

Malaysia

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	RM0.36
Target price:	RM0.60
Previous target:	RM0.53
Up/downside:	68.3%
CGS-CIMB / Consensus:	3.0%
Reuters:	DNEX.KL
Bloomberg:	DNEX MK
Market cap:	US\$149.4m
	RM624.1m
Average daily turnover:	US\$0.94m
	RM3.90m
Current shares o/s:	1,768m
Free float:	63.4%

*Source: Bloomberg

Key changes in this note

- FY18-20F EPS increased by 7-16%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-13.4	-15.5	-23.7
Relative (%)	-7	-10.8	-20.6

Major shareholders

	% held
Arcadia Acres	20.7
Censof	16.0

Analyst(s)

Mohd Shanaz NOOR AZAM

T (60) 3 2261 9078

E shanaz.azam@cimb.com

Dagang NeXchange

Building blocks of growth with IAC

- DNeX's subsidiary, IAC, has received a RM59.4m one-year maintenance project, on top of an existing GFMAS contract that was awarded in Feb 18.
- We raise FY18-20F EPS by 7-16%. We are positive on DNeX's earnings diversification strategy to offset the weakness in the energy division.
- Maintain Add with a higher fully-diluted SOP-based RM0.60 TP.

IAC awarded GFMAS maintenance contract for RM59.4m

DNeX's 60%-owned subsidiary, Innovation Associates Consulting (IAC), was awarded a 1-year maintenance contract for the Government Financial and Management Accounting System (GFMAS) by the Accountant General's Department Malaysia worth RM59.4m. IAC is the service provider for GFMAS, an accrual accounting shared service project. IAC had earlier received a 3.5-year contract extension for GFMAS maintenance from Feb 18 till Aug 21 worth RM151m. As of Oct 18, IAC had an outstanding order book of RM160m.

Raising FY18-20F EPS by 7-16%

We raise our FY18-20F EPS by 7-16% to account for the new maintenance project for GFMAS. We expect IAC to contribute 17-22% to group revenue in FY18-20F. In addition, DNeX recently won three sub-contract awards for the installation of marine fibre optic cables from PT Bina Nusantara Perkasa in Indonesia and the Philippines for US\$9.1m (RM36m). Overall, we are positive on the group's diversification strategy to offset the weakness in the energy division.

Challenging outlook in energy division

We understand OGPC and DNeX Oilfield Services continue to face intense competition and margin pressure in the energy division due to soft market conditions. Moreover, the group is still facing execution issues installing its portable container system (PCS) solutions. The group plans to deliver 30 PCS by end of 2018. In spite of these setbacks, DNeX is poised to benefit from higher crude oil prices through its 30%-owned associate, Ping Petroleum, for which we project stronger earnings in 2H18.

Trades at 9.2x fully-diluted FY19F P/E

The stock has fallen almost 26% YTD. We see the pullback in its share price as offering an attractive buying opportunity given that it now trades at an attractive 9.2x 2019F fully-diluted P/E, below its 5-year mean P/E of 12x. We expect DNeX to record a robust FY17-20F net profit CAGR of 10%, driven by stronger earnings growth from Genaxis and IAC.

Maintain Add with a higher SOP-based RM0.60 TP

We maintain our Add rating on the stock with a higher SOP-based TP of RM0.60. We see higher crude oil prices and stronger earnings from the IT division as potential re-rating catalysts. Key downside risks to our Add call are lower crude oil prices, declines in National Single Window's trade facilitation transaction volume post the expiry of its concession in Aug 2019 and lower order book replenishment for the energy division.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (RMm)	181.5	212.3	303.8	345.3	315.0
Operating EBITDA (RMm)	28.9	57.1	88.9	107.5	100.5
Net Profit (RMm)	48.39	56.60	64.50	79.74	73.99
Core EPS (RM)	0.029	0.032	0.037	0.046	0.042
Core EPS Growth	33.2%	13.4%	14.0%	23.6%	(7.2%)
FD Core P/E (x)	8.98	12.33	11.03	9.21	11.80
DPS (RM)	0.005	0.005	0.010	0.015	0.020
Dividend Yield	1.30%	1.41%	2.82%	4.23%	5.63%
EV/EBITDA (x)	13.01	7.17	4.36	3.16	2.83
P/FCFE (x)	NA	NA	23.41	12.05	9.94
Net Gearing	(18.6%)	(7.8%)	(15.8%)	(26.7%)	(36.8%)
P/BV (x)	1.59	1.45	1.31	1.18	1.10
ROE	20.3%	13.8%	14.3%	15.9%	13.5%
% Change In Core EPS Estimates			7.4%	16.3%	7.4%
CIMB/consensus EPS (x)			0.90	1.01	0.90

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

	Previous			Revised			(% changes)		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Revenue	245	254	262	299	340	310	21.9	33.9	18.5
EBITDA	75	85	88	89	108	101	18.8	26.1	13.9
Pretax profit	83	96	97	97	118	111	16.9	23.2	13.9
Net profit	60	69	69	65	80	74	7.4	16.3	7.4
EPS	3.4	3.9	3.9	3.7	4.6	4.2	7.4	16.3	7.4

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 2: DNeX's sum-of-parts valuation

Operating segments	Net profit in FY19F (RM m)	P/E (x)	Value (RM m)	Valuation basis
IT services	44	14	631	Based on 10% discount to IT sector target P/E of 16
Energy	36	12	431	Based on small and mid oil & gas sector mean P/E
Total			1062	
Cash (from warrants)			356	
Net cash at end-FY17			52	
fully diluted shares (m)			2460	
FV per share (RM)			0.60	

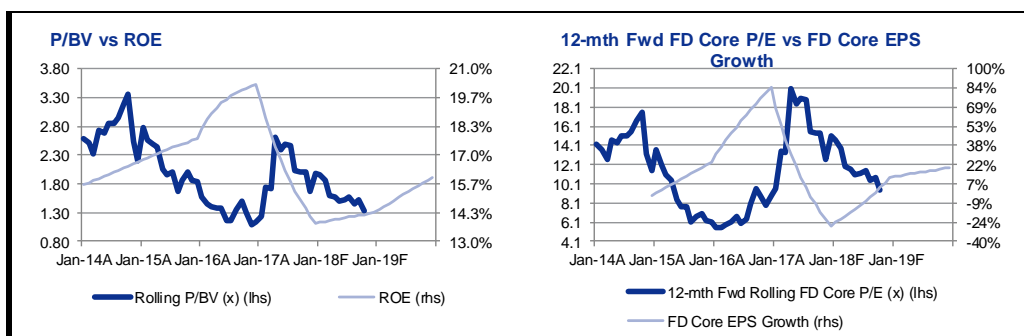
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 3: Sector comparison

IT services peers	Recom.	Price (RM)	Target Price (RM)	Mkt Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Datasonic	Not rated	0.77	na	255	12.6	10.8	3.6	3.3	25.7	37.2	9.8	9.3	5.5	7.3
MY E.G. Services	Add	1.22	1.81	1,036	15.2	14.2	5.5	4.3	41.8	34.0	12.4	11.4	1.6	1.9
Prestariang	Add	0.48	1.89	55	3.2	2.3	1.0	0.8	35.9	39.1	3.2	4.8	3.1	4.2
Dagang Nexchange	Add	0.36	0.60	149	9.6	7.8	1.3	1.2	14.5	15.9	4.4	3.2	2.8	4.2
Sector average					10.2	8.8	2.8	2.4	29.5	31.5	7.4	7.2	3.3	4.4
Oil & Gas peers	Recom.	Price (RM)	Target Price (RM)	Mkt Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
CY18F					CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	
Dayang Enterprise	Not rated	0.53	na	507	8.6	6.3	0.5	0.4	3.7	6.8	7.2	6.2	-	-
Reach Energy	Not rated	1.19	na	381	9.1	9.8	0.7	0.7	na	4.5	7.9	8.4	-	-
KNM Group	Not rated	0.03	na	317	na	16.9	na	na	0.3	1.9	33.1	15.4	na	na
Wah Seong	Not rated	0.09	na	492	na	27.5	0.8	0.8	9.9	8.8	7.7	2.9	na	na
Uzma	Not rated	0.22	na	702	6.7	7.4	0.7	0.6	7.7	8.1	4.4	4.5	1.6	2.0
Yinson	Hold	4.49	4.72	1,165	23.2	35.8	1.5	1.5	4.1	10.7	9.2	12.7	3.4	1.5
Sector average					11.9	17.3	0.8	0.8	5.1	6.8	11.6	8.3	1.3	0.9

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	181.5	212.3	303.8	345.3	315.0
Gross Profit	28.9	57.1	88.9	107.5	100.5
Operating EBITDA	28.9	57.1	88.9	107.5	100.5
Depreciation And Amortisation	(9.8)	(13.2)	(16.6)	(16.9)	(17.2)
Operating EBIT	19.2	43.9	72.3	90.6	83.4
Financial Income/(Expense)	(0.7)	0.5	(0.8)	0.1	1.3
Pretax Income/(Loss) from Assoc.	38.2	22.2	25.5	27.5	26.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	56.7	66.6	97.1	118.3	110.7
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	56.7	66.6	97.1	118.3	110.7
Taxation	(9.8)	(11.4)	(9.7)	(10.6)	(10.0)
Exceptional Income - post-tax					
Profit After Tax	46.9	55.2	87.4	107.6	100.7
Minority Interests	1.5	1.4	(22.9)	(27.9)	(26.7)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	48.4	56.6	64.5	79.7	74.0
Recurring Net Profit	49.9	56.6	64.5	79.7	74.0
Fully Diluted Recurring Net Profit	49.9	70.8	79.2	94.8	74.0

Cash Flow

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	28.9	57.1	88.9	107.5	100.5
Cash Flow from Inv. & Assoc.					
Change In Working Capital	16.9	(38.5)	(30.0)	(12.5)	9.1
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	108.0	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	(0.9)	(0.7)	(1.9)	(1.9)	(1.9)
Tax Paid	(13.1)	(11.4)	(9.7)	(10.6)	(10.0)
Cashflow From Operations	139.8	6.5	47.3	82.5	97.8
Capex	(5.9)	(10.0)	(10.0)	(10.0)	(10.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(119.7)	(18.3)	0.0	0.0	0.0
Cash Flow From Investing	(125.6)	(28.3)	(10.0)	(10.0)	(10.0)
Debt Raised/(repaid)	(20.0)	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	126.3	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(8.1)	(8.7)	(17.5)	(26.2)	(35.0)
Preferred Dividends					
Other Financing Cashflow	2.7	12.3	0.0	0.0	0.0
Cash Flow From Financing	100.9	3.5	(17.5)	(26.2)	(35.0)
Total Cash Generated	115.1	(18.2)	19.8	46.2	52.8
Free Cashflow To Equity	(5.9)	(21.8)	37.3	72.5	87.8
Free Cashflow To Firm	15.1	(21.1)	39.2	74.4	89.7

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	72.3	51.8	96.8	172.6	254.6
Total Debtors	68.6	105.9	155.2	176.7	161.0
Inventories	0.6	2.8	4.1	4.1	4.1
Total Other Current Assets	2.2	2.7	4.2	4.2	4.2
Total Current Assets	143.8	163.3	260.3	357.6	424.0
Fixed Assets	32.3	64.1	57.5	50.6	43.4
Total Investments	170.4	175.7	175.7	175.7	175.7
Intangible Assets	98.8	94.4	94.4	94.4	94.4
Total Other Non-Current Assets	4.7	4.2	4.2	4.2	4.2
Total Non-current Assets	306.1	338.4	331.8	324.9	317.7
Short-term Debt	0.0	1.3	1.3	1.3	1.3
Current Portion of Long-Term Debt					
Total Creditors	43.2	44.1	64.6	73.6	67.1
Other Current Liabilities	5.4	5.1	5.1	5.1	5.1
Total Current Liabilities	48.6	50.6	71.1	80.0	73.5
Total Long-term Debt	0.0	17.5	17.5	17.5	17.5
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	0.0	17.5	17.5	17.5	17.5
Total Provisions	12.1	9.2	9.2	9.2	9.2
Total Liabilities	60.7	77.3	97.9	106.8	100.3
Shareholders' Equity	391.0	426.9	473.9	527.4	566.5
Minority Interests	(1.9)	(2.5)	20.3	48.2	75.0
Total Equity	389.2	424.4	494.2	575.7	641.4

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	84.4%	17.0%	43.1%	13.6%	(8.8%)
Operating EBITDA Growth	(12.6%)	97.5%	55.7%	20.9%	(6.5%)
Operating EBITDA Margin	15.9%	26.9%	29.3%	31.1%	31.9%
Net Cash Per Share (RM)	0.04	0.02	0.04	0.09	0.13
BVPS (RM)	0.22	0.24	0.27	0.30	0.32
Gross Interest Cover	21.52	63.22	38.41	48.14	44.28
Effective Tax Rate	17.3%	17.1%	10.0%	9.0%	9.0%
Net Dividend Payout Ratio	16.6%	15.4%	27.1%	32.9%	47.3%
Accounts Receivables Days	163.6	150.0	156.9	175.4	196.2
Inventory Days	0.78	4.02	5.80	6.23	6.93
Accounts Payables Days	112.6	102.7	92.4	106.1	120.0
ROIC (%)	19.2%	20.8%	24.1%	27.2%	24.5%
ROCE (%)	7.4%	10.6%	15.1%	16.5%	13.6%
Return On Average Assets	15.2%	11.5%	16.1%	16.9%	14.0%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	5.0%	-3.0%	-7.0%	-10.0%	-10.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	0.0%	0.0%	0.0%	0.0%	0.0%

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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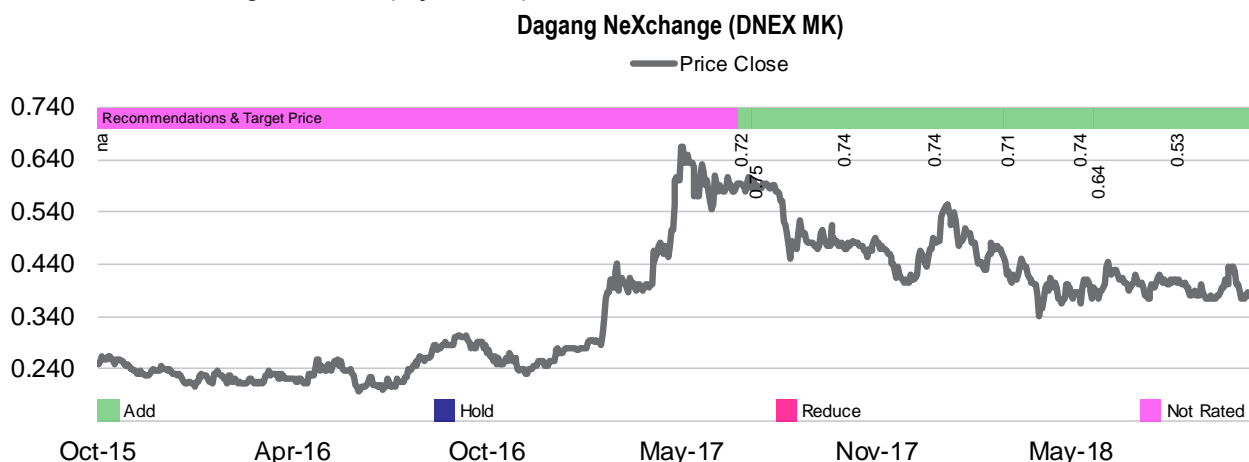
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759 companies under coverage for quarter ended on 30 September 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, ADVANC – Excellent, Certified, AEONTS – Good, n/a, AMATA – Very Good, n/a, ANAN – Excellent, n/a, AOT – Excellent, Declared, AP – Excellent, Declared, ASK – Very Good, Declared, ASP – Very Good, Certified, BANPU – Excellent, Certified, BAY – Excellent, Certified, BBL – Very Good, Certified, BCH – Good, Declared, BCP - Excellent, Certified, BCPG – Very Good, n/a, BEM – Very Good, n/a, BDMS – Very Good, n/a, BEAUTY – Good, n/a, BEC – Very Good, n/a, BGRIM – not available, n/a, BH - Good, n/a, BJC – Very Good, Declared, BJCHI – Very Good, Declared, BLA – Very Good, Certified, BPP – Good, n/a, BR - Good, Declared, BTS - Excellent, Certified, CBG – Good, n/a, CCET –

Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.