

Company Note

Malaysia

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	RM0.46
Target price:	RM0.74
Previous target:	RM0.74
Up/downside:	62.9%
CIMB / Consensus:	10.7%

Reuters:	DNEX.KL
Bloomberg:	DNEX MK
Market cap:	US\$196.0m
	RM798.7m
Average daily turnover:	US\$1.68m
	RM7.01m
Current shares o/s:	1,733m
Free float:	58.6%

*Source: Bloomberg

Key changes in this note

- FY17-19F Revenue decreased by 9-14%.
- FY17F EPS decreased by 2.6%.
- FY18-19F EPS increased by 2.9-4.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.8	-11.7	78.4
Relative (%)	4.2	-10.2	71.5

Major shareholders	% held
Arcadia Acres	20.7
Censof	17.1
Azman Karim	3.6

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Dagang NeXchange**Better times ahead**

- We left our meeting with DNex upbeat; we see stronger 2018F growth following its NSW concession extension and better prospects for OGPC and Ping.
- However, we are wary of near-term weakness given the lack of new drilling contract and delay in its second VEP & RC project at the Malaysia-Thailand border.
- The recent extension of its NSW concession will help to remove near-term overhang on the stock, in our view.
- We trim our FY17F EPS by 2.6%, but raise FY18-19F EPS by 2.9-4.4% to account for higher contribution from NSW amidst delay in the Thai VEP & RC project.
- Maintain Add with an unchanged SOP-based TP of RM0.74.

Expect a stronger growth in FY18F

We met DNex's management this morning to discuss its 3Q17 results and 2018 outlook. The group remains bullish on stronger FY18 earnings growth, driven by higher growth from IT services following the extension of its National Single Window (NSW) concession, stronger revenue from its vehicle entry permit and road charges (VEP & RC) project, and higher completion for its portable container system (PCS) project. However, it indicated that outlook for its energy unit remains challenging due to intense competition.

NSW concession extended to end-Aug 2019

DNex announced on 20 Dec that its NSW concession to provide trade facilitation services to the Royal Malaysian Customs has been extended to Aug 2019. To recap, the NSW concession was due to expire in Sep 2018. This concession remains a major earnings driver for the group; it accounted about 45% of DNex's net profit in FY16. We understand that the alternative platform for NSW is still facing integration issue, hence DNex could still receive further extension beyond 2019F.

Recognition for remainder of VEP & RC contract delayed to 1H18

The group highlighted that recognition for the remaining 20% of its first VEP & RC project at the Singapore-Malaysia border will be delayed from 4Q17 to 1H18 due to timing issues. However, DNex will recognise the RM21m operation and maintenance contract for the VEP & RC in FY17. Moreover, it expects to start delivering the radio frequency identification (RFID) VEP tag for foreign vehicles in 1Q18. DNex expects to deliver 500k units in 2018. This will bring in additional RM7.5m or 3% to group revenue in FY18F.

Reduce FY17F EPS by 2.6%, but raise FY18-19F EPS by 2.9-4.4%

We cut our FY17F EPS by 2.6% to account for the delay in the remaining VEP & RC contract recognition, but raise our FY18-19F EPS by 2.9-4.4% to reflect the extension of its NSW concession. Moreover we expect stronger earnings contribution from OGPC on the back of higher PCS contract completion, and higher associate's profit contribution from Ping Petroleum on the back of higher crude oil prices. Overall, we project DNex to record a robust FY16-19F net profit CAGR of 18%.

Potential long-term growth driver in 1Trade platform

The group expects to see maiden revenue contribution from its 1Trade platform in 2H18. 1Trade, a web-based portal for cargo and trade management, was launched in Oct 2017, targeting exporters, importers and logistics service providers. It aims to converge supply chain and cross border logistics processes to simplify cargo and trade management by leveraging data from the NSW platform.

Maintain Add and target price

The extension of the NSW concession and higher crude oil prices are potential re-rating catalysts for the stock. Key downside risks to our Add call are lower crude oil prices, and decline in NSW transaction volume post-expiry of its concession in Sep 2019F.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	98.4	181.5	206.3	253.7	265.8
Operating EBITDA (RMm)	33.08	28.91	58.28	75.08	80.18
Net Profit (RMm)	11.23	48.39	58.80	75.39	81.56
Core EPS (RM)	0.021	0.029	0.034	0.043	0.047
Core EPS Growth	24.2%	33.2%	17.9%	28.2%	8.2%
FD Core P/E (x)	21.24	11.51	15.33	12.43	11.58
DPS (RM)	0.001	0.005	0.005	0.010	0.015
Dividend Yield	0.20%	1.01%	1.10%	2.20%	3.30%
EV/EBITDA (x)	9.85	18.83	8.50	5.90	4.83
P/FCFE (x)	NA	NA	28.40	22.70	18.53
Net Gearing	(26.0%)	(18.0%)	(27.5%)	(35.2%)	(42.2%)
P/BV (x)	3.49	1.97	1.75	1.56	1.40
ROE	17.7%	19.8%	13.7%	15.6%	15.1%
% Change In Core EPS Estimates			(2.63%)	4.37%	2.86%
CIMB/consensus EPS (x)			0.99	1.05	1.01

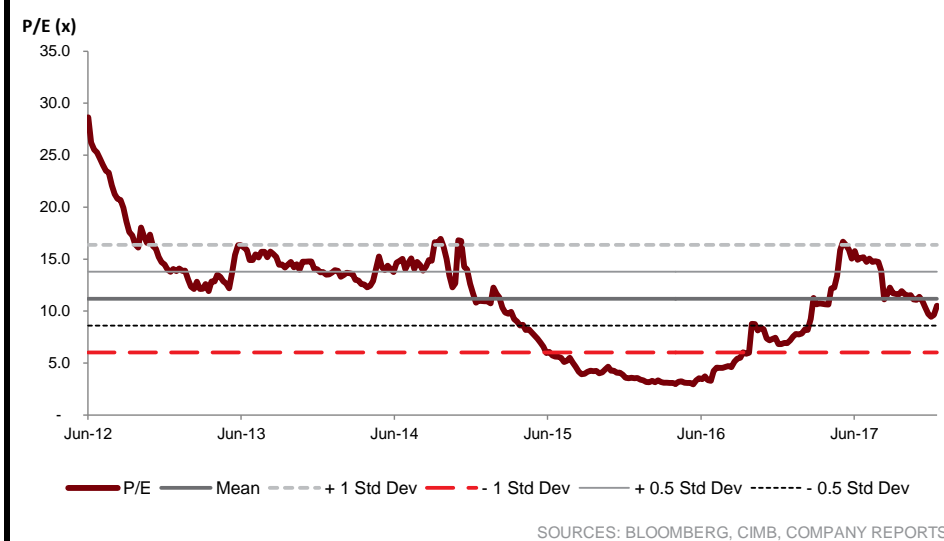
SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Earnings revision

	Previous			Revised			(% changes)		
	FY17F	FY18F	FY19F	FY17F	FY18F	FY19F	FY17F	FY18F	FY19F
Revenue	229	272	286	196	249	260	(14)	(9)	(9)
EBITDA	60	71	78	58	75	80	(3)	5	3
EBIT	48	59	65	46	63	68	(4)	6	4
Pretax profit	71	85	93	69	89	95	(3)	4	3
Net profit	60	72	79	59	75	82	(3)	4	3
EPS	3.5	4.1	4.5	3.4	4.3	4.7	(3)	4	3

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: 1-year forward P/E (x)



SOURCES: BLOOMBERG, CIMB, COMPANY REPORTS

Figure 3: DNeX's sum-of-parts (SOP) valuation

Operating segments	Net profit in FY19F (RM m)	P/E (x)	Value (RM m)	Valuation basis
IT services	40	21	850	Based on IT sector target P/E of 21x
Energy	41	12	492	Based on small and mid oil & gas sector mean P/E
Total			1342	
Cash (from warrants)			356	
Net cash at end-FY17			126	
fully diluted shares (m)			2460	
FV per share (RM)			0.74	

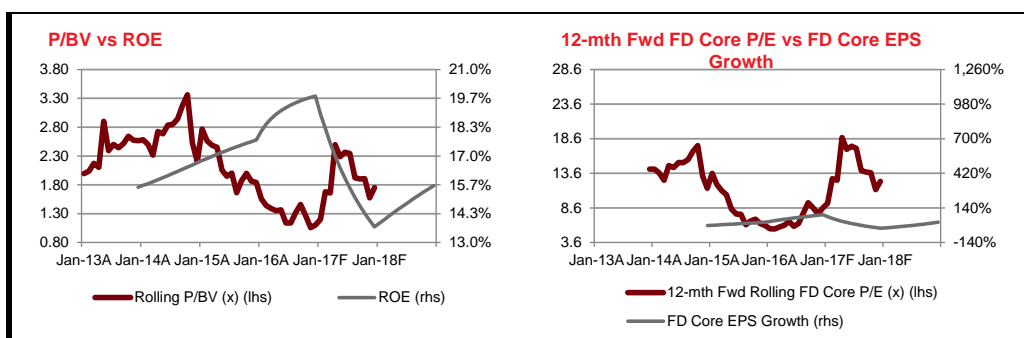
SOURCES: CIMB, COMPANY REPORTS

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 (%)	
					CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F	CY17F	CY18F
Datasonic	Not rated	1.17	na	386	15.8	14.5	5.0	4.5	25.7	37.2	11.9	11.5	4.1	4.8
MY E.G. Services	Add	2.25	3.04	1,992	33.1	24.8	12.6	9.3	43.6	42.8	29.0	20.6	1.1	1.6
Prestariang	Add	1.49	2.69	176	37.6	8.4	4.3	3.0	11.1	41.8	31.7	10.4	2.7	4.0
Dagang NeXchange	Add	0.47	0.74	203	13.6	11.4	1.8	1.6	13.4	15.0	9.1	6.6	1.1	2.1
Sector average					25.0	14.8	5.9	4.6	23.4	34.2	20.4	12.3	2.2	3.1

SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	98.42	181.53	206.26	253.65	265.83
Gross Profit	33.08	28.91	58.28	75.08	80.18
Operating EBITDA	33.08	28.91	58.28	75.08	80.18
Depreciation And Amortisation	(9.84)	(9.75)	(11.80)	(11.98)	(12.52)
Operating EBIT	23.24	19.16	46.48	63.11	67.65
Financial Income/(Expense)	0.19	(0.66)	2.97	3.86	4.28
Pretax Income/(Loss) from Assoc.	0.00	38.20	19.65	21.61	23.38
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	23.43	56.70	69.09	88.57	95.31
Exceptional Items		0.00	0.00	0.00	0.00
Pre-tax Profit	23.43	56.70	69.09	88.57	95.31
Taxation	(7.60)	(9.83)	(6.22)	(7.97)	(8.10)
Exceptional Income - post-tax					
Profit After Tax	15.83	46.87	62.87	80.60	87.21
Minority Interests	(4.60)	1.52	(4.07)	(5.22)	(5.64)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11.23	48.39	58.80	75.39	81.56
Recurring Net Profit	16.61	49.89	58.80	75.39	81.56
Fully Diluted Recurring Net Profit	16.61	49.89	73.03	90.04	96.66

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	33.08	28.91	58.28	75.08	80.18
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(2.40)	15.72	(2.65)	(7.79)	(1.67)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1.37	109.10	0.00	0.00	0.00
Net Interest (Paid)/Received	(1.45)	(0.89)	0.00	0.00	0.00
Tax Paid	(9.56)	(13.07)	(6.22)	(7.97)	(8.10)
Cashflow From Operations	21.04	139.77	49.41	59.31	70.41
Capex	(18.39)	(5.93)	(10.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries	0.01	0.01	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(7.35)	(119.68)	0.00	0.00	0.00
Cash Flow From Investing	(25.73)	(125.60)	(10.00)	(10.00)	(10.00)
Debt Raised/(repaid)	(18.49)	(20.04)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	126.28	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	0.00	(8.05)	(8.74)	(17.49)	(26.23)
Preferred Dividends					
Other Financing Cashflow	(3.46)	2.73	0.00	0.00	0.00
Cash Flow From Financing	(21.95)	100.92	(8.74)	(17.49)	(26.23)
Total Cash Generated	(26.65)	115.10	30.67	31.83	34.18
Free Cashflow To Equity	(23.19)	(5.86)	39.41	49.31	60.41
Free Cashflow To Firm	(3.25)	15.06	39.41	49.31	60.41

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet					
(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	46.1	72.3	125.6	182.9	244.7
Total Debtors	93.7	68.6	75.5	95.6	99.9
Inventories	0.0	0.6	0.6	0.6	0.6
Total Other Current Assets	1.9	3.2	3.2	3.2	3.2
Total Current Assets	141.7	144.8	204.9	282.3	348.5
Fixed Assets	21.3	32.3	30.5	28.5	26.0
Total Investments	0.0	177.0	177.0	177.0	177.0
Intangible Assets	5.2	98.8	98.8	98.8	98.8
Total Other Non-Current Assets	5.2	4.7	4.7	4.7	4.7
Total Non-current Assets	31.6	312.7	310.9	308.9	306.4
Short-term Debt	18.5	0.0	0.0	0.0	0.0
Current Portion of Long-Term Debt					
Total Creditors	50.7	42.1	46.3	58.6	61.2
Other Current Liabilities	1.6	1.7	1.7	1.7	1.7
Total Current Liabilities	70.8	43.8	48.0	60.3	62.9
Total Long-term Debt	1.5	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	1.5	0.0	0.0	0.0	0.0
Total Provisions	0.7	12.1	12.1	12.1	12.1
Total Liabilities	73.0	55.8	60.0	72.4	75.0
Shareholders' Equity	101.0	403.5	453.6	511.5	566.8
Minority Interests	(0.7)	(1.9)	2.2	7.4	13.0
Total Equity	100.3	401.7	455.8	518.9	579.9

Key Ratios					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	10.3%	84.4%	13.6%	23.0%	4.8%
Operating EBITDA Growth	(12%)	(13%)	102%	29%	7%
Operating EBITDA Margin	33.6%	15.9%	28.3%	29.6%	30.2%
Net Cash Per Share (RM)	0.03	0.04	0.07	0.10	0.14
BVPS (RM)	0.13	0.23	0.26	0.29	0.32
Gross Interest Cover	16.04	21.52	N/A	N/A	N/A
Effective Tax Rate	32.4%	17.3%	9.0%	9.0%	8.5%
Net Dividend Payout Ratio	6.2%	16.6%	14.9%	23.2%	32.2%
Accounts Receivables Days	280.9	163.6	127.5	123.1	134.2
Inventory Days	0.00	0.78	1.60	1.33	1.28
Accounts Payables Days	190.1	111.3	108.9	107.2	117.8
ROIC (%)	21.1%	19.2%	21.2%	28.6%	29.7%
ROCE (%)	18.4%	7.3%	11.2%	13.4%	12.8%
Return On Average Assets	9.1%	15.0%	12.5%	14.0%	13.5%

Key Drivers					
	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	6.0%	5.0%	-3.0%	-7.0%	-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%

SOURCE: CIMB RESEARCH, COMPANY DATA

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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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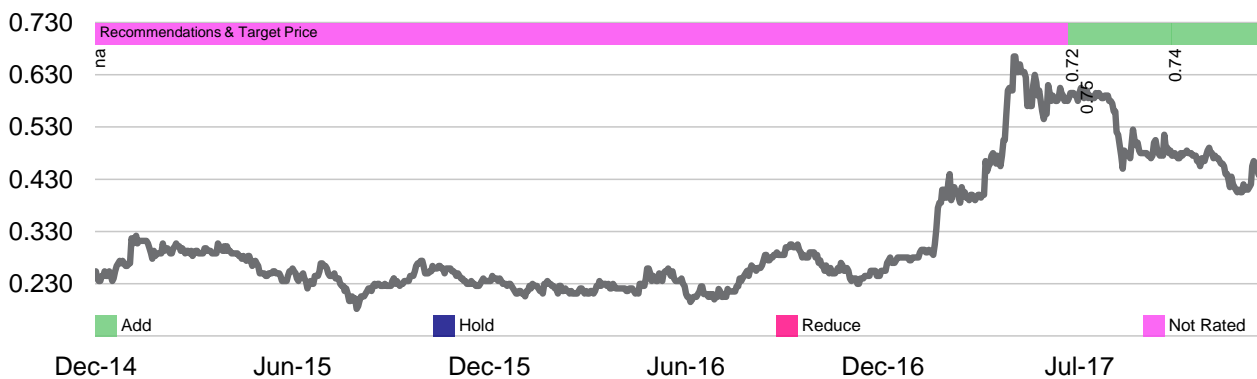
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2017		
1285 companies under coverage for quarter ended on 30 September 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	53.5%	4.3%
Hold	35.9%	2.6%
Reduce	9.7%	0.2%

Spitzer Chart for stock being researched (2 year data)

Dagang NeXchange (DNEX MK)

— Price Close



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, **TIPIP** – 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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CIMB Recommendation Framework

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- 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.

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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:

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- 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.