

Company Name : Destini Berhad
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 Source : The Edge Financial Daily

Destini expected to generate more RMAF MRO revenue

Destini Bhd
 (April 23, 44 sen)

Maintain add with a higher target price (TP) of 80 sen: Last Thursday evening, Destini Bhd announced that it had accepted a letter of award from the defence ministry for a RM138 million contract to provide maintenance, repair and overhaul (MRO) services and to supply safety and survival equipment to the Royal Malaysian Air Force (RMAF). This is in addition to an existing RM98.2 million MRO contract.

This is a positive surprise to us as the company at end-2016 already secured from the ministry an extension to its contract to provide MRO services to the RMAF. The three-year RM98.2 million contract runs from October 2016 to October 2019.

We understand that Destini is currently providing around RM100 million of MRO work for RMAF annually although the RMAF contract is valued at only RM98.2 million over three years. With the award of an additional RM138 million, we believe Destini should be generating even more RMAF MRO revenue from now on.

With this development, we raise our assumption for RMAF MRO services revenue from RM100 million annually to RM130 million annually from this year onwards. We estimate that the pre-tax profit margin for MRO work is attractive for Destini, at 20% to 25%.

In early April, Destini announced it was awarded a two-year umbrella contract by Petronas

Destini Bhd

FYE DEC (RM MIL)	2016A	2017A	2018F	2019F	2020F
Revenue	354.8	685.6	555.0	586.0	650.0
Operating Ebitda	61.17	53.60	76.97	88.55	94.64
Net profit	33.04	30.60	44.95	52.80	57.60
Core EPS (RM)	0.029	0.026	0.039	0.046	0.050
Core EPS growth (%)	56.1	(7.4)	46.9	17.5	9.1
FD core P/E (x)	15.56	16.80	11.44	9.74	8.92
EV/Ebitda (x)	9.37	11.87	7.77	6.41	5.29
P/FCFE (x)	NA	NA	7.46	8.19	6.85
Net gearing (%)	12.6	24.6	15.4	8.7	(1.8)
P/BV (x)	1.07	1.00	0.92	0.84	0.77
ROE (%)	7.94	6.16	8.41	9.05	9.02
% Change in core					
EPS estimates			10.3	8.6	7.9
CIMB/consensus EPS (x)			1.11	1.09	

Sources: CIMB Research, company reports

Carigali Sdn Bhd for the provision of well abandonment integrated services. However, the letter of award and umbrella contract do not constitute commitment by Petronas Carigali to guarantee any jobs for Destini. We believe Destini stands a good chance of securing at least part of the job. We understand a few other parties were also shortlisted for this job but we believe only Destini has the experience, having completed a similar job in 2016.

We are of the view that Destini's well abandonment services division has great long-term potential. According to the company's annual report, 65% of Malaysia's 300 platforms are older than the typical platform, which has a life cycle of 25 years. This shows the

long-term potential of Destini's well abandonment services.

We raise our financial year 2018 forecast (FY18F) to FY20F earnings per share by 7.9% to 10.3% to reflect likely higher RMAF MRO revenue from this year. This lifts our target price from 74 sen to 80 sen, still based on 17.6 times 2019 forecast price-earnings ratio (PER), a 20% discount to our target price basis of 22 times 2019 forecast PER for Singapore's ST Engineering to reflect Destini's small market cap. Potential rerating catalysts are the securing of MRO jobs from KTM and more military vessel construction jobs. Risks to our call are delays in completing the construction of its military vessels. — CGSCIMB Research, April 23