

**Company Update**

# Dyna-Mac Holdings

**Singapore | Energy**
**Ada Lim**  
 Equity Research

Rating BUY (as at 16 June 2023)  
 Last Close SGD 0.350  
 Fair Value SGD 0.415

## The world is your oyster

- **Stronger than expected upcycle in the offshore oil & gas (O&G) sector**
- **Further catalysts ahead to unlock value for shareholders**
- **Attractive growth prospects given high potential to secure more orders going forward**

## 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 position 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. Its share price has performed well, up 84.2% year-to-date (YTD) and 12.9% since we initiated coverage based on the last close price of SGD0.35. We continue to see further upside for Dyna-Mac given a stronger-than-expected upcycle and potential catalysts ahead for the company, and revise our fair value estimate upwards from SGD0.37 to SGD0.415.

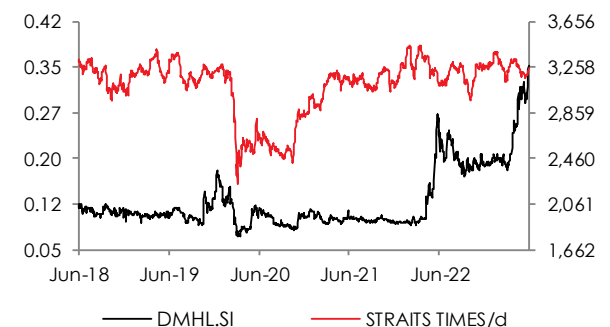
## Investment summary

- **Reiterate upcycle for the offshore O&G sector** – In our previous report, we wrote that long-term fundamentals for the offshore O&G industry remain sound, supported by an increased demand for energy (especially in Asia) and years of catch-up spending. Recent data suggests that the current upcycle might be stronger than expected. According to the 2023 Rystad Energy FPSO Industry Report, investments in the offshore O&G sector resurged by 16% in 2022, and are projected to grow by another 16% this year, representing a decade-high year-on-year (YoY) CAPEX growth of USD21b. There have also been supportive headlines from the wider

## Security information

Ticker	DMHLSI
Market Cap (SGD b)	0.4
Daily turnover (SGD m)	7.7
Free Float	52%
Shares Outstanding (m)	1,031
Top Shareholder	Estate of Lim Tze Jong 38.3%

## Price performance chart



## Financial summary

SGD m	FY22	FY23E	FY24E
Revenue	291.5	365.5	449.2
EBITDA	15.8	16.4	20.7
PATMI	13.1	14.6	18.7
EPS (\$ cents)	1.2	1.4	1.8
DPS (\$ cents)	0.29	0.36	0.46

## Key ratios

%	FY22	FY23E	FY24E
Net revenue growth	32.4	25.4	22.9
EBITDA growth	136.3	3.9	25.8
Net income margin	4.6	4.1	4.3
EPS growth	137.4	11.0	27.8

Source: Refinitiv, Internal estimates

industry, such as oil major Shell's recent announcement of plans to spend USD13b annually on its upstream and liquefied natural gas (LNG) business through 2030, equating to more than USD100b over the remainder of the decade.

- **Further catalysts ahead** – Dyna-Mac has a strong balance sheet and healthy net cash position, and we see potential for the company to deploy cash to either expand its existing yard space, or to acquire synergistic peers or competitors in a manner that will be accretive to the company's earnings – thereby unlocking further value for shareholders. In a recent media interview, Dyna-Mac's Chief Executive Officer also shared that management is open to increasing its dividend pay-out ratio to as high as 50% given the right conditions, as well as share buybacks. We note that Dyna-Mac has been amongst the top institutional net buy stocks recently, part of which can perhaps be attributed to an ongoing rotation from financials into industrials and capital goods names. Dyna-Mac certainly stands out amongst its peers given its resilient growth profile and strong net cash position. Institutional funds tend to be stickier, which could provide some support for Dyna-Mac's share price in the longer term.
- **Increase fair value estimate from SGD0.37 to SGD0.415** – All things considered, we have adjusted our model to reflect expectations that Dyna-Mac will secure a larger dollar value of orders going forward. We think this is achievable given the strong upcycle and the fact that Dyna-Mac had already secured firm contracts worth SGD270m from repeat customers in May 2023, which represents the total orders that it secured in the whole of FY22. Dyna-Mac currently has a net order book of SGD609.1m, with deliveries stretching into 2025. We maintain our key assumptions (cost of equity at 8.67% and terminal growth rate of 2%) and, using the discounted cash flow (DCF) model, derive a higher fair value estimate of SGD0.415. Despite its recent rally, Dyna-Mac is trading at a FY23 and FY24 price-to-earnings (P/E) ratio of 19.4x and 15.2x, which are still around one-tenth and slightly more than half a standard deviation (s.d.) below its five-year historical average of 20.7x respectively. We think this still presents an opportunity for investors to gain exposure to the FPSO upcycle through a local small-cap proxy.

## 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

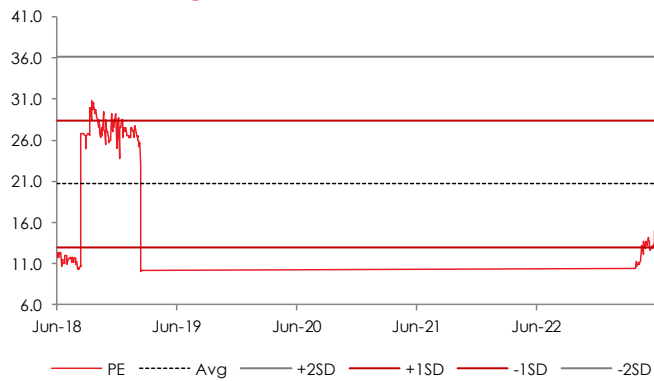
- Difficulties securing new orders amidst a slowing macroeconomic backdrop
- Inability to pass on higher costs to customers weighs on project margins
- Execution risks and cost overruns

## 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>	19.4	15.2	N.A	N.A	11.9	9.2	1.4	2.0	N.A	N.A
<b>BOMESC OFFSHORE ENGINEERING CO LTD (603727.SS)</b>	33.6	30.8	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A
<b>MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BHD (MHEB.KL)</b>	12.2	12.0	0.7	0.7	3.6	3.3	1.6	1.8	3.8	3.8
<b>YINSON HOLDINGS BERHAD (YINS.KL)</b>	8.7	9.5	1.4	1.2	8.1	6.5	1.3	1.4	13.8	13.4

Source: Refinitiv

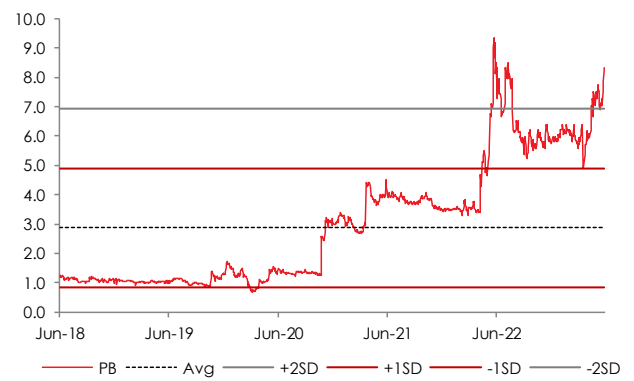
### Price/Earnings chart



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)

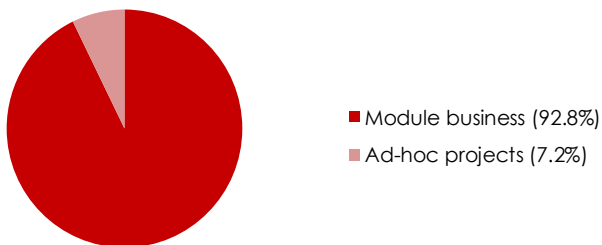
### Company description

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

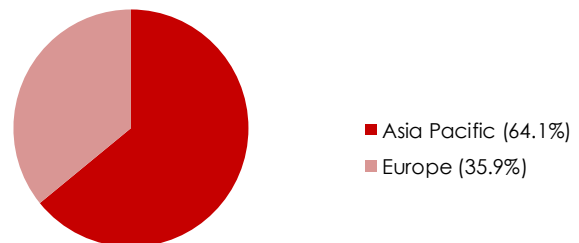
#### By segment



Source: Company, Internal estimates

### FY22 Revenue breakdown

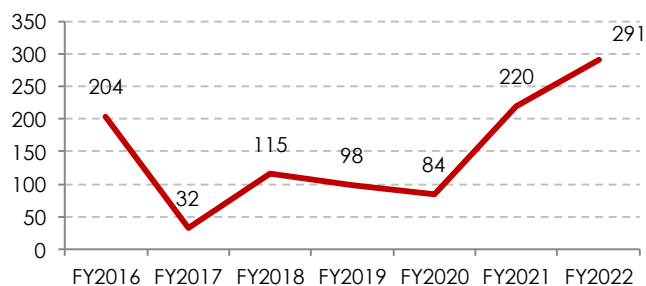
#### By geography



Source: Company, Internal estimates

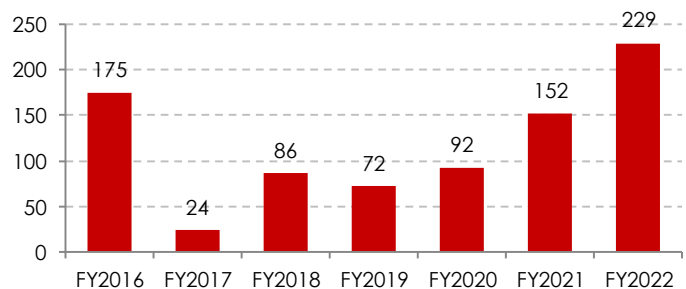
### Revenue comparison over 5 years

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

	FY2018	FY2019	FY2020	FY2021	FY2022
12 Months Ending	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

	FY2018	FY2019	FY2020	FY2021	FY2022
12 Months Ending	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

**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