A opportunities and hopes to acquire similar industry businesses with recurring revenues. We remain confident of Dyna-Mac's outlook and raise FY23/24E PATMI estimates by 12% and 8%, while we maintain BUY with a higher TP of SGD0.51, pegged to 20x FY24E P/E.

Stronger 2H23E - SGD542.7m order book

Gross margin also rose to 13.5% in 1H23 from 10.51% in 1H22 and we expect continue gains on better utilisation as well as improved pricing of contracts. With utilisation now close to full, we believe this is a good sign for its financial performance in 2H23E. Traditionally, 2H has also always been stronger than 1H.

New land expected to expand capacity by 30-40%

Management is pursuing a JTC lease for a piece of land along Gul road for which it was granted a temporary occupation licence for the purpose of soil investigation. This corresponds with the robust FPSO demand in the medium term. The new piece of land will provide additional fabrication capacity for current and future projects such as carbon capture and storage, and exotic piping for hydrogen/ammonia. We expect yard capacity to grow by 30-40% by the end of 2023.

Seeking recurring revenue M&A - net cash SGD128.5m

As Dyna-Mac's earnings are now almost entirely based on its order book, management is keen to diversify into more recurring revenue streams in similar industry segments and is exploring M&A opportunities on this front. It has a net cash balance of SGD128.5m. We believe this direction will be positive for shareholders as it will add more certainty to earnings and cash flows, especially during downturns. We also maintain a bullish long-term outlook for Dyna-Mac which we believe is a key beneficiary of this multi-year 2022-26E upcycle.

| FYE Dec (SGD m) | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue | 220 | 291 | 367 | 441 | 507 |
| EBITDA | 4 | 12 | 19 | 24 | 28 |
| Core net profit | 6 | 13 | 21 | 26 | 30 |
| Core EPS (cts) | 0.5 | 1.3 | 2.0 | 2.5 | 2.9 |
| Core EPS growth (%) | nm | 136.3 | 54.1 | 25.6 | 14.0 |
| Net DPS (cts) | 0.0 | 0.3 | 0.6 | 0.7 | 0.8 |
| Core P/E (x) | 16.6 | 14.5 | 20.6 | 16.4 | 14.4 |
| P/BV (x) | 3.2 | 4.5 | 6.7 | 4.8 | 3.6 |
| Net dividend yield (%) | 0.0 | 1.5 | 1.4 | 1.8 | 2.0 |
| ROAA (%) | 2.9 | 5.3 | 7.0 | 7.6 | 7.6 |
| EV/EBITDA (x) | nm | 0.9 | 10.4 | 6.5 | 4.1 |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Consensus net profit | - | - | 18 | 24 | 27 |
| MIBG vs. Consensus (%) | - | - | 12.3 | 8.1 | 7.9 |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | SGD 0.41 |
| 12m Price Target | SGD 0.51 (+24%) |
| Previous Price Target | SGD 0.40 |

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) | 0.44/0.17 |
| 3m avg turnover (USDm) | 1.9 |
| Free float (%) | 38.2 |
| Issued shares (m) | 1,036 |
| Market capitalisation | SGD424.8M USD317M |

Major shareholders:

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

Price Performance



— Dyna-Mac - (LHS, SGD) — Dyna-Mac / Straits Times Index - (RHS, %)

| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 5 | 37 | 86 |
| Relative to index (%) | (0) | 35 | 84 |

Source: FactSet

Abbreviations explained

JTC - Jurong Town Council

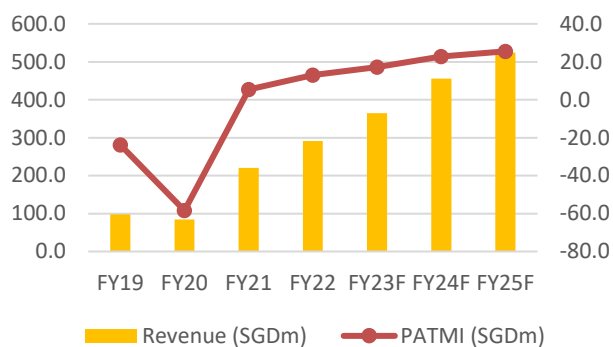
FSPO - Floating production storage and offloading

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.
- Net cash balance sheet with zero debt and SGD122.3m 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 win larger contracts by the end of FY23.
- It has clear ESG policies and strategies.

Revenue and net profit trend

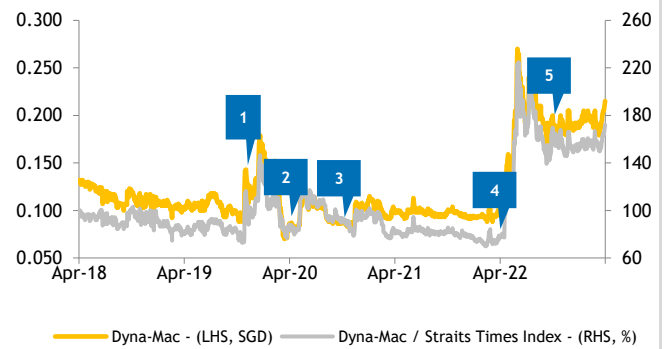


Source: Company

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Price Drivers

Historical share price trend



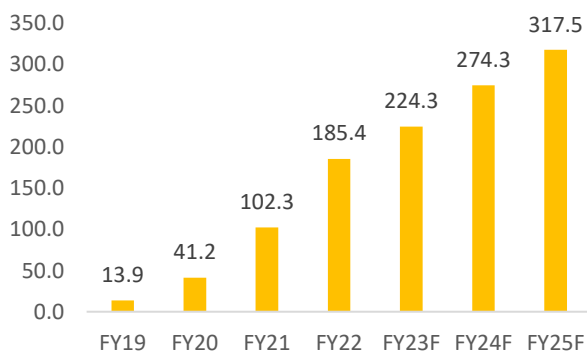
Source: Company, Maybank IBG Research

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.

Financial Metrics

- Revenue more than doubled since the 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 for FY20 to a profit of SGD13.4m for FY22.
- Positive cash flow annually despite disruptions caused by Covid-19.
- Strong net cash position with no debt.

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



Source: Company

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 its 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 five 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: 1H23 results

| FYE Dec | 1H23 | 2H22 | 1H22 | YoY Chg | QoQ Chg | FYE | 1Q22 vs FYE |
|---------------|-------|-------|-------|---------|---------|-------|-------------|
| | SGDm | SGDm | SGDm | (%) | (%) | SGDm | (%) |
| Revenue | 182.3 | 167.4 | 124.0 | 8.9 | 47.0 | 364.3 | 50.0 |
| Gross Profit | 24.6 | 19.1 | 12.5 | 28.7 | 96.7 | 48.1 | 51.2 |
| NPAT | 10.2 | 10.2 | 3.2 | 0.2 | 216.4 | 18.4 | 55.3 |
| Core NPAT | 10.2 | 10.2 | 3.2 | 0.2 | 216.4 | 18.4 | 55.3 |
| Gross margins | 13.5% | 11.4% | 10.1% | | | | |
| Net margins | 9.5% | 6.1% | 2.6% | | | | |

Source: Maybank IBG Research

Fig 2: Changes in our FY23-25 forecasts

| | FY23E | | | FY24E | | | FY25E | | |
|------------------------|-------|-------|-----------|-------|-------|-----------|-------|-------|-----------|
| | New | Old | Chg (%) | New | Old | Chg (%) | New | Old | Chg (%) |
| Revenue (SGDm) | 367.3 | 364.3 | 0.8 | 440.7 | 455.4 | -3.2 | 506.8 | 523.7 | -3.2 |
| Gross profit (SGDm) | 50.4 | 48.1 | 4.9 | 60.5 | 60.1 | 0.7 | 69.6 | 69.1 | 0.7 |
| EBIT (SGDm) | 19.3 | 17.2 | 12.0 | 24.2 | 22.4 | 8.0 | 27.6 | 25.6 | 8.0 |
| EBITDA (SGDm) | 19.3 | 17.2 | 12.0 | 24.2 | 22.4 | 8.0 | 27.6 | 25.6 | 8.0 |
| Core net profit (SGDm) | 20.7 | 18.4 | 12.0 | 25.9 | 24.0 | 8.0 | 29.6 | 27.4 | 8.0 |
| EPS (SGD) | 0.02 | 0.02 | 16.5 | 0.02 | 0.02 | 10.9 | 0.03 | 0.02 | 13.0 |
| | | | Chg (ppt) | | | Chg (ppt) | | | Chg (ppt) |
| Gross Margin | 13.7% | 13.2% | 0.5 | 13.7% | 13.2% | 0.5 | 13.7% | 13.2% | 0.5 |
| Net Margin | 5.6% | 5.1% | 0.6 | 5.9% | 5.3% | 0.6 | 5.8% | 5.2% | 0.6 |

Source: Maybank IBG Research

| FYE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 18.0 | 12.6 | 20.6 | 16.4 | 14.4 |
| Core P/E (x) | 16.6 | 14.5 | 20.6 | 16.4 | 14.4 |
| P/BV (x) | 3.2 | 4.5 | 6.7 | 4.8 | 3.6 |
| P/NTA (x) | (28.7) | 12.7 | 11.0 | 6.3 | 4.3 |
| Net dividend yield (%) | 0.0 | 1.5 | 1.4 | 1.8 | 2.0 |
| FCF yield (%) | 67.3 | 44.3 | 10.4 | 12.3 | 12.4 |
| EV/EBITDA (x) | nm | 0.9 | 10.4 | 6.5 | 4.1 |
| EV/EBIT (x) | nm | 0.9 | 10.4 | 6.5 | 4.1 |
| INCOME STATEMENT (SGD m) | | | | | |
| Revenue | 220.2 | 291.5 | 367.3 | 440.7 | 506.8 |
| EBITDA | 4.3 | 11.8 | 19.3 | 24.2 | 27.6 |
| 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 | 24.2 | 27.6 |
| 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 | 24.2 | 27.6 |
| Income tax | 1.4 | 1.6 | 1.4 | 1.7 | 1.9 |
| 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 | 25.9 | 29.6 |
| Core net profit | 5.6 | 13.4 | 20.7 | 25.9 | 29.6 |
| BALANCE SHEET (SGD m) | | | | | |
| Cash & Short Term Investments | 106.3 | 185.4 | 223.4 | 268.2 | 312.4 |
| Accounts receivable | 57.8 | 30.1 | 38.0 | 45.6 | 52.4 |
| 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 | 30.3 |
| Total assets | 227.9 | 275.6 | 316.4 | 365.6 | 414.3 |
| ST interest bearing debt | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts payable | 75.7 | 79.0 | 96.3 | 115.5 | 132.9 |
| 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 | 161.0 | 164.0 |
| Total Liabilities | 197.7 | 231.6 | 253.0 | 277.0 | 296.8 |
| Shareholders Equity | 29.6 | 43.2 | 63.3 | 88.6 | 117.5 |
| Minority Interest | 0.5 | 0.8 | 0.0 | 0.0 | 0.0 |
| Total shareholder equity | 30.2 | 44.0 | 63.3 | 88.6 | 117.5 |
| Total liabilities and equity | 227.9 | 275.6 | 316.4 | 365.6 | 414.3 |
| CASH FLOW (SGD m) | | | | | |
| Pretax profit | 4.2 | 11.8 | 19.3 | 24.2 | 27.6 |
| 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 | 26.9 | 24.2 |
| Cash taxes paid | 0.0 | 0.3 | 2.6 | 3.3 | 3.1 |
| Other operating cash flow | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 63.6 | 88.6 | 46.0 | 54.4 | 54.9 |
| Capex | (0.7) | (2.2) | (2.0) | (2.0) | (2.0) |
| Free cash flow | 62.9 | 86.3 | 44.0 | 52.4 | 52.9 |
| Dividends paid | 0.0 | 0.0 | (6.0) | (7.6) | (8.6) |
| 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 | 44.8 | 44.2 |

| FYE 31 Dec | FY21A | FY22A | FY23E | FY24E | FY25E |
|--|----------|----------|----------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 162.0 | 32.4 | 26.0 | 20.0 | 15.0 |
| EBITDA growth | nm | 173.7 | 63.2 | 25.6 | 14.0 |
| EBIT growth | nm | 173.7 | 63.2 | 25.6 | 14.0 |
| Pretax growth | nm | 182.5 | 63.4 | 25.6 | 14.0 |
| Reported net profit growth | nm | 138.6 | 54.1 | 25.6 | 14.0 |
| Core net profit growth | nm | 138.6 | 54.1 | 25.6 | 14.0 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 2.0 | 4.1 | 5.3 | 5.5 | 5.5 |
| EBIT margin | 2.0 | 4.1 | 5.3 | 5.5 | 5.5 |
| Pretax profit margin | 1.9 | 4.1 | 5.3 | 5.5 | 5.5 |
| Payout ratio | 0.0 | 22.4 | 29.2 | 29.2 | 29.2 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 2.6 | 4.6 | 5.6 | 5.9 | 5.8 |
| 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 (%) | na | na | na | na | na |
| ROAA (%) | 2.9 | 5.3 | 7.0 | 7.6 | 7.6 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | nm | nm | nm | nm | nm |
| Days receivable outstanding | 71.1 | 54.3 | 33.4 | 34.1 | 34.8 |
| Days inventory outstanding | nm | nm | nm | nm | nm |
| Days payables outstanding | 117.0 | 107.2 | 99.6 | 100.3 | 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 | 0.5 | 0.4 |
| Net debt/ (net cash) | (102.3) | (185.4) | (223.4) | (268.2) | (312.4) |

Source: Company; Maybank IBG Research

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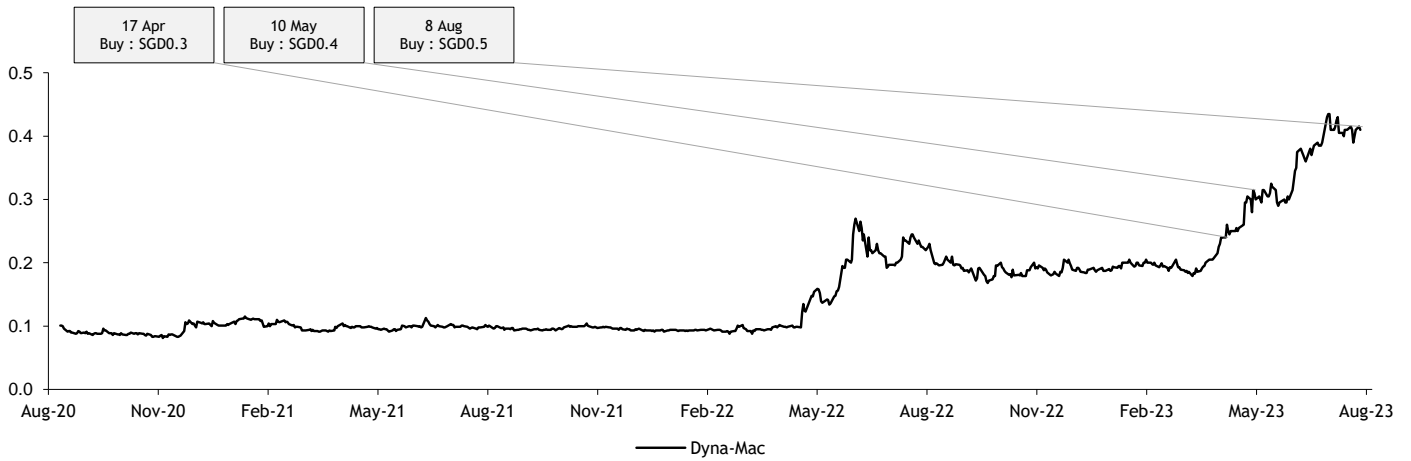
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