

## Dyna-Mac Holdings Ltd

29 June 2022

### Non rated (Initiation)

<b>BBG</b>	DMHL SP
<b>Market cap</b>	S\$225.4 m
<b>Price (27 June 2022)</b>	S\$0.22
<b>52-week range</b>	S\$0.09 – S\$0.28
<b>Target Price</b>	Non rated
<b>Shares Outstanding</b>	1,024 m
<b>Free Float</b>	28.3%
<b>Major Shareholders</b>	Estate of Lim Tze Jong 40.7% KS Investments Pte Ltd 24.4%
<b>P/BV (12/21)</b>	7.6x
<b>Net Debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

### A force to be reckoned with

Dyna-Mac specialises in the fabrication of topside modules for FPSO and other offshore floating platforms. It also provides other module solutions for onshore plants in the oil & gas, pharmaceutical and petrochemical industries. The Group has 2 yards (Pandan Crescent & Gul Road) where these modules are constructed. FPSO contracts are awarded by large international players who own or operate the floating units. SBM and Modec are Dyna-Mac's repeat customers.

In view of higher oil prices and pressing energy security needs, upstream players are inclined to ramp up oil production. FPSO market is a huge beneficiary of this development as production assets are moving towards deeper water. State-owned Brazilian oil producer Petrobras is spending US\$57.3b on E&P activities which include the construction of 15 new FPSO targeted to come on stream over the next 5 years. Of the 15 units, 3 remain for tender. Rystad Energy expects ~10 FPSO contracts to be awarded in 2022 with Brazil leading the market. SBM sees FPSO contract awards to reach 25 by end 2023. Riding the upturn in the market, Dyna-Mac has secured ~\$270m orders YTD, bringing its total net orderbook to S\$641m. This translates to stable revenue flow and earnings into FY2024. We expect robust market demand to sustain its order win momentum.

Dyna-Mac operates in a highly competitive environment. Its competitors are state-backed Chinese shipbuilders like COOEC and SWS. The Group's competitive edges are its longstanding experience in topside module fabrication projects and its timely delivery of the modules. Recent lockdowns in China have disrupted the production schedules of Chinese shipyards. Further interruptions could see FPSO operators/owners favor non-Chinese players such as Dyna-Mac. Dyna-Mac and its listed Chinese peers are in net cash position.

The Group saw a turnaround in profitability in FY21 with PATMI of S\$0.9m, adjusted for government grant, write-back of PPE impairment and tax credit. Its share is trading at PB of 7.6x and FY21 EV/EBITDA of 9.0x. The Group's net cash balance stood at S\$114m ending 1Q22, of which S\$90.7m are advanced receipts, providing cashflow for the order executions. Material inflation raises project costs and is a key risk to maintaining its profitability.

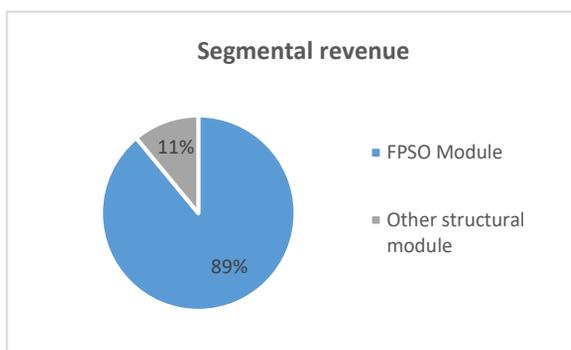
**Analyst:**  
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### Key Financials

FY ended 31 Dec (S\$m)	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
Revenue	33.0	115.3	97.8	84.0	220.2
EBIT	(58.3)	1.8	(23.4)	(57.7)	4.3
Net profit	(57.1)	1.5	(23.8)	(58.4)	5.5
EPS (S cents)	(5.58)	0.15	(2.33)	(5.71)	0.53
Dividend per share (S cents)	-	-	-	-	-
Net cash / (debt)	30.3	4.9	13.9	41.2	102.3
<b>Valuation</b>					
EBIT margin (%)	-176%	2%	-24%	-69%	2%
ROIC (%)	-80%	1%	-23%	n.m.	-5%
EV/EBITDA (x)	(4.0)	20.3	(15.8)	(3.8)	9.0
P/E (x)	(3.9)	148.4	(9.5)	(3.9)	41.2
Dividend yield (%)	-	-	-	-	-

## Background

Dyna-Mac Holdings is an EPC service provider primarily for the fabrication of offshore floating production storage offloading (FPSO)/ floating storage offloading (FSO) topside modules. FPSO is a floating facility used by companies in the oil & gas industry to extract crude oil from offshore regions. It has processing and storage capabilities which makes it suitable for deployment to deep water (> ~500m) where pipeline infrastructures are costly and non-feasible to construct. Other fabrication works done by the Group include structural modules for other offshore and onshore energy facilities.



Source: Company data

The Group leases 2 yards for its fabrication activities, a main yard at Gul Road and a west yard at Pandan Crescent. Both yards have a combined gross area of ~140,300 m<sup>2</sup> and a maximum annual fabrication capacity of ~25,000 tons. Leases for both yards expire in 2030 and 2034 respectively.

### List of Dyna-Mac's main customers

Single Buoy Moorings (SBM)
MODEC
Keppel Shipyard Limited
BW Offshore
Bumi Armada
China Merchants Heavy Industry Holdings

\*non-exhaustive

Source: Company data

The Group's customers are mainly major EPCI contractors and operators/owners of FPSO in the O&G industry. The Group has a longstanding relationship with its existing customers including SBM Offshore and Moddec, however, this also contributes to high customer concentration risk. 2 customers (SBM and KSL) accounted for 87% of FY21 total revenue.

### Operating environment

Dyna-Mac faces intense competition from Chinese players due to their cost competitiveness. These FPSO players include Shanghai Waigaoqiao Shipbuilding (SWS), BOMESC Offshore Engineering (BOMESC), Cosco Shipping Heavy Industry and Chinese Offshore Oil Engineering Company (COOEC). The pandemic has consolidated the industry and eliminated those with weaker balance sheet strength. Dyna-Mac's competitive advantages are its skilled expertise and longstanding track record in topside module fabrication and timely delivery of quality-consistent modules. Additionally, its net cash balance allows the Group to pay suppliers and subcontractors on time and hence, establishing a stronger working relationship which further helps the Group to deliver the modules on schedule. Zero-COVID policy in China which saw lockdowns being strictly imposed and enforced has delayed production schedules in various shipyards. Some of China's biggest shipyards including SWS have declared force majeure on pending deliveries following a halt to their operations. Moddec is relocating the integration and commissioning of Sangomar FPSO from China to Singapore as a result of stringent measures. Further disruptions could prompt FPSO owners/operators to award their contracts to non-Chinese players to avoid running the risk of delayed shipments. Singapore players including Dyna-Mac stand to benefit from this shift of interests. Korean yards are no longer competing in FPSO field as they shift their focus to LNG related projects. High working capital needs, extensive experience and qualification from customers pose high barriers to entry to the industry.

## Background

### **Synergistic partnerships**

#### China Merchants Heavy Industry Holdings Limited (CMHIH)

The Group has entered into a 51:49 joint venture with CMHIH in April 2020 to undertake EPC works for topside and other onshore modules. CMHIH is under China Merchants Group, a state-owned enterprise based in HK. The JV allows the Group to participate in the China FPSO market as they will be taking on projects from CMHIH. The Group will provide its expertise and skilled labor force while CMHIH provides equipment, yard facilities and any CAPEX spending. The current project that the JV is working on is the fabrication of 8 module units for FPSO Almirante Tamandare. It has previously delivered 3 module units for FPSO Sepetiba.

#### MISC Berhad

Dyna-Mac signed a strategic agreement with MISC, a Malaysia-based energy-related maritime solution and service provider to jointly offer one-stop solutions when bidding on international EPC projects. MISC's largest stakeholder is state-owned Petronas which holds a 51% stake. Petronas is also one of its major customers, contributing 32% of its total revenue in FY2021. Other major customers who contract MISC are oil majors including Petrobras (26%), Shell and Equinor. Dyna-Mac outsourced some EPC work to Malaysia Marine and Heavy Engineering, a subsidiary of MISC.

#### Keppel Shipyard (KSL)

The Group renewed its collaboration agreement (validity of 5 years) with KSL in Sept 2020. The agreement allows both to explore business opportunities together on a non-exclusive basis. KSL is the Group's repeat customer since 1999, pre IPO days.

Keppel Corp, via holdings in Keppel Offshore & Marine, owns 24.35% of the Group. The Group will not be subsumed under the proposed combined entity of the Keppel Offshore & Marine and Sembcorp Marine.

## Investment Highlights

### Booming FPSO market

FPSOs are increasingly popular among companies as exploration and production move toward deeper water. With the current oil prices above US\$100/barrel mark, oil companies are incentivized to increase oil production to capitalize on the high prices and to meet urgent energy security needs pressed by Russian-Ukraine conflict.

Brazil is leading the market in terms of the number of FPSO units it is adding. State-owned Brazilian oil producer Petrobras has allocated US\$57.3b to exploration and production activities for the next 5 years under its Strategic plan 2022-2026. 89% will go into developing production capacities in its existing fields (Santos and Campos basins) and 10% for exploration activities. Included in the CAPEX spending is the construction of 15 new FPSOs scheduled to enter 6 of its production fields in the next 5 years. All except 3 units (P80, P81, P82) expected for 2026 are already in construction. The 3 remaining units are currently up for tender. Similar to FPSO Almirante Tamandare, a ~\$114m project in which Dyna-Mac is currently involved, P80 will be one of the biggest oil producing units to operate in Brazil with a production capacity of ~225,000 barrels of oil per day and 12m m<sup>3</sup> of gas per day.

Separately, Petrobras also made a new oil discovery at Alto De Cabo Frio Central block with a water depth of 1,833m in Campos Basin this year. This adds to its reserves and future production capacity.

Rystad Energy expects a total of ~10 FPSO contracts to be awarded in 2022 from Brazil, Guyana, UK, Angola, Australia, China and Malaysia. SBM sees FPSO contract awards to reach 25 by end 2023.

Petrobras's FPSOs coming onstream	
2022	Mero 1 FPSO Guanabara
	Búzios 5 FPSO Almirante Barroso
	Itapu P71
2023	Marlim 1 FPSO Anita Garibaldi
	Marlim 2 FPSO Anna Nery
	Mero 2 FPSO Sepetiba
2024	Búzios 6 FPSO Almirante Tamandaré
	Mero 3 FPSO Mal Duque de Caxias
	IPS FPSO Maria Quitéria
2025	Búzios 7 P78
	Mero 4 FPSO Alexandre de Gusmão
	Búzios 8 P79
2026	SEAP 1 P81
	Búzios 9 P80
	Búzios 10 P82

Source: Company data

### Strong order win momentum

Dyna-Mac has secured ~\$270m worth of orders YTD-May, equivalent to 85% of total contracts secured for FY 2021. This brings its net orderbook to \$641m. Delivery of projects stretches into 2024 which provides clear visibility over revenue and earnings into the year. We expect robust market demand to sustain its order win momentum.



\* As of May 2022

Source: Company data

## Financial Performance

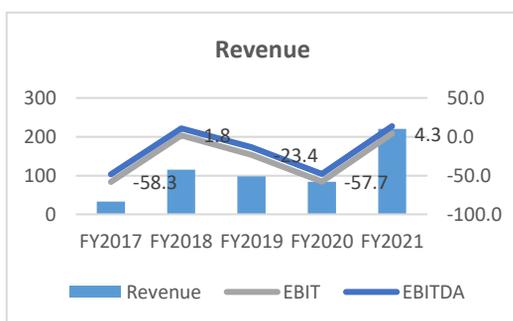
FY21 revenue improved to S\$220m (+162%) from a low base in FY20 and proportionally to higher progress made. A higher margin of 10% was achieved as utilization of yard facilities climbed. The current net orderbook of S\$641m will keep the yard capacity full and thus, provide support for margins in the coming years. Government grant received in the year was S\$2.2m. Excluding the grant, write back of PPE impairment (S\$1.0m) and tax credit (S\$1.4m), the Group saw a turnaround in net profit of S\$0.9m. 1Q22 topline came in at S\$68m, 64.3% higher yoy. 1Q22 net margin of 2.8% reflects the absence of one-off gains.

Subcontractor costs and material costs make up the bulk of total FY21 COGS at 57% and 25% respectively. Labour costs are likely to moderate as higher inflow of workers alleviates tightness in the labour market. The Group subcontracts steel fabrication, piping, blasting and painting, scaffolding and other works to third parties. Margins come under pressure from higher input costs. The main raw material used in the fabrication of modules is steel. Steel prices are influenced by feedstocks (i.e., coal, iron ore) 'prices and steel demand. Coal has rallied ~152% ytd and is at record high level. While cost inflation is usually factored into the contract value when bidding for projects, an unexpected increase may lead to cost overrun and eat into margins.

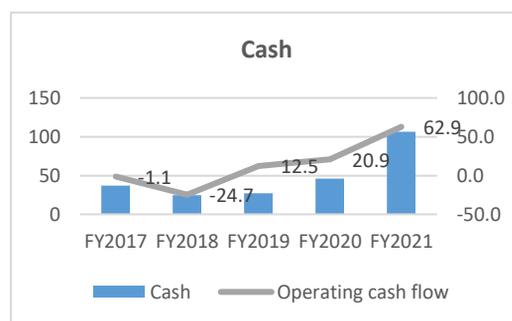
Despite the challenging environment, the Group has maintained a net cash balance for the past 5 years and started generating positive operating and free cash flow since FY2019, thus further growing its cash pile. Its net cash balance grew to S\$114m in 1Q22. The net cash balance includes contract liabilities amounted to S\$90.7m, which are advanced receipts for work to be performed.

FY21 COGS	
Subcontractor costs	57%
Material costs	25%
Direct overheads	4%
Others	14%

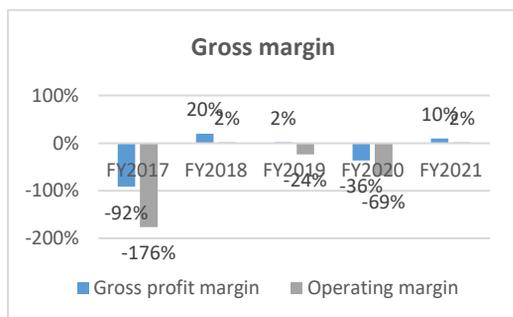
Source: Company data



Source: Company data



Source: Company data



Source: Company data



Source: Investing.com

## Comparables

Both BOMESC and COOEC are in net cash positions. (\$\$95m and \$\$108m) Other major non-listed Chinese players are Cosco Shipping Heavy Industry, Yantai CIMC Raffles and Shanghai Waigaoqiao. These players are backed by state-owned enterprises.

Name	YE	Mkt Cap	Revenue	EBITDA	EBIT	Net profit	EBIT margin %	Net margin %	ROE %	ROIC %	EV/EBITDA (x)	EBIT/EV %	PER (x)	PBR (x)
Dyna-Mac	31 Dec	257.5	220.2	13.7	4.3	5.6	2.0	2.5	18	-12	9.0	3.5	41.2	7.6
BOMESC Offshore	31 Dec	782.9	857.0	59.6	31.1	34.9	3.6	4.1	5.0	7.2	11.5	4.5	22.4	1.1
COOEC	31 Dec	4159.6	4157.1	424.1	202.3	77.7	4.9	1.9	1.6	1.8	9.6	5.0	53.6	0.9

Exch rate: 1 CNY to 0.21 SGD

Source: Bloomberg

## Income statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
<b>Revenue</b>	<b>33.0</b>	<b>115.3</b>	<b>97.8</b>	<b>84.0</b>	<b>220.2</b>
<b>Cost of Sales</b>	<b>-63.3</b>	<b>-92.7</b>	<b>-96.1</b>	<b>-114.5</b>	<b>-197.9</b>
<b>Gross (loss)/profit</b>	<b>-30.3</b>	<b>22.6</b>	<b>1.7</b>	<b>-30.5</b>	<b>22.3</b>
Other Income	2.2	3.1	1.1	7.2	7.0
Other losses	-6.0	-0.6	-4.7	-3.8	0.0
Admin expenses	-24.2	-23.2	-21.5	-30.6	-25.0
EBIT	-58.3	1.8	-23.4	-57.7	4.3
Finance expenses	-0.3	-0.4	-0.5	-0.8	-0.1
<b>Loss before tax</b>	<b>-58.6</b>	<b>1.5</b>	<b>-24.0</b>	<b>-58.4</b>	<b>4.2</b>
Tax credit/(expense)	0.6	0.0	0.0	0.0	1.4
Equity holders of the Company	-57.1	1.5	-23.8	-58.4	5.5
<b>NCI</b>	<b>-0.8</b>	<b>0.0</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.1</b>

## Balance Sheet

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
Club memberships	0.3	0.3	0.3	0.0	0.0
PPE	45.0	56.0	49.3	39.4	33.4
ROU assets	0.0	0.0	30.0	27.4	25.3
Deferred tax assets	0.0	0.0	0.0	0.0	1.5
<b>Total non-current assets</b>	<b>45.3</b>	<b>56.3</b>	<b>79.6</b>	<b>66.9</b>	<b>60.2</b>
Cash	37.1	24.9	27.2	46.2	106.3
Trade & other receivables	14.1	31.2	25.4	29.3	57.8
Inventories	2.1	12.2	1.3	0.0	0.0
Contract assets	13.5	22.7	14.6	18.2	2.8
Othes	0.7	0.6	0.9	0.8	0.7
Assets Held for Sale	32.1	13.4	9.5	0.0	0.0
<b>Total current assets</b>	<b>99.6</b>	<b>105.1</b>	<b>78.8</b>	<b>94.5</b>	<b>167.6</b>
<b>Total Assets</b>	<b>144.9</b>	<b>161.3</b>	<b>158.4</b>	<b>161.3</b>	<b>227.9</b>
Borrowings	0.1	0.0	0.0	0.0	3.0
Deferred capital and grants income	0.0	0.0	0.4	0.3	0.1
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Lease liabilities	0.0	0.0	28.2	26.0	24.1
<b>Total non-current liabilities</b>	<b>0.1</b>	<b>0.0</b>	<b>28.6</b>	<b>26.3</b>	<b>27.2</b>
Income tax payable	0.3	0.0	0.0	0.0	0.0
Trade & other payables	32.5	35.5	32.3	53.0	75.7
Provision for onerous contracts	0.0	0.0	0.0	2.1	0.6
Contract liabilities	1.2	0.3	0.1	48.3	90.7
Borrowings	6.7	20.0	13.3	5.0	1.1
Deferred capital and grants income	0.0	0.0	0.1	0.8	0.1
Lease liabilities	0.0	0.0	2.2	2.2	2.3
<b>Total current liabilities</b>	<b>40.8</b>	<b>55.9</b>	<b>48.0</b>	<b>111.3</b>	<b>170.6</b>
<b>Total Liabilities</b>	<b>40.9</b>	<b>55.9</b>	<b>76.7</b>	<b>137.7</b>	<b>197.7</b>
Share capital	145.3	145.3	145.3	145.3	145.6
Other reserves	0.2	0.1	0.3	0.1	0.7
Accumulated losses	-42.2	-40.7	-64.4	-122.1	-116.7
<b>Owner's equity</b>	<b>103.3</b>	<b>104.8</b>	<b>81.2</b>	<b>23.2</b>	<b>29.6</b>
NCI	0.7	0.7	0.4	0.4	0.5
<b>Total Equity</b>	<b>104.1</b>	<b>105.4</b>	<b>81.6</b>	<b>23.7</b>	<b>30.2</b>

## Ratios

	Fiscal Year Ended 31 Dec				
	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
<b>Profitability (%)</b>					
Gross profit/(loss) margin	-92%	20%	2%	-36%	10%
Profit/(loss) before tax margin	-177%	1%	-24%	-70%	2%
<b>Liquidity (x)</b>					
Current ratio	2.4	1.9	1.6	0.8	1.0
Quick ratio	1.6	1.4	1.4	0.8	1.0
Interest coverage ratio	-181.6	5.1	-43.4	-74.6	30.4
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	-3.9	148.4	-9.5	-3.9	41.2
P/B	2.2	2.1	2.8	9.7	7.6
EV/EBITDA	-4.0	20.3	-15.8	-3.8	9.0
<b>Cash Conversion Cycle</b>					
Trade receivable days	156	99	95	127	96
Inventory days	12	48	5	0	0
Trade payable days	188	140	122	169	140
CCC days	-19	7	-23	-42	-44

## Cash Flow Statement

S\$'mil	Fiscal Year Ended 31 Dec				
	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A
<b>Cash flows from operating activities</b>					
Profit before tax	-58.6	1.5	-24.0	-58.4	4.2
Depreciation and amortisation	10.1	9.0	10.1	9.8	9.4
Interest income	-0.5	-0.3	-0.3	-0.1	-0.1
Interest expense	0.3	0.4	0.5	0.8	0.1
Others	2.5	-11.7	9.5	-35.1	-1.0
<b>Operating cash flows before changes in working capital</b>	<b>-46.2</b>	<b>-1.1</b>	<b>-4.1</b>	<b>-83.2</b>	<b>12.6</b>
Changes in working capital	46.2	-23.6	16.4	60.9	50.2
Income taxes paid	-1.6	-0.3	0.0	0.0	0.0
Interest received	0.5	0.3	0.3	0.2	0.0
<b>Net cash flows from operating activities</b>	<b>-1.1</b>	<b>-24.7</b>	<b>12.5</b>	<b>-22.1</b>	<b>62.9</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	-2.8	-0.5	-1.0	-0.4	-0.8
Proceeds from disposal of property, plant and equipment	0.2	0.2	0.0	0.0	1.0
Others	0.0	0.0	0.7	9.7	0.0
<b>Net cash flows used in investing activities</b>	<b>-2.7</b>	<b>-0.3</b>	<b>-0.2</b>	<b>9.4</b>	<b>0.1</b>
<b>Cash flows from financing activities</b>					
Proceeds from loans and borrowings	0.0	13.3	-6.7	55.2	0.0
Repayment of loans and borrowings	-28.3	-0.1	0.0	-63.5	-1.0
Interest expense paid	-0.3	0.0	-0.6	-0.4	-0.1
Others	0.0	-0.4	-2.7	-2.2	-2.3
<b>Net cash flows used in financing activities</b>	<b>-28.7</b>	<b>12.9</b>	<b>-10.0</b>	<b>-11.0</b>	<b>-3.4</b>
<b>Net increase in cash and cash equivalents</b>	<b>-32.5</b>	<b>-12.1</b>	<b>2.3</b>	<b>-23.7</b>	<b>59.6</b>
Effect of foreign exchange rate changes	0.0	0.0	0.0	-0.2	0.5
Cash and cash equivalents, beginning balance	69.5	37.1	24.9	27.2	3.3
<b>Cash and cash equivalents, ending balance</b>	<b>37.1</b>	<b>24.9</b>	<b>27.2</b>	<b>3.3</b>	<b>63.4</b>

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Nature of Business Relation	Date of Business Relation
Nil	Nil

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Analyst name	Quantum of position
Nil	Nil

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