

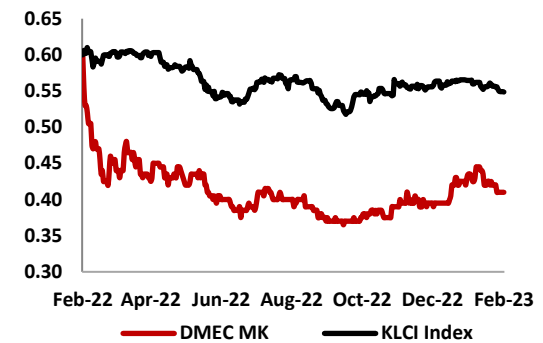
Dancomech Holdings Berhad (DMEC MK) **Inline** A Record Full Year 2022

- **Overview.** Dancomech Holdings Berhad (Dancomech) 4Q22's core profit rose by 14% YoY to RM6.4mn despite reporting a 5% decline in revenue. The increase in core profit was backed by higher contribution from the trading segment on the back of solid profit margin of >30%.
- **Key highlights.** Metal Stamping business drove Dancomech revenue in 4Q22, up by 29% YoY to RM33.8mn (represents 55% of overall sales) owing to strong demand for air conditioner products.
- **Against estimates: Inline.** Dancomech posted record RM18mn in core profit (+11% Yoy), thanks to higher contributions from Trading, Metal Stamping, and E&E Engineering. Overall, the 12M22 core profit was broadly in line with our estimate at 106%.
- **Earnings revision.** We revised up 2023F/2024F core profit forecast by 8%/ 8% after some housekeeping adjustments.
- **Outlook.** We are sanguine on Dancomech's business prospects in 2023 to be driven by robust outlook within its Trading, Metal Stamping, and E&E Engineering divisions. Given positive contribution from the acquisition business; Metal Stamping and E&E Engineering, management is planning to continue exploring further opportunities and business collaborations to enhance its profitability in the long term.
- **Our call.** Upgrade our call on Dancomech to a **BUY** from a **HOLD** at a higher **TP** of **RM0.47**, pegged at 10.5x PER to FY23 EPS of 4.4 sen.

BUY

Share Price **RM0.41**
Target Price **RM0.47 +13.9%**

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(5.7)	5.1	(28.3)
vs FBM KLCI	(3.0)	7.4	(25.3)

Stock Data

Mkt Cap (RM)	181.4
Free float (%)	56.0
Issued shares (m)	442.6
52w H/L (RM)	0.60 / 0.36
3m avg daily volume (m)	648,137

Major Shareholders (%)

ABC Equity	33.4
Aik Cwo Shing	5.4
Aik Swee Tong	5.3

Afifah Abdul Malek

afifah@bimbsec.com.my
(603) 2613 1740

Table 1: Quarterly figures

Dancomech FYE 31 Dec (RM m)	Quarterly			Change (%)		Cumulative		YTD (%)	BIMB	
	4Q21	3Q22	4Q22	QoQ	YoY	2021	2022		2022F	12M/F
Revenue	64.2	56.5	61.0	8.1	-5.0	205.4	212.0	3.2	207.4	102%
Net opex	(54.6)	(48.3)	(50.9)	5.4	-6.7	(177.7)	(182.4)	2.7	(179.7)	102%
EBITDA	9.6	8.2	10.1	23.8	4.9	27.8	29.6	6.6	27.8	107%
Depreciation	(0.9)	(0.9)	(1.3)	47.8	48.4	(1.9)	(3.9)	102.2	(3.3)	117%
EBIT	8.7	7.2	8.8	20.8	0.3	25.9	25.7	-0.5	24.4	105%
Net finance	0.0	0.0	0.4	44300.	1676.0	0.6	1.0	80.8	0.8	131%
Associate	(0.0)	(0.0)	0.0	-180.8	-180.8	(0.1)	(0.0)	-96.1	0.0	n.a
Exceptional item	(0.0)	0.1	0.2	41.0	-925.0	0.3	0.2	-38.2	0.0	n.a
PBT	8.7	7.3	9.4	27.9	7.8	26.6	26.9	1.3	25.2	107%
Taxation	(1.9)	(1.9)	(3.3)	76.4	75.9	(6.4)	(7.8)	20.7	(6.3)	124%
PAT	6.8	5.5	6.1	11.5	-10.7	20.1	19.1	-4.9	18.9	101%
Minority interest	1.3	0.6	(0.4)	-168.6	-133.6	3.5	0.9	-73.5	1.9	50%
PATMI	5.6	4.8	6.5	34.9	17.8	16.6	18.2	9.7	17.1	107%
Core PATMI	5.6	4.7	6.4	34.7	14.4	16.3	18.0	10.5	17.1	106%
Core EPS (sen)	1.69	1.07	1.44	34.7	-14.7	5.14	4.33	-15.8	3.86	112%
Dividend declared (sen)	1.3	0.0	1.3	#DIV/0	0.0	2.0	2.0	0.0	1.5	130%
				Chg (ppts)				Chg (ppts)		
EBITDA margin (%)	15.0	14.4	16.5	2.1	1.6	13.5	14.0	0.4	13.4	
EBIT margin (%)	13.6	12.8	14.3	1.5	0.8	12.6	12.1	-0.5	11.8	
PBT margin (%)	13.5	13.0	15.4	2.4	1.8	12.9	12.7	-0.2	12.1	
Core PATMI margin (%)	8.7	8.4	10.4	2.1	1.8	7.9	8.5	0.6	8.2	
Effective tax rate (%)	21.4	25.3	34.9	9.6	13.5	24.3	28.9	4.6	24.9	

Source: BIMB Securities, Company

Table 2: Revenue Breakdown by Segment

Segment (RM mn)	4Q21	3Q22	4Q22	QoQ	YoY	2021	2022	YTD Chg
Trading	21.9	19.2	23.7	23%	8%	82.7	76.4	-8%
Revenue breakdown	34%	33%	38%	5%	5%	40%	36%	-3%
Pump Manufacturing	1.1	1.5	1.3	-12%	14%	4.3	4.8	11%
Revenue breakdown	2%	3%	2%	0%	0%	2%	2%	0%
MHS Solutions	12.1	0.0	0.0	n.a	n.a	36.3	0.0	n.a
Revenue breakdown	19%	0%	0%	0%	-19%	17%	0%	-17%
Metal Stamping	26.2	34.6	33.8	-2%	29%	77.5	124.7	61%
Revenue breakdown	40%	60%	55%	-5%	14%	37%	59%	22%
E&E Engineering	3.7	2.3	3.2	34%	-15%	7.9	4.5	-43%
Revenue breakdown	6%	4%	5%	1%	-1%	4%	2%	-2%

Source: Company, BIMB Securities

Table 3: Earnings Forecast

FYE Dec (RM mn)	2020	2021	2022	2023F	2024F
Turnover	119	205	212	228	245
EBITDA	21	28	30	31	34
Pre-tax profit	21	27	27	28	31
Core Profit	16	16	18	20	22
Consensus				19	22
EPS (sen)	3.5	3.7	4.1	4.4	5.0
PER (x)	11.7	11.1	10.1	9.2	8.2
DPS (sen)	2.0	2.0	2.0	2.0	2.0
Div. Yield (%)	4.9	4.9	4.9	4.9	4.9
P/B (x)	1.2	1.0	0.8	0.8	0.7
Key Ratios (%)					
ROE	11.1	10.3	9.0	9.3	9.8
EBITDA margin	17.9	13.8	14.2	13.6	13.9
Pre-tax margin	18.0	12.9	12.7	12.1	12.5
Eff. tax rate	13.1	7.9	8.5	8.6	9.0
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

This report has been prepared by BIMB Securities pursuant to the Research Incentive Program under Bursa Research Incentive Scheme ("Bursa RISE") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report. This report has been prepared for information and educational purposes only and are not recommendation or endorsement to sell or solicitation to buy any securities, subscription of financial products or otherwise to be taken as investment advice of any form or kind and neither should be relied upon as such. The information herein was obtained or derived from publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that all information and data are accurate and the opinions are fair and reasonable, we do not represent or warrant their accuracy, timeliness, completeness and currentness or applicability of such information for any particular purpose. The investments advice or idea discussed or recommended in this report may not be suitable for all investors. Any recommendation presented in this report is general in nature and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this report. The investors are advised to conduct own research and seek independent professional advice prior to taking any investment or investment related decisions. The directors and employees of BIMB Securities Sdn Bhd and BIMB Group of Company may from time to time have a position in or either the securities mentioned or may provide services to any company and affiliates of such companies whose securities are mentioned herein. BIMB Securities Sdn Bhd and BIMB Group of Company accept no liability for any direct, indirect or consequential losses, claims and damages arising from any use of this report.

Printed and published by**BIMB SECURITIES SDN BHD (290163-X)**

A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,

No. 8 Jalan Munshi Abdullah,

50100 Kuala Lumpur

Tel: 03-2613 1600 Fax: 03-2613 1799

<http://www.bimbsec.com.my>

Dr Rosnani Rasul
Head of Research