

Malaysia

REDUCE (no change)

Consensus ratings*: Buy 0 Hold 1 Sell 1

Current price:	RM0.30
Target price:	RM0.25
Previous target:	RM0.25
Up/downside:	-16.7%
CGS-CIMB / Consensus:	-9.0%

Reuters:	DNEX.KL
Bloomberg:	DNEX MK
Market cap:	US\$126.9m
	RM518.6m
Average daily turnover:	US\$0.93m
	RM3.81m
Current shares o/s:	1,772m
Free float:	63.4%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-9.2	31.1	-28.9
Relative (%)	-8.8	31	-18.9

Major shareholders

	% held
Arcadia Acres	20.7
Censof	16.0

Analyst(s)

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Dagang NeXchange

Targeting energy division recovery in FY19F

- DNeX expects earnings to recover in FY19F, driven by higher PCS project completion and increase in crude oil production at Ping Petroleum.
- It is exploring options to monetise and unlock the value of its energy assets.
- Maintain Reduce, with an unchanged RM0.25 SOP-based target price.

4Q18 results briefing

We attended DNeX's 4Q18 results briefing this morning, together with six analysts and fund managers. The briefing was hosted by Group Executive Chairman Datuk Samsul Husin and Group CFO Lim Kek Siang. There were no surprises from the meeting as the group is cautiously optimistic for a stronger earnings delivery in FY19F (vs. FY18), driven by higher completion of its portable container system (PCS) project which has been delayed since 2017. It targets to deliver 40 units of PCS in FY19F.

Focusing on IT and electronics services

DNeX expects its subsidiary Genaxis and its National Single Window (NSW) trade facilitation business to remain the key earnings drivers for its IT and e-services segment in FY19F. Genaxis and NSW together contributed RM170m or 58% to group revenue in FY18. As at end-Feb, Genaxis has a RM700m-800m tender book, and a secured order book of RM130m comprising maintenance and system integration projects under public accounting projects. It expects NSW to remain a key sales driver in FY19F notwithstanding the concession's expiry on 31 Aug 2019 in light of its potential extension.

Ping Petroleum remains the bright spot in energy division

The group projects stronger earnings from Ping Petroleum, driven by higher production volume in Anasuria following the enhancement of its oil recovery initiatives and additional crude lifting in 2019. Ping has completed its first crude lifting for 2019 in Jan. We expect Ping to deliver higher associates' profit of RM29.5m in FY19F (FY18: RM22m). Meanwhile, we expect DNeX's drilling division to remain in the red due to lack of new contract wins. The division posted a wider net loss of RM3.7m in FY18 (FY17: RM2.7m).

Exploring options to monetise energy assets

In addition, DNeX is also exploring the potential to monetise and unlock the value of its energy assets. For example, it is exploring the option to divest its 30% stake in Ping Petroleum, which has a carrying value of about RM200m. To recap, DNeX invested US\$10m for the stake in 2016. It is also looking to divest its 10% stake in a Bangladesh power plant, which has a carrying value of about RM4.6m.

Maintain Reduce and target price

We see a challenging FY19F outlook for the group in view of declining crude oil prices, weak recovery in oil & gas activities, and a decline in NSW transaction volume after the concession's expiry in Aug 2019. Pick-up in PCS project deployment and higher crude oil price are potential upside risks to our call. Switch to My E.G. for exposure to tech sector.

Financial Summary

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (RMm)	203.9	293.5	330.2	278.9	282.3
Operating EBITDA (RMm)	57.11	64.64	72.37	61.11	62.83
Net Profit (RMm)	56.25	34.85	43.44	36.82	40.75
Core EPS (RM)	0.033	0.020	0.025	0.021	0.023
Core EPS Growth	14.0%	(37.3%)	21.7%	(15.2%)	10.7%
FD Core P/E (x)	9.07	14.45	11.87	14.01	12.66
DPS (RM)	0.005	0.005	0.010	0.010	0.010
Dividend Yield	1.69%	1.69%	3.39%	3.39%	3.39%
EV/EBITDA (x)	5.35	4.80	3.96	4.00	3.40
P/FCFE (x)	NA	NA	17.84	11.47	17.17
Net Gearing	(7.5%)	1.9%	(6.9%)	(18.0%)	(25.4%)
P/BV (x)	1.21	1.13	1.07	1.03	0.99
ROE	13.9%	8.1%	9.3%	7.5%	8.0%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.89	0.73	1.01

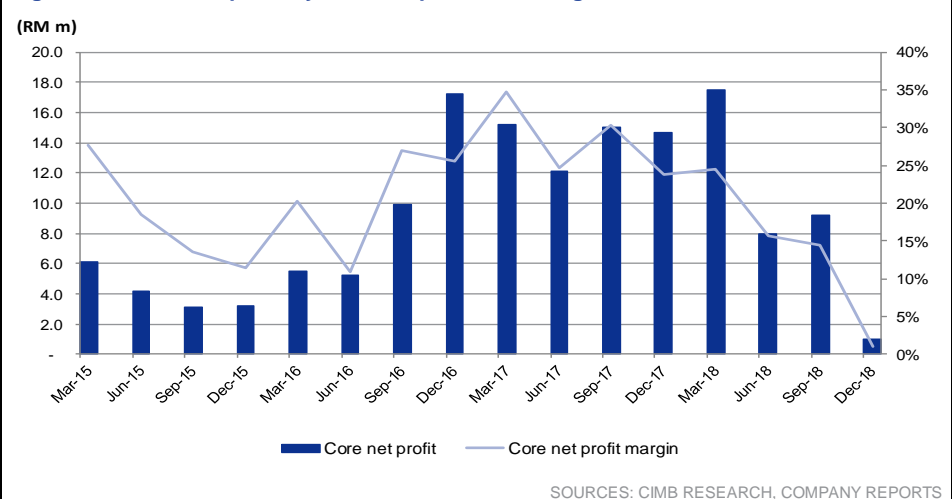
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 1: DNeX's 1-year forward P/E (x)

Figure 2: DNeX's SOP valuation

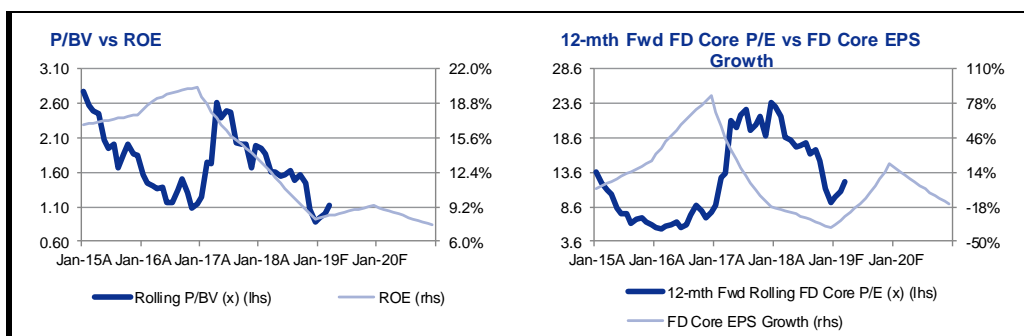
Operating segments	Net profit in FY20F (RM m)	P/E (x)	Value (RM m)	Valuation basis
IT services	5	11	52	Based on 30% discount to IT sector target P/E of 16x
Energy	32	12	386	Based on small and mid oil & gas sector mean P/E
Total			438	
Net debt at end Dec-18			-8	
fully diluted shares (m)			1749	
FV per share (RM)			0.25	

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 3: Historical quarterly core net profit and margin trend

Figure 4: 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
MY E.G. Services	Add	1.27	1.96	1,083	16.0	14.6	7.3	5.4	49.2	42.5	14.1	12.7	1.6	1.8
Prestariang	Reduce	0.57	0.26	67	na	174.2	1.8	1.8	(5.4)	1.0	na	42.7	0.9	0.5
Dagang Nexchange	Reduce	0.30	0.25	127	14.5	11.9	1.1	1.1	8.3	9.2	4.9	4.1	1.7	3.4
Sector average					14.3	52.9	3.5	2.9	19.5	22.5	9.6	17.2	2.4	3.2

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	212.3	303.7	335.2	283.9	287.3
Gross Profit	57.1	64.6	72.4	61.1	62.8
Operating EBITDA	57.1	64.6	72.4	61.1	62.8
Depreciation And Amortisation	(13.2)	(17.4)	(18.3)	(18.6)	(17.9)
Operating EBIT	43.9	47.2	54.1	42.5	44.9
Financial Income/(Expense)	0.5	(2.6)	(2.0)	(1.7)	(1.2)
Pretax Income/(Loss) from Assoc.	22.2	22.0	29.5	32.2	35.4
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	66.6	66.6	81.7	72.9	79.1
Exceptional Items	(0.4)	(0.3)	0.0	0.0	0.0
Pre-tax Profit	66.2	66.3	81.7	72.9	79.1
Taxation	(11.4)	(14.9)	(20.4)	(17.5)	(19.0)
Exceptional Income - post-tax					
Profit After Tax	54.8	51.4	61.3	55.4	60.1
Minority Interests	1.4	(16.5)	(17.8)	(18.6)	(19.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	56.2	34.9	43.4	36.8	40.7
Recurring Net Profit	56.9	35.7	43.4	36.8	40.7
Fully Diluted Recurring Net Profit	56.9	35.7	43.4	36.8	40.7

Cash Flow

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	57.11	64.64	72.37	61.11	62.83
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(38.52)	(19.82)	(10.19)	14.22	(0.94)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.00	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	(0.69)	(3.13)	(2.85)	(2.85)	(2.85)
Tax Paid	(11.40)	(14.94)	(20.42)	(17.49)	(18.99)
Cashflow From Operations	6.50	26.75	38.91	54.98	40.05
Capex	(31.10)	(20.26)	(10.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.35	(22.61)	0.00	0.00	0.00
Cash Flow From Investing	(30.75)	(42.86)	(10.00)	(10.00)	(10.00)
Debt Raised/(repaid)	20.00	(43.28)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(8.74)	(8.74)	(17.49)	(17.49)	(17.49)
Preferred Dividends					
Other Financing Cashflow	(5.29)	1.34	0.00	0.00	0.00
Cash Flow From Financing	5.97	(50.68)	(17.49)	(17.49)	(17.49)
Total Cash Generated	(18.28)	(66.80)	11.42	27.50	12.56
Free Cashflow To Equity	(4.25)	(59.39)	28.91	44.98	30.05
Free Cashflow To Firm	(23.56)	(12.98)	31.76	47.84	32.90

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	51.8	39.0	80.9	141.6	191.2
Total Debtors	105.9	206.5	232.3	196.2	198.6
Inventories	2.8	3.0	3.0	3.0	3.0
Total Other Current Assets	2.7	3.5	3.5	3.5	3.5
Total Current Assets	163.3	252.0	319.7	344.4	396.4
Fixed Assets	65.3	68.2	59.9	51.3	43.3
Total Investments	175.7	200.9	200.9	200.9	200.9
Intangible Assets	94.4	102.2	102.2	102.2	102.2
Total Other Non-Current Assets	4.2	4.9	4.9	4.9	4.9
Total Non-current Assets	339.6	376.1	367.8	359.2	351.3
Short-term Debt	1.3	29.6	29.6	29.6	29.6
Current Portion of Long-Term Debt					
Total Creditors	44.1	125.1	140.7	118.9	120.3
Other Current Liabilities	5.1	6.4	6.4	6.4	6.4
Total Current Liabilities	50.6	161.1	176.8	154.9	156.4
Total Long-term Debt	18.7	18.0	18.0	18.0	18.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	18.7	18.0	18.0	18.0	18.0
Total Provisions	9.2	7.5	7.5	7.5	7.5
Total Liabilities	78.5	186.6	202.3	180.4	181.9
Shareholders' Equity	426.9	454.6	480.6	499.9	523.1
Minority Interests	(2.5)	(13.1)	4.7	23.3	42.7
Total Equity	424.4	441.5	485.3	523.2	565.8

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	14.3%	43.9%	12.5%	(15.5%)	1.2%
Operating EBITDA Growth	97.5%	13.2%	12.0%	(15.6%)	2.8%
Operating EBITDA Margin	28.0%	22.0%	21.9%	21.9%	22.3%
Net Cash Per Share (RM)	0.018	(0.005)	0.019	0.054	0.082
BVPS (RM)	0.24	0.26	0.27	0.29	0.30
Gross Interest Cover	63.22	15.09	18.95	14.88	15.73
Effective Tax Rate	17.2%	22.5%	25.0%	24.0%	24.0%
Net Dividend Payout Ratio	15.4%	24.9%	40.3%	47.5%	42.9%
Accounts Receivables Days	156.2	194.3	242.5	281.2	255.3
Inventory Days	4.02	4.42	4.20	4.96	4.91
Accounts Payables Days	102.7	129.2	184.6	213.2	194.5
ROIC (%)	20.8%	15.7%	15.8%	12.3%	14.3%
ROCE (%)	10.5%	10.1%	10.6%	7.8%	7.8%
Return On Average Assets	11.5%	9.5%	9.5%	8.2%	8.4%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	-3.0%	-7.0%	-10.0%	-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
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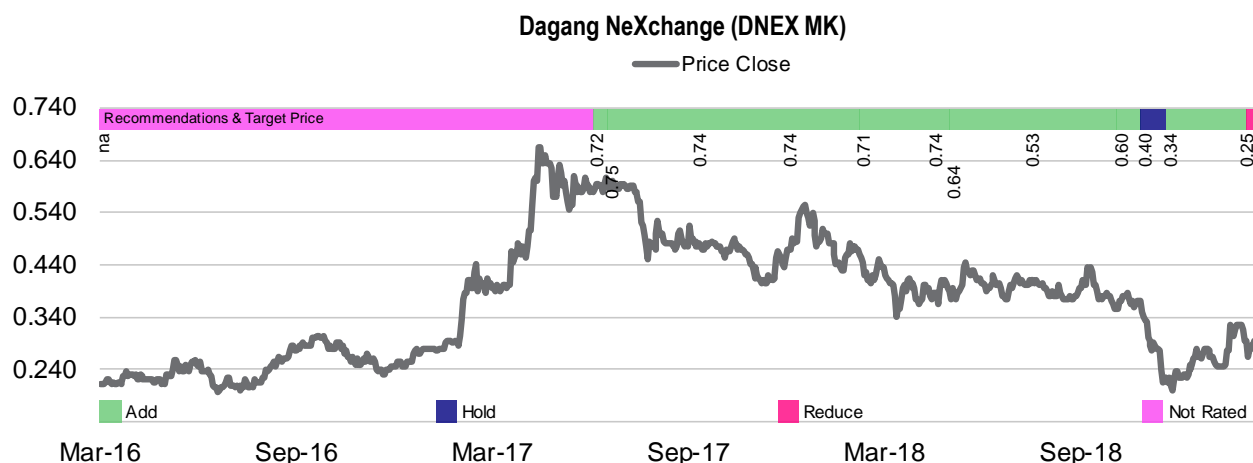
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2018		
758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
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 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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- Companies certified by CAC

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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.

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