<u>Dyna-Mac Holdings Ltd. 1H2024 Results Briefing</u>

Transcript of the Question & Answer Session

7 August 2024, 10.00am, The Executive Center Level 37A & 37B Ocean Financial Center, 10 Collyer Quay, Singapore 049315

Q: Referring to your last slide, it mentioned about plants' maintenance and turn around, but Dyna-Mac is in petrochemical business?

We have received very strong inquiry on semiconductors. People now want to change how things work because of the geopolitical tension whereby they are trying to move up production from somewhere to US, for example, but US labour cost is very high, and so they think of doing the Lego block modular style. We got inquiry for semiconductor, pharmaceutical as well as construction infrastructure for this reason. Today we have clients asking us if Dyna-Mac can work on that but we have to be very careful because if we want to build up the onshore, we have to build up more capacity.
But this one back to your question, we are still very focused in petrochemical modules which we are very familiar with.

Q: Can you comment on your payment terms?

In 2020, we relied on bank guarantees to secure project milestones, reflecting our position where we faced financial difficulties. Recognising the need to stabilise our operations, we proactively engaged with our clients and bankers to negotiate better payment terms. This effort significantly improved our cash flow, thanks to the cooperation and support of our banking partners and clients.

We value the trust placed in us and do not take these improved payment terms for granted. Our commitment remains strong towards executing projects efficiently and delivering high-quality work, which is crucial for maintaining these favourable payment terms.

Q: Can you provide some colour on your margins, and if there is further upside?

Our strategy for improving net margins focuses primarily on reducing overheads and operating costs. This approach has enabled us to sustainably increase our revenue and achieve a current net margin of 15% (for 1H2024), which is considered excellent within our industry, especially given our low-risk reimbursement model. For context, a net margin of 8% is generally satisfactory.

There is potential for further margin improvement through our ongoing efforts to optimise every aspect of our operations.

Q: Can you explain the technology used to further your growth story?

We adhere to a back-to-basics approach by investing in the maintenance of our machinery to ensure optimal operation. Each decision to upgrade equipment is carefully evaluated to ensure expenditures are judiciously made, supporting sustained business performance.

These initiatives are crucial in enhancing productivity levels and reducing manpower hours. We believe that significant spending on robotics is not necessary to improve our operations, as strategic maintenance and upgrades are sufficient to meet our efficiency goals.

Q: Can you provide some visibility into the recognition of your order book, future revenue, and order wins?

Unfortunately, we are unable to provide any forward-looking statements. We will only disclose relevant information when available.

Q: Can you walk me through the time taken to construct a topside module?

The construction of a topside module for an FPSO begins with the construction of a hull. The hull construction is relatively standardised and typically takes a year. For topside module fabrication, the construction time varies between as short as four months to up to 24 months.

Q: What is Dyna-Mac's plans for capital allocation?

Dyna-Mac is committed to strategic capital allocation to ensure sustained growth and shareholder value. Our approach includes continuous reinvestment in the business, specifically in productivity-enhancing measures such as yard development which is ongoing in our Singapore yards. Notably, our clients contribute to our capex expenditures, which helps manage our investment levels effectively.

We are also open to exploring strategic initiatives, including M&As, provided they offer reasonable valuation, potential synergies with our existing operations, and provide recurring income. Such potential targets include plants' servicing maintenance and turnaround related to petrochemicals. However, we maintain a cautious approach to ensure we do not overpay.

The Company does not have a fixed dividend policy, the Company is targeting to distribute 25%-30% of our net profits. Additionally, we maintain a substantial net cash position of S$308 million, only strategically deploying funds in opportunities that we believe will deliver significant long-term shareholder value.

Q: Can you provide some insights on your order book?

Dyna-Mac maintains a strong and strategic approach to its order book, which currently stands at S$681 million, with visibility extending over the upcoming years. Our focus remains on selecting projects that ensure a healthy cash flow, aligning with our financial stability and strategic growth objectives.

Currently, our order book is poised for further expansion, with future projects related to blue hydrogen and ammonia expecting to contribute to greater growth. We are strategically positioned with S$308 million of net cash, which provides us with the flexibility to pursue potential strategic initiatives, including M&As. These initiatives are aimed at generating recurring income and further expanding our business and order book.

Our approach to the expansion of the order book is measured – we prioritise steady growth to avoid the pitfalls of overexpansion, such as increased errors. To this end, we are heavily investing in enhancing productivity and training of our staff, especially in middle management.

This focus on internal development is crucial as it prepares our team to effectively seize opportunities and sustainably grow our order book in the near to medium term.

Q: Can you provide some insights as to why Dyna-Mac is able to negotiate low-risk reimbursement models as opposed to EPC models?

Dyna-Mac's ability to negotiate low-risk reimbursement contracts stems from our strong track record in safety, quality, and execution, which aligns with the high standards required by oil majors.

Safety: We have seen significant improvements in safety, with LTI rates dropping from 7 per month in 2020 to 0 in 2024 for all projects in the past 4 years. This huge improvement is largely due to our regular, bi-weekly payment practices for contractors, fostering financial stability and morale among workers. Regular visits to worker dormitories and maintaining a consistent workforce also contribute to familiarity with job scopes, reducing errors and injuries.

Quality: Through the Covid-19 pandemic, we consistently delivered our projects on schedule without claiming force majeure. Our ability to complete projects with zero carryover work underscores the high quality of our workforce, which is highly valued by oil majors.

Execution: During the pandemic, we proactively coordinated with governments and oil majors regarding work arrangements, absorbing upfront costs and expanding our workforce to ensure the delivery of high-quality services. This approach was recognised and financially compensated by clients like Exxon, who valued the speed and quality of our execution over the cost.

These factors, combined with our commitment to operational efficiency and fair pricing, have enhanced our financial performance and solidified our reputation, allowing us to secure good contracts from oil majors based on reimbursement models.

Q: What is the competitive advantage of being a pure-play versus an integrated player in your industry, and who are your main competitors?

Dyna-Mac is a pure-play entity with a focus on module fabrication, unlike integrated players such as Seatrium, Daewoo and COSCO, who engage in a broader range of products and services. This specialisation affords us several key advantages, including enhanced efficiency, speed, and quality, which are crucial for delivering highly customised modules.

The business model of integrated players typically involves undertaking extensive EPC contracts, necessitated by their higher overhead costs, which often leads them to opt for lump-sum contracts. In contrast, our focus as a pure-play allows us to engage in reimbursement contracts. They have expertise in their area of operations, which is integrated work, while we focus on module fabrication.

Dyna-Mac is the only dedicated fabricator left in Singapore. Our true competitors are the Chinese firms such as PJOE and Bomesc. PJOE is currently under sanction over their Russian project.

Q: For FPSO topsides, can you share some insights on the current FPSO market cycle?

There is a pivotal shift from the traditional lease and operate model to an EPC model. This change is driven by the challenging financing landscape, characterised by limited accessibility to bank loans and high interest rates ranging from 7-15%, making the EPC model more cost-effective for oil majors. Additionally, the strategic focus on developing larger oil fields in regions like West Africa, Brazil and Guyana necessitates the use of larger topside FPSO modules.

Regulatory frameworks and economic incentives also led to a strong push for the construction of newbuild FPSOs over conversions, further stimulating the market. Supply issues due to a lack of skilled contractors also strengthen the industry conditions for FPSOs and its related topside modules.

Looking ahead, within the next five years, we believe that the FPSO market is poised for sustained growth. This projection is supported by the lengthy preparation period for FPSOs, typically up to four years before achieving first oil. Robust industry data and industry talk give good visibility, underlining a healthy pipeline and promising supply / demand dynamics, which also affirm a growth trajectory for the near to medium term.

Q: Moving forward, how will Dyna-Mac utilise its excess capacity?

Dyna-Mac's current capacity supports both onshore and FPSO topside module production. Our yards in Singapore are currently contracted for a new project by an oil major. While our present order book predominantly features FPSO projects, we are strategising to increase the share of onshore modules, including exotic pipes, in our Singapore operations. To ensure comprehensive fulfilment of contracts for both module types, we are actively exploring the possibility of leveraging capacities through outsourcing and partnerships in other regions, such as China.

Q: Can you share some information regarding the onshore side of things for Dyna-Mac?

Demand for FPSO topside modules is escalating more rapidly than we can expand our operational capacity. Yet, we remain selective in the contracts we accept, ensuring we only commit to those we are confident in executing and delivering.

Our operational capacity is not merely about land space or skilled manpower; it critically depends on the availability and capability of our middle management and leadership team. While we are actively growing these teams, it is essential to pace their expansion to manage risks effectively, especially as they operate not just in Singapore, but also in other regions like the Middle East and China.

Dyna-Mac is particularly focused on developing onshore modules for blue hydrogen, ammonia, and LNG, which are larger in scale compared to FPSO topside modules. We are actively evaluating strategic initiatives to bolster our operating capacity across both onshore and topside modules, aiming to enhance our operational and financial performance in the current and future landscape.

Q: Can you share some information regarding the transformation of Dyna-Mac's approach towards topside modules?

Dyna-Mac has strategically chosen to focus on reimbursement contracts rather than lump-sum EPC contracts, minimising our risk exposure by ensuring we are compensated for every component, even if delays occur.

We avoid non-profitable segments like floating wind, focusing on contracts that generate profits and ensure cash flows. Our approach includes negotiating directly with our clients, which maintains control over contract terms and profitability. Additionally, geopolitical tensions in China have created favourable conditions for us in the Asia-Pacific region, bolstering our business and financial performance.

Q: How does payment occur for the Exxon Liza Unity project; does Exxon pay Dyna-Mac directly, or is payment processed through SBM Offshore?

For project like the Exxon Liza Unity (FPSO topside modules contracts) where an operator is involved, the contract is awarded by the operator to Dyna-Mac.

Q: What are the standard payment terms agreed upon when commissioning an FPSO module?

The standard payment terms for commissioning an FPSO module involve a 30-day payment period that aligns with specific, agreed-upon project milestones. This arrangement is designed to ensure positive cash flow throughout the duration of the project, supporting financial stability and operational efficiency.

Q: Could you provide more details regarding the pricing strategy? It's noted as 'cost-plus'; can you confirm and elaborate on this?

Indeed, for certain projects, Dyna-Mac adopts a cost-plus pricing strategy. This method applies particularly to some of the materials and involves charging the costs incurred plus an agreed-upon profit margin. This strategy not only guards against price volatility but also ensures transparency for our clients, aligning with best practices in financial management and managing client relationships.