

Dyna-Mac (DMHL SP)

Better to wait and see

Offer of SGD0.60/share

Dyna-mac received a voluntary conditional cash offer from Hanwha Ocean SG Holdings for all the issued and paid-up ordinary shares for SGD0.60 per share, conditional upon Hanwha having more than 50% of the total shareholding. Our view is that the offer is fair but on the lower end of the fair value range. Given this is not a final offer, we think it would be better for investors to wait for a revised offer that is either closer or higher than our TP of SGD0.64. Our confidence stems from the robust outlook for FPSOs, Dyna-mac's high net cash position, potential dividends and higher projected profitability in the next few years.

Outlook still positive but healthy order-book

Dyna-mac's order book has doubled to SGD896m in the past year and it has 50% more land so we expect Dyna-Mac to execute its orderbook at a faster pace. Moreover, it secured even higher margins than we expected for the new projects. Gross margin actually surged to 27.6% in 1H24 from 13.5% in 1H23, which justifies our positive stance on the robust FPSO space accompanied by strong growth in revenue. Net orderbook remains at SGD681.3m, which is sufficient for FY24E as well as for FY25E.

Credit to management and the team

Dyna-mac has consistently outperformed our expectations in this upcycle and we believe that credit has to go to management (AC Lim and his team) for the solid execution that enabled Dyna-mac to hit record levels of financial performance and order-book.

Aims to have controlling stake - may still be listed

We think that the main aim of the offer is not to delist the company but to have a controlling stake of more than 50%. As a result, Dyna-mac may remain listed as the offer is only mandatory if more than 90% of the share float is acquired. The offer is also conditional on Hanwha acquiring more than 50% of the share float. Warrants must also be converted as there is no offer for the warrants.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	291	385	520	624	718
EBITDA	12	25	72	85	97
Core net profit	13	29	61	72	84
Core EPS (cts)	1.3	2.3	4.9	5.8	6.8
Core EPS growth (%)	136.3	78.4	112.0	18.6	16.8
Net DPS (cts)	0.3	0.8	1.7	2.1	2.4
Core P/E (x)	14.5	14.5	10.1	8.5	7.3
P/BV (x)	4.5	6.0	4.8	3.0	2.2
Net dividend yield (%)	1.5	2.5	3.5	4.2	4.9
ROAA (%)	5.3	9.2	15.8	15.4	14.9
EV/EBITDA (x)	0.9	8.0	4.5	2.7	1.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	61	72	84
MIBG vs. Consensus (%)	-	-	0.0	0.0	(0.1)

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BUY

Share Price	SGD 0.50
12m Price Target	SGD 0.64 (+29%)
Previous Price Target	SGD 0.64

Company Description

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

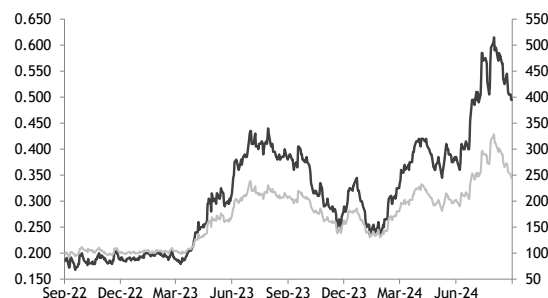
Statistics

52w high/low (SGD)	0.62/0.24
3m avg turnover (USDm)	4.2
Free float (%)	39.3
Issued shares (m)	1,243
Market capitalisation	SGD615.5M USD472M

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 (%)	(17)	30	30
Relative to index (%)	(23)	23	19

Source: FactSet

Abbreviations explained

FPSO - Floating, production, storage and offloading

Companies mentioned in this report

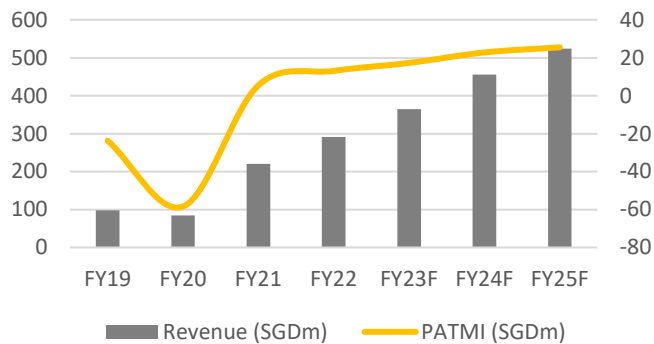
Hanwha Ocean SG Holdings - (100%-owned subsidiary of Hanwha Ocean and Hanwha Aerospace)
Hanwha Ocean (012540, CP KRW29600, not rated)

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

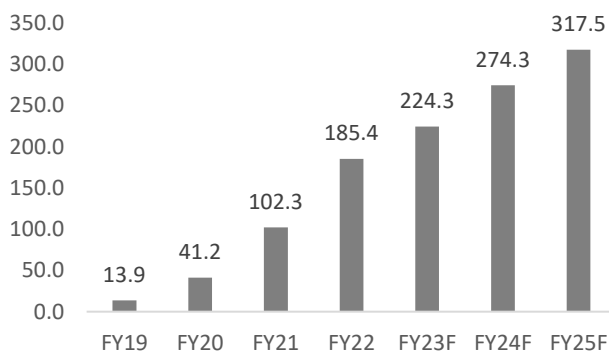


Source: Company

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.

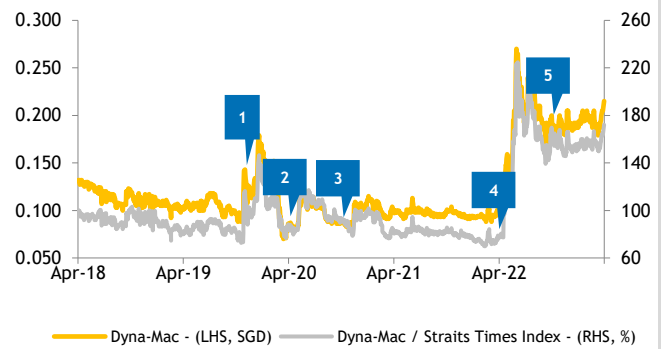
Dyna-Mac is in a net cash position (SGDm)



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).

Quantitative Parameters (Score: 44)						
	Particulars	Unit	2021	2022	2023	YZJ 2023
E	Scope 1 GHG emissions	tCO2e/million hour	1,808	2,789	5,132	75,665
	Scope 2 GHG emissions	tCO2e/million hour	2,624	2,512	4,750	180,953
	Total	tCO2e	4,432	5,301	9,882	256,618
	Scope 3 GHG emissions	tCO2e	NA	NA	NA	NA
	Total	tCO2e	4,432	5,301	9,882	256,618
	GHG intensity (Scope 1 and 2)	tCO2e/million hour	0.020	0.020	0.030	35.120
	Direct Energy consumption	GJ/million h	0.02	0.04	0.01	2.6E+14
	Indirect Energy consumption	GJ/million h	0.02	0.02	0.04	NA
	Total Diesel consumption	litres	657,362	1,051,250	1,795,520	NA
S	% of women in workforce	%	11.0%	10.9%	11.0%	20.9%
	cases of corruption	days	0	0	0	0
	Total training hours	Hours	4945.75	5762.38	8146.82	292240
	Accident frequency rate	%	0.12	0.13	0	0.48
	Accident severity rate	%	10	12.19	0	NA
G	MD/CEO salary as % of reported net profit	%	18.27%	10.24%	10.33%	0.08%
	Board salary as % of reported net profit	%	17.04%	15.74%	8.52%	0.11%
	Independent directors on the Board	%	40%	60%	50%	60%
	Female directors on the Board	%	40%	40%	50%	20%

Qualitative Parameters (Score: 50)	
a)	Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee? <i>Yes</i>
b)	Is the senior management salary linked to fulfilling ESG targets? <i>No</i>
c)	Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>Yes</i>
d)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>No, but they are engaged in an ongoing process to gather data on scope 3 emissions originating from both downstream and upstream supply chain.</i>
e)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>Replacement of all working area lights with 200W LED Flood Light instead of 400W metal halide lights with a saving of 50% energy consumption per light. They install lighting motion sensors within our office toilets, set office air conditioner temperature at 24°C, procure and use energy saving equipment such as inverter type welding machines. To support the green initiative, they have started using electric forklift instead of diesel forklift for entire warehouse use and using electric compressor instead of diesel engine air compressor.</i>
f)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>No</i>

Target (Score: 100)		
Particulars	Target	Achieved
Aim to reduce carbon footprint	1	1
Zero confirmed incidents of corruption	0	0
Zero cases of non-compliance with all applicable laws and regulations	0	0
Carbon neutrality/net zero	0	0
Impact		
NA		
Overall Score: 60		
As per our ESG matrix, Dyna-Mac Group (DMHL SP) has an overall score of 60.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	50	13
Target	25%	100	25
Total			60

As per our ESG assessment, Dyna-Mac has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics, especially on GHG emissions. Dyna-Mac's overall ESG score is 60, which makes its ESG rating above average in our view (average ESG rating = 50)

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	12.6	13.0	10.1	8.5	7.3
Core P/E (x)	14.5	14.5	10.1	8.5	7.3
P/BV (x)	4.5	6.0	4.8	3.0	2.2
P/NTA (x)	12.7	9.9	6.2	3.5	2.3
Net dividend yield (%)	1.5	2.5	3.5	4.2	4.9
FCF yield (%)	44.3	11.1	16.3	19.6	21.5
EV/EBITDA (x)	0.9	8.0	4.5	2.7	1.3
EV/EBIT (x)	0.9	8.0	4.5	2.7	1.3
INCOME STATEMENT (SGD m)					
Revenue	291.5	385.2	520.0	624.0	717.6
EBITDA	11.8	25.2	71.6	84.9	96.8
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	71.6	84.9	96.8
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	71.6	84.9	96.8
Income tax	1.6	3.6	(10.7)	(12.7)	(12.6)
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	60.8	72.1	84.3
Core net profit	13.4	28.7	60.8	72.1	84.3
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	185.4	216.1	294.9	389.9	491.9
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	63.1	60.6	61.1	63.2
Total assets	275.6	345.1	422.6	514.2	615.0
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	79.0	80.0	97.9	117.4	135.0
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	293.5	312.3	330.7
Shareholders Equity	43.2	69.9	129.1	201.9	284.4
Minority Interest	0.8	0.4	0.0	0.0	0.0
Total shareholder equity	44.0	70.3	129.1	201.9	284.4
Total liabilities and equity	275.6	345.1	422.6	514.2	615.0
CASH FLOW (SGD m)					
Pretax profit	11.8	25.1	71.6	84.9	96.8
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	15.2	20.2	19.7
Cash taxes paid	0.3	4.1	15.7	17.7	17.6
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	88.6	49.3	102.5	122.8	134.1
Capex	(2.2)	(3.2)	(2.0)	(2.0)	(2.0)
Free cash flow	86.3	46.0	100.5	120.8	132.1
Dividends paid	0.0	(3.0)	(21.7)	(25.8)	(30.1)
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	78.8	95.0	102.0

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	32.4	32.1	35.0	20.0	15.0
EBITDA growth	173.7	112.8	184.4	18.6	14.1
EBIT growth	173.7	112.8	184.4	18.6	14.1
Pretax growth	182.5	112.2	185.5	18.6	14.1
Reported net profit growth	138.6	114.0	112.0	18.6	16.8
Core net profit growth	138.6	114.0	112.0	18.6	16.8
Profitability ratios (%)					
EBITDA margin	4.1	6.5	13.8	13.6	13.5
EBIT margin	4.1	6.5	13.8	13.6	13.5
Pretax profit margin	4.1	6.5	13.8	13.6	13.5
Payout ratio	22.4	36.0	35.7	35.7	35.7
DuPont analysis					
Net profit margin (%)	4.6	7.4	11.7	11.6	11.7
Revenue/Assets (x)	1.1	1.1	1.2	1.2	1.2
Assets/Equity (x)	6.4	4.9	3.3	2.5	2.2
ROAE (%)	na	na	na	na	na
ROAA (%)	5.3	9.2	15.8	15.4	14.9
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	54.3	31.8	26.2	21.9	19.0
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	107.2	85.4	78.1	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	1.6	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.3	1.4	1.6	1.9
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)	(294.9)	(389.9)	(491.9)

Source: Company; Maybank IBG Research

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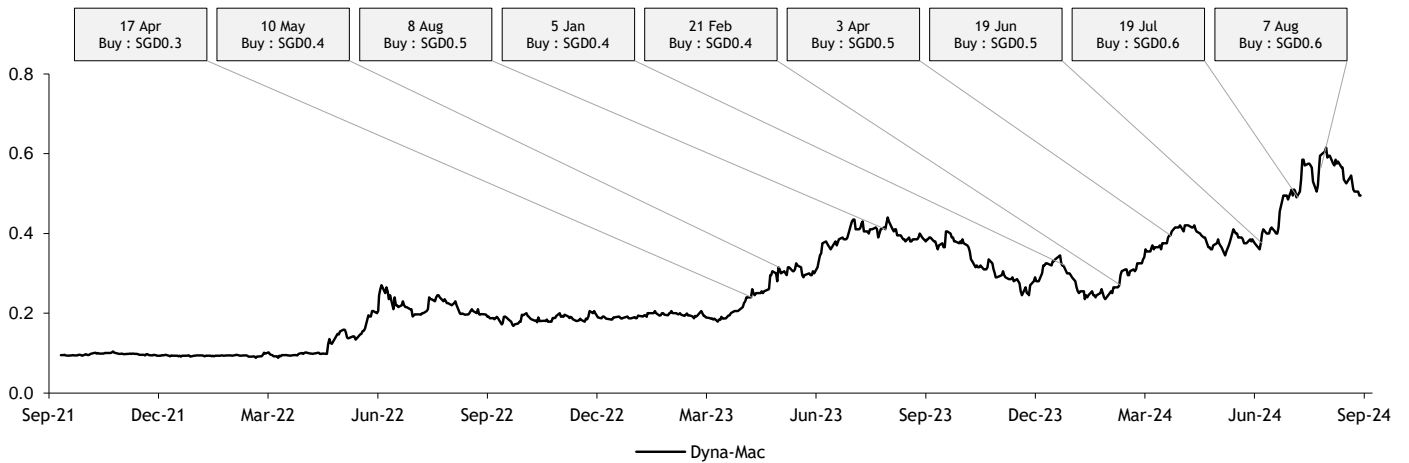
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