Company Name **: Destini Berhad**
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CGS-CIMB Sees Destini’s FY21-22F Profitable On More Job Wins But Maintains ‘Reduce’ On Valuation

KUALA LUMPUR (July 14): CGS-CIMB has maintained its "reduce" call for Destini Bhd but increased its target price (TP) to 12 sen (previously 11 sen) based on a 0.6 times calendar year 2021 forecast (CY21F) price-to-book value (P/BV) after revising its forecasts for the financial year ending Dec 31, 2021 (FY21F) and FY22F to put the integrated engineering solutions provider in a profitable position, underpinned by higher revenue, as the research house assumed that there would be more job wins in the aviation and oil and gas (O&G) segments.

In a note today, CGS-CIMB analyst Kamarul Anwar said Destini had announced two contract wins. The first was a three-year subcontract worth RM17.4 million for the commercial development of GrenePark Village in Semenyih, Selangor, which was awarded by Wira Syukur (M) Sdn Bhd .

The second contract concerns its defence aviation unit, Destini Prima Sdn Bhd, in providing non-proprietary aircraft parts to the Royal Malaysian Air Force (RMAF). The three year-contract has a combined ceiling of RM121 million.

“We now reiterate our earlier optimism about Destini’s O&G venture, which mainly provides tubular handling and offshore decommissioning services.

“The 2020 oil price cash may only defer Malaysian oil corporation Petroliam Nasional Bhd’s (Petronas) plans for offshore decommissioning — instead of axing them altogether.”

“Most of the 300 oil platforms in Malaysia’s waters have been operating for more than 40 years, according to legal firm Skrine. However, Destini said only a handful of those had been successfully decommissioned.”

Kamarul said in a meeting, Destini reaffirmed that its largest shareholder and managing director Datuk Rozabil Abdul Rahman — an active member of Umno — would keep his political work separate from Destini.

Kamarul said CGS-CIMB had opined that upside risks to Destini lie in winning more government contracts.

More maintenance, repair and operating supply (MRO) work for commercial aviation should also help the group, but chances may be tepid because of lack of air travel in the Covid-19 era.

"Note that our FY21-22F earnings revision hinges on new contract wins. Without them, Destini is likely to stay in the red. A possible snap election may also put Destini's earnings in jeopardy," he warned.

About 70% of Destini's revenue comes from government-related contracts, and a change in administration in Putrajaya may bring policy changes that could affect its financials — just like what the group's defence segment experienced after Pakatan Harapan took over, he said.

Kamarul also raised the question of how Destini's cash flow would fare after the movement control order (MCO) period in Malaysia and the lockdown in China, noting that there could be trouble if it remains in an operating cash flow deficit after the first quarter of 2020 (1Q20).

The group, however, had said that its recent share placement should be sufficient for its immediate working capital needs.

For the first two tranches of the share placement, nearly half of the RM15.2 million proceeds were used for working capital.

A total of RM5.7 million was used to pare down debts, with the remainder (RM280,000) spent on the placement's expenses.

“In the unfortunate scenario that its cash flow remains tight, we believe there would be little room left for the group to trim its operating cost. Based on our channel checks, Destini has instituted aggressive salary reductions on a group-wide level. “

At 10.25am today, Destini had shed half a sen or 2.56% to 19 sen, with a market capitalisation of RM239.9 million. The stock saw some 935,000 shares traded.