

Company Update

Dyna-Mac Holdings

Singapore | Energy

Ada Lim
Equity Research

Rating BUY (as at 23 February 2024)
Last Close SGD 0.295
Fair Value SGD 0.420

The best is yet to be

- **Outstanding FY23 results underpinned by strong execution capabilities, disciplined cost control, and improved productivity**
- **Expanded fabrication capacity positions Dyna-Mac well to take on more projects and further optimise production efficiency**
- **Revise fair value (FV) estimate to SGD0.42 as Dyna-Mac looks to maintain its growth momentum amidst the current upcycle**

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 revise our FV estimate upwards from SGD0.36 to SGD0.42, reflecting further upside potential for the company amidst a stronger-than-expected upcycle. Our forecasts take into consideration 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.

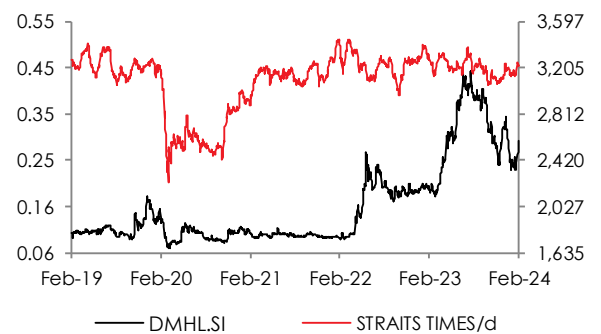
Investment summary

- **Another year of impressive growth** – Dyna-Mac posted a 32.1% growth in revenue to SGD385.2m in FY23, on the back of higher progressive recognition from projects executed during the year. While the company's top line met our expectations, constituting 99% of our full year forecast, its bottom line (i.e. PATMI) beat our forecasts by ~35%, due to tighter cost control, improved productivity, and

Security information

Ticker	DMHLSI
Market Cap (SGD b)	0.3
Daily turnover (SGD m)	5.4
Free Float	35%
Shares Outstanding (m)	1,036
Top Shareholder	Est ate of Lim Tze Jong 32.2%

Price performance chart



Financial summary

SGD m	FY23	FY24E	FY25E
Revenue	385.2	407.1	433.2
EBITDA	27.3	29.4	32.5
PATMI	28.5	27.3	27.6
EPS (S cents) - Basic	2.8	2.0	2.3
DPS (S cents)	0.83	0.51	0.51

Key ratios

%	FY23	FY24E	FY25E
Revenue growth	32.1	5.7	6.4
EBITDA growth	64.0	10.0	10.6
Gross margin	13.0	14.4	15.8
Net income margin	7.4	6.8	6.4

Source: Refinitiv, Internal estimates

better utilisation of capacity by intensifying land use. FY23 gross profit and net income jumped by 58.4% and 114% to SGD50m and SGD28.7m, respectively. This represents a 40.8% return on equity (ROE) and basic earnings per share (EPS) of 2.75 Singapore cents.

- Healthy order book driven by both repeat and new customers** – Dyna-Mac has actively increased its yard space last year by securing a lease with JTC, as well as through its acquisition of Exterran Offshore. This positions it well to not only take on more projects to grow its top line, but also to enhance its existing construction methodology to achieve better production efficiency. As of 31 Dec 2023, Dyna-Mac's net order book had increased to SGD438.2m (31 Dec 2022: SGD412m), with deliveries stretching into FY25. Management remains optimistic of buoyant demand going forward. Global FPSO demand is expected to remain robust; according to the Energy Maritime Associate's (EMA) Global Floating Production Industry Survey, industry sentiment appears overwhelmingly positive for 2024. Brazil could potentially be a bright spot, with government and industry officials expecting the continued ramp up of oil production and development of offshore fields this year.
- Keeping the growth momentum** – Dyna-Mac has signalled its focus on growth this year. The company aims to be “near market, near customer”, which involves growing and optimising its Singapore capacity (such as the reconfiguration and deployment of expanded yard space), while collaborating with strategic partners overseas. Dyna-Mac continues to diversify its product offerings beyond topside modules, with a key focus on exotic piping, blue hydrogen plants, and pharmaceutical plants to future-proof its business. Finally, management continues to keep an eye out for strategic merger and acquisition (M&A) opportunities, even as it practices prudent capital management to maintain a strong balance sheet. We take into account Dyna-Mac's FY23 results and roll forward our forecasts. Our FV estimate lifts from SGD0.36 to SGD0.42, and we remain bullish on the company's outlook and growth prospects.

Results highlights

SGD m	FY22	FY23	% chg
Revenue	291.5	385.2	32.1%
Gross profit	31.6	50.1	58.4%
EBITDA	16.7	27.3	64.0%
Other income	5.9	7.4	26.6%
Net income	13.4	28.7	114.0%
Return on equity (%)	30.2	40.8	35.1%
EPS (\$ cents) - Basic	1.27	2.75	116.5%
EPS (\$ cents) - Diluted	1.25	2.50	100.0%

Source: Company, Internal estimates

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 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

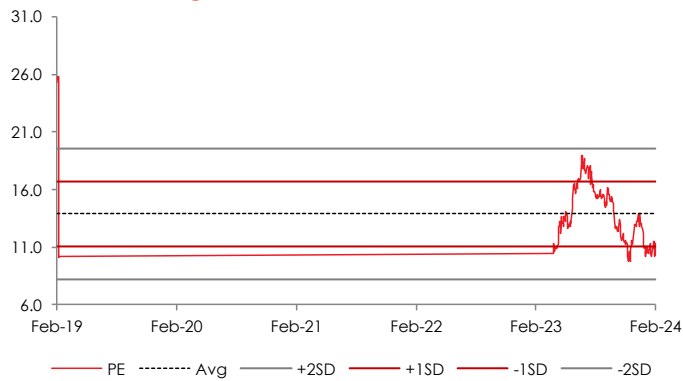
- Difficulties securing new orders amidst a slowing macroeconomic backdrop
- Inability to pass on higher costs to customers weighs on project margins
- Execution risks and cost overruns

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
DYNA-MAC HOLDINGS LTD (DMHL.SI)	10.9	11.3	N.A	N.A	6.3	5.5	2.4	2.7	37.0	30.5
BOMESC OFFSHORE ENGINEERING CO LTD (603727.SS)	N.A	35.9	1.0	1.0	N.A	9.3	0.0	0.9	(2.7)	2.7
MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BHD (MHEB.KL)	19.2	15.1	0.5	0.4	5.0	4.4	3.4	2.0	2.2	2.9
YINSON HOLDINGS BERHAD (YINS.KL)	10.6	9.2	1.3	0.7	8.9	7.7	1.4	1.6	14.0	14.9

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 22 February 2024)

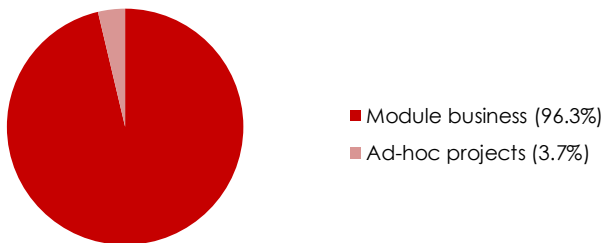
Company description

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

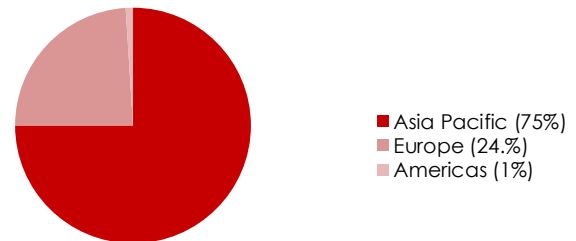
By segment



Source: Company, Internal estimates

FY23 Revenue breakdown

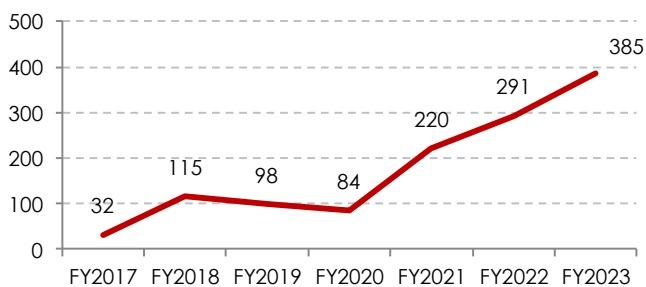
By geography



Source: Company, Internal estimates

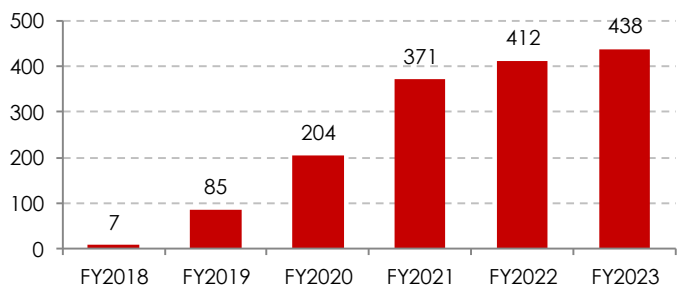
Revenue comparison over 5 years

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	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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