

Dayang Enterprise Holdings

Capital Raising

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DAYANG announced a series of proposed corporate exercises, consisting of a rights issue and a private placement to raise a total of ~RM187m, primarily for borrowings repayment and sinking funds. The exercises are expected to dilute DAYANG's share base by ~20%, and reduce its net gearing to ~0.6x (from 0.8x). While this was not a surprise to us, we maintain our UP call with a lower TP of RM1.05, anticipating an overhang given share base dilution.

Raising capital for debts repayment. Last week, DAYANG announced a capital-raising exercise entailing: (i) proposed rights issue, on the basis of 1 right for every 10 shares, at a later-determined issue price, and (ii) proposed private placement representing approximately 10% of the total issued share capital, at a later-determined issue price.

Based on an illustrative issue price of (i) RM0.80 per share for the rights issue, and (ii) RM1.14 per share for the private placement, the exercises are expected to raise approximately up to RM187m – most of which will be used for debt repayments and sinking funds (*refer tables below for breakdown details*). The proposals are expected to be completed by 4Q19.

Sukuk programme and PERDANA's RCPS. The proposals are undertaken in conjunction with a proposed Sukuk issuance of RM682.5m, as part of DAYANG's debt restructuring scheme. Of the Sukuk proceeds raised, RM365m will be advanced to PERDANA (60.5%-owned listed subsidiary) for the settlement of its borrowings, with the remaining proceeds used as a refinancing of DAYANG group's borrowings. In turn, PERDANA has also simultaneously announced a proposed renounceable rights issue of new redeemable convertible preference shares (RCPS), intending to raise a minimum of RM445m, to be used for the repayment of DAYANG's advances.

Impact from the exercises. We do not find the announcements surprising given PERDANA's involvement with the Corporate Debt Restructuring Committee (CDRC) of Bank Negara, coupled with management's repeated guidance over the past several quarters. Based on the illustrative issue prices, the proposals are expected to dilute DAYANG's share base by approximately 20%, while reducing group net borrowings by 8% to RM798m, thus lowering net gearing to 0.6x, from 0.8x currently. This would result in approximately RM6.6m interest savings per annum. At PERDANA's level, the RCPS is expected to dilute its share base by 2.3-2.5x (depending on final issuance basis), also resulting in a massive 72% reduction of its borrowings to RM178m, thereby lowering its net gearing to 0.2x, from 1.4x previously.

Maintain UNDERPERFORM, given a possible sentiment overhang given share base dilution following the proposed exercises. The company is also expected to release its quarterly results later this week, which we believe could see sequentially weaker earnings given last quarter's high lump-sum work orders. Nonetheless, we believe the size of this rights issue is much more palatable as compared to previous rights exercises in the oil and gas sector (e.g. SAPNRG, VELESTO), and hence, we do not expect an overly prolonged shares overhang.

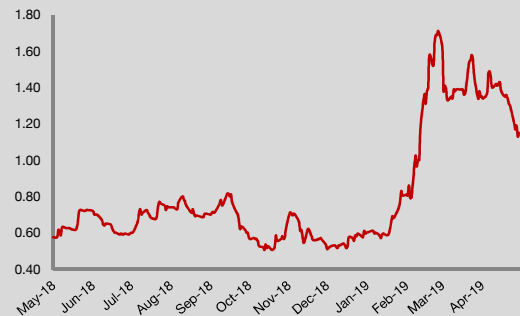
Our SoP-TP is trimmed to RM1.05 (from RM1.20 previously) as we lowered our ascribed valuation on PERDANA to 0.4x PBV (from 0.5x previously), given the massive dilution. This valuation is also in-line with trading valuations of other offshore/upstream peers (e.g. MHB, SAPNRG). Our TP implies Forward PBV of 0.9x (roughly close to -0.5SD of its mean), as well as Forward PER of 10x. Note that we still have yet to take into account the full share base dilution from the proposals, pending finalisation of the issue prices to arrive to a theoretical ex-trading price. That said, our TP would arrive to a theoretical ex-all FD-TP of RM0.89. Since our "take-profit" UNDERPERFORM call in March, the stock has retraced 33%. **Overall, our calls on DAYANG for the past twelve months have yielded total returns of over 165%** (includes both OUTPERFORM and UNDERPERFORM calls).

Risks to our call include: (i) stronger-than-expected work orders, (ii) increase in lump-sums of variation orders, (iii) higher-than-expected vessel utilisation, and (iv) falling through of corporate restructuring exercise.

UNDERPERFORM ↔

Price : RM1.15
Target Price : RM1.05 ↓

Share Price Performance



KLCI	1,605.36
YTD KLCI chg	-5.0%
YTD stock price chg	113.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DEHB MK Equity
Market Cap (RM m)	1,109.5
Shares outstanding	964.8
52-week range (H)	1.75
52-week range (L)	0.50
3-mth avg daily vol:	37,757,150
Free Float	58%
Beta	1.2

Major Shareholders

Naim Holdings Bhd	26.4%
Urusharta Jamaah Sdn	7.9%
Ling Suk Kiong	7.6%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Revenue	937.6	1,185.4	1,195.4
EBIT	292.9	215.3	217.0
PBT	220.0	148.2	146.9
Net Profit (NP)	164.2	106.1	105.1
Core Net Profit	164.2	106.1	105.1
Consensus (NP)	-	116.3	132.5
Earnings Revision (%)	-	-	-
Core EPS (sen)	17.0	11.0	10.9
Core EPS growth (%)	N.M.	-35.4	-0.9
BV/share (RM)	1.2	1.2	1.3
DPS (sen)	0.0	0.0	0.0
Core PER (x)	6.8	10.5	10.6
PBV (x)	1.0	1.0	0.9
Gearing (x)	0.8	0.9	0.7
Dividend Yield (%)	0.0	0.0	0.0

21 May 2019

Utilisation of Proceeds from the Rights Issue (based on illustrative issue price of RM0.80 per right share)

Description of Utilisation	Amount (RM mil)	Expected Time Frame
Repayment of borrowings	70.0	Within 3 months
Working Capital	4.7	Within 12 months
Estimated expenses for the proposed rights issue	2.5	Immediately
Total estimated proceeds	77.2	

Source: Company, Kenanga Research

Utilisation of Proceeds from the Proposed Private Placement (based on illustrative issue price of RM1.14 per placement share)

Description of Utilisation	Amount (RM mil)	Expected Time Frame
Build-up of sinking fund for the Proposed Sukuk programme	75.0	Within 36 months
Capital Expenditure	15.0	Within 12 months
Working Capital	17.5	Within 12 months
Estimated expenses for the Proposed Private Placement	2.5	Immediately
Total estimated proceeds	110.0	

Source: Company, Kenanga Research

Sum-of-Parts Valuation

Division	Value	Remarks
Offshore TMS	921.7	Based on 12x PER of FY19E
PERDANA	111.5	60.5% stake in PERDANA @ 0.4x PBV
Fair value	1033.2	
No. of shares	964.8	
SoP value/share (RM)	1.05	

Source: Company, Kenanga Research

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21 May 2019

Income Statement

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	708.2	695.5	937.6	1185.4	1195.4
EBITDA	302.5	156.9	403.9	333.2	312.8
Depreciation	-124.5	-125.5	-111.0	-117.9	-95.9
Operating Profit	178.0	31.4	292.9	215.3	217.0
Interest Expense	-99.3	-95.2	-77.8	-67.1	-70.1
Associate	0.0	0.0	0.0	0.0	0.0
Except. Items	0.0	0.0	0.0	0.0	0.0
PBT	78.7	-63.8	220.0	148.2	146.9
Taxation	-24.7	-88.4	-72.0	-37.1	-36.7
Minority Interest	0.6	8.3	16.2	-5.1	-5.1
Net Profit	54.5	-143.9	164.2	106.1	105.1
Core Net Profit	-3.5	-58.9	164.2	106.1	105.1

Balance Sheet

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	1,802	1,474	1,450	1,568	1,503
Intangible Assets	679	666	0	666	666
Oth. Fixed Asse.	74	77	735	77	77
Inventories	5	7	7	8	8
Receivables	245	204	271	347	350
Oth. Curr. Assets	25	49	19	49	49
Cash	292	221	202	73	297
Total Assets	3,123	2,697	2,685	2,788	2,950
Payables	182	190	202	251	253
ST Borrowings	348	921	1,044	1,094	1,144
Other ST Liability	5	8	34	8	8
LT Borrowings	1,290	358	24	24	24
Other LT Liability	19	70	76	70	70
Minority Interest	8	201	177	181	186
Net Assets	1,270	949	1,128	1,160	1,265
Share Capital	439	673	673	673	673
Reserves	832	276	455	487	592
Equity	1,270	949	1,128	1,160	1,265

Cashflow Statement

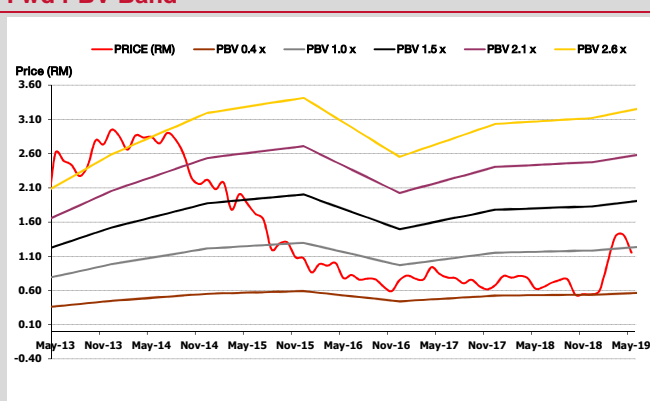
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Operating CF	329	223	293	225	205
Investing CF	-24	3	24	-31	-31
Financing CF	-265	-341	-278	50	50

Source: Kenanga Research, Bloomberg, Bursa Malaysia

Financial Data & Ratios

FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Growth					
Revenue	-9.0	-1.8	34.8	4.1	0.8
GP	-24.1	-15.5	81.5	4.1	0.8
EBITDA	18.4	-48.1	157.5	13.5	-6.1
PBT	-61.3	-181.2	-444.7	41.2	-0.9
Core Net Profit	-68.3	-364.0	-379.0	1.6	-0.9
Profitability (%)					
EBITDA Margin	42.7	22.6	43.1	28.1	26.2
Operating Margin	25.1	4.5	31.2	18.2	18.2
PBT Margin	11.1	-9.2	23.5	12.5	12.3
Core Net Margin	-0.5	-8.5	17.5	8.9	8.8
Effective Tax Rate	31.4	-138.4	32.7	25.0	25.0
ROE	4.3	-12.5	14.6	7.9	7.2
ROA	1.7	-4.9	6.1	3.9	3.7
DuPont Analysis					
Net Margin (%)	-0.5	-8.5	17.5	8.9	8.8
Assets Turnover(x)	0.2	0.3	0.3	0.4	0.4
Leverage Factor(x)	2.5	2.8	2.4	2.4	2.3
ROE (%)	-0.3	-6.2	14.6	9.1	8.3
Leverage					
Debt/Asset (x)	0.5	0.5	0.4	0.4	0.4
Debt/Equity (x)	1.3	1.3	0.9	1.0	0.9
Net (Cash)/Debt	1,345.8	1,058.4	866.4	1,045.0	871.1
Net Debt/Equity(x)	1.1	1.1	0.8	0.9	0.7
Valuations					
EPS (sen)	-0.4	-6.1	17.0	11.0	10.9
DPS (sen)	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	1.3	1.0	1.2	1.2	1.3
PER (x)	-316.4	-18.9	6.8	10.5	10.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	0.9	1.2	1.0	1.0	0.9

Fwd PBV Band



Fwd Std. Dev. PBV Band



Source: Bloomberg, Kenanga Research

21 May 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BERHAD	0.195	1,145.9	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.1	3.7	3.6	0.3	0.3	9.3%	0.0%	0.190	UP
DAYANG ENTERPRISE HLDGS BHD	1.15	1,109.5	Y	12/2019	26.4%	0.8%	-35.4%	-0.9%	6.8	10.5	10.6	1.0	1.0	9.3%	0.0%	1.05	UP
DIALOG GROUP BHD	3.30	18,606.4	Y	06/2019	-22.9%	14.8%	10.1%	13.5%	43.4	39.4	34.7	5.3	5.1	13.2%	1.0%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.680	1,088.0	Y	12/2019	-10.1%	-25.6%	845.5%	123.4%	N.A.	75.0	33.6	0.4	0.5	0.6%	0.0%	0.770	MP
MISC BHD	6.57	29,326.8	Y	12/2019	0.8%	-2.9%	10.0%	8.0%	22.2	20.2	18.7	0.8	0.8	4.2%	4.6%	6.65	MP
PANTECH GROUP HOLDINGS BHD	0.525	393.3	Y	02/2020	1.3%	5.9%	1.3%	6.4%	9.0	8.9	8.3	0.7	0.6	7.6%	3.0%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	8.80	70,400.0	Y	12/2019	6.9%	-2.6%	-3.6%	4.2%	14.1	14.7	14.1	2.3	2.1	15.2%	3.4%	9.30	MP
PETRONAS DAGANGAN BHD	24.52	24,359.5	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	29.1	21.9	21.4	4.1	3.9	18.4%	3.2%	24.40	UP
SAPURA ENERGY BHD	0.315	5,020.8	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	104.0	29.0	0.4	0.4	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.05	5,947.4	Y	12/2019	18.6%	9.7%	12.2%	8.0%	15.5	13.8	12.8	2.9	2.5	19.4%	2.2%	4.80	OP
UZMA BHD	0.820	262.4	Y	06/2019	-20.2%	0.0%	-48.1%	12.3%	5.1	9.8	8.7	0.6	0.5	5.5%	0.0%	0.970	MP
WAH SEONG CORP BHD	0.725	558.6	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.9	10.9	13.3	0.6	0.6	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	4.72	5,098.3	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	19.4	20.9	13.4	3.0	2.7	13.5%	1.3%	5.50	OP

Source: Bloomberg, Kenanga Research

21 May 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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