

DYNA-MAC HOLDINGS LTD

BUY

Share Price: S\$0.355
Target Price: S\$0.45
Upside: +26.8%

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)	8,317.0
3M Avg Daily Trading Val (\$'000)	2,451.7
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	\$0.45 / \$0.18

STOCK PRICE PERFORMANCE

	1M	3M	12M
Absolute Return (%)	34.0	18.3	93.0

PRICE CHART



Source : Bloomberg

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The Best Is Yet To Be

Dyna-Mac is a beneficiary of the ongoing and anticipated super cycle in the O&G industry. With focused expertise in topside module fabrication for FPSOs, Dyna-Mac has not only clinched substantial orders but has also expanded its operational capacity to fulfil its record high \$438mln order book. We expect further contract wins, margin expansion and increased revenues and profitability for Dyna-Mac in FY24 & FY25 as it continues to ride the oil and gas industry upcycle. The Best Is Yet To Be!

With FPSO charter rates trending up and increased CapEx pouring in due to the lack of FPSO supply in current market conditions, the pipeline of FPSOs remains strong, and we expect Dyna-Mac to continue securing additional orders in FY24 & FY25. With newer and bigger yard capacities and strong orders ahead, we believe earnings trajectory remains robust along with potential for higher dividends.

Other than enjoying the current tail winds and having a robust orderbook, Dyna-Mac also maintains a strong net cash position (c. 59% of its market cap), trades at undemanding valuations of 10.3x FY24 PE (c.50% discount to peers average of 19.5x FY24PE), ex-cash FY24 PE of 4.2x and high ROEs of c.41%.

We see its current valuations as undemanding and provides an irresistible investment opportunity for investors seeking a strong O&G proxy to ride the market upcycle. We thus initiate coverage on Dyna-Mac with a BUY recommendation with a target price of S\$0.45, representing a 26.7% upside potential.

Underinvestment in O&G leading to supply/demand imbalance. Amidst the 2014 oil crash and Covid-19 pandemic, the offshore O&G sector experienced a severe slowdown in new investment and witnessed both the aging and decommissioning of vessels through 2024. However, with economies reopening and oil prices rebounding, there's a notable resurgence in capital expenditure (CapEx) by oil majors. This "revenge" investment marks a pivotal moment for the industry. Dyna-Mac, specialising in topside modules for FPSOs, is well-placed to benefit from this trend. With O&G CapEx expected to surpass \$250 billion, Dyna-Mac is primed to capitalize on the growing investment.

Increasing Yard Capacity for margin expansion. Dyna-Mac's operations are currently operating at full capacity, prompting them to secure additional space from neighboring yards like Kim Heng. Anticipating sustained and increased demand for their top-side module fabrications, Dyna-Mac has strategically acquired facilities to bolster both current and future operations.

Robust Orderbook provides revenue visibility. Dyna-Mac's topside module fabrication has seen strong demand, evident in its growing order book since Covid-19. With increased CapEx in the O&G sector and Dyna-Mac's recent land acquisition to support operations, we expect more contract wins ahead that will further boost Dyna-Mac's profitability.

Undemanding Valuations. Despite boasting a net cash position representing c.59% of market cap, Dyna-Mac trades at only 10.3x FY24 PE and ex-cash PE of 4.2x. This represents a c.50% discount to peers who are trading at 19.5x FY24 PE. From its turn around in FY21, revenue has almost doubled since then, and the revenue trajectory remains strong.

KEY FINANCIALS

Dec YE	FY21	FY22	FY23	FY24F	FY25F
Revenue (S\$m)	220.2	291.5	385.2	410.0	465.0
Operating Income (S\$m)	(2.7)	6.0	17.7	31.9	39.2
Operating Margin (%)	N.M	2.0	4.6	7.8	8.4
Net Income (S\$m)	5.5	13.1	28.5	35.9	42.7
Net Margin (%)	2.5	4.5	7.4	8.7	9.2
P/E (x)	65.5	27.5	12.8	10.3	8.6
Ex-Cash PE (x)	48.5	14.0	5.3	4.2	3.6
ROE (%)	18.5	30.2	40.8	33.9	28.7
EPS (S cts)	0.5	1.3	2.8	3.1	3.7
EPS Growth (%)	N.M	139.6	116.5	14.5	18.9
DPS (S cts)	0.0	0.3	0.8	0.9	1.1
Dividend Yield (%)	N.M	0.9	2.5	2.8	3.4

Source: Dyna-Mac, Lim & Tan Research

Dyna-Mac

Dyna-Mac positions itself as a one-stop solution center for the offshore and onshore energy sector and has track record and capabilities in delivering a spectrum of integrated solutions. Its clientele spans across the globe and is segmented into two regions: APAC (Singapore, Malaysia, Thailand, China) and Europe (Norway, Netherlands, United Kingdom).

Dyna-Mac categorizes its operations into two primary business segments: Module Business and Ad-Hoc Projects.

Dyna-Mac's Module Business (96.3%/82.5% of FY23 sales/GP) specializes in the detailed engineering, procurement and construction of topside modules for FPSOs (floating, production, storage and offloading vessels), FSOs (floating, storage, and offloading vessels), FLNG (floating liquefied natural gas vessels) and FSRU (floating storage and regasification units).

Dyna-Mac also specializes in engineering, procurement and construction of topside facilities for the Central Processing Platforms (CPP) and Wellhead Platforms (WHP). The topside modules typically consist of modules of specialized process and control equipment such as separators, heat exchangers, coolers, pumps, electrical equipment, process piping, control valves and control panels, which are installed on steel structural frames and connected to operate as an integrated facility.

Other topside modules include power generation module and accommodation module. When installed, the topside modules would enable, for example, a FPSO to function as designed, mainly to process, store and offload hydrocarbons in an offshore environment.

Exhibit 1: Noble Leviathan Production Platform

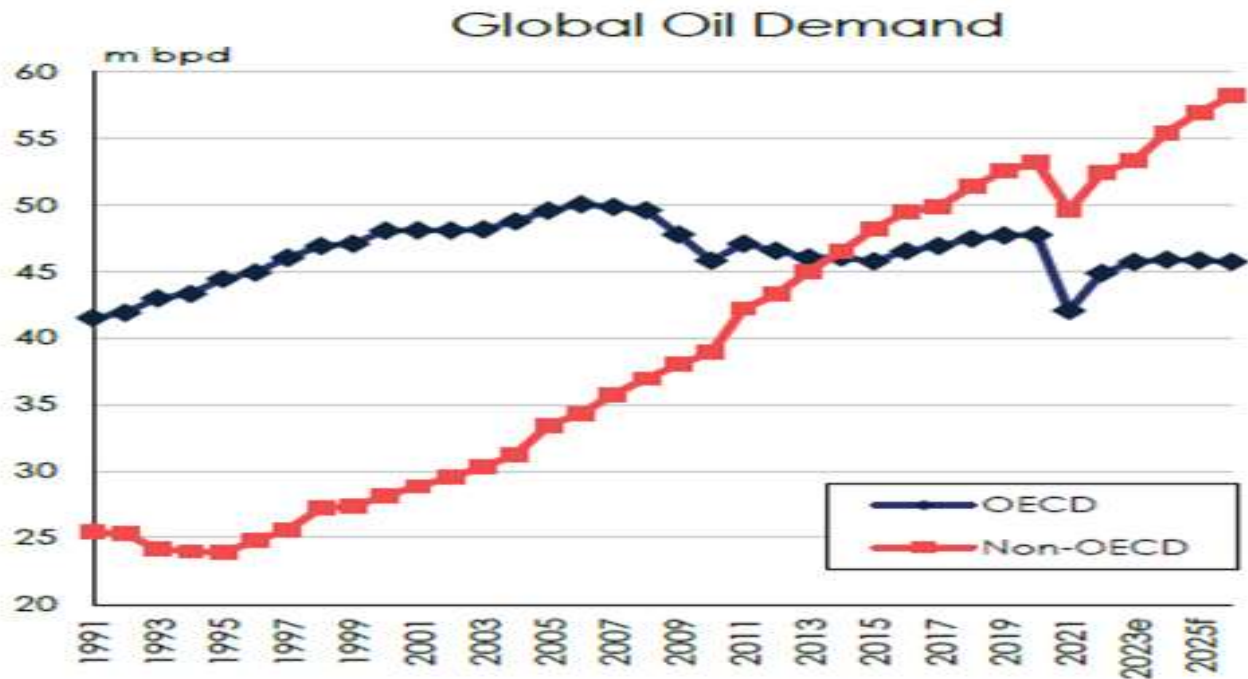


Source: Dyna-Mac

Oil Demand set to rise

According to Clarksons, oil demand is expected to increase 1.4%yoy in 2024. Although this reflects a growth slowdown vs 2023's increase of +2.3%, firm economic improvements in countries within Asia Pacific and the Middle East, alongside general growth in jet fuel and petrochemical feedstock consumption on a global basis, are expected to lend support to overall oil demand growth this year.

Exhibit 2: Clarkon's Global Oil Demand



Source: Clarksons OIM Vol. 11, Jan 2024

Offshore markets also remain very firm, with rates across the sector at multi-year highs. Moreover, the outlook for the offshore sector remains very positive and markets are poised to strengthen further in 2024. Increased project investment is expected to generate additional demand for vessels and rigs, while persisting supply-side constraints are also expected to see markets tighten further.

What is a super cycle?

A commodity super cycle can be described as a period of consistent and sustained price lasting more than 5 years and OSV players are at the top of the line to ride this wave. This is caused by a huge demand and supply imbalance due to 2015's oil crash and Covid-19 which saw new builds stagnate and OSV fleets being cold-stacked.

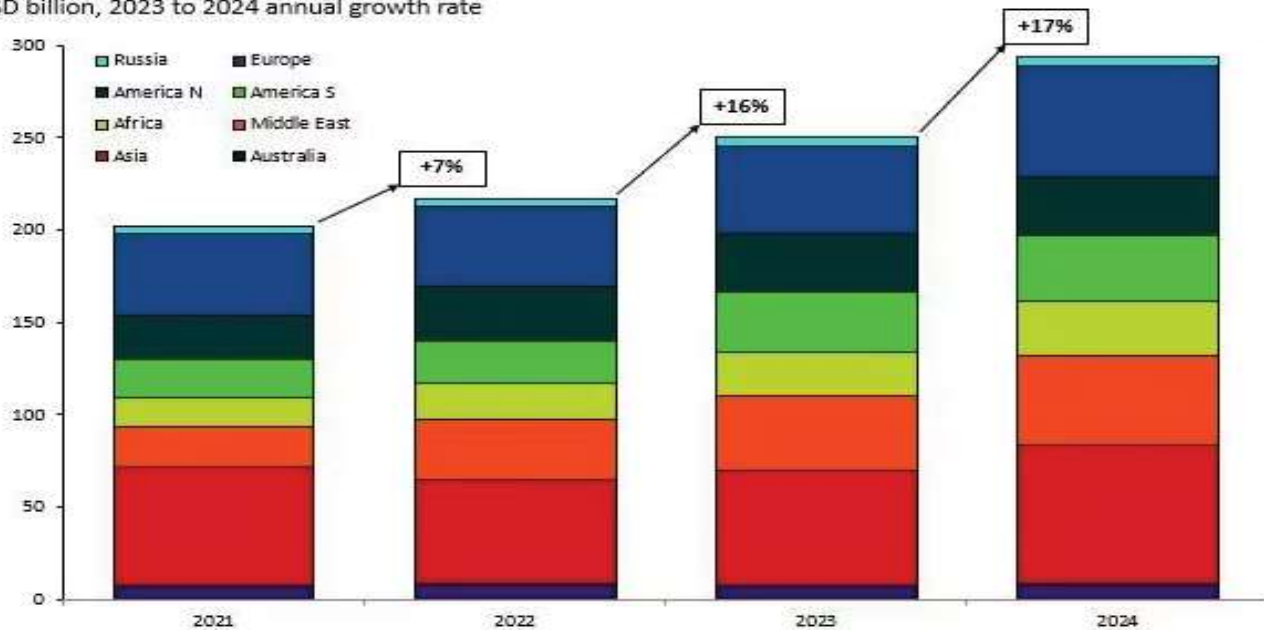
With the re-opening of the economy, demand (and price) for oil has risen and supply is unable to catch up to satiate the increasing demand. This has led to increased charter rates for OSVs and oil majors pouring in CapEx to make up for the last years.

Supercycle: Investments in O&G

Despite last year’s high water mark of \$250bln in CapEx, energy developers are poised to continue growing their investments. Rystad Energy reported that after expanding project spending by 7% in 2022 and 16% in 2023, it projects the same metric to reach 17% in 2024. This is still below the record set in 2014 when offshore upstream capex reached an all-time high, and offshore wind expenditures contributed less than 3% of the total. In 2024, offshore wind and floating solar will contribute almost 19% of this sum as solar and wind installation continue to take a larger share of the power generation mix. Regionally, Asia will continue to be the largest market for offshore investments led by China, while Norway and the UK will push the European continent higher.

Exhibit 3: Offshore Energy CapEx by Continent

USD billion, 2023 to 2024 annual growth rate



Source: Rystad Energy ServiceCube

FPSO Market

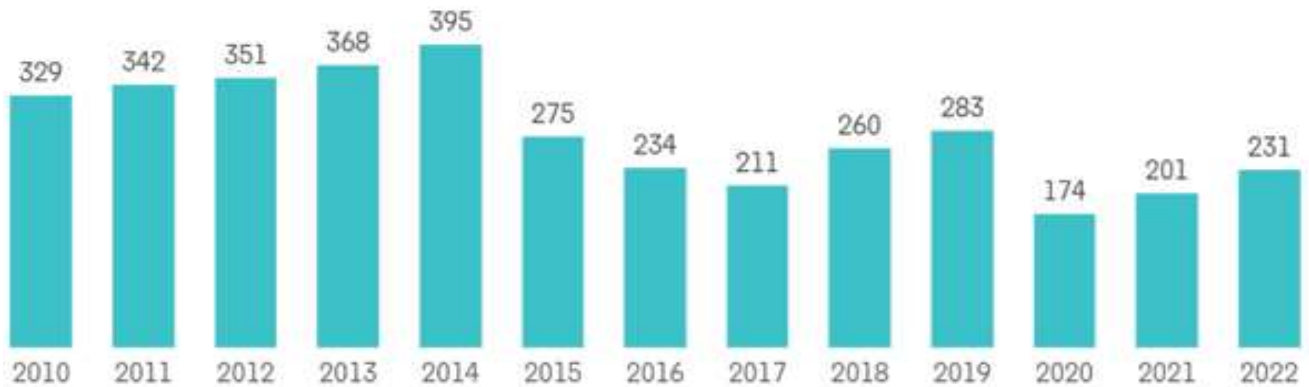
Due to growing investment in deepwater oil and gas exploration and production, the FPSO sector is benefiting from favourable conditions. FPSOs, known for their versatility and capability to operate in remote or ultra-deepwater locations, are particularly well-suited to meet the demands of this expanding market.

According to Mordor Intelligence, The FPSO Market size is estimated at USD 12.04 billion in 2024, and is expected to reach USD 18.11 billion by 2029, growing at a CAGR of 8.5% during the forecast period (2024-2029). According to Baker Hughes Rig Count, at the end of 2022, there were around 231 offshore rigs, the offshore rigs witnessed about 14.9% compared to the previous year, signifying an increase in offshore exploration and production activities, consequently driving the demand for FPSOs.

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Exhibit 4: Historical Offshore Oil Rigs

FPSO Market: Number of Offshore Oil Rigs, in Units, Global, 2010 - 2022



Source: Baker Hughes Rig Count

Both offshore rigs and FPSOs play crucial roles in the exploration and production of oil and gas reserves located beneath the seabed. Offshore rigs are often used during the exploration and drilling phase to extract hydrocarbons from offshore wells. Once a significant oil or gas discovery is made, FPSOs may be deployed during the development phase to handle the production, processing, storage, and offloading of the extracted hydrocarbons.

Dyna-Mac is well-positioned to capitalize on the steady growth trends as it leverages on its expertise in constructing topside modules for FPSOs. With the FPSO market expected to witness significant expansion driven by increased demand resulting from oil companies' exploration and production investments, such as Petrobras in the Middle East, Brazil, SE Asia, and Australia, coupled with tight global yard capacity, Dyna-Mac's specialized offerings align perfectly with the industry's trajectory.

This surge in demand acts as tailwinds for Dyna-Mac, which can boost overall revenue and earnings. The FPSO market, dominated by major players like Petroleo Brasileiro SA (Petrobras), CNOOC Ltd, TotalEnergies SE, Exxon Mobil Corp., and Shell PLC, is semi-consolidated.

China emerges as a leading player in the Asia-Pacific FPSO market, boasting the largest FPSO fleet in the region as of mid-2018, with 13 operating and 3 under-construction FPSOs. Australia closely follows China in terms of operating and under-construction FPSOs. The growing energy demand propels the floating production systems market as exploration activities escalate, often in deeper waters necessitating advanced technology.

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Key market participants in this region include Bumi Armada Berhad, Hyundai Heavy Industries Co. Ltd, Keppel Offshore & Marine Ltd, SBM Offshore, and Samsung Heavy Industries Co. Ltd.

Dyna-Mac has actively secured contracts from prominent FPSO market players in 2023 and 2024. In October 2023, the company clinched contracts worth S\$88 million with existing customers. The commencement of work on the construction of topside modules for an FPSO vessel is scheduled for the first quarter of 2024. Upon completion, these modules will be shipped to China for integration with the vessel.

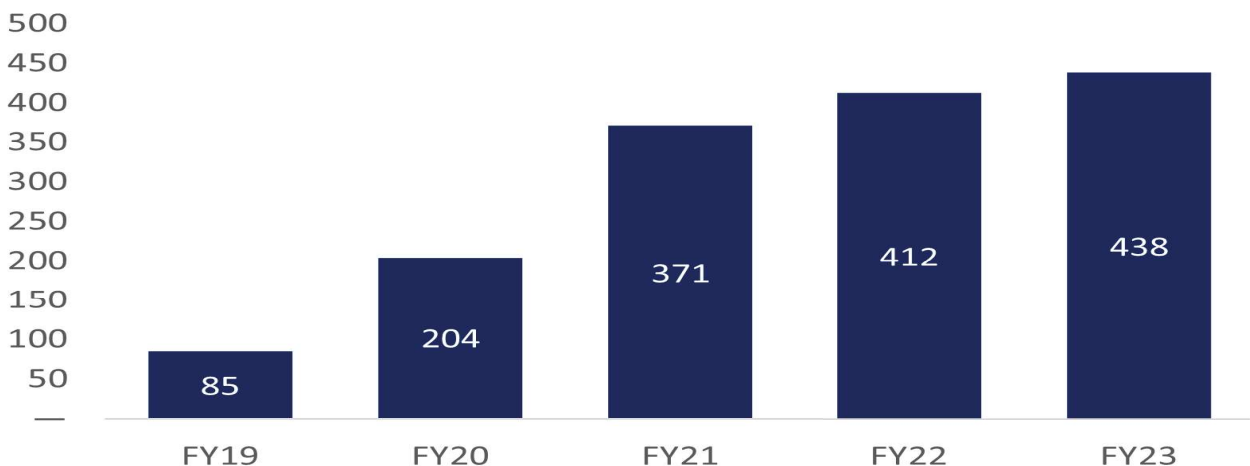
These contracts, involving the fabrication of pipe spools and the construction of topside modules for FPSO vessels, underscore Dyna-Mac's industrial capabilities and solid reputation in the sector.

Orderbook provides earnings visibility

There is strong demand for Dyna-Mac's topside module fabrication as seen from its growing order book through Covid-19, which is likely to persist given increased CapEx into the O&G sector. Given Dyna-Mac's recent acquisition of more land space to support its operations and a likely super cycle in the O&G sector, we expect Dyna-Mac to win even more contracts moving forward. With management expecting at least half of the net order book to be recognised over the next financial year (FY2024), having this solid net order book of S\$438.2 million provides a clear visibility of revenues and earnings into FY25E.

Exhibit 5: Dyna-Mac's orderbook provides revenue visibility

Orderbook (S\$mIn)



Source: Dyna-Mac

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Expansion of yard capacity

Dyna-mac has recently reached full capacity due to their consistent stream of order wins, further bolstering its already robust order book. To address this capacity constraint, Dyna-mac entered into a preferred partnership agreement with Kim Heng Marine as an interim measure while actively seeking a permanent solution to meet escalating demands, which now exceed 100% of its current manufacturing capabilities.

As part of its strategic initiatives, Dyna-mac embarked on the development of a new fabrication facility along Gul Road to accommodate both existing projects and future growth opportunities. This expansion project is expected to increase the company's fabrication capacity by 30-40% and is on track for completion in the 1Q24.

In a significant move in January 2024, Dyna-mac also successfully acquired Exterran Offshore Pte Ltd, securing an additional 4.5-hectare yard facility adjacent to its existing operations on Gul Road.

This acquisition not only extends Dyna-mac's waterfront presence to over 680 meters but also enhances the Group's fabrication capabilities, enabling it to undertake larger and more complex modular construction work, particularly those involving hydrogen and ammonia piping. The additional workshops would also allow for the consolidation of piping fabrication, reducing the need for outsourcing and rentals, thereby lowering costs, boosting productivity and improving overall product quality.

We believe that Dyna-Mac is anticipating further order book wins, prompting their rapid expansion of yard space to accommodate forthcoming orders. This bodes well for shareholders.

Valuations

Dyna-Mac trades at undemanding valuations of 10.3x PE (ex-cash PE 4.2x) vs peers average of 19.5x, representing close to a 50% discount. As Dyna-Mac is asset light, PB is high at 5.3x but the strong ROE of 41% makes up for it.

Exhibit 6: Peer Valuations

Name	Market Cap	Stock Perf	EPS		EPS Growth	EV/EBITDA	P/B(x)		ROE(x)	Div Yield	Total Debt to Equity	Net debt/ EBITDA	Int Cov ratio	Last Price	52w High	52wk Low
	(\$Sbn)	YTD%	Forward PE(x)	(1yr)	(2yr)	fwd(x)	P/B(x)	ROE(x)	Yield	Equity	EBITDA	ratio	Price	High	Low	
DYNA-MAC HOLDINGS LTD	0.4	6.0%	14.3	14%	25%	6.3	5.3	41%	0.8%	68%	-6%	23%	0.36	0.45	0.18	
MALAYSIA MARINE AND HEAVY I	0.2	-3.1%	23.3	107%	-15%	4.7	0.6	-32%	3.2%	29%	--	-32%	0.47	0.69	0.44	
GROUP UP INDUSTRIAL CO LTD	0.4	1.9%	--	--	--	--	3.0	27%	4.3%	8%	-1%	107%	157.00	181.50	103.00	
BOMESC OFFSHORE ENGINEERI-I	0.7	2.4%	--	-209%	292%	--	1.1	-3%	1.2%	35%	--	2%	12.83	14.76	8.47	
CSSC OFFSHORE AND MARINE E-	5.1	1.7%	--	-53%	248%	40.2	2.3	4%	0.0%	52%	--	-2%	25.99	32.30	21.02	
OFFSHORE OIL ENGINEERING-A	5.6	15.3%	15.8	32%	32%	5.2	1.2	8%	1.5%	4%	--	78%	6.85	6.94	4.90	
Median		1.9%	19.5	-11%	140%	5.2	1.2	4%	1.5%	32%	-2%	13%				
Average		3.7%	19.5	-31%	139%	16.7	1.7	1%	2.0%							

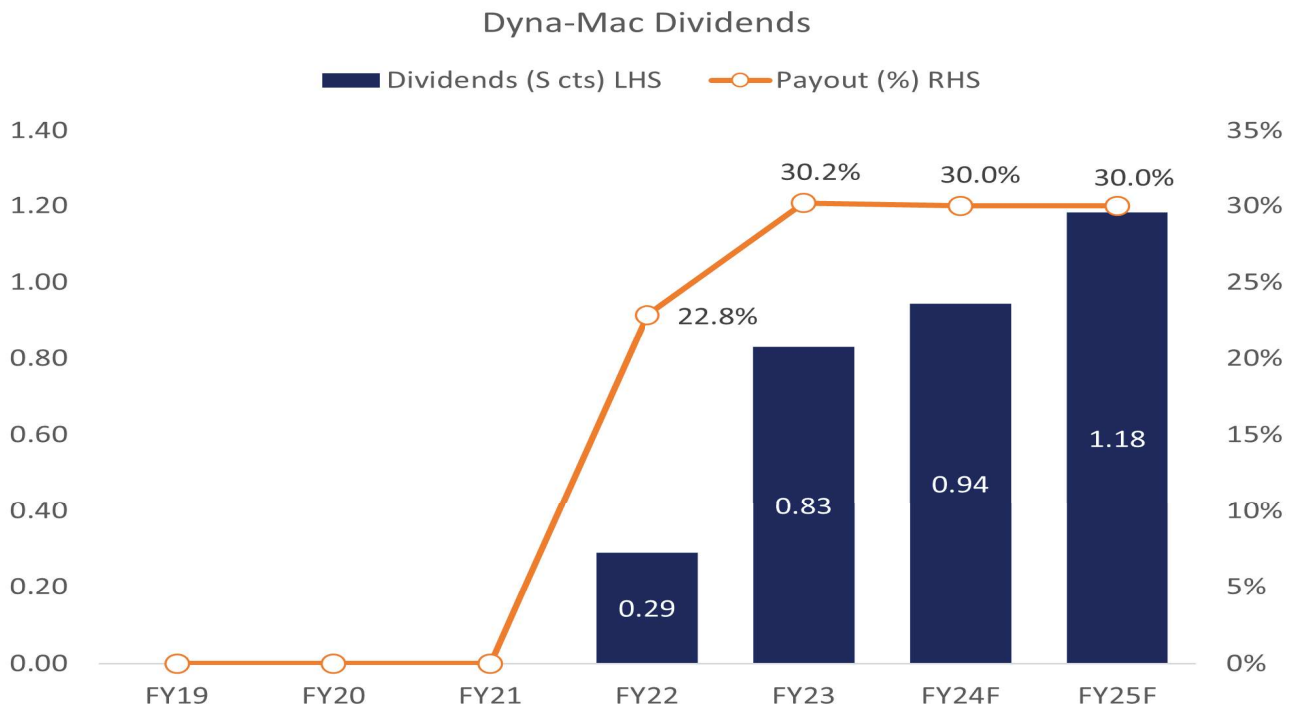
Source: Bloomberg

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Dividends

Dyna-Mac has reinstated dividend payments following its remarkable turnaround in FY21, boasting a commendable payout ratio of 23% to 30%. Extrapolating from this trend, we anticipate a dividend payout of 0.94 S cents in FY24, translating to a dividend yield of 2.6%. Despite the necessity of capital expenditure for its yard expansion endeavours, we remain confident in the sustainability of dividends, underpinned by Dyna-Mac's resilient balance sheet and the ongoing advancements within the Oil and Gas sector.

Exhibit 7: Dyna-Mac's Dividend Growth Trend



Source: Dyna-Mac, LTS Research

Ownership

Shares of Dyna-Mac are tightly held with 31.96% held by Lim Tze Jong (Deceased) and 23.9% held by Keppel Corporation.

Keppel initially acquired a stake in Dyna-Mac during its IPO 13 years ago, when it first listed at \$0.35 in 2011. As a significant shareholder possessing 250 million shares, Keppel has identified Dyna-Mac as a non-core asset. Given Keppel's strategic vision to transition away from lumpy profits towards more consistent returns by 2030, we perceive the possibility of an eventual divestment of Dyna-Mac as a viable option, which will herald a new price benchmark.

Risks

▶ Downward trending Oil Prices

Dyna-Mac is heavily exposed to the O&G sector. Should oil prices fall significantly, the sector might reduce future investments in the O&G space, thereby limiting Dyna-Mac's potential growth. Additionally, projects that are already in Dyna-Mac's pipeline might be cancelled or delayed. Customers who are more leveraged might also present a cash collection risk for Dyna-Mac.

Given Dyna-Mac's latest strategic expansion, the new yards might also be underutilized, leading to cost overruns or higher costs with no positive impact on future revenue.

However, we posit that Dyna-Mac is a cost-conscious company, as indicated by their cost-cutting measures in FY23. Given the super cycle that Dyna-Mac operates in today, we find the positives of investing in Dyna-Mac far outweigh the risks presented.

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