



## Serba Dinamik Holdings Berhad

Growing in Choppy Waters

**Fair Value: RM1.90**

Main Market Listing

**Not Rated**

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### Company Background

Serba Dinamik Holdings Bhd is primarily involved in providing solutions to the O&G and power generation industries with operations in Malaysia, UAE, Indonesia, Bahrain and the UK. The Group derives its revenue from operation and maintenance (O&M) services and engineering, procurement, construction and commissioning (EPCC) works.

### IPO Statistic

The IPO will raise gross proceeds of RM407.1mn and constitutes a retail and institutional offering of 48.1mn and 223.3mn shares respectively at an issue price of RM1.50/share. There is also an offer for sale comprising 118.0mn shares to institutional investors.

### Investment Thesis

1. International diversification
2. Growth via asset ownership
3. Non-OEM service provider leveraging on cost optimisation in the O&G industry
4. Leading O&M service provider
5. Strong balance sheet

### Key Risks

1. Reliant on O&G industry
2. Highly competitive industry
3. Contracts may not be renewed

### Valuation

We value Serba Dinamik at RM1.90/share based on 11x CY17 PER. This is in-line with peers' CY17-18 weighted average PER. Despite the group's larger market capitalisation, we believe it should trade on par with peers given less impressive earnings growth.

### Earnings Summary

FYE Dec (RM mn)	2014	2015	2016E	2017F	2018F
Revenue	755.8	1,402.9	1,823.4	1,893.7	1,939.1
EBITDA	100.8	212.6	265.8	281.8	297.9
EBIT	85.8	184.7	271.7	278.9	286.7
EBIT Margin (%)	11.4	13.2	14.9	14.7	14.8
Net Finance Costs	(18.1)	(25.1)	(43.0)	(41.7)	(34.7)
PBT	67.7	159.6	228.7	237.2	252.0
Tax	(0.3)	(3.0)	(6.9)	(7.1)	(7.6)
PAT	67.4	156.6	221.9	230.1	244.4
EPS (sen)	4.8	11.7	16.6	17.3	18.3
PER (x)	31.3	12.8	9.0	8.7	8.2
DPS (sen)			1.2	5.2	5.5
Dividend yield (%)			0.8	3.5	3.7

### Share Information

Listing	Main Market
Enlarged Share Capital (mn)	1335.0
Market Cap @ RM1.50 (mn)	2002.5
Par Value	0.50
Issue Price	1.50
Oversubscription rate	N/A
Estimated free float (%)	33.6
Tentative Listing Date	08-Feb-17

### Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	30-Dec-16
Closing of the IPO	19-Jan-17
Balloting of Applications	23-Jan-17
Allotment of Shares	06-Feb-17
Listing	08-Feb-17

### Ratio & Analysis

NTA per share (post IPO)(sen)	76.0
Price to NTA (x)	2.0
Proforma Net Gearing (x)	Net cash

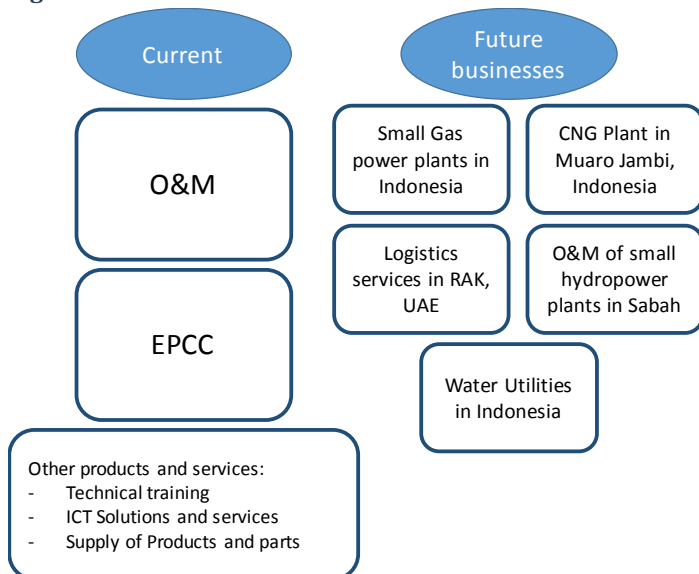
### Utilisation of Proceeds

	RMmn	%
Capital expenditure	300.0	73.7
Working capital	29.3	7.2
Repayment of borrowings	60.0	14.7
Est. listing expenses	17.8	4.4
<b>TOTAL</b>	<b>407.1</b>	<b>100.0</b>

**COMPANY OVERVIEW**

Serba Dinamik is primarily involved in providing solutions to the O&G and power generation industries with operations in Malaysia, UAE, Indonesia, Bahrain and the UK. The Group’s revenue is mainly derived from O&M (FY15: 91%) services and EPCC (FY15: 9%) works. Whereas in terms of geographical exposure, the group’s sales largely emanate from Middle East (FY15: 47%), Malaysia (FY15: 35%) and other countries (FY15: 18%).

**Figure 1. Business Activities**



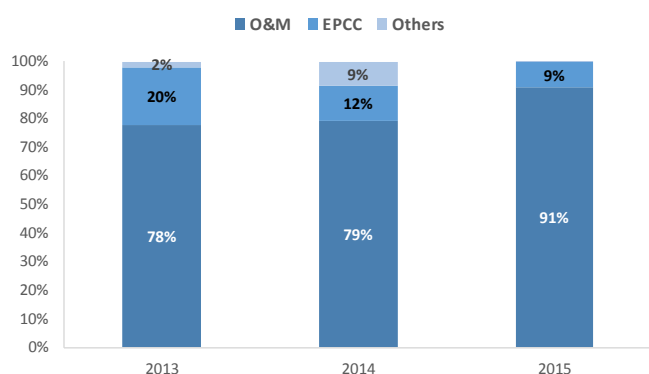
**O&M Services**

The Group carries out maintenance, repair and overhaul (MRO) for rotating equipment in the O&G industry. Rotating equipment includes gas and steam turbines, engines, motors, pumps and industrial fans. The Group also carries out inspection, repair, and maintenance (IRM) of static equipment and structures which include boilers and piping structures and systems. Lastly, the Group performs maintenance on process control and instrumentation. These works are typically done on O&G production platforms, LNG plants and O&G refineries. Serba Dinamik had recently expanded maintenance works to small power plants.

**EPCC Works**

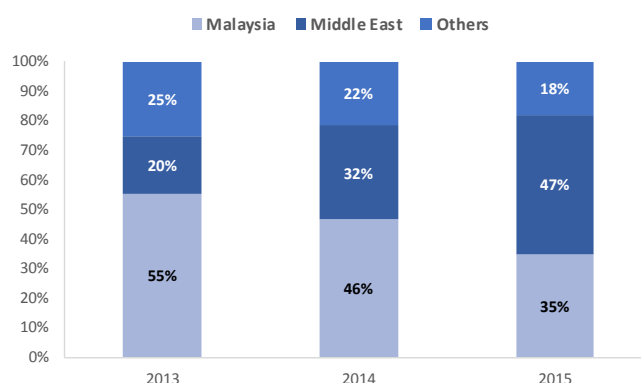
Serba Dinamik has the capability to carry out EPCC of plants, road infrastructure and facilities. It also recently secured an EPCC contract (RM220mn) in Kota Marudu, Sabah for hydropower plants. The Group plans to adopt a business model based on asset ownership, EPCC, and subsequently securing O&M contracts for the asset.

**Figure 2: % Revenue by Segment**



Source: Company, TA Securities

**Figure 3: % Revenue by Geography**



Source: Company, TA Securities

## Substantial Shareholders & Key Management

Post-IPO, the promoters (Figure 4) who also hold executive positions in Serba Dinamik, would command a controlling stake of 64.4% in the Group. There will be a six-month moratorium period for these shareholders.

Figure 4: Substantial Shareholders

Name	Position	Pre-IPO (%)		Post-IPO (%)	
		Direct	Indirect	Direct	Indirect
Dato' Karim	Non-Independent Executive	36.5	0.0	28.0	0.0
Hj. Abdul Kadier	Non-Independent Non-Executive	29.0	0.0	22.2	0.0
Dato' Awang Daud	Non-Independent Executive	18.5	0.0	14.2	0.0
<b>Total</b>		<b>84.0%</b>	<b>0.0%</b>	<b>64.4%</b>	<b>0.0%</b>

Source: Prospectus, TA Securities

**Dato' Karim** aged 51, is the Group CEO and Non-Independent Executive Director. He obtained his Bachelor in Mechanical Engineering in 1989 from Universiti Teknologi Malaysia. He has had an extensive career spanning 29 years as an engineer, and gained extensive experience in the field of maintenance and installation of rotating equipment since 1993. He also has experience in construction and fabrication works.

**Hj. Abdul Kadier**, aged 67, is the Group's Non-Independent Non-Executive Director. He obtained his Bachelor Degree in Economics in 1973 from the University of Malaya. He began his career as a marketing executive with Diethlem Sdn Bhd in 1973 for one year and later joined Sarawak Economic Development Corporation, where he served as a marketing officer until 1976. He became a shareholder in Serba Dinamik in 1993.

**Dato' Awang Daud**, aged 55, is the Group's Deputy CEO and Non-Independent Executive Director. He obtained an intermediate certificate for Mechanical Fitter/General Mechanic in 1980 from the Institut Kemahiran MARA and was certified by the National Industrial Trade Training Board in June 1980. He was trained in overhauling and repairs of rotating equipment since 1978.

## IPO DETAILS

Figure 5. IPO Structure

	No. of units (mn)	% of Enlarged Share Base	% of IPO shares
<b>Retail Offering</b>	<b>48.1</b>	<b>4%</b>	<b>12%</b>
Public Allocation	26.7	2%	7%
Eligible persons	21.4	2%	5%
<b>Institutional Offering</b>	<b>341.3</b>	<b>26%</b>	<b>88%</b>
Offer for sale	118.0	9%	30%
Bumiputera Investors	35.5	3%	9%
Institutional & Selected	187.8	14%	48%
<b>Total</b>	<b>389.4</b>	<b>29%</b>	<b>100%</b>
<b>Enlarged share cap</b>	<b>1,335.0</b>		

Source: Company, TA Securities

As per Figure 6, the IPO will raise gross proceeds of RM407.1mn and constitutes a retail offering of 48.1mn shares and institutional offering of 223.3mn shares (excluding offer for sale) at an issue price of RM1.50/share. There is also an offer for sale comprising 118.0mn shares to institutional investors.

## Dividend Policy

Serba Dinamik has a dividend policy of at least 30% payout ratio. Based on our earnings forecast and issue price, this presents a decent dividend yield of 3.5%-3.7% in FY17-FY18 which surpasses its O&G peers.

## Future Plans

### 1) Establish New Facilities

The Group plans to establish new facilities in Johor (RM20m) and Sarawak (RM70mn). The facilities will provide MRO and IRM services in the two states. We understand that there are a large number of LNG and hydropower plants in Sarawak. Hence, the Group intends to establish a local presence in the market and is hopeful in securing O&M contracts for these plants. On the other hand, in Johor, Serba Dinamik is banking on securing O&M and EPCC contracts for the integrated petroleum complex in Pengerang. Additionally, the Group intends to acquire a corporate office building in Selangor (RM30mn).

### 2) Upgrade Existing Facilities

Serba Dinamik plans to upgrade existing facilities in Malaysia and construct additional facilities in its logistic centre in UAE (RM15mn combined). Its existing service centres in Paka, Miri, and Labuan will receive new machineries, tools and equipment. Meanwhile, in UAE, an administration area and mobile workshops will be constructed to serve the logistics centre. These actions are expected to be completed by end 2017.

### 3) Expand Business into Small Power Plants and Water Utilities

The Group has begun operating and maintaining three small hydropower plants in Sabah. Previously, the EPCC works for the plants were carried out by Serba Dinamik. Following the Group's success in this area, it plans to increase the number of small power plants it operates and has already signed Memorandums of Understanding (MoU) to develop small gas power plants and water utilities in Indonesia (RM70mn). We note that besides operating the plants, the Group will also provide O&M services and EPCC works.

### 4) Investments and Acquisitions

Serba Dinamik intends to acquire companies that can add value to its existing businesses (RM95mn). For example, MRO service providers that can expand its knowledge base or small hydropower generation companies. We believe this measure will be beneficial to the group as it will generate additional revenue streams.

Figure 6. Utilisation of IPO Proceeds

Utilisation of Proceeds	RMmn	%	Timeframe (months)
Capital Expenditure	300.0	73.7	12-36
Repayment of borrowings	60.0	14.7	12
Working capital	29.3	7.2	36
Est. listing expenses	17.8	4.4	6
<b>TOTAL</b>	<b>407.1</b>	<b>100.0</b>	

Source: Company, TA Securities

## INVESTMENT THESIS

**International diversification.** Serba Dinamik is a Petronas VDP (Vendor Development Programme) success story. The Group was selected to be a vendor company in 1997 and graduated in 2007 where it used its track record and financial strength to expand internationally. The Group currently has businesses in Indonesia, Turkmenistan, UAE, Saudi, Kuwait, Qatar, Oman and Bahrain. We note that revenue from international businesses surpassed local

revenue in FY15 and the Group intends to extend this lead. We understand that it is rather difficult to begin operations in the Middle East given the tight regulations imposed in the region. However, given that the Group has established a solid foothold in the area, we opine that Serba Dinamik will be able to secure more contracts in this region going forward.

Figure 7. Location of Businesses



Source: Company, TA Securities

**Expanding business via asset ownership.** Serba Dinamik is not resting on its laurels as an internationally recognised service provider. The Group is now expanding via asset ownership and acquisitions. The Group recently purchased a 51.0% stake in a CNG plant in Muara Jambi, Indonesia and a 30.0% stake in a hydropower plant in Sabah, Malaysia. Besides that, it also expects to develop small gas power plants in Indonesia and have signed several MoUs to carry out its plans. We also note that the Group is scouting for acquisitions that will add value to its services. Given the Group’s strong balance sheet (Figure 8) post-IPO (net cash), we opine that it will have ample cash for acquisition.

Figure 8: Net Gearing Breakdown

RM mn	Pre-IPO	Post-IPO
Long-Term Loans	17.6	17.6
Short-Term Loans	501.1	441.1
Cash	219.9	549.2
Total Equity	634.9	1,024.2
Net Gearing	(x) 0.5	Net Cash

Source: Company, TA Securities

Figure 9: Asset Acquisitions

Asset	Location	Remarks
CNG plant	Muaro Jambi, Indonesia	51.0% stake
Hydropower plant	Sabah Malaysia	30.0% stake
Gas power plant	Ambon Island, Indonesia	10 year lease
Gas power plant	Muaro Jambi, Indonesia	MoU signed
Gas power plant	East Kalimantan, Indonesia	MoU signed
Water treatment plant	East Kalimantan, Indonesia	MoU signed

Source: Company, TA Securities

**Non-OEM service provider leveraging on cost optimisation in the O&G industry.** We note that Serba Dinamik is a non-OEM service provider in the industry. Normally, OEM service providers charge higher fees as compared to non-OEM players. As a result of cost optimisation amongst O&G players, we opine that Serba Dinamik is in an ideal position. The Group is able to provide similar services, in a shorter delivery time, at a fraction of the cost. Therefore, in the current operating environment, customers will prefer employing Serba Dinamik. Furthermore, Serba Dinamik is able to work on a wider scope as it is not restricted to a single or small range of brands.

**Leading O&M service provider.** According to the independent market research report, Serba Dinamik ranked third among O&G service providers in Malaysia providing MRO for rotating equipment. With 23 years of experience in the industry, we believe its strong track record will better enable the Group

to secure contracts. Furthermore, it has established close and long working relationships with its major customers.

**Strong balance sheet with decent dividend yield.** After the IPO, the Group will have a strong balance sheet with a net cash position (Figure 8). We believe that in the current environment where O&G companies are heavily in debt and at risk of defaulting, a strong balance sheet is essential in surviving the downturn. The stronger balance sheet also enables the Group to pay out 30% of its PAT which according to our estimates translate to a decent dividend yield of 3.5%-3.7%. We note that the Group also has robust operating cashflow of RM158.5mn in FY15.

**Exposure mainly in resilient brownfield segment via O&M contracts.** Serba Dinamik is mainly exposed to the rather resilient brownfield segment via O&M contracts. We note that most of the works are mandatory maintenance works and have to be completed on schedule. Furthermore, we believe Serba Dinamik's clients are more likely to carry out maintenance works during a downturn as it will not disrupt peak production periods. Hence, the Group's earnings may be boosted after the recent OPEC production cut.

**Figure 10. Relationship with Major Customers**

Customers	Length of Relationship	% of FY14 Revenue	% of FY15 Revenue
Energy Engineering & Services	4	2.7	16.0
Petronas Carigali	22	20.1	15.5
Petronas Carigali (Turkmenistan)	3	16.4	11.9
Energy Machine Services	4	7.9	11.3
Sarawak Shell	20	6.6	6.1
Petroserv	10	4.5	1.9

Source: Prospectus, TA Securities

## KEY RISKS

### Reliant on O&G industry

We understand that Serba Dinamik mainly provides services to O&G players across the industry. Given the current challenging operating environment in the industry, we believe there is some downside risk to Serba Dinamik's earnings. We note that cost cutting measures are being carried out by oil majors around the world in preparation for new crude oil price norm of USD50/bbl. This may impact the Group's earnings as it is forced to give discounts to secure contracts. Additionally, the number of contracts up for grabs may be lower than expected. That said, the Group's core competencies are focused on scheduled maintenance works spanning the value chain and are mostly mandatory. Therefore, we opine that Serba Dinamik will be rather resilient compared to its peers.

### Highly competitive industry

Contracts in the industry are awarded on a competitive basis where there are multiple perfect substitutes. Additionally, Serba Dinamik is a non-OEM service provider, and hence it may not be able to secure contracts if the equipment is still under warranty. However, given the Group's extensive experience, coupled with good working relationships with its clients, we believe it is a strong contender to secure contracts.

### Contracts may not be renewed

Contracts obtained by Serba Dinamik normally have contract tenure of 2-3 years. After expiry of the contracts, there is no surety that the Group's clients will renew the contract. Hence, we may see an earnings dip if Serba Dinamik is not able to secure new contracts to replace expiring contracts. That said, we note that most of Serba Dinamik's contracts are rather new and should last until FY18-FY19.

## FINANCIALS

### Historical

From 2013-15, the Group saw a major growth in topline and earnings, registering CAGR of 50% and 54% respectively. The surge in earnings was mainly attributed to growth in the O&M segment after securing multiple contracts in Middle Eastern countries (i.e. Qatar, UAE and Oman). We note that revenue from the Middle East increased from 19.6% in FY13 to 31.8% in FY14 and 47.2% in FY15. Meanwhile, we highlight that other locations still recorded revenue and profit growth albeit smaller than the Middle East. Profit grew in tandem with revenue from RM58.7mn in FY13 to RM63.9mn in FY14 and RM156.7mn in FY15.

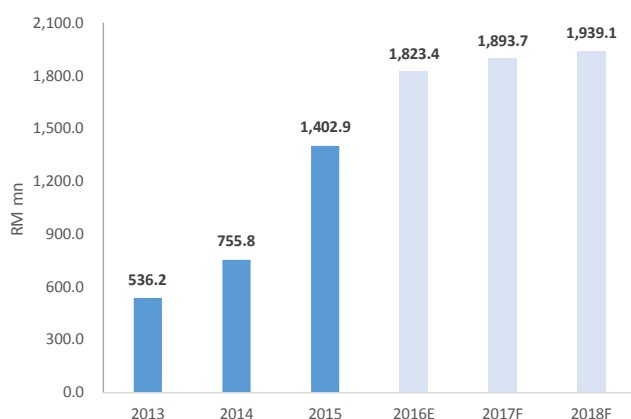
### Current

In 2016, the Group improved its position in the Middle East and secured more contracts. We note that in financial period ending Jun-16, the Group recorded revenue and profit of RM911.7mn and RM112.9mn respectively. This implies an annualised growth rate of 30% and 44% respectively. In the current environment, we opine that this feat is rather exceptional. Additionally, we note that maintenance works in the Middle East are typically carried out in 4Q. Therefore, Serba Dinamik's FY16 earnings may be potentially greater than annualised earnings.

### Forecast

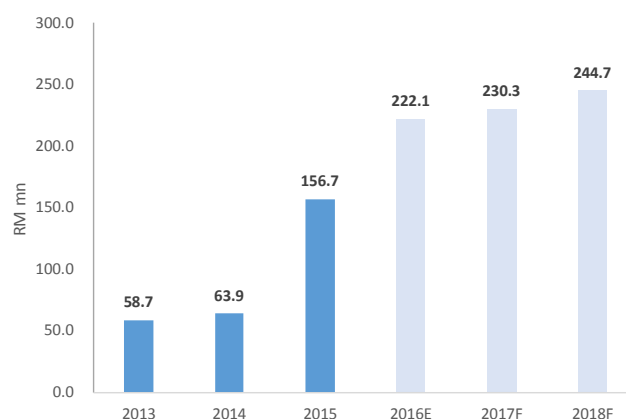
We expect the Group's revenue to grow by 3.9%/2.4% in FY17/18 on the back of new EPCC contracts. This would be mainly driven by EPCC works for three hydropower plants in Kota Maardu, Sabah which is expected to be recognised in FY17. However, we believe this may be partially offset by a slight slowdown in the O&M segment as a result of the challenging environment. PAT on the other hand, is expected to grow at 3.7%/6.3% in tandem with revenue growth. Moreover, interest savings from repayment of borrowings is expected to boost Serba Dinamik's bottomline. Our forecasts are based on the following assumptions: 1) O&M orderbook replenishment assumption of RM1.2bn/RM1.5bn, 2) EPCC replenishment of RM100mn/RM150mn, 3) capex of RM65mn/RM70mn and 4) 30%/30% dividend payout ratio; for FY17/18.

Figure 11: Historical and Forecasted Revenue



Source: Prospectus, TA Securities

Figure 12: Historical and Forecasted Net Profit



Source: Prospectus, TA Securities

## VALUATION

We value Serba Dinamik at RM1.90/share based on 11x CY17 PER. This is based on the mean of peers weighted average PER in CY17 and CY18. We note that Serba Dinamik has larger market capitalisation and better return on equity but less impressive earnings growth.

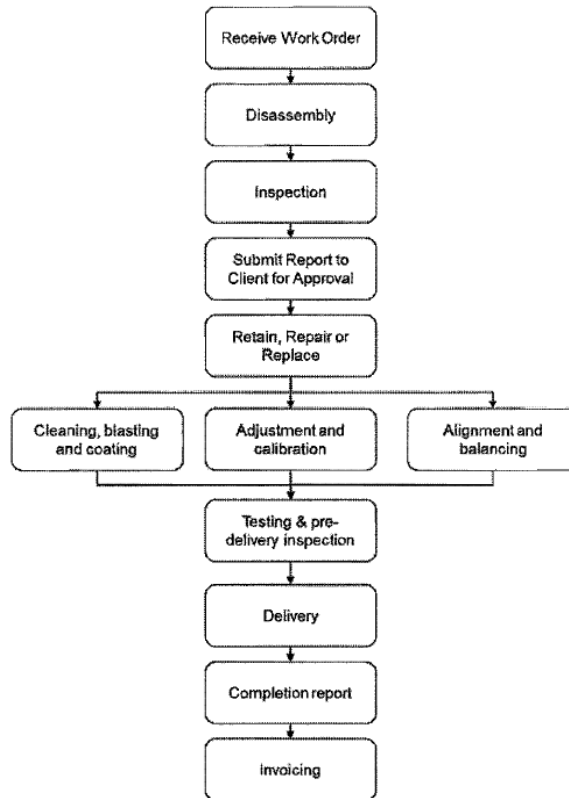
Company	Mkt Cap (RM mn)	PE (x)		Div. yield (%)		ROE (%)		EPS Growth (%)	
		CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18
Uzma	494.6	12.3	11.3	0.0	0.0	8.8	10.7	45.3	8.7
KNM Group	735.8	9.9	6.0	0.0	0.0	2.7	3.9	169.2	65.7
Deleum	400.0	20.4	11.8	0.0	0.0	6.5	10.7	11.4	73.5
Dayang	863.6	13.9	11.1	0.0	0.0	3.4	5.3	153.6	25.4
<b>Weighted Average</b>		<b>13.4</b>	<b>9.7</b>	<b>0.0</b>	<b>0.0</b>	<b>4.8</b>	<b>6.8</b>	<b>113.9</b>	<b>41.7</b>
Serba Dinamik	2002.5	8.7	8.2	3.5	3.7	19.6	18.1	3.7	6.3

Source: TA Securities, Bloomberg



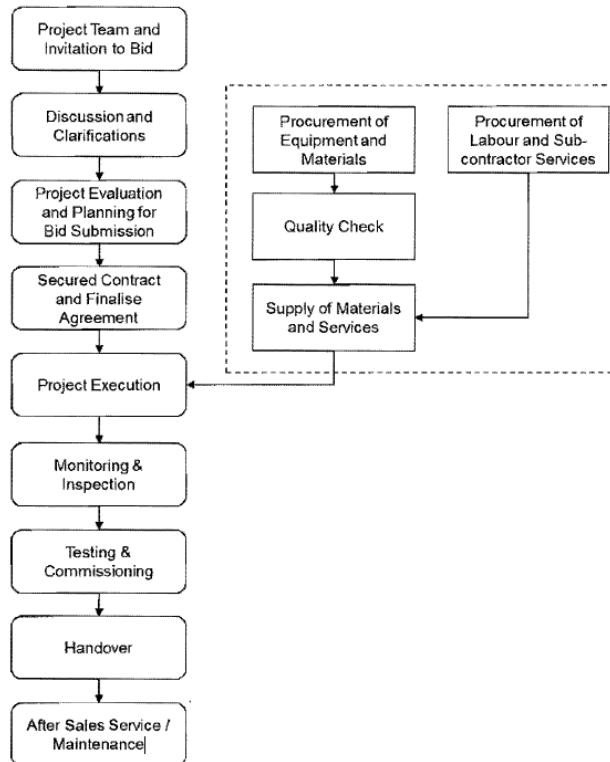
Appendix

Process Flow for MRO Operations



Source: Prospectus

Process Flow for EPCC Works



Source: Prospectus

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### Disclaimer

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