

DYNA-MAC HOLDINGS LTD

BUY

Share Price: S\$0.54
Target Price: S\$0.715
Upside: +32.5%

COMPANY DESCRIPTION

Dyna-Mac is a global multi-disciplinary contractor that undertakes the detailed engineering, procurement, fabrication, construction, and onshore pre-commissioning and commissioning of offshore topside modules and facilities for FPSO (floating production storage and offloading vessels), FSOs (floating storage and offloading vessels), FLNGs (floating liquefied natural gas vessels), FSRUs (floating storage and regasification units) and Fixed Platforms, onshore modules for land-based plants, offshore and onshore renewables and green energy sectors, with focus on LNG, green hydrogen and ammonia.

Name	DYNA-MAC HOLDINGS LTD
Bloomberg Code	DMHL SP EQUITY
3M Avg Daily Trading Vol (K)	9,998.7
3M Avg Daily Trading Val (\$S'000)	5,210.4
Major Shareholder / Holdings	Lim Tze Jong (31.96%)
Shares Outstanding (m)	1,036.9
Market Capitalisation (\$M)	371.2
52 week Share Price High/Low	\$0.63 / \$0.24

STOCK PRICE PERFORMANCE

	1M	3M	12M
Absolute Return (%)	3.8	41.0	45.9

PRICE CHART



Source : Bloomberg

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Dyna-mite!

Dyna-Mac's 1H24 results completely smashed our expectations with 1H24 revenue and net profit S\$38.8m forming c.63% and c.108% of our FY24 target of S\$410m and S\$35.9m respectively. We were too conservative with our estimates and did not fully factor in the higher operating leverage and volume of orders which Dyna-Mac's new yard provided. The new and bigger yard will allow Dyna-Mac to be more cost efficient, complete orders faster and take in new projects from adjacent sectors. Dyna-mac continues to be backed by a buoyant FPSO market and its strong orderbook of S\$681 assures future earnings visibility. We raise our forecasts for FY24 revenue and profits forecast to S\$512.5m and S\$71.1m respectively to better reflect the business seen in 1H24. Accordingly, Dyna-mac now trades at 8.3x FY24 PE (ex-Cash PE of 4.5x) and we continue to maintain a BUY rating on Dyna-Mac with a revised target price of S\$0.715, pegged to 11x FY24E, representing a 32.5% upside potential.

1H24 earnings smashed our expectations. Revenue for 1H24 came in at S\$259.7m, which was 26.7% above our 1H24 expectations, and net profit of S\$38.8m represented a 14.9% overall net margins and annualized ROE of 66.4%. The outperformance in 1H24 was largely due to the both the increase in volume of projects undertaken and the completion of major contracts, which was not possible without the expansion of its yard capacity which increased productivity. We understand that Dyna-Mac now has to turn away lower margin jobs as there is an increasing need to balance current manpower, and that the focus is now to continue growing its topline revenue. While margins did improve significantly to c.14.9% vs industry average of about 7-8%, we understand that the main driver was due to excellent work efficiency and cost control, which CEO AC Lim has emphasized ever since he took over in 2020.

Healthy Balance Sheet & M&A opportunities. Balance sheet remains strong at S\$308m net cash. We understand this cash will be prudently managed and Dyna-Mac will keep their "powder dry" for good M&A opportunities. We understand this would mean the pursuit of strategic initiatives, such as M&As, which will be targeted at generating recurring income and expanding Dyna-Mac's business and order book. We also understand that Dyna-Mac has received strong enquiries to be in the semi-con/pharma space. While interesting, the focus continues to be on FPSOs due to the continued strong demand

KEY FINANCIALS

Dec YE	FY21	FY22	FY23	FY24F	FY25F
Revenue (S\$m)	220.2	291.5	385.2	512.5	589.4
Operating Income (S\$m)	-2.7	6.0	17.7	76.5	93.7
Operating Margin (%)	N.M	2.0	4.6	14.9	15.9
Net Income (S\$m)	5.5	13.1	28.5	71.1	87.1
Net Margin (%)	2.5	4.5	7.4	13.9	14.8
P/E (x)	65.5	27.5	12.8	8.3	6.8
Ex-Cash PE (x)	48.5	14.0	5.3	4.5	3.7
ROE (%)	18.5	30.2	40.8	41.0	33.4
EPS (S cts)	0.5	1.3	2.8	6.2	7.6
EPS Growth (%)	N.M	139.6	116.5	123.0	22.4
DPS (S cts)	0.0	0.3	0.8	1.6	1.9
Dividend Yield (%)	N.M	0.9	2.5	2.9	3.5

Source: Dyna-Mac, Lim & Tan Research

On May 24, Keppel sold its 24.1% stake in Dyna-Mac to Hanwha. Considering Dyna-Mac is relatively small compared to Hanwha's significant size (approximately S\$2.4 billion market cap) and Hanwha's growing presence in the oil and gas sector as a respected shipbuilder, this transaction could potentially set the stage for a future acquisition. While Hanwha purchased its stake at S\$0.40/share. In hindsight, it seems Hanwha might have missed an opportunity by not initiating a General Offer (GO) at that time. Since then, Dyna-Mac's share price has surged considerably with good volume and fundamentals are backed by a significantly larger order book and improved profit margins. Consequently, Hanwha would now face a much higher cost to persuade shareholders to sell their stakes, making any future acquisition more challenging and expensive, which is beneficial for current share holders. With Hanwha having business segments in the same space as Dyna-Mac, we look upon this sale as favorable as we understand that Dyna-Mac currently has no dealings with Keppel or even Seatrrium, and that Hanwha can contribute more to Dyna-mac than just being a silent shareholder.

Orderbook expected to grow. Orderbook remains healthy and stands at S\$681.3m as of June 2024, with deliveries scheduled through FY2026, which reflects sustained market demand for Dyna-Mac's FPSO topside modules. Dyna-Mac continues to have consistent stream of inquiries from both new and repeat customers and we expect Dyna-mac to secure further order book wins with better margins with the help of their new yard facilities, which will provide revenue visibility in the medium to longer term. The new yard will not only make space for new orders, it can and has cut down lead time to customers by improving work efficiency due to the larger space that they now have. We understand that new orders can stem from existing business, or even exploring opportunities in adjacent sectors – including carbon capture and storage technologies, and hydrogen solutions. The new yard continues to be under construction and should finish up by 1H25.

Favourable Outlook. The outlook for Dyna-Mac remains optimistic, driven by the continued buoyancy of the FPSO market. According to Fortune Business, the FPSO market is expected to grow 14.6% by 2032 and with more FPSOs expecting to start operations between 2024 to 2029, Dyna-Mac remains optimistic about its future growth opportunities.

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