

Company Update

# Dyna-Mac Holdings

Singapore | Energy

Ada Lim  
Equity Research

Rating BUY (as at 22 September 2023)  
Last Close SGD 0.360  
Fair Value SGD 0.505

## Sailing the high seas

- **Differentiated player with niche core competencies and dedicated commitment to quality**
- **Additional fabrication capacity will allow Dyna-Mac to pursue more projects to grow its top line**
- **Reiterate fair value estimate of SGD0.505**

## 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. Although its share price has retraced slightly since Aug 2023, the stock is still up substantially year to date (YTD). We continue to see further upside for Dyna-Mac given a stronger-than-expected upcycle and potential catalysts ahead for the company, and reiterate our fair value estimate of SGD0.505.

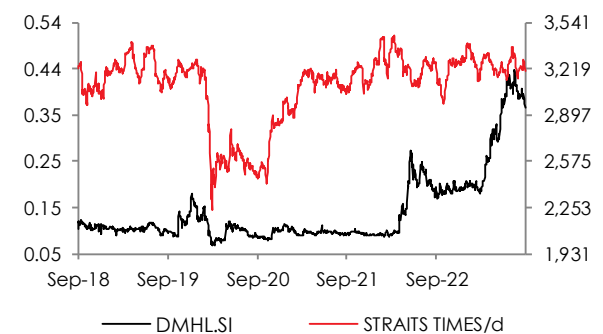
## Investment summary

- **Additional fabrication capacity a positive for top-line growth** – Dyna-Mac announced two memorandums of understanding (MOUs) in August 2023. The first is a two-year MOU with offshore marine services contractor Kim Heng Marine & Oilfield Pte Ltd, a wholly owned subsidiary of Kim Heng Ltd (Kim Heng). This preferred partnership arrangement provides Dyna-Mac with the option to secure the use of Kim Heng's yard facilities at agreed tariff rates, which will allow Dyna-Mac to take on more projects while minimising some volatility in terms of costs. Previously, Dyna-Mac had also shared 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 these

## Security information

Ticker	DMHLSI
Market Cap (SGD b)	0.4
Daily turnover (SGD m)	7.2
Free Float	59%
Shares Outstanding (m)	1,036
Top Shareholder	Estate of Lim Tze Jong 32.2%

## 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 (S cents)	1.2	2.0	2.7
DPS (S 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

developments as a positive for Dyna-Mac to grow its top-line significantly in the coming years, given that the company is currently constrained by limited yard space and running at more than 100% of its capacity (as it is utilising partners' yard space).

- Differentiated and future-proofed** – Unlike many other upstream players which have pivoted into the renewables space, Dyna-Mac has chosen to remain in niche topside module construction to capture demand that has fallen through the cracks. That being said, Dyna-Mac recognises the importance of future-proofing its business, and we see the second MOU with BW Offshore Holdings Pte Ltd (BW Offshore) as a sign of Dyna-Mac diversifying its offerings and building resilience. The partnership will allow Dyna-Mac and BW Offshore to leverage each other's technical know-how and expertise to jointly pursue carbon capture and storage (CCS) projects around the world, including current gas and condensate projects in the Northern Territory of Australia. This will support Dyna-Mac's development of its capabilities in the renewables space, positioning it to capture future demand as CCS and hydrogen-related investments become more mainstream and commercially viable.
- Reiterate fair value estimate of 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. Continued exploration breakthroughs in places like Namibia's Orange Basin and the East Mediterranean are also likely to support the current upcycle. We reiterate our fair value estimate of SGD0.505, and believe that near-term retracements in the share price may present opportunities for investors to gain exposure to the stock. We also note that Dyna-Mac is trading at a forward price-to-earnings (P/E) ratio of 15.5x, which is slightly more than one standard deviation below the five-year historical average of 23.4x – suggesting that current valuations remain undemanding.

## 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

## 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

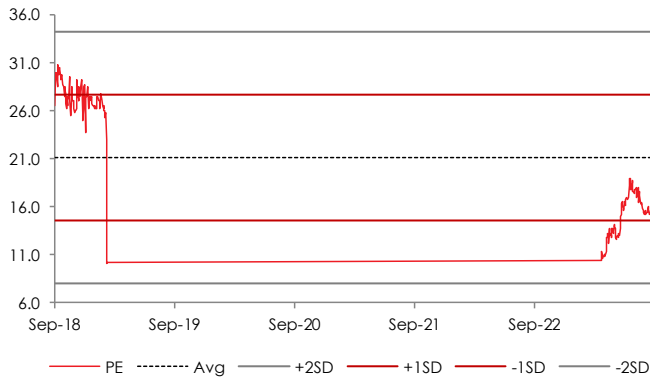
- Difficulties securing new orders amidst a slowing macroeconomic backdrop
- Inability to pass on higher costs to customers weighs on project margins
- Execution risks and cost overruns

## Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>DYNA-MAC HOLDINGS LTD (DMHL.SI)</b>	20.0	14.4	N.A	N.A	14.2	11.2	1.7	1.9	N.A	N.A
<b>BOMESC OFFSHORE ENGINEERING CO LTD (603727.SS)</b>	N.A	42.2	1.2	1.2	N.A	11.5	N.A	0.7	(3.1)	2.7
<b>MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BHD (MHEB.KL)</b>	124.7	15.2	0.5	0.5	8.9	5.4	2.3	2.7	2.8	2.9
<b>YINSON HOLDINGS BERHAD (YINS.KL)</b>	10.7	10.0	1.4	1.2	8.0	6.9	1.2	1.3	13.4	14.1

Source: Refinitiv

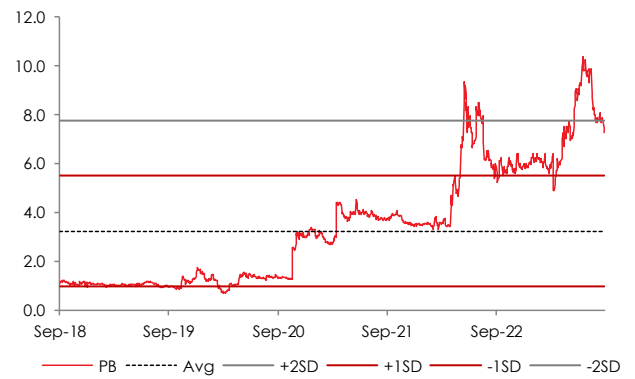
### Price/Earnings chart



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)

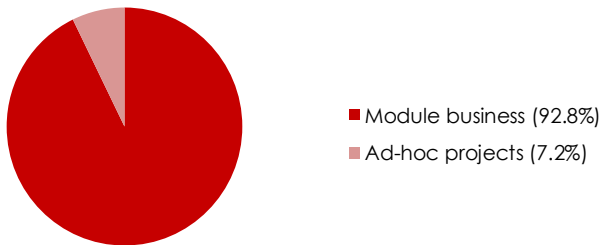
### Company description

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

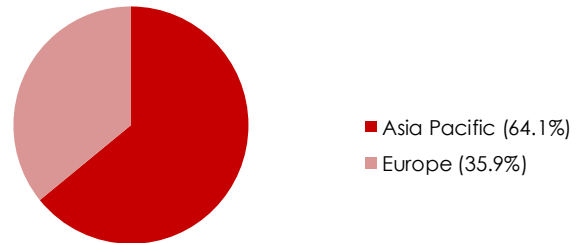
By segment



Source: Company, Internal estimates

### FY22 Revenue breakdown

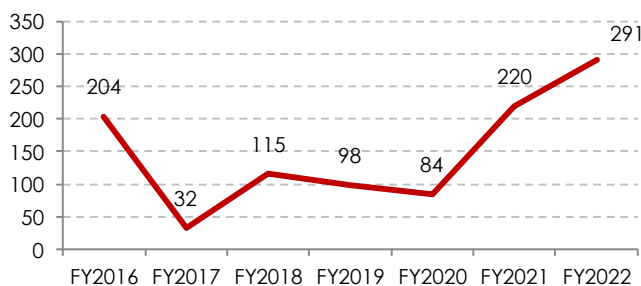
By geography



Source: Company, Internal estimates

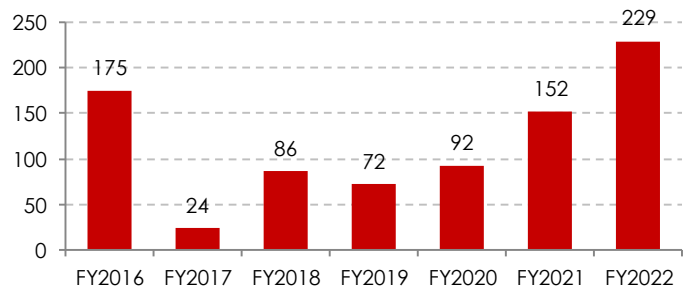
### Revenue comparison over 5 years

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