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Company Update

Serba Dinamik

 SDH MK
Sector: Oil & Gas

RM2.16 @ 18 August 2017
BUY (maintain)

Upside: +27%

Price Target: RM2.75

Previous Target: RM2.40



Price Performance

	1M	3M	12M
Absolute	16.1%	5.9%	n.a
Rel to KLCI	14.7%	5.3%	n.a

Stock Data

Issued shares (m)	1,335.0
Mkt cap (RMm)/(US\$m)	2883.6/672.2
Avg daily vol - 6mth (m)	4.9
52-wk range (RM)	1.51-2.3
Est free float	31.5%
BV per share (RM)	0.76
P/BV (x)	2.84
Net cash/(debt) (2Q17)	(206.3)
ROE (2018E)	21.5%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Dato Abdul Karim	26.2%
Haji Abdul Kadier	20.8%
EPF	5.3%

Source: Affin Hwang, Bloomberg

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Setting footprint...

Serba Dinamik announced that it will be developing a Pengerang Integrated Development Complex which will be located close to Petronas' Pengerang Integrated Petroleum Complex. We are positive with this news as the proposed development once completed will serve as a one-stop hub as management envisions the uprising demand for plant maintenance services for Petronas' US\$27bn petrochemical complex and refinery. We continue to like Serba for its strong earnings prospect. Maintain BUY with a higher 12-month TP at RM2.75.

Project overview

The proposed Pengerang Integrated Development project will occupy a total land size of 132 acres, which can be segregated into 3 portions - Pengerang Eco-Industrial Park (PEIP), Pengerang International Commercial Centre (PICC) and Northshore Residence. Serba will be acting as the main EPCC contractor for the overall project and construction is expected to commence in 2018.

First and second part – PEIP & PICC (100% stake)

Management has signed a memorandum of understanding to purchase 16 acres of land from Izin Budi Sdn Bhd for a purchase consideration of c.RM25m. The remaining 47 acres land will be paid for a price based on 7% of total GDV or about RM56m. Serba intends to build its maintenance, repair or overhaul (MRO) and inspection, repair & maintenance (IRM) centres to service the petrochemical complex and refinery once they are fully operational from 2H19 onwards. Total gross development costs (GDC) for both projects work out to be RM666m, which Serba owns a 100% stake. Serba is expected to complete the project in 2020 and 2021, respectively.

Third part – Northshore residence (30% stake)

For the Northshore residence which Serba hold a 30% stake, total GDC is valued at RM511m, which is expected to be completed in 2 phases (Phase 1: 2020, Phase 2: 2022). AIMurisi Holding Sdn Bhd, which owns the remaining 70% stake, will be injecting the land. Based on our estimate, Serba's project funding works out to be RM655m based on 80:20 debt-to-equity ratio. We understand that the group is in the midst of finalising the necessary funding for the entire project. With current gearing level at 0.16x, this gives Serba ample room to leverage up its balance sheet.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	1,402.9	2,168.3	2,598.1	3,015.7	3,573.1
EBITDA (RMm)	211.4	352.8	427.0	504.1	625.3
Pretax profit (RMm)	157.0	267.9	314.4	362.1	415.3
Net profit (RMm)	154.1	246.1	291.3	334.2	383.6
EPS (sen)	11.5	18.4	21.8	25.0	28.7
PER (x)	18.7	11.7	9.9	8.6	7.5
Core net profit (RMm)	155.5	246.1	291.3	334.2	383.6
Core EPS (sen)	11.6	18.4	21.8	25.0	28.7
Core EPS growth (%)	143.8	58.3	18.4	14.7	14.8
Core PER (x)	18.5	11.7	9.9	8.6	7.5
Net DPS (sen)	-	-	5.5	7.5	8.6
Dividend Yield (%)	-	-	2.5	3.5	4.0
EV/EBITDA (x)	15.0	7.2	7.2	6.8	6.0
Chg in EPS (%)			-	+1.0	+0.5
Affin/Consensus (%)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

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P&L impact only from 43% of total GDC

Based on our assessment, the reported GDC value of RM1.2bn will not fully translate to earnings for Serba. For the PEIP and PICC projects, which Serba holds 100% stakes, the total GDC being recognised will be capitalised under PPE (balance sheet item). Hence, no earnings impact in the P&L. The income derived from the project will either be via sales or rental proceeds upon completion of the construction.

On the other hand, the only construction value that has a P&L impact will be coming from Northshore Residence, which Serba holds a 30% stake. This works out to RM511m in contract value, which fall under our FY18E orderbook replenishment assumption. Based on building works PBT margin of 10%, we estimate the Northshore Residence will contribute RM51m earnings over 4 years period. We expect Serba’s 30% stake share of property development profit from the sales of property to commence only from 2020 onwards, once first phase work has been completed.

Turning more positive on future EPCC replenishment

We did a minor adjustment to our FY18-19E earnings estimate to factor in another RM500m orderbook replenishment as our current assumption has already been met following the announcement of this construction work. However, earnings upside from the additional replenishment is partly offset by the expected higher finance cost moving forward as Serba raise more financing for this proposed project. We also expect capex spending to doubled to RM400m in FY18 against our RM200m estimates in FY17.

BUY Serba; TP lifted to RM2.75

We maintain our **BUY** call with higher TP of RM2.75 as we roll forward our valuation year to 2018E, based on unchanged PER of 11x.

Key risks to our call

Downside to our BUY call includes: 1) unforeseen delays for the client maintenance schedule, and 2) margin deterioration.

Fig 1: Breakdown of project details



Source: Company

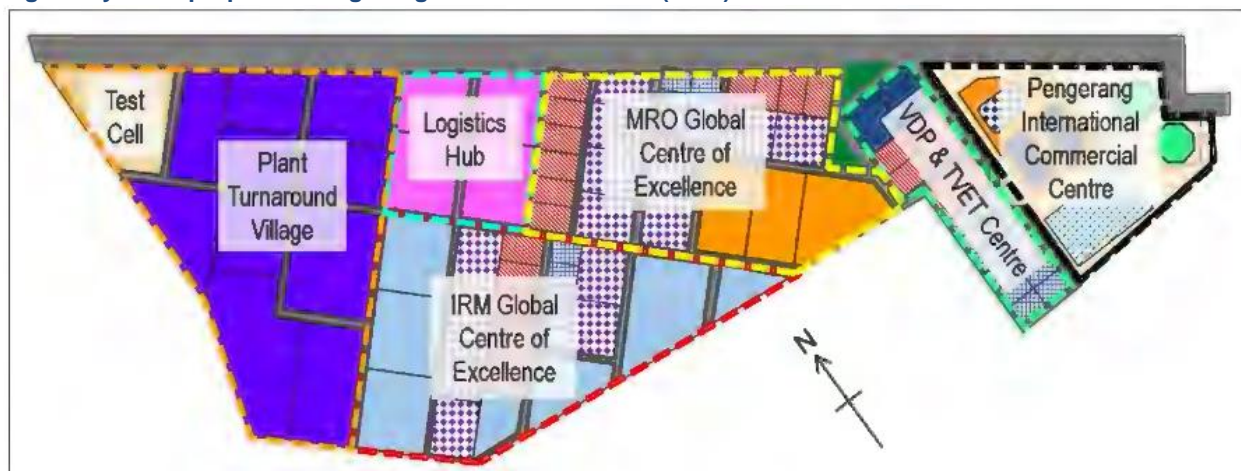
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Fig 2: Location of Serba's Pengerang Integrated Development



Source: Company

Fig 3: Layout of proposed Pengerang Eco-Industrial Park (PEIP)



Source: Company

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Fig 4: Project details

Serba Dinamik's Pengerang Integrated Development Project	
Land owner	Serba Dinamik
Project manager	Perisind Samudra
EPCC contractor	Serba Dinamik
Total Projected GDV (RMm)	1,400
Pengerang Eco-Industrial Park (PEIP)	308.9
- MRO and IRM Global Centre of Excellence	
- Plant Turnaround Village	
Pengerang International Commercial Centre (PICC)	494.2
- Retail, commercial and hospitality (ie: office towers, service apartment, conference and banquet halls, education/training lecture halls/classroom)	
Pengerang Northshore Residence	593.0
- Mixed residential and commercial	
Estimated cost of construction (RMm)	1,180
PEIP and PICC	62
Pengerang Northshore Residence	70
Total Land Size (acres)	132
Commencement of Construction	2018

Source: Company

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Serba Dinamik – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RM m)	2015	2016	2017E	2018E	2019E
Revenue	1,403	2,168	2,598	3,016	3,573
Operating expenses	-1,192	-1,816	-2,171	-2,512	-2,948
EBITDA	211	353	427	504	625
Depreciation	-28	-50	-69	-91	-132
EBIT	183	303	358	413	493
Net int income/(expense)	-25	-35	-43	-51	-78
Exceptional gains/(losses)	-1	0	0	0	0
Associates' contribution	0	0	0	0	0
Pretax profit	157	268	314	362	415
Tax	-3	-22	-22	-25	-29
Minority interest	0	0	-1	-3	-3
Net profit	154	246	291	334	384
Core net profit	155	246	291	334	384

Balance Sheet Statement

FYE 31 Dec (RM m)	2015	2016	2017E	2018E	2019E
Fixed assets	349	490	621	929	1,297
Other long term assets	17	17	17	17	17
Total non-current assets	366	507	638	946	1,314
Cash and equivalents	225	240	684	726	821
Stocks	230	486	527	680	805
Debtors	431	741	783	991	1,175
Other current assets	7	12	12	12	12
Total current assets	893	1,480	2,006	2,410	2,813
Creditors	239	501	469	544	644
Short term borrowings	441	623	687	737	787
Other current liabilities	1	14	14	14	14
Total current liabilities	681	1,139	1,169	1,295	1,445
Long term borrowings	32	16	16	366	716
Other long term liabilities	69	15	15	15	15
Total long term liab.	102	31	31	381	731
Shareholders' Funds	468	809	1,435	1,669	1,937
Minority Interest	7	8	9	12	14

Cash Flow Statement

FYE 31 Dec (RM m)	2015	2016*	2017E	2018E	2019E
Pretax Profit	160	167	314	362	415
Depreciation & amortisation	28	33	69	91	132
Working capital changes	-57	-176	-115	-286	-208
Cash tax paid	4	0	-22	-25	-29
Others	24	33	-4	-13	-13
C/F from operation	159	56	243	130	297
Capex	-235	-110	-200	-400	-500
Others	-37	34	4	13	13
C/F from investing	-272	-75	-196	-387	-487
Debt raised/(repaid)	240	82	63	400	400
Dividends paid	-1	0	-73	-100	-115
Others	-28	-19	407	0	0
C/F from financing	212	63	398	300	285
Net change in cash flow	98	44	444	42	95

Free Cash Flow -77 -53 43 -270 -203

* Reported cash flow figures are effective from 25 May 16 - 31 Dec 16 due to change in new reporting entity to Serba Dinamik Holdings (previously Serba Dinamik Group)

Source: Company, Affin Hwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RM m)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	85.6	54.6	19.8	16.1	18.5
EBITDA (%)	110.0	66.9	21.0	18.1	24.0
Core net profit (%)	143.8	58.3	18.4	14.7	14.8
Profitability					
EBITDA margin (%)	15.1	16.3	16.4	16.7	17.5
PBT margin (%)	11.2	12.4	12.1	12.0	11.6
Net profit margin (%)	11.0	11.4	11.2	11.1	10.7
Effective tax rate (%)	1.9	8.3	7.0	7.0	7.0
ROA (%)	16.2	15.2	12.6	11.1	10.3
Core ROE (%)	41.7	38.5	26.0	21.5	21.3
ROCE (%)	25.8	25.3	19.9	16.8	15.9
Dividend payout ratio (%)	0.0	0.0	25.0	30.0	30.0

Liquidity

Current ratio (x)	1.3	1.3	1.7	1.9	1.9
Op. cash flow (RM m)	159	56	243	130	297
Free cashflow (RM m)	-77	-53	43	-270	-203
FCF/share (sen)	-5.8	-4.0	3.2	-20.3	-15.2

Asset management

Debtors turnover (days)	112.1	124.8	110.0	120.0	120.0
Stock turnover (days)	70.4	97.8	88.6	98.9	99.7
Creditors turnover (days)	73.2	100.7	78.8	79.1	79.7

Capital structure

Net gearing (%)	53%	49%	1%	23%	35%
Interest cover (x)	8.4	12.4	9.9	10.0	8.0

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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