IPO Memo

Serba Dinamik

Sector: Oil & Gas

Non Rated

Retail IPO price: RM1.50

Fair Value: RM2.13–2.37bn
*Price Range: RM1.60–1.77

based on enlarged share of 1,335m

Dynamite O&M solution provider

With a strong presence both domestically and overseas, Serba Dinamik (SERBA) is an engineering solutions provider to the oil and gas (O&G) and power generation industries. SERBA is principally involved in operation and maintenance (O&M) business, as well as engineering, procurement, construction and commissioning (EPCC) and provision of technical training, ICT solutions and supply of products and parts. As guided by key management, the group's silver lining is that 60% of revenue are exposed to downstream segment, which is less vulnerable as compared to upstream. Based on our estimation, the fair equity valuation is in the range of RM2.13bn–2.37bn which translate to RM1.60–1.77 per share based on enlarged share base of 1,335m.

Main revenue contributor in O&M

Within its O&M business segment, SERBA principally provides maintenance, repair and overhaul (MRO) services for rotating equipment in gas and steam turbines, engines, motors, pumps, compressors and industrial fans. It also provides inspection, repair and maintenance (IRM) services for static equipment and structures (eg: boilers and unfired pressure vessels, piping systems and structures).

46% 3-year earnings CAGR

We project SERBA's core net profit to grow strongly at 46% CAGR over FY13-16E, underpinned by strong O&M segment performance. Notwithstanding, there is still potential for future growth as management is making strategic moves to expand its asset ownership to build recurring income stream. SERBA's five years' vision to have at least 30% of its revenue from recurring stream, while the remaining 70% will be from its current businesses.

Valuation

All in, we like SERBA for (i) its strong management team with vast experience and technical knowledge in the industry, (ii) strong international footprint and track record (iii) promising business growth story. Nonetheless, we think that the current macro environment will likely remain challenging; as such we do not rule out the risk of slowdown in SERBA's work orders. Based on our estimation, the equity valuation is in the range of RM2.13bn–2.37bn. This is derived on targeted PE range of 9-10x over FY17E earnings, in line with PE targets for Malaysia small-mid O&G peers listed on Bursa Malaysia.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	755.8	1,402.9	1,693.0	2,107.9	2,442.6
EBITDA (RMm)	100.7	211.4	265.6	323.7	375.5
Pretax profit (RMm)	67.7	157.0	186.4	241.5	292.6
Net profit (RMm)	63.9	154.1	182.8	236.9	287.0
EPS (sen)	4.8	11.5	13.7	17.7	21.5
PER (x)	31.3	13.0	11.0	8.5	7.0
Core net profit (RMm)	63.8	155.5	182.8	236.9	287.0
Core EPS (sen)	4.8	11.6	13.7	17.7	21.5
Core EPS growth (%)	8.6	143.8	17.6	29.6	21.2
Core PER (x)	31.4	12.9	11.0	8.5	7.0
Net DPS (sen)	-	-	4.1	5.3	6.4
Dividend Yield (%)	-	-	2.7	3.5	4.3
EV/EBITDA (x)	-	-	-	-	-

Source: Company, Affin Hwang estimates
**PE based on indicative price of RM1.50 / EPS and DPS based on enlarged share base of 1,335m*

Details of IPO

Listing date	8 Feb 2017
Share base (m)	
Existing share base	1,063.6
Post IPO enlarged share base	1,335.0
Total no of shares on offer (m)	
New share issues	271.4
Offer for sales	118.0
IPO share for application (%)	
Institutional offering	25.57%
Retail offering	3.60%

Utilisation of proceeds (%)

Expansion of business	73.69%
Working capital	7.20%
Repayment of bank borrowing	14.74%
Listing expenses	4.37%

Source: Affin Hwang, IPO Prospectus

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Business Overview

Company background

Started out as a provider of maintenance, repair and overhaul (MRO) services in 1993…

SERBA has over 23 years experience and track record in providing rotating equipment MRO services, for equipment such as gas and steam turbines, engines, motors, generators, pumps, compressors and industrial fans. Its targeted market segment is generally in the energy industry which includes O&G production platforms, refineries and power plants.

Maintenance services can be separated into schedule maintenance which are carried out at predetermined intervals of time as recommended by rotating equipment manufacturers and unscheduled maintenance which are ad-hoc repair services for specific problems or failures that are unplanned. Type of maintenance work being provided include:

i) **Predictive maintenance** which analyses the asset's condition and determine the timeliness and type of maintenance services that need to be carried out.

ii) **Equipment overhaul** requires the entire equipment to be stripped down to its parts and components for cleaning, repair, reconditioning, replacement and recalibration. Major overhaul is typically performed after 30,000 fired hours which translate to 3-5 years.

iii) **Balancing and alignment** fixes the rotor imbalance and rotating shaft misalignments.

iv) **Replacement and upgrade of parts and components.** SERBA also perform upgrading work on component and parts to improve performance and extend life of rotating equipment (backed by 6-12 months' warranty period).

v) **Maintenance of process control and instrumentation** which functions as a system to execute and control processes in an industrial application or processing of O&G products in refinery or power plant. Meanwhile, instrumentation is the application and usage or derives that detect or measures operating or environmental variables (temperature, pressure, level and flow).

SERBA is currently ranked 3rd in terms of consolidated revenue (based on FY2014 figures) among the Petronas licensed companies for provision of MRO services. According to Department of Occupational Safety and Health (DOSH), any pressure plants will have to be shut down for MRO work every 18 months. SERBA is not restricted to providing MRO services for any specific brand of equipment hence allowing them to have the advantage for a wider range of clients. SERBA also have the capability to perform MRO service of large rotating equipment for:

i) Gas turbines to run generators with output power up to 160MW
ii) Steam turbines to run generators with output power up to 50MW
iii) Generators with output power up to 100MW
iv) Engine with output power up to 28MW
v) Compressors with output power requirement up to 35MW
vi) Pump with output power requirement up to 4.5MW

…expanded into inspection, repair and maintenance (IRM) of static equipment in 1998

Companies involved in repair of steam boilers and unfired pressure vessels with business operation based in Malaysia are required to be certified by DOSH. As required by DOSH, manufacturing plants are required to undergo inspection every 15–21 months to obtain Certificate of Fitness (CoF) renewal. Besides steam boilers and unfired pressure vessel, SERBA also provide IRM on heat exchangers, columns, reactors and separators. IRM scope of work include:

i) Inspection and preparation of repair methods
ii) Liaise with inspection authorities to witness repair work
iii) Chemical cleaning to eliminate scaling and minimise equipment failure
iv) Refractory repairs and modifications to eliminate heat leakage
v) Bore/video scope inspection, hydro jet cleaning, hydro testing, re-tubing
vi) Rehabilitation and repair services for pipelines

Management guided that the order book size is currently RM2.5bn and 70% of this is attributable to the O&M segment. We understand that local contracts are generally over 2+1 years period; while oversea contracts are for 3-4 years period.

Meaningful EPCC expansion in 2007

SERBA's EPCC works include installation of piping systems, rotating and static equipment, power generation equipment and plants, development of infrastructure and construction of amenities and buildings. SERBA is looking to utilise part of its IPO proceeds to upgrade its current fabrication facility in Johor to support EPCC and IRM services. The fabrication facility in Johor is also intended to support works for Petronas' RAPID and Pengerang Integrated Petroleum complex (PIPC) complex. To date, SERBA has been awarded a sub contract work from Petrofac E&C for the supply, fabrication and painting of structural steel for Package 4 worth RM34m. Besides that, the group has recently acquired a fabrication yard located in Bintulu, Sarawak for RM12m.

In addition to the tradition definition of EPCC, SERBA whom holds the exclusivity to Capstone brand micro turbine for Malaysia, Indonesia and Brunei region also fall under EPCC contribution. Currently, 30% of the management guided order book of RM2.5bn (RM750m) is for the EPCC segment.

Cost structure

To better understand the cost components that affect the O&M business, parts, consumables and services (PCS) form major portion of the cost of sales. Out of the 93% PCS, 40% is made out of parts, 40% from manpower while the rest of the 13% are other incidental costs. In terms of forex exposure on cost, we understand from management that if the contracts are performed overseas (ie: Middle East), 65% of parts and manpower are denominated in US dollar while contracts in Malaysia will have the cost mentioned in MYR.

Breakdown of cost components

	2013	2014	2015
Parts, consumables and services	89%	91%	93%
Professional fees	6%	4%	2%
Personnel expenses	2%	2%	2%
Depreciation	2%	2%	2%
Others	1%	1%	1%

Source: Prospectus

Detail explanation of individual cost structure as below:

Parts comprise machine and equipment parts, tools and equipment, micro turbines, compressors, piping and metal structure. Consumables comprise oil, lubricants and fuel. Services are amounts paid for supply of parts and provision of services.

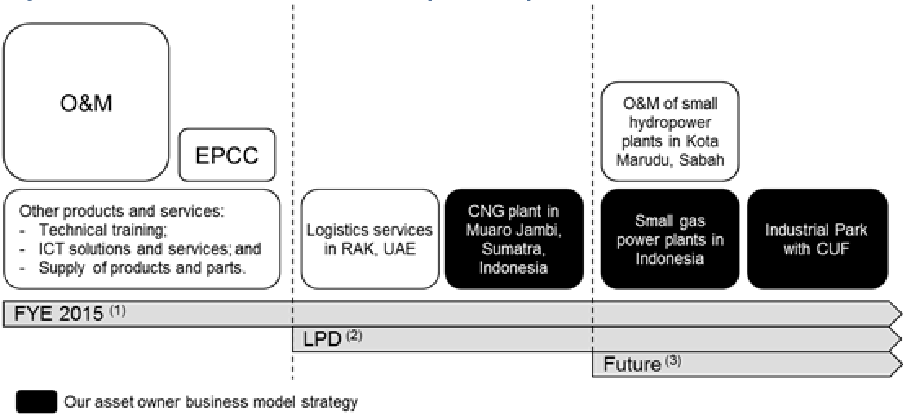
Professional fee include fees paid for provision of technical consultancy, technical analysis and testing as well as training services under City and Guilds.

Personnel fees are wages and salaries paid to projects and contracts staff as well as technical personnel.

Depreciation are depreciation of plant and equipment, tools and equipment.

Others include hiring and equipment chartering, traveling and transportation and maintenance of own machineries and equipment.

Fig 1: Current and future business expansion plan



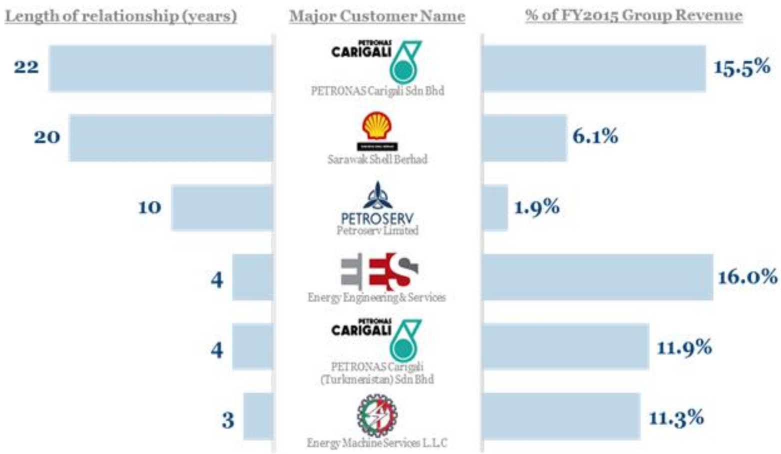
(1) For FYE 2015, O&M contributed 90.87% of our total revenue followed by EPCC at 8.91% and the remaining 0.22% of our revenue was derived from other products and services. We will continue to generate revenue from these business activities in the future.

(2) As at the LPD, the logistic services in RAK, UAE has commenced operations. As at the LPD, we have completed the construction and installation of equipment for the CNG plant in Muaro Jambi, Sumatra, Indonesia which is expected to commence operations upon obtaining all the relevant permits and certificates including the official trading permit which is expected to be issued by fourth quarter of 2016.

(3) Our future plans include O&M of small hydropower plants in Kota Marudu, Sabah which will commence by end of 2017, develop a 0.8 MW gas power plant in Ambon Island, develop a small gas power plant in Muaro Jambi upon the approval of licences and permits, develop small gas power plants in East Kalimantan, Indonesia upon the finalisation of proposed partnership arrangement by 2017 and development of industrial park with CUF upon the finalisation of a suitable site. Although the same said proposed partnership arrangement in East Kalimantan also includes the development of a water treatment plant, we have excluded it from the above diagram as it is part of our existing business activities in EPCC works.

Source: Prospectus

Fig 2: Customers and history of track record



Source: Affin Hwang

Strong management with proven track record

SERBA is currently helmed by Dato' Karim who co-founded the company back in 1993, a veteran with over 29 years experience in the O&G and power industries and who is an engineer by profession. Alongside him, SERBA has a strong experienced management team with proven track record.

Fig 3: Serba Dinamik's key management

Name	Age	Designation	Background
Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah	51	Group MD/CEO	Co-founded Serba Dinamik back in 1993, Dato' Karim has more than 29 years experience in providing engineering and maintenance services to the O&G, petrochemical and power industries.
Dato' Awang Daud Bin Awang Putera	55	Deputy CEO	Started his career in overhauling and repairs of rotating equipment (eg: electrical motor, multi centrifugal pumps, rotary pumps boiler and dryer), he has a vast knowledge in welding/fabrication and mechanical equipment maintenance repair as well as heavy machineries and vehicles. Joined Serba Dinamik since 1994.
Ir Abdul Halim Bin Mohd Damiah	49	Vice President, EPCC	Began his career as maintenance engineer in 1992, subsequently progressed to an electrical engineer and with experience working as Electrical Quality Assurance Senior Executive and project manager under marine business unit. Joined Serba Dinamik in 2011.
Afandi Bin Abd Hamid	45	Vice President, O&M	Vast working experience as mechanical technician, rotating equipment inspector and IMI technician. Later on joined Petronas Carigali as maintenance specialist, before moving to Serba Dinamik as Technical Engineer in 2001.
Syed Nazim Bin Syed Faisal	35	Group CFO	Over 13 years of experience in finance and audit specializing in banking and energy sectors. He joined Serba Dinamik in 2015.

Source: Prospectus

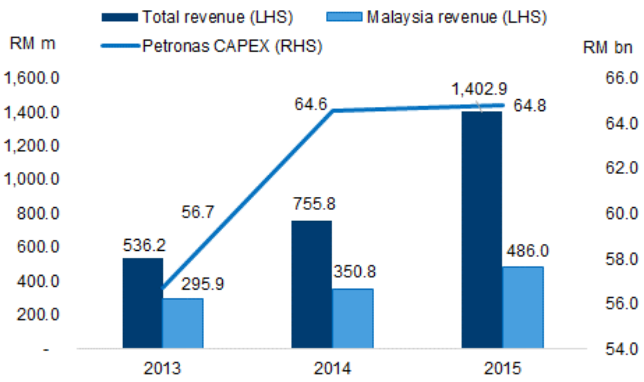
Industry overview

Demand driven growth from increased activities

Demand for maintenance services in the O&G and power generation industries hinges on the level of operational activities. For O&G, maintenance demand will be dependent on level of activities on exploration and production platforms and downstream refining and processing refineries and plants. With power generation plants, demand is dependent on installed power generating capacity. Contrary to other regional O&G players cutting capex, the Middle East (which is SERBA's largest revenue contributor by region) is unlikely to decrease their capex investments as a result of OPEC commitment to maintain output level.

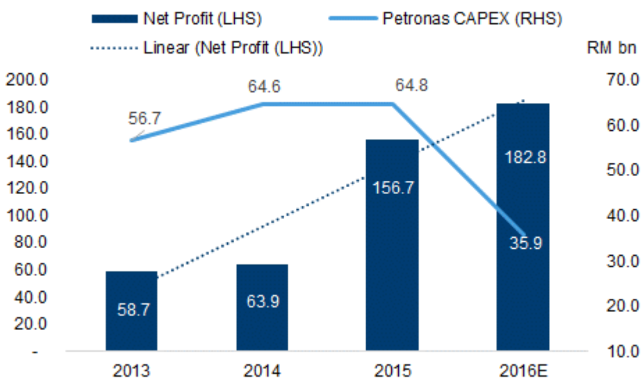
Based on the graph below where we compared the historical trend between SERBA's earnings against Petronas annual capital investment, we noted that despite Petronas' invested capex in 2015 being relatively flat yoy, SERBA has recorded a healthy 39% growth in Malaysia. This gives us reassurance that Malaysia remains a region with growth potential. Key catalyst for Malaysia will be coming from the PIPC which we will discuss in the next section of this report.

Fig 4: SERBA's Malaysia revenue vs Petronas CAPEX



Source: Affin Hwang

Fig 5: FY13-16E net profit trend vs Petronas CAPEX

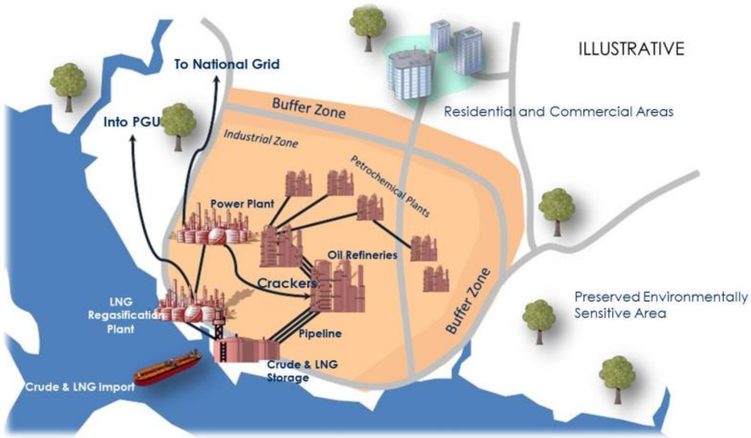


Source: Affin Hwang

Pengerang Integrated Petroleum Complex (PIPC)

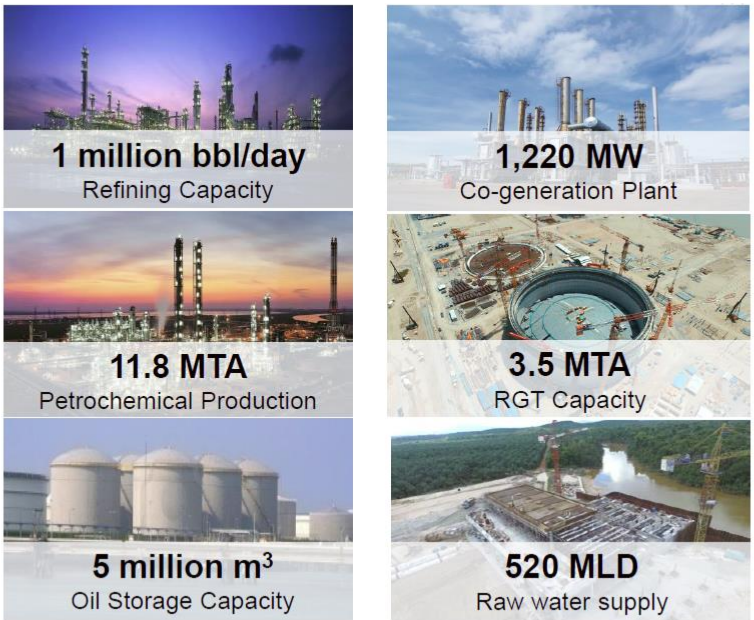
Two major developments in PIPC consists of Pengerang Deepwater Terminal (PDT) and Refinery and Petrochemical Integrated Development Project (RAPID). Upon completion of this project which is slated towards 2019, SERBA could potentially benefit strongly from the maintenance needed for its oil refineries and crackers, petrochemical plants, liquefied natural gas (LNG) terminals and regasification plants. Based on latest announcement by Petronas, PIPC is 47.6% completed. Despite lower Petronas capex spending in FY16, we are comforted to know that Petronas remain committed to downstream projects in RAPID and to kick start the overall project in 2019.

Fig 6: Overview: Pengerang Integrated Petroleum Complex (PIPC)



Source: JPDC

Fig 7: PIPC aggregated capacities



Source: JPDC

Financial highlights

Middle East revenue expanded from 19.5% to 47.2%

SERBA's revenue and net profit have both leapt by 1.6 folds from FY13 boosted by new O&M contracts and efficient geographical expansion. While revenue contribution from Malaysia decreased from 55.2% in FY13 to 34.6% in FY15, revenue from Middle East has expanded from 19.5% to 47.2% particularly from UAE, Qatar and Oman. In our view, this is the group's #2 silver lining as oil and gas activities in Middle East have notably increased.

Stable margins amid minor discounts being provided

Gross profit margins for O&M segment has been relatively stable over the last 3 years at 16–17%. Amidst current operating environment and as informed by management, Malaysian clients have requested for average 3-5% discount thus far but SERBA have yet to see this trend for overseas maintenance contracts. However, lower rates for maintenance works will be mitigated by higher overseas volume and scale. Gross profit margins for EPCC have been stable at 16%.

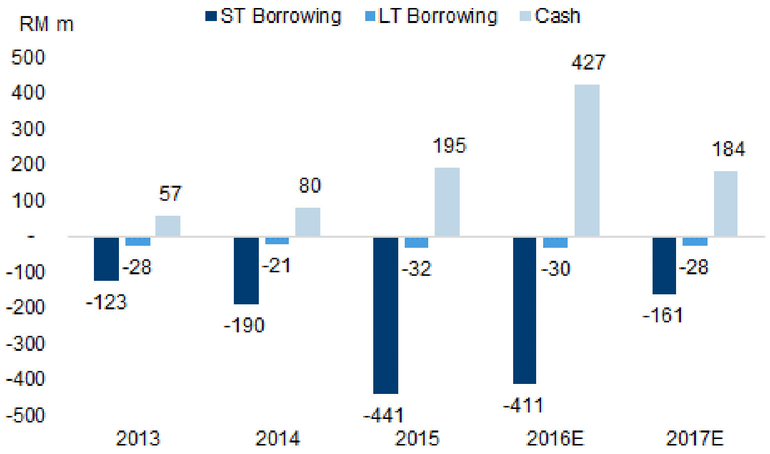
Maintain minimum order book level at RM2bn

Management guided that SERBA intends to maintain minimum RM2bn order book which will be replenished on quarterly basis. Breakdown of order book is 70% O&M and 30% EPCC segment. Prospective order book size is RM4bn– comprises of 70% overseas and 30% domestic tenders. Of the current tender book, 70% are O&M related jobs, with 50–60% of it comprising renewal bids from existing customers.

Strengthened balance sheet offers more leeway for expansion

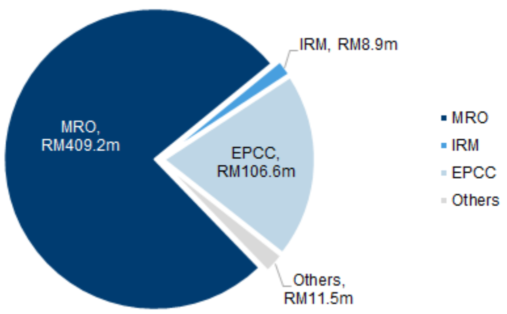
Total borrowings stand at RM473.3m as at FY15, which bring its net debt gearing level to 0.59x. 52.1% of its debt are denominated in US dollar, while RM denominated borrowings stand at 46.2% with the remaining in Indonesia rupiah. SERBA's revenue and borrowings are all naturally hedged. We expect SERBA's cash level to increase from RM195m as at end FY15 to RM427m as at end 2016 post IPO exercise. Moving forward, we are expecting SERBA to pare down its debt level substantially in 2017 as depicted below.

Fig 8: Cash and borrowings level



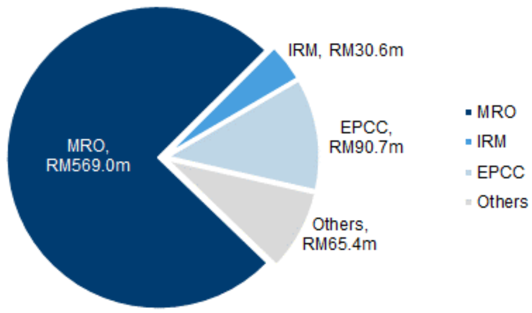
Source: Affin Hwang

Fig 9: FY13 revenue breakdown by segment



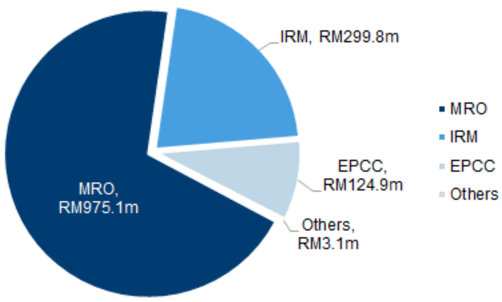
Source: Affin Hwang

Fig 10: FY14 revenue breakdown by segment



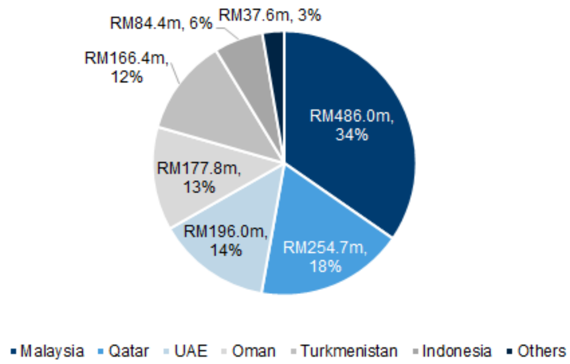
Source: Affin Hwang

Fig 11: FY15 revenue breakdown by segment



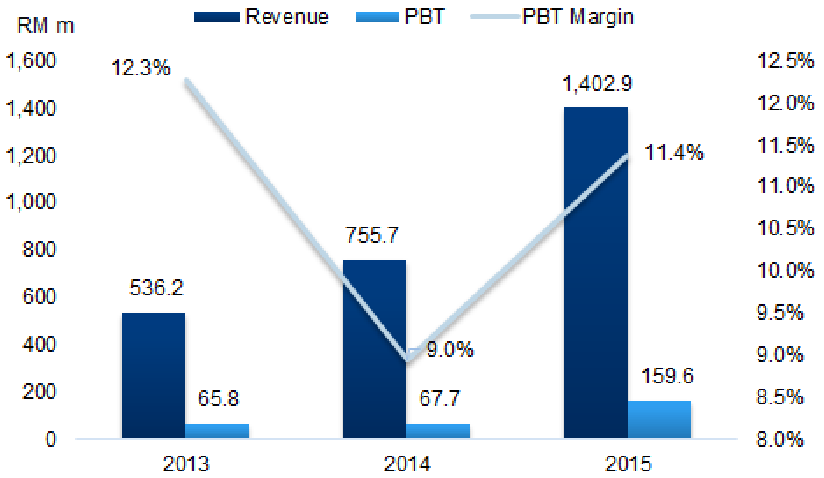
Source: Affin Hwang

Fig 12: FY15 revenue geographical breakdown



Source: Affin Hwang

Fig 13: Revenue, PBT and margin trends



Source: Affin Hwang

Fig 14: Revenue by geographical markets

Geographical Markets	2013		2014		2015	
	RM (m)	%	RM (m)	%	RM (m)	%
South East Asia						
Malaysia	295.9	55.2%	350.8	46.4%	486.0	34.6%
Indonesia	51.3	9.6%	39.4	5.2%	84.4	6.0%
Sub-total	**347.2**	**64.8%**	**390.2**	**51.6%**	**570.4**	**40.7%**
Central and South Asia						
Turkmenistan	80.9	15.1%	123.7	16.4%	166.4	11.9%
India	3.2	0.6%	0.8	0.1%	0.6	0.0%
Sub-total	**84.1**	**15.7%**	**124.5**	**16.5%**	**167.0**	**11.9%**
Middle East						
Bahrain	4.9	0.9%	9.8	1.3%	5.6	0.4%
UAE	1.0	0.2%	38.7	5.1%	196.4	14.0%
Qatar	64.8	12.1%	91.6	12.1%	254.7	18.2%
Oman	7.2	1.3%	78.3	10.4%	177.8	12.7%
KSA	26.9	5.0%	12.3	1.6%	16.0	1.1%
Kuwait	-	0.0%	9.8	1.3%	12.4	0.9%
Sub-total	**104.8**	**19.5%**	**240.5**	**31.8%**	**662.8**	**47.2%**
Europe						
UK	-	0.0%	0.6	0.1%	2.7	0.2%
TOTAL REVENUE	**536.2**	**100%**	**755.8**	**100%**	**1,402.9**	**100%**

Source: Affin Hwang

Business Prospects

Diversifying from service provider to asset owner to build recurring income

(1) 51% stake in compressed natural gas (CNG) plant

In efforts to generate a more regular income stream, SERBA has acquired a 51% stake in a compressed natural gas (CNG) plant in August 2015 for total purchase consideration of RM3.83m. This plant is located in Muaro Jambi, Sumatra, Indonesia. Under the gas supply agreement (GSA), SERBA will collaborate with PD Muaro Jambi through PT Kubic Gasco whereby Pertamina will supply 2.5mmscfd of gas for 6 years totalling up to 5,475mmscfd which will be used to support power generation and industries in the area. This is expected to contribute to earnings from FY2017 onwards. Management is currently in the midst of negotiating with Pertamina for supply of gas and with potential customers. Management guided that revenue contribution are around RM6m/year (purely on 6 years GSA income). We reckon that project capex is small, and project IRR is estimated to be at 10%. As explained by Group MD, SERBA will be deriving two forms of recurring income moving forward which is (1) dividend income from 6 years GSA, and (2) providing O&M services for 10 years.

(2) +4MW gas power plant expansion beside existing CNG plant

Further to that, another expansion of 4MW capacity gas power plant is underway which will be located next to the existing CNG plant. The group is in the midst of preparing application for licensing and permits prior to the commencement of construction.

(3) Small hydropower plants in Sabah

SERBA acquired 30% stake in Adat Sanjung for RM12.22m in 2015 which holds three Feed-In Approvals granted by Sustainable Energy Development Authority of Malaysia. The intention is to construct 3 hydropower plants located in Kota Marudu, Sabah with individual capacity of 10MW, 13.5MW and 5.6MW respectively. Under this project, SERBA is the EPCC contractor with contract value estimated at RM218m (c.30% of EPCC segment order book). Upon completion by end 2017, SERBA will be providing O&M services on the plant for 21 years as well as deriving earnings from the 30% equity stake.

(4) Gas power plants in Ambon island and East Kalimantan

A 0.8MW small gas power plant will be developed in Ambon Island where SERBA will be generating power and chilled water for Ambon City Centre shopping mall for 10 years. Separately, SERBA has entered into an MoU with local government development body of regency of East Kutai, East Kalimantan which will be valid for 5 years till 2020. Currently, both parties at preliminary discussions before finalizing the partnership and contract.

All in all, in the longer term, management guided that they intend to achieve 70% of revenue from existing business, with the remaining 30% from recurring income derived from asset expansion.

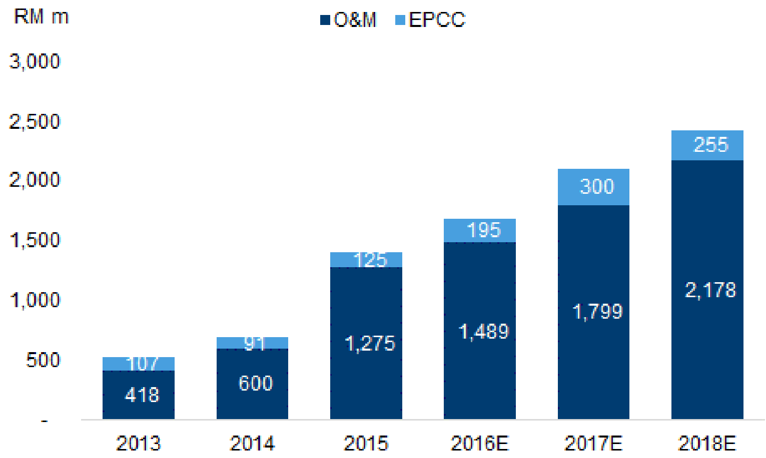
Strategic acquisition to reach out to broader market

To put it on level playing field as the original equipment manufacturers (OEMs) and international independent service providers, one of its strategic initiatives moving forward is to identify and acquire third party parts manufacturer. This will allow the group to leverage its current O&M services and expand its business reach to supply parts and components on top of providing O&M services.

As we highlighted earlier under our report, parts and consumables make up a substantial portion of the Group's cost of sales. Management shared that this strategic acquisition could improve O&M segment's GP margin by 1-2% moving forward.

Earnings outlook

Fig 15: Historical and forecast revenue segmental breakdown



Source: Affin Hwang estimates

46% earnings CAGR on stronger O&M business and expansion plans

We project SERBA's core net profit to grow strongly at 46% CAGR over FY13-16E underpinned by strong O&M segment performance. O&M will remain as SERBA's biggest revenue contributors at an average contribution of 87% of total revenue in our 3 years forward forecast which implies a 20% CAGR over FY15-18E.

Owing to the maintenance nature type of work, we understand that chances of renewal for expired contracts are generally high with success rate of 80% which provide some level of certainty to SERBA's earnings. We expect O&M segment to grow at 21% yoy in FY17 premised on high renewal rates on existing contracts and progressive maintenance work to be executed. Management is also targeting RM1.2bn worth of new contracts (new clients) order book replenishment in FY17 which is an indicative success rate of 20%. As oil prices recover and stabilizes in the longer term, we expect operational activities to return which will lead to more demand for maintenance work.

We expect EPCC segment revenue to increase 54% yoy in FY17 to be driven by its current RM750m order book. As SERBA is building up its asset income, this would require more assets to be constructed. 30% of its EPCC order book is from ongoing construction of 3 small hydropower plant in Sabah. In terms of RAPID exposure, SERBA was awarded a sub contract work from Petrofac E&C for the supply, fabrication and painting of structural steel for Package 4. We expect SERBA to be awarded with more RAPID jobs upon completion of its new fabrication facility in Johor. Growth catalysts moving forward will be driven by the additional expansion of CNG plant and other future asset expansion plans.

Sensitivity analysis

Based on our current base case, we have conducted a sensitivity analysis depicted below to show potential earnings upside. In this case, for every 20% increase in success rate for its EPCC order book replenishment, we can see 1.3%–2.2% increment in earnings. Meanwhile, every 1% increase in EPCC GP margins will see average 0.9%–1.2% earnings increase; 1% increase in O&M GP margins will see 7.5%–8.0% earnings upside.

Fig 16: Sensitivity analysis over FY17-18

	Base case			New assumptions			Changes (%)		
Net profit (RM m)	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**	**FY16**	**FY17**	**FY18**
+20% success rate in EPCC replenishment	182.8	236.9	287.0	186.9	241.9	290.7	+2.2%	+2.1%	+1.3%
Every +1% increase in EPCC GP margin	182.8	236.9	287.0	184.7	239.8	289.5	+1.0%	+1.2%	+0.9%
Every +1% increase in O&M GP margin	182.8	236.9	287.0	197.4	254.6	308.6	+8.0%	+7.5%	+7.5%

Source: Affin Hwang estimates

Gearing and free cash flow (FCF) to turn positive post listing

In the past, SERBA financed its business using short term debt. Based on audited FY15 figures, short term debt made up 92% of total debt profile. Post IPO and moving into 2017, we expect the group to repay substantial portion of its short term debt which will allow the group gearing level to be pared down. We also expect FCF in FY17 to turn positive at RM74m.

Valuation

Fair equity value range RM2.13bn–2.37bn

We estimate SERBA's fair equity valuation to be in the range of RM2.13bn–2.37bn which translate to RM1.60–1.77 per share based on enlarged share base of 1,335m. Our valuation range is based on targeted range PE range of 9-10x over FY17E EPS. This is in line with our PE target for small-mid cap O&G peers listed on Bursa. All in, we like the stock for:

(i) strong management team with vast experience and technical knowledge and strong international footprint and track record;

(ii) revenue is exposed more towards downstream which constitute 60% of current total revenue; and

(iii) O&M spending generally makes up a small part of total spending hence less susceptible to capex cuts. On top of that, scheduled maintenance is compulsory requirement by DOSH.

Fig 17: Valuation

FYE December	2017E	2017E
Forecasted Net profit (RM m)	236.9	236.9
Applied PE (x)	9.0	10.0
Scenario	9x PE	10x PE
Equity value (RM m)	2,131.7	2,368.6
Post IPO price*	1.60	1.77
Forward 2017 PE (x)	7.2	7.9

Source: Affin Hwang estimates
**based on enlarged share base of 1,335m*

Key risks

Key risks to our positive stance on SERBA are:

(i) Timing challenge – Based on audited FY15 figures, 91% of SERBA's revenues are derived from its O&M business. Any delays in clients' maintenance, repair and overhaul schedule will have a negative impact.

(ii) Deterioration in profit margin – We expect SERBA's gross profit margin to be at an average of 17%. Weaker-than-expected profit margin on the back of client demands for higher discounts will dampen earnings forecast.

(iii) Crude oil price – In the short-term, a drastic decline in crude oil price will dampen market sentiments and reduce investors' appetite for O&G related companies. Furthermore, this may also put downside risk to earnings as customers may postpone scheduled maintenance in attempts to save cost.

(iv) Further cuts in O&G capital spending – Prolonged or further deterioration in market conditions could see global oil majors continue to hold back their capex investment and deferment in scheduled maintenance timeline could potentially affect SERBA's business.

Fig 18: Peer comparison

Peer Comparison Stock	Stock Ticker	Rating	Currency	Share Price (LC)	TP (LC)	Mkt Cap (LC)	Core PE (x) FY17E	Core PE (x) FY18E	EPS Growth (%) FY17E	EPS Growth (%) FY18E	EV/EBITDA FY17E	P/BV FY17E (x)	ROE (%) FY17E	DY (%) FY17E
SapuraKencana ^	SAKP MK	HOLD	MYR	1.62	1.36	9,707	41.9	37.9	2.9	10.6	9.8	0.8	1.8	0.4
Dayang*	DEHB MK	NR	MYR	0.98	N/A	859	10.7	7.0	nm	52.6	7.8	0.6	6.0	-
Deleum*	DLUM MK	NR	MYR	1.00	N/A	400	13.3	9.9	38.5	33.3	4.3	1.2	9.7	5.4
Petra Energy	PENB MK	BUY	MYR	0.95	1.00	305	14.7	6.8	(196.3)	115.8	5.7	0.6	4.1	3.2
Fluor Corporation*	FLR US	NR	USD	52.5	N/A	7,313	17.3	16.5	30.0	6.0	7.6	2.1	12.2	1.6
John Wood Group*	WG/ LN	NR	GBP	876.0	N/A	3,338	16.8	14.7	7.0	16.0	10.4	1.7	10.3	3.2
Chiyoda Corporation*	6366 JT	NR	JPY	810.0	N/A	210,863	33.9	21.8	55.0	3.0	4.8	1.0	5.6	0.9
Amec Foster Wheeler*	AMFW LN	NR	GBP	470.0	N/A	1,833	9.7	8.8	(6.0)	10.0	9.1	1.6	12.4	4.5
The Weir Group*	WEIR LN	NR	GBP	1,890.0	N/A	4,115	23.9	19.8	32.0	16.0	15.6	3.4	13.5	2.4
Domestic peers market cap simple average							**20.2**	**15.4**	**(51.7)**	**53.1**	**6.9**	**0.8**	**5.4**	**2.3**
Oversea peers market cap simple average							**20.3**	**16.3**	**23.6**	**10.2**	**9.5**	**1.9**	**10.8**	**2.5**

^ FY16/17 column contains FY17/18 numbers due to different FYE

* Bloomberg estimates

Source: Bloomberg, Affin Hwang forecasts

Appendix 1: Salient features of the IPO

Table 1: Summary of IPO shares offering

Descriptions	Offer Shares ('000)	New Shares ('000)	Total no. of shares ('000)	% of enlarged share capital
Institutional Offering				
Bumiputera Offering (MITI)	118,000	35,525	153,525	11.50%
Non-Bumiputera Offering	-	187,775	187,775	14.07%
Sub-total	**118,000**	**223,300**	**341,300**	**25.57%**
Retail offering				
Directors and employee	-	21,400	21,400	1.60%
Bumiputera offering	-	13,350	13,350	1.00%
Non-Bumiputera Offering	-	13,350	13,350	1.00%
Sub-total	**-**	**48,100**	**48,100**	**3.60%**
TOTAL	**118,000**	**271,400**	**389,400**	**29.17%**

Source: Prospectus

Note: The IPO involves an over-allotment option of 58.4m shares for institutional investors. The over-allotment providers are Dato' Karim, Dato Awang Daud and Tuan Haji Abdul Kadier

Table 2: Utilisation of proceeds

Details of utilisation of proceeds	Estimated timeframe for utilisation upon listing	Utilisation (%)
Expansion of business and operational facilities	Within 36 months	73.69%
Working capital	Within 36 months	7.20%
Repayment of bank borrowings/financing	Within 12 months	14.74%
Estimated listing expenses	Within 6 months	4.37%
Total		**100.00%**

Source: Prospectus

Breakdown of expansion of business and operational facilities

Events
Expansion of operational facilities
(i) Establish new MRO and ICM centre in Sarawak, Malaysia
(ii) Acquire corporate office building in Selangor, Malaysia
(iii) Establish new fabrication facility to support EPCC works and IRM services in Southern Johor, Malaysia
(iv) Upgrade of existing operational facilities in Malaysia and UAE
Business expansion
(v) Business expansion through investment and acquisition
(vi) Development of small gas power plants and water utilities in Indonesia

Source: Prospectus

Historical key milestones

Year	Milestone achieved
1993	Incorporated as maintenance, repair and overhaul (MRO) service provider
1994	Built its first mechanical and fabrication workshop in Bintulu, Sarawak
1997	Selected as vendor for provision of rotating equipment services under Petronas Vendor Development Programme (VDP)
1998	Extended its existing maintenance services to cover technical training in O&G maintenance, power generation and heavy industries
2001	Secured its first oversea rotating equipment MRO services for LNG plant in Qatar
2002	Incorporated a subsidiary to focus on international business activities
2004	Established a new service centre in Terengganu to provide minor fabrication and maintenance services which also service as training centre.
2007	Expanded into EPCC by securing Bintulu LPG Bottling plant with Petronas Dagangan and also from Malaysia LNG S/B
2010	Became distributor of Capstone Turbine to distribute micro turbine in Malaysia, Indonesia and Brunei
2011	Serba Dinamik IT received MSC Malaysia status.
2015	Secured EPCC and O&M contracts for three small hydropower plants in Kota Marudu, Sabah.
2016	Secured 10 years agreement to lease out 0.8MW gas power plant for Ambon gas power plant for Ambon City Centre shopping mall located in Ambon island, Indonesia with 30% effective stake.

Source: Prospectus

Serba Dinamik – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RM m)	2013	2014	2015	2016E	2017E	2018E
Revenue	536	756	1,403	1,693	2,108	2,443
Operating expenses	-457	-655	-1,192	-1,427	-1,784	-2,067
EBITDA	80	101	211	266	324	376
Depreciation	-10	-15	-28	-48	-64	-73
EBIT	69	86	183	218	260	302
Net int income/(expense)	-3	-18	-25	-31	-18	-9
Exceptional gains / (losses)	0	0	-1	0	0	0
Associates' contribution	0	0	0	0	0	0
Pretax profit	66	68	157	186	242	293
Tax	-4	0	-3	-4	-5	-6
Minority interest	-3	-3	0	0	0	0
Net profit	59	64	154	183	237	287
Core net profit	**59**	**64**	**155**	**183**	**237**	**287**

Balance Sheet Statement

FYE 31 Dec (RM m)	2013	2014	2015	2016E	2017E	2018E
Fixed assets	79	134	349	551	587	614
Other long term assets	0	0	17	12	12	12
Total non-current assets	**79**	**134**	**366**	**564**	**600**	**626**
Cash and equivalents	57	80	225	427	184	187
Stocks	146	199	230	288	358	415
Debtors	177	222	431	520	641	749
Other current assets	3	5	7	7	7	7
Total current assets	**382**	**505**	**893**	**1,242**	**1,190**	**1,359**
Creditors	64	102	239	288	358	415
Short term borrowings	123	190	441	411	161	101
Other current liabilities	2	1	1	1	1	1
Total current liabilities	**189**	**294**	**681**	**700**	**521**	**517**
Long term borrowings	28	21	32	30	28	26
Other long term liabilities	46	53	69	5	5	5
Total long term liab.	**74**	**74**	**102**	**35**	**33**	**31**
Shareholders' Funds	**186**	**271**	**468**	**1,064**	**1,229**	**1,430**
Minority Interest	**13**	**1**	**7**	**7**	**7**	**7**

Cash Flow Statement

FYE 31 Dec (RM m)	2013	2014	2015	2016E	2017E	2018E
Pretax Profit	66	68	160	186	242	293
Depreciation & amortisation	10	15	28	48	64	73
Working capital changes	-83	-45	-57	-68	-121	-108
Cash tax paid	-1	-2	4	-4	-5	-6
Others	-1	16	24	-3	-6	-2
C/F from operation	**-9**	**51**	**159**	**159**	**174**	**249**
Capex	-24	-62	-235	-250	-100	-100
Others	-9	-16	-37	3	6	2
C/F from investing	**-34**	**-79**	**-272**	**-247**	**-94**	**-98**
Debt raised/(repaid)	24	55	240	-32	-252	-62
Dividends paid	0	0	-1	-55	-71	-86
Others	27	-17	-28	407	0	0
C/F from financing	**51**	**38**	**212**	**320**	**-323**	**-148**
Net change in cash flow	**9**	**11**	**98**	**232**	**-243**	**4**
Free Cash Flow	**-33**	**-11**	**-77**	**-91**	**74**	**149**

Source: Company, Affin Hwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RM m)	2014	2015	2016E	2017E	2018E
Growth					
Revenue (%)	41.0	85.6	20.7	24.5	15.9
EBITDA (%)	26.6	110.0	25.7	21.9	16.0
Core net profit (%)	8.6	143.8	17.6	29.6	21.2
Profitability					
EBITDA margin (%)	13.3	15.1	15.7	15.4	15.4
PBT margin (%)	9.0	11.2	11.0	11.5	12.0
Net profit margin (%)	8.5	11.0	10.8	11.2	11.7
Effective tax rate (%)	0.5	1.9	2.0	2.0	2.0
ROA (%)	11.6	16.2	11.9	13.2	15.2
Core ROE (%)	28.0	41.7	23.9	20.7	21.6
ROCE (%)	20.9	25.8	17.8	17.8	20.3
Dividend payout ratio (%)	0.0	0.0	30.0	30.0	30.0
Liquidity					
Current ratio (x)	1.7	1.3	1.8	2.3	2.6
Op. cash flow (RM m)	51	159	159	174	249
Free cashflow (RM m)	-11	-77	-91	74	149
FCF/share (sen)	-0.8	-5.8	-6.8	5.6	11.2
Asset management					
Debtors turnover (days)	107.0	112.1	112.1	111.0	112.0
Stock turnover (days)	110.8	70.4	73.6	73.3	73.3
Creditors turnover (days)	56.9	73.2	73.6	73.3	73.3
Capital structure					
Net gearing (%)	48%	53%	1%	0%	-4%
Interest cover (x)	5.6	8.4	8.5	17.9	39.7

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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
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