

Company Update

Dyna-Mac Holdings

Singapore | Energy

Ada Lim
Equity Research

Rating BUY (as at 12 September 2024)
Last Close SGD 0.495
Fair Value SGD 0.665

A phoenix risen from the ashes warrants a greater glow

- **Hanwha Aerospace and Hanwha Ocean (Hanwha) announced tender offer for Dyna-Mac's shares at SGD0.60 apiece, valuing the company at a 21.2% premium as at 10 Sep 2024**
- **No offer made for outstanding warrants, but Hanwha will recognise and pay for all new shares issued pursuant to warrant exercise**
- **Offer price does not fully reflect Dyna-Mac's true value, in our view, and we do not recommend existing investors to accept the tender offer**

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, as well as reliable and timely deliveries positions it well to capture burgeoning demand for FPSO modules amidst a shortage in capacity. Dyna-Mac has expanded its yard capacity significantly in 2023, which will be a positive for top line growth. We think there remains great potential for the company to grow inorganically in a manner that is accretive to earnings in the near future, backed by its healthy net cash position. We currently have a fair value (FV) estimate of SGD0.665, which takes into account the issuance of bonus warrants. In our view, existing investors can consider exercising their warrants to avoid dilution and to participate in the company's future growth. On 11 Sep 2024, Hanwha launched a voluntary conditional cash offer for Dyna-Mac's shares at SGD0.60 apiece; we think this offer price does not fully reflect the company's true value, and do not recommend existing investors to accept the tender offer.

Investment summary

- **Hanwha launched a voluntary conditional cash offer for Dyna-Mac's shares at SGD0.60 apiece** – The offer price translates to a premium of 21.2% over Dyna-Mac's last close price of SGD0.495 as at 10 Sep 2024,

Security information

Ticker	DMHLSI
Market Cap (SGD b)	0.6
Daily turnover (SGD m)	11.3
Free Float	42%
Shares Outstanding (m)	1,046
Top Shareholder	Estate of Lim Tze Jong 30.0%

Price performance chart



Financial summary

SGD m	FY23	FY24E	FY25E
Revenue	385.2	520.2	584.2
EBITDA	27.4	93.6	99.3
PATMI	28.5	81.0	87.7
EPS (S cents) - Basic	2.8	6.0	6.4
DPS (S cents)	0.8	2.1	2.2

Key ratios

%	FY23	FY24E	FY25E
Revenue growth	32.1	35.0	12.3
EBITDA growth	64.6	241.6	6.1
Gross margin	13	27	27
Dividend yield	1.7	4.2	4.5

Source: Refinitiv, Internal estimates

and a premium of 14.1% and 6.2% over the volume-weighted average price (VWAP) of the three- and one-month periods up to and including 10 Sep 2024, respectively. Hanwha has not made an offer for the 137.7m warrants outstanding, which are exercisable into 137.7m new shares at an exercise price of SGD0.15 up till 22 Oct 2024. That being said, Hanwha will recognise and pay for all new shares issued pursuant to the exercise of the warrants prior to the close of the offer. The offer price is subject to adjustment for any distributions made hereon, and the tender offer process is expected to be completed by the end of this year.

- Acquisition comes amidst Hanwha's active pursuit of inorganic growth** – Hanwha's intention is to secure management control, and the tender offer is subject to a minimum acceptance condition of more than 50% of shares in Dyna-Mac. This includes the 25.4% stake that Hanwha currently already owns (21.7% and 3.7% through Hanwha Ocean and Hanwha Aerospace, respectively), which implies that Hanwha will need to secure at least another 24.6% of shares. However, in the event that Hanwha secures more than 90% of Dyna-Mac's shares at offer close, thereby causing the company to lose its free float status, Hanwha intends to exercise its right to compulsorily acquire all remaining shares and to delist the company from the Singapore Exchange (SGX). We note that Hanwha has been on a global expansion drive, having acquired Philly Shipyard, a leading American shipbuilder, for USD100m, and launched a failed bid for Australian shipbuilder Austal for AUD1.0b. In its announcement, Hanwha stated one of the rationales for its offer as allowing Hanwha Ocean to realise potential synergies with Dyna-Mac, such as economies of scale, improvement of productivity and cost efficiency, and strengthening of domain knowledge. The SGD586m deal (assuming 100% ownership) will be funded by a shareholders' loan.
- Tender offer price does not reflect the true value of the company, in our view** – At the time of writing, Dyna-Mac's management is in the midst of appointing an independent financial advisor. Notwithstanding the fact that the tender offer is still subject to a favourable anti-trust decision from the Competition and Consumer Commission of Singapore (CCCS), we think the offer price of SGD0.60 does not fully reflect the true value of the company. Dyna-Mac is well positioned for substantial growth in the current FPSO upcycle, with steady contract wins boosting its order book to SGD681.3m as at 30 Jun 2024, as well as continued margin expansion on improved productivity and disciplined cost control. This is supported by the company's proactive expansion of

Results highlights

SGD m	1H23	1H24	% chg
Revenue	182.3	259.7	42.5%
Gross profit	24.6	71.7	191.3%
EBITDA	12.4	51.4	314.7%
Other income	3.5	7.6	116.3%
Net income	10.2	38.8	280.3%
Return on equity (%)	42.5	66.4	N.M.
EPS (\$ cents) - Basic	0.98	3.72	279.6%
EPS (\$ cents) - Diluted	0.91	3.35	268.1%

Source: Company, Internal estimates

yard space in 2023 and significant net cash position of SGD307.7m as at 30 Jun 2024. We note that the offer price is lower than both our FV and Refinitiv consensus's target price – which do not take into account any control premium – by 10% and 6.3%, respectively. It also represents a 2.4% discount to Dyna-Mac's highest share price year-to-date (YTD) of SGD0.615, as at the close of 13 Aug 2024. As such, we recommend existing investors to reject the tender offer at SGD0.60.

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.
- **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 adopted the TAFEP Tripartite Standards since 2018 and organised 11 in-house training sessions for 380 employees in FY23. 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 with healthy margins 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

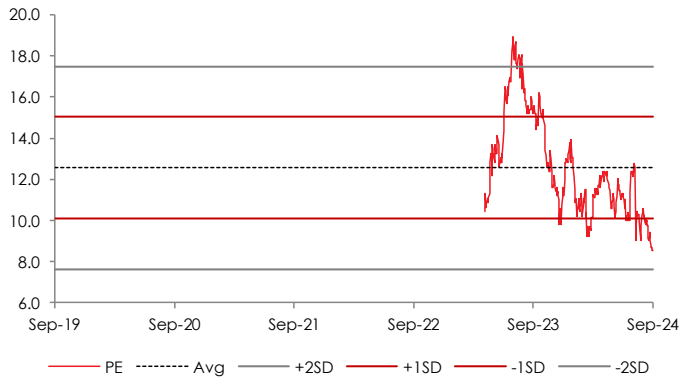
- Difficulties securing new orders with reasonable margins amidst a slowing macroeconomic backdrop, or order cancellations
- Inability to pass on higher costs to customers weighs on project margins
- Execution risks and cost overruns

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
DYNA-MAC HOLDINGS LTD (DMHL.SI)	10.1	8.5	N.A	N.A	4.7	4.0	3.4	4.2	N.A	N.A
BOMESC OFFSHORE ENGINEERING CO LTD (603727.SS)	21.8	9.9	0.8	0.8	3.9	2.0	1.8	3.9	3.8	7.7
MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BHD (MHEB.KL)	7.9	3.3	0.5	0.5	4.2	4.3	2.7	2.6	5.8	3.5
YINSON HOLDINGS BERHAD (YINS.KL)	11.3	9.9	1.1	1.1	9.4	8.3	1.3	1.4	11.7	11.6

Source: Refinitiv

Price/Earnings chart



Source: Refinitiv

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

Price/Book chart



Source: Refinitiv

Exhibit 1: Significant shareholders

No.	Investor Name	% of shares outstanding
1	Estate of Lim Tze Jong	30.0%
2	Hanwha (Hanwha Ocean & Hanwha Aerospace)	25.4%
3	Lim Ah Cheng	1.5%
4	Tan Cheng Guan	0.3%
5	Lim Tje Hong	0.3%

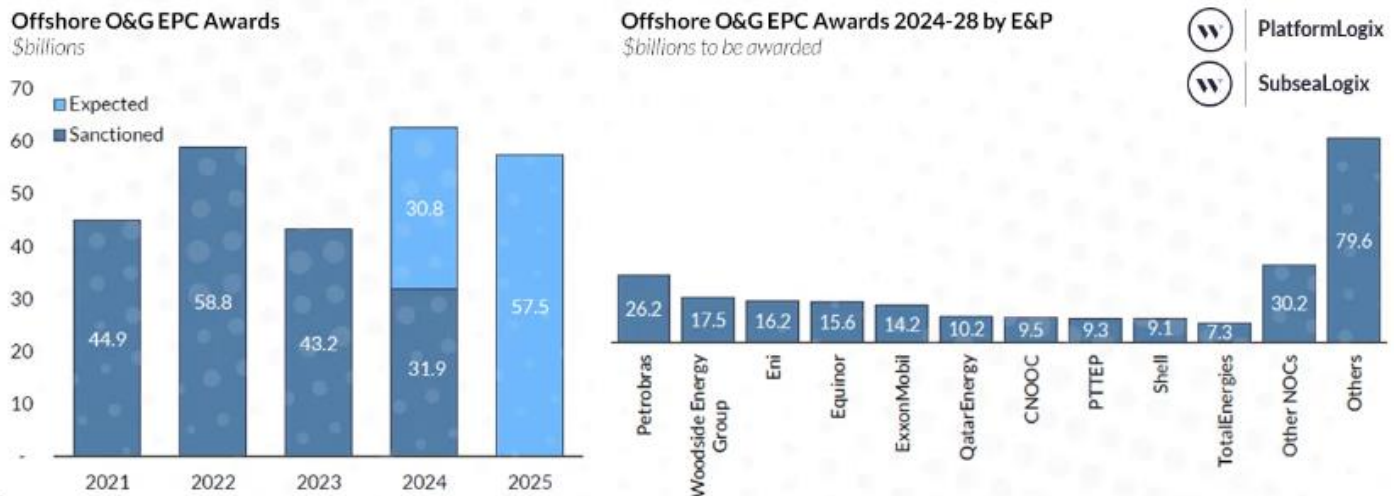
Source: Refinitiv

Exhibit 2: Share price chart



Source: Refinitiv, Internal estimates; Based on daily share price data from 1 Jan 2020 to 10 Sep 2024

Exhibit 3: Offshore Field Development



Source: Westwood Global Energy Group; Data extracted on 12 Sep 2024

Company overview (as of 22 February 2024)

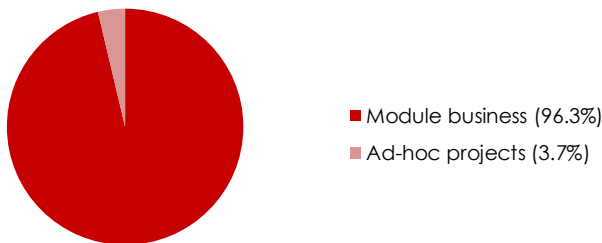
Company description

Dyna-Mac is a global multi-disciplinary contractor that undertakes the detailed engineering, procurement, fabrication, and construction of compressor skids and modules for Carbon Capture, Utilisation and Storage (CCUS); onshore pre-commissioning and commissioning 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) and Fixed Platforms; onshore modules for land-based plants for the energy industry; as well as offshore and onshore renewables and green energy sectors, 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.

FY23 Revenue breakdown

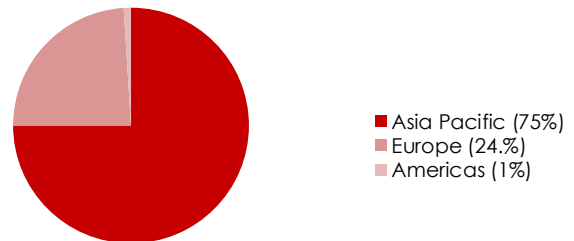
By segment



Source: Company, Internal estimates

FY23 Revenue breakdown

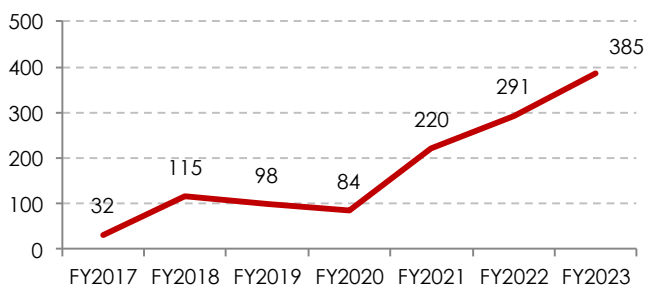
By geography



Source: Company, Internal estimates

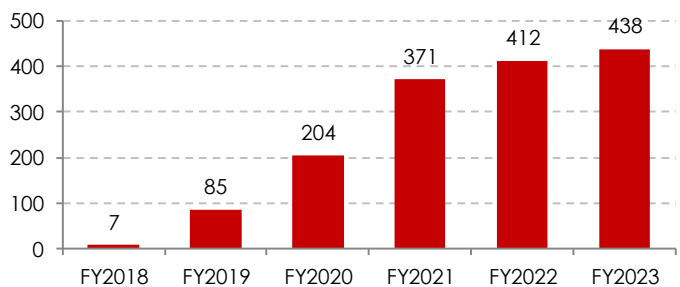
Revenue comparison over 5 years

SGD m



Source: Company, Internal estimates

Net order book (SGD m)



Source: Company, Internal estimates

Company financials

Income Statement

In Millions of SGD except Per Share	FY2019	FY2020	FY2021	FY2022	FY2023
12 Months Ending	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Revenue	97.8	84.0	220.2	291.5	385.2
- Cost of Revenue	96.1	114.5	197.1	259.1	335.1
Gross Profit	1.7	-30.5	23.1	32.4	50.1
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	25.1	27.2	18.0	19.8	24.9
Operating Income or Losses	-23.4	-57.7	5.2	12.6	25.2
- Interest Expense	0.5	0.8	1.0	0.8	--
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	--	--	--	--	0.1
Pretax Income	-24.0	-58.4	4.2	11.8	25.1
- Income Tax Expense (Benefit)	0.0	0.0	-1.4	-1.6	-3.6
Income Before XO Items	-24.0	-58.4	5.6	13.4	28.7
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	-0.3	0.0	0.1	0.3	0.2
Net Income/Net Profit (Losses)	-23.7	-58.4	5.5	13.1	28.5
Net Inc Avail to Common Shareholders	-23.7	-58.4	5.5	13.1	28.5
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	-23.9	-56.5	4.9	13.5	28.7
Basic Earnings per Share	0.0	-0.1	0.0	0.0	0.0
Basic Weighted Avg Shares	1,023.2	1,023.2	1,024.5	1,028.2	1,035.5
Diluted EPS Before Abnormal Items	0.0	-0.1	0.0	0.0	0.0
Diluted EPS Before XO Items	0.0	-0.1	0.0	0.0	0.0
Diluted EPS	0.0	-0.1	0.0	0.0	0.0
Diluted Weighted Avg Shares	1,023.2	1,023.2	1,024.5	1,028.2	1,139.5

Profitability Ratios

12 Months Ending	FY2019	FY2020	FY2021	FY2022	FY2023
	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Returns					
Return on Common Equity	-25.50	-111.84	20.72	35.89	50.37
Return on Assets	-15.01	-36.55	2.89	5.32	9.24
Return on Capital	10.69	31.49	48.87	44.36	30.76
Return on Invested Capital	-	-	-150.62	-34.25	-26.51
Margins					
Operating Margin	-23.95	-68.63	1.96	4.06	6.53
Incremental Operating Margin	-15.02	2.87	-0.03	2.07	1.61
Pretax Margin	-24.50	-69.55	1.90	4.05	6.51
Income before XO Margin	-24.24	-69.50	2.49	4.48	7.40
Net Income Margin	-24.24	-69.50	2.49	4.48	7.40
Net Income to Common Margin	-24.24	-69.50	2.49	4.48	7.40
Additional					
Effective Tax Rate	-	-	-34.41	-13.50	-14.48
Dvd Payout Ratio	-	-	-	22.82	33.20
Sustainable Growth Rate	-	-	-	35.80	50.20

Credit Ratios

12 Months Ending	FY2019	FY2020	FY2021	FY2022	FY2023
	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Total Debt/EBIT	-2.29	-0.61	8.02	2.16	1.87
Net Debt/EBIT	-0.87	0.24	-20.02	-14.02	-6.65
EBIT to Interest Expense	-35.36	-70.12	3.87	14.49	-
Long-Term Debt/Total Assets	17.81	16.13	11.86	8.11	13.27
Net Debt/Equity	0.21	-0.54	-2.55	-3.70	-2.41

Source: Refinitiv

ANALYST DECLARATION:

The analyst(s) who prepared this report certifies that the opinions contained herein accurately and exclusively reflect his or her views about the securities of the listed entity, and that he or she has taken reasonable care to maintain independence and objectivity in respect of the opinions herein.

The analyst(s) who wrote this report does not hold any financial interests in the listed entity. The analyst's/analysts' connected persons do not hold any financial interests in the listed entity.

The analyst(s) does not receive compensation directly or indirectly related to the inclusion of specific recommendations or views in this report. The reporting line of the analyst(s) is separate from and independent of the business solicitation or marketing departments of Oversea-Chinese Banking Corporation Limited ("OCBC Bank") Group.

The analyst(s) or his/her associate confirms that he or she does not serve as directors or officers of the listed entity, and the listed entity or other third parties have not provided or agreed to provide any compensation or other benefits to the analyst(s) in connection with this report.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without the written consent of OCBC Investment Research Private Limited ("OIR" or "we"). This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein or to participate in any particular trading or investment strategy. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. In the event that you choose not to seek advice from a financial adviser, you should consider whether investment in securities and the securities mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OIR, OCBC Securities Private Limited ("OSPL") and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OIR and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

RATINGS AND RECOMMENDATIONS:

- OIR's technical comments and recommendations are short-term and trading oriented.
- OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon.
- As a guide, OIR's BUY rating indicates total expected returns (excluding dividends) in excess of 10% based on the current price; a HOLD rating indicates total expected returns (excluding dividends) within +10% and -5%; a SELL rating indicates total expected returns (excluding dividends) less than -5%. For REITs and Business Trusts, total expected returns including dividends apply.
- For companies with market capitalisation of S\$150m and below, OIR's BUY rating indicates total expected returns (excluding dividends) in excess of 30%; a HOLD rating indicates total expected returns (excluding dividends) within a +/-30% range; a SELL rating indicates total expected returns (excluding dividends) less than -30%. For REITs and Business Trusts, total expected returns including dividends apply.

Co.Reg.no.: 198301152E

Published by OCBC Investment Research Private Limited