

DESCRIPTION

An energy services group providing engineering solutions to the O&G and power generation industries with operational facilities in Malaysia, Indonesia, United Arab Emirates (UAE), Bahrain and United Kingdom (UK).

Fair Value	RM2.05
IPO Price	RM1.50
Expected Return	36.7%
Closing Application Date	
Retail	19 January 2017
Institutional	19 January 2017
Indicative Listing Date	8 February 2017
Market	Main
Sector	Oil & Gas
Bursa Code	5279
Bloomberg Ticker	SDH MK
Shariah-compliant	Yes

IPO DETAILS	Shares(m)
Offer for Sale	118.0
Public Issue	271.4

UTILISATION OF PROCEEDS	RM(m)
Expansion of business & operational facilities	300.0
Working capital	29.3
Repayment of bank borrowings / financing	60.0
Estimated listing expenses	17.8
Total	407.1

KEY STOCK DATA

Market Capitalisation (RM m)	2,002.5
No. of Shares (m)	1,335.0

MAJOR SHAREHOLDERS

	%
Dato' Karim	26.1
Hj. Abdul Kadier	20.7
Dato' Awang Daud	13.2

Research Team

T 603 2268 3000
F 603 2268 3014
E research@publicinvestbank.com.my

More Upside Ahead

Serba Dinamik Holdings Berhad (Serba Dinamik) is an energy services group that provides engineering solutions to the oil and gas (O&G) and power generation industries. Its main activities include operations and maintenance (O&M) services and engineering, procurement, construction and commissioning (EPCC) works. Going forward, we expect growth to be driven mainly by its core activities, focusing on international markets such as the Middle East regions while leveraging on its expertise to expand into the power generation sector as an asset owner, contractor and operator. We are therefore valuing Serba Dinamik with a fair value of RM2.05 pegged to an 11.0x PE multiple, based on our FY17F EPS of 18.6sen. This implies an upside of 36.7% of the IPO price. The listing is scheduled for 8th February 2017, and is expected to raise approximately RM407.1m from new issuance of 271.4m shares.

§ **Growth drivers.** The group will continue to be supported by its core activities in O&M and EPCC, driven by its expansion into international markets which by its track record has historically seen c.80% of its contracts renewed. For the longer-term, Serba Dinamik will see contributions from its i) O&M of 3 small hydropower plants in Sabah, ii) expansion of its operational facilities in Malaysia and UAE, iii) establishment of new facilities in Malaysia, iv) development of small gas power plants and water utilities in Indonesia, and v) development of an industrial park in Sarawak, and vi) further M&A opportunities.

§ **Key risks.** i) Reliance on contractual agreements for O&M services and EPCC works, ii) foreign exchange risk i.e. its overseas revenue accounted for over 65.1% of its total revenue, iii) interest rate risk i.e. RM453.66m or 95.8% of its total borrowings are floating-rate loans, and iv) risk of fluctuation in O&G prices as it operates in O&G industry.

§ **30% dividend policy.** Serba Dinamik will be adopting a dividend payout policy of at least 30% of its PATAMI. This would translate to an estimated 2.5% and 2.7% yield for FY16F and FY17F respectively.

§ **Upside potential.** We are valuing Serba Dinamik with a fair value of RM2.05 based on a 18.6sen FY17F EPS, pegged to an 11x P/E multiple. Our P/E multiple is at a 30% discount against its average peers, premised on the O&G market having its rates decreased by 20%-30% during the oil price slump. However, we have not taken into account the future growth of the group that will also stem from longer-term earnings from its energy asset ownership and long-term secured O&M contracts. As at FY17F, contributions from its future plans such as the hydropower plants, gas power plant and water utilities activities will only start 2018 onwards and therefore sees no contribution as at our valuation period.

KEY FINANCIAL SUMMARY

FYE Dec (RMm)	2013A	2014A	2015A	2016F	2017F	CAGR
Revenue	536.2	755.8	1,402.9	1,964.1	2,209.6	42.5%
Operating Profit	69.4	2,058.9	1,479.6	1,644.5	2,169.9	136.5%
Pre-tax Profit	65.8	1,489.1	192.7	441.7	990.2	96.9%
PATAMI	58.7	63.9	156.7	226.3	248.8	43.5%
EPS (Sen)	4.4	4.8	11.7	16.9	18.6	43.5%
P/E (x)	34.1	31.3	12.8	8.9	8.0	
DPS (Sen)	0.0	0.0	0.0	5.1	5.6	
Dividend Yield	0.0%	0.0%	0.0%	2.5%	2.7%	

Source: Company, PublicInvest Research estimates
Pro Forma financial information from company prospectus

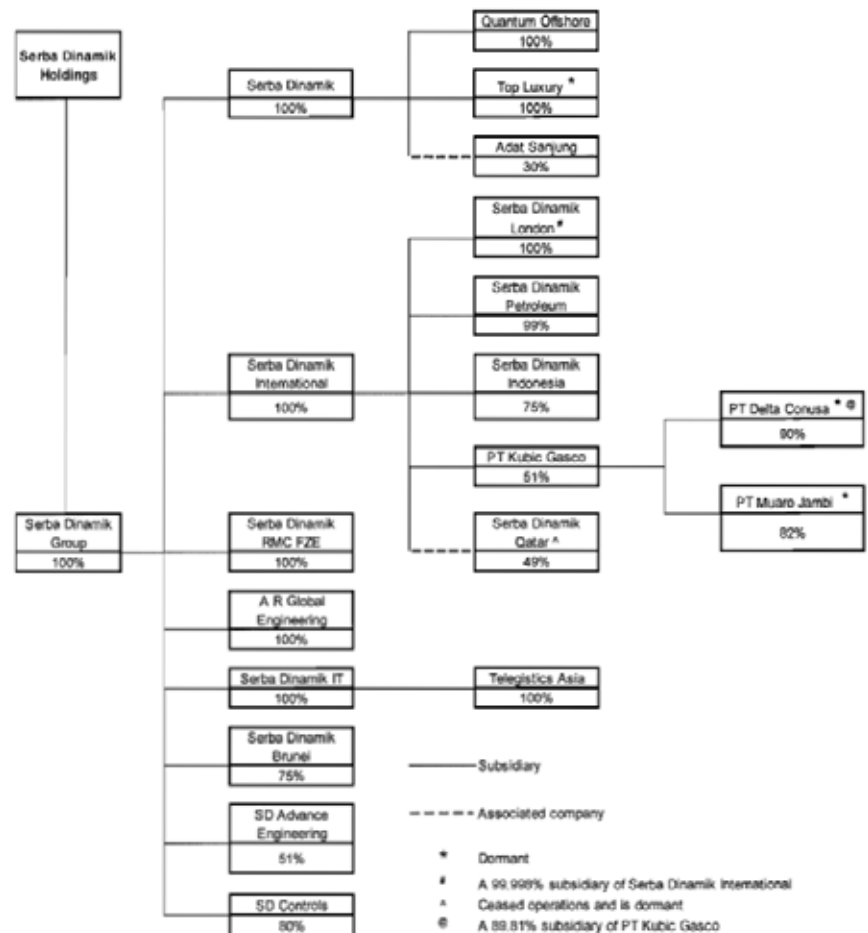
Company Background

Serba Dinamik was incorporated in Malaysia on 2nd December 2015 as a private limited company under the name of Serba Dinamik Holdings SB. On 13rd May 2016, it was then converted to a public limited company to undertake its Listing. The principal activity of Serba Dinamik is investment holding and provision of management services while the group is engaged in engineering solutions to the O&G and power generation industries.

The group is headed by the Group MD/Group CEO, Dato' Karim and Executive Director/Deputy CEO, Dato' Awang Daud, each of whom has accumulated approximately 29 years and 34 years of experience in the energy industry, respectively. Both Dato' Karim and Dato' Awang Daud, who are also the Non-Independent Executive Directors, are responsible for the overall management of operations, business development and implementation of the business plan. Majority of its key management team brings with them more than 10 years of relevant experience in their respective fields.

History. In 1993, Serba Dinamik started its business as a provider of maintenance, repair and overhaul (MRO) services for rotating equipment before expanding to inspection, repair and maintenance (IRM) of static equipment in 1998. One of its earlier contracts was with a fertiliser plant in Bintulu, Sarawak where it was engaged to undertake the MRO of rotating equipment and minor fabrication works. Subsequently in 1994, Serba Dinamik purchased a one-acre piece of land in Kidurong Light Industrial Estate in Bintulu, Sarawak where it constructed its first mechanical and fabrication service centre. As an extension of its maintenance services, Serba Dinamik expanded its business operations in 1998 to include technical training on the maintenance of rotating equipment and related courses to personnel in O&G, power generation and heavy industries.

Figure 1: Company Structure



Source: Company Prospectus

Figure 2: Serba Dinamik's Subsidiaries & Associate And Principal Activities

Name	Principal activities
Serba Dinamik Group	Investment holding and provision of management services
Serba Dinamik	O&M of plants and facilities, EPCC, technical training and related products and services
Serba Dinamik International	O&M of plants and facilities, EPCC and related products and services
Serba Dinamik RMC FZE	MRO, fabrication and logistics services
A R Global Engineering	Process control, instrumentation and related products and services
Serba Dinamik IT	ICT software and solutions
Serba Dinamik Brunei	O&M of plants and facilities, EPCC and related products and services
SD Advance Engineering	Maintenance of microturbines and related products and services
SD Controls	Testing and calibration of process control and instrumentation
Quantum Offshore	Design, engineering and installation of auxiliary power generators and firefighting systems and equipment
Top Luxury	Dormant
Serba Dinamik London	IRM of static equipment and structures, and related products and services
Serba Dinamik Petroleum	O&M of plants and facilities, EPCC and related products and services
Serba Dinamik Indonesia	O&M of plants and facilities, EPCC and related products and services
PT Kubic Gasco	Processing and supply of CNG
PT Delta Conusa	Dormant
PT Muaro Jambi	Dormant
Telegistics Asia	Internet and mobile applications solutions
Adat Sanjung	Investment holding
Serba Dinamik Qatar	Ceased operations and is dormant

Source: Company Prospectus, PublicInvest Research

Figure 3: Corporate Milestones

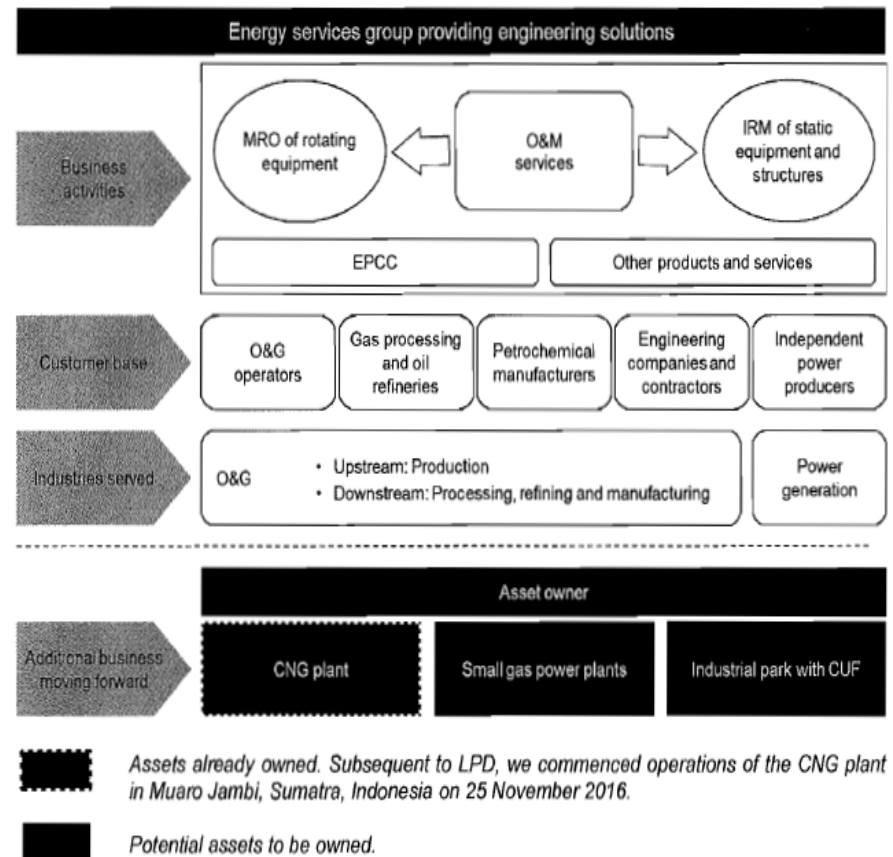
Year	Achievement
1993	- Incorporated as MRO services provider
1994	- Built first mechanical and fabrication workshop in Bintulu, Sarawak
1997	- Selected as a vendor under PETRONAS' VDP
2001	- Secured first overseas O&M contract for a LNG plant in Ras Laffan, Qatar
2005	- Established offices in Jakarta and Riau, Indonesia
2007	- Expand its business activities to EPCC works with a project from PETRONAS Dagangan Berhad
2010	- Appointed as a distributor of Capstone, a manufacturer of microturbine energy systems, for the distribution of microturbines in Malaysia, Indonesia and Brunei
2013	- Incorporated subsidiaries in Bahrain and the United Kingdom
2015	- Acquired 51% equity in a CNG plant in Muaro Jambi, Indonesia for RM3.8m - Acquired 30% indirect equity interest in 3 small hydropower plants in Kota Marudu, Sabah for RM12.2m - Appointed by MITI to be one of the anchor companies under VDP
2016	- Secured a 10-year lease agreement to lease out a gas power plant in Indonesia

Source: Company Prospectus, PublicInvest Research

Business Overview

Serba Dinamik is an international energy services group providing engineering solutions to the O&G and power generation industries with operational facilities in Malaysia, Indonesia, UAE, Bahrain and the UK. As an engineering solutions provider, its business activities comprise operations and maintenance (O&M) services, engineering, procurement, construction and commissioning (EPCC) works, and other products and services.

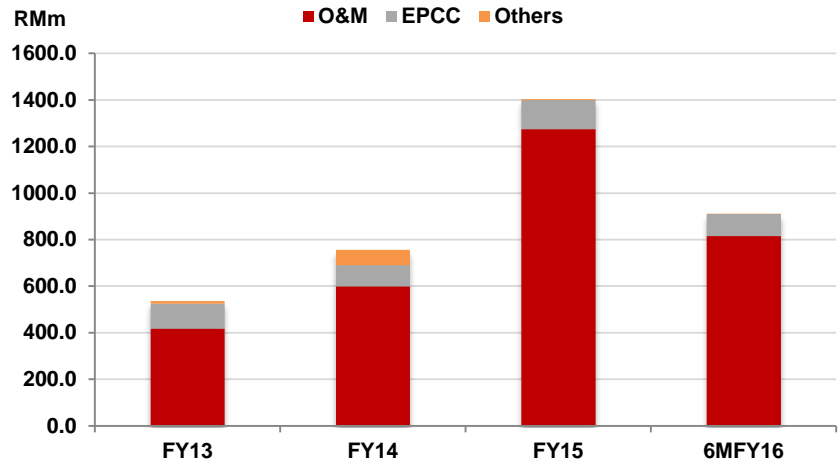
Figure 4: Serba Dinamik's Business Model



Source: Company Prospectus

- (i) Within O&M services, it carries out MRO of rotating equipment including gas and steam turbines, engines, motors, pumps, compressors and industrial fans; inspection, repair and maintenance (IRM) of static equipment and structures including boilers and unfired pressure vessels, piping systems and structures, as well as maintenance of process control and instrumentation.
- (ii) The group has the capabilities to carry out EPCC of plants, facilities, road infrastructure and buildings, as well as other related systems and solutions including design and installation of process control and instrumentation, auxiliary power generation and firefighting systems. While the group has the capabilities to undertake various types of EPCC works, its focus is in O&G and power generation industries.
- (iii) Its other products and services include technical training, provision of ICT solutions and services, supply of products and parts, and provision of logistics services.

Figure 5: Segmental Revenue of the Group

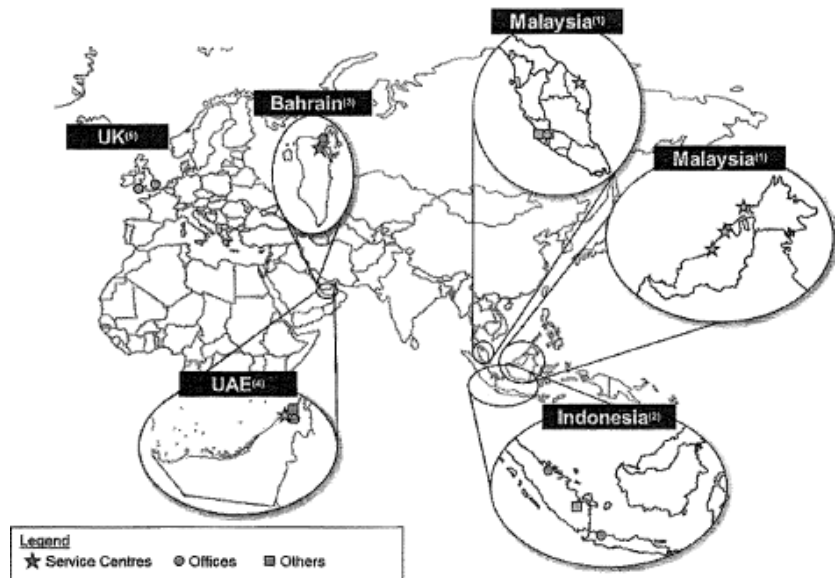


Source: Company Prospectus

Over 75% of the group's revenue was derived from the provision of O&M services which is reflected in its revenue contribution for FY13, FY14 and FY15. Its customer base includes engineering companies and contractors, O&G operators, gas processing and oil refineries, petrochemical manufacturers, independent power producers and others.

Industries served. The group's revenue is largely derived from the O&G industry. Within the O&G industry, the sectors that it services include upstream production of O&G and downstream processing, refining and manufacturing sectors of the O&G industry. As for the power generation industry, it services independent power producers as well as O&G customers that have power generation equipment for their own use. We continue to expect the O&G industry to be a major contributor to the Group's revenue and earnings.

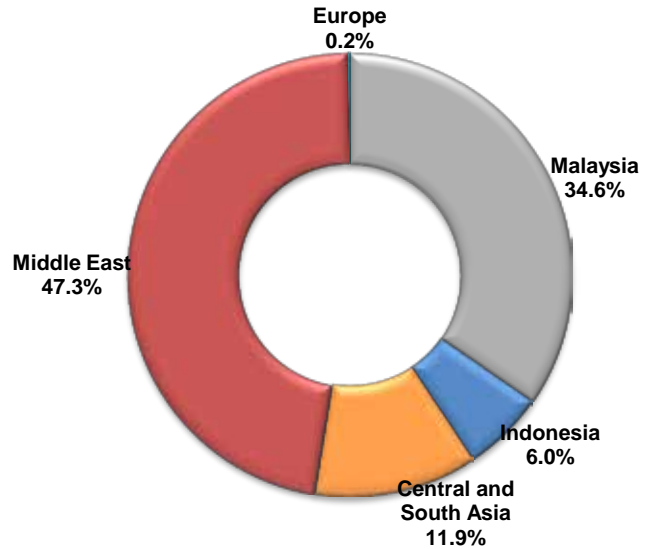
Figure 6: Operational Facilities in Various Countries



Source: Company Prospectus

Others represent a logistics centre in UAE or a factory in Klang, Malaysia or a CNG plant in Muaro Jambi, Sumatra, Indonesia.

Figure 7: Geographic Presence in FY15

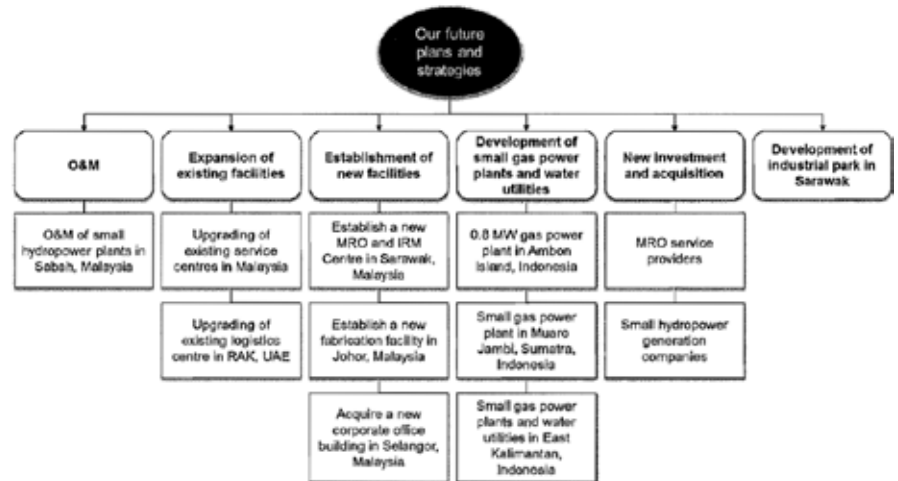


Source: Company Prospectus

Geographically diversified in Southeast Asia, Middle East & Europe. Over 65.1% of its revenue was derived from overseas markets in FY15. For FY15, it served customers in markets including Southeast Asia (Malaysia and Indonesia), Central and South Asia (Turkmenistan and India), Middle East (Qatar, Oman, UAE, KSA, Kuwait and Bahrain) and Europe (UK). For FY17F, we maintain that Middle East will remain the group's largest geographical exposure.

Growth Drivers

Figure 8: Future Plans and Strategies



Source: Company Prospectus

O&M of small hydropower plants. Leveraging on its core strengths in MRO and IRM services as a platform, Serba Dinamik expanded into the operation of small power plants. In February 2016, the group secured a 21-year O&M contract for three small hydropower plants in Kota Marudu, Sabah, Malaysia. The three small hydropower plants will have a total capacity of 29.1MW. The group owns 30% equity stake of the asset, as part of its strategy to be asset owner for the longer-term, and will undertake the O&M and EPCC (worth RM218m capex) activities. The 21-year O&M contract which is estimated to contribute revenue of c.RM10m per year is expected to commence in 1Q2018 upon the completion of construction by the end of 2017, with the funding to be internally generated. As the group's first power plant project, aside from being an asset owner, they will also leverage on their Capstone micro-turbine technology expertise and to also use the assets as a testing platform as part of their R&D for potential future projects.

Establishment of new facilities in Malaysia. Having identified growing opportunities in East Malaysia, the group plans to expand its operations further in Sabah, Sarawak and Labuan to include a new MRO and IRM centre in Sarawak, which will be used as a platform to facilitate its O&M operations.

In addition, the group will utilise RM20m of its IPO proceeds to establish a new fabrication facility to support EPC works and IRM services in Johor. This new facility will support its fabrication works for the Refinery and Petrochemical Integrated Development (RAPID) project in Southern Johor. As RAPID is within the Pengerang Integrated Petroleum Complex (PIPC), it will also enable the group to participate in potential future projects within PIPC. Besides that, the group also intends to acquire a corporate office building in Selangor.

Development of small gas power plants and water utilities in Indonesia. Serba Dinamik has i) entered into an agreement to lease out a small gas power plant on Ambon Island. ii) Signed 2 MOUs for the development of small gas power plants and water utilities in East Kalimantan. The development of a small gas power plant and water treatment plant are both located in Muaro Jambi. The group plans to utilise approximately RM70m from the IPO proceeds for the above projects in East Kalimantan and Muaro Jambi, Sumatra.

Development of industrial park in Sarawak. To incorporate a centralised utility facility (CUF) providing electricity, steam, chilled water, demineralized water, wastewater treatment, industrial gases and compressed air. Upon completion of the industrial park, the group plans to operate and maintain the CUF while the management of the industrial properties within the park would be subcontracted to an external play. The group will utilise internally generated funds and/or bank borrowings to undertake the development of industrial park in Sarawak.

Other Strategies

Upgrading of existing operational facilities for Malaysia, for 4 out of 5 existing service centres namely in Paka, Terengganu, Miri, and two in Labuan mainly through the purchase of additional machineries, tools and equipment. The estimated cost of approximately RM7m will be funded through IPO proceeds.

UAE operations refurbishment. To construct an administration area within the warehouse, construct a covered workshop equipped with tools and equipment and invest in mobile workshops. It is estimated to cost approximately RM8m, which will also be funded through its IPO proceeds.

Business expansion through investment and acquisition. To invest and acquire companies that can add value to its existing business operations or provide an incremental revenue stream while enhancing its competitive advantages. Serba Dinamik's strategy includes acquiring companies that can complement or expand its existing product and service offerings, provide it with access into new segments and geographical markets or enable it to enhance its track record of accomplishments. The group is exploring investment opportunities with companies with technologies and skills set that are complementary or add value to its O&M services.

Minority equity interest in small hydropower plants in East Coast region and Northern region of Peninsular Malaysia. Approximately RM95m from its IPO proceeds is earmarked for investment and acquisition of companies.

Competitive Strengths

A leading MRO player. The group has 23 years of track record starting with providing MRO services and eventually incorporating IRM and EPCC services for the O&G industry. In addition to Malaysia, its provision of O&M services extends to Indonesia, Qatar, UAE, KSA, Oman, Bahrain, India and Turkmenistan for the past three financial years.

Long-term major customers. The group has existing maintenance contracts with its major customers in Malaysia and overseas, who they have been dealing with for an extended period ranging between 3 years up to 22 years. These longstanding customer relationships provide the group with stable and recurring orders hence revenue which we believe will sustain and grow its business.

PETRONAS-licensed company. A PETRONAS-licensed company in Malaysia. There are barriers to entry into the O&G industry in Malaysia due to the licensing requirements imposed by PETRONAS Malaysia. To participate in O&G industry in Malaysia, it is mandatory that appropriate licences and registrations are obtained from PETRONAS and kept current at all times. In this respect, Serba Dinamik has obtained the necessary licences and registration from PETRONAS to facilitate the provision of products and services to oil majors, PSC and RSC operators as well as other O&G service providers in the industry. The group is licensed for a total of 48 SWEC codes from PETRONAS. As a Malaysian based company, it is well positioned to benefit from this key strength that represents a barrier to entry for new entrants into O&G industry in Malaysia.

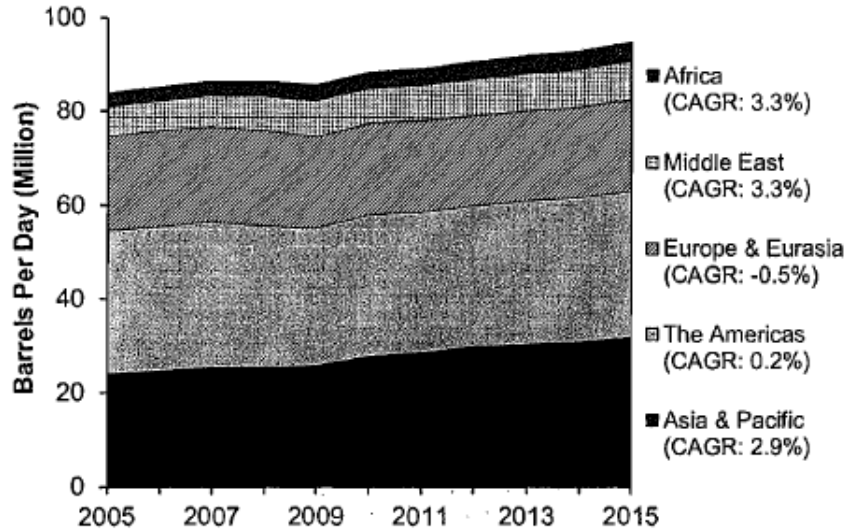
Market Ranking. Serba Dinamik is ranked 3rd among Oil and Gas Service and Equipment (OGSE) companies in Malaysia in providing MRO of rotating equipment services to the O&G industry. The ranking was based on the consolidated revenue for FY14 of PETRONAS-licensed companies with Standardised Work and Equipment Categories (SWEC) codes for maintenance of rotating equipment. They are also ranked 11th among OGSE companies in Malaysia providing maintenance services to the O&G industry, whereby the ranking was based on the consolidated revenue for FY14 of PETRONAS-licensed companies with SWEC codes for all types of maintenance services. Serba Dinamik in addition ranked 5th among OGSE companies in Malaysia providing IRM of static equipment services to the oil and gas industry. Ranking was based on consolidated revenue for FY14 of PETRONAS-licensed companies with SWEC codes for maintenance of static equipment.

Industry Outlook

Global O&G outlook. The prospects and outlook of the asset maintenance industry for O&G, and power generation are closely tied to the overall prospects of the oil and gas, and power generation industries. With the increasing world O&G demand, O&G producers would have to continually sustain production to meet the demand. This in turn would drive the need for maintenance of assets used in the O&G industry to ensure production facilities are running productively, efficiently and cost effectively.

Global petroleum and other liquid fuels consumption. Global consumption of petroleum and other liquid fuels averaged 95.6mmbbls/day in 2016, an increase of 1.4mmbbls/day from 2015. Consumption growth in 2016 was driven by non-Organization for Economic Cooperation and Development (non-OECD) countries. Consumption growth is expected to be about 1.6mmbbls/day in 2017 and 1.5mmbbls/day in 2018, with 1.2mmbbls/day of the growth in both years coming from rising non-OECD consumption. Meanwhile, we are positive on Serba Dinamik's strategies to continue penetrating the Middle East, as it is one of the fastest growing regions for oil consumption over the last decade with its population, urbanisation and economic growth stimulating the increase in fuel demand.

Figure 9: Oil Consumption by Region



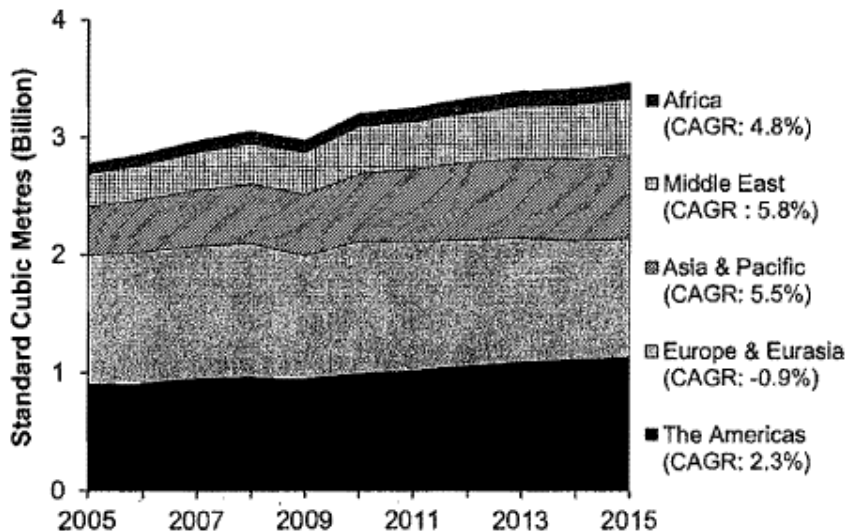
Source: Vital Factor analysis, Company Prospectus

Note: Oil consumption is measured as deliveries from refineries and primary stocks, comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply.

Global natural gas consumption amounted to 3.5 trillion standard cubic metres in 2015, which represented approximately 24% of the global primary energy consumption. The robust growth of the overall global gas consumption was mainly driven by Asia and Pacific, and the Middle East regions where demand grew at CAGR of 5.5% and 5.8% respectively. Similarly to oil demand, the gas demand in the Middle East was also driven by its fast growing economy, population growth and urbanization coupled with gas subsidies. Between 2016 and 2020, the global demand for gas is projected to grow at a CAGR of 1.3% to reach approximately 3.8 trillion standard cubic metres by 2020.

In this respect, there will still be continuing opportunities for operators providing maintenance services to the O&G industry as production of crude oil and natural gas would have to continue to meet the increasing demand.

Figure 10: Natural Gas Consumption by Region



Source: Vital Factor analysis, Company Prospectus

Note: Natural gas consumption excludes natural gas converted to liquid fuels but includes derivatives of coal as well as natural gas consumed in gas-to-liquids transformation.

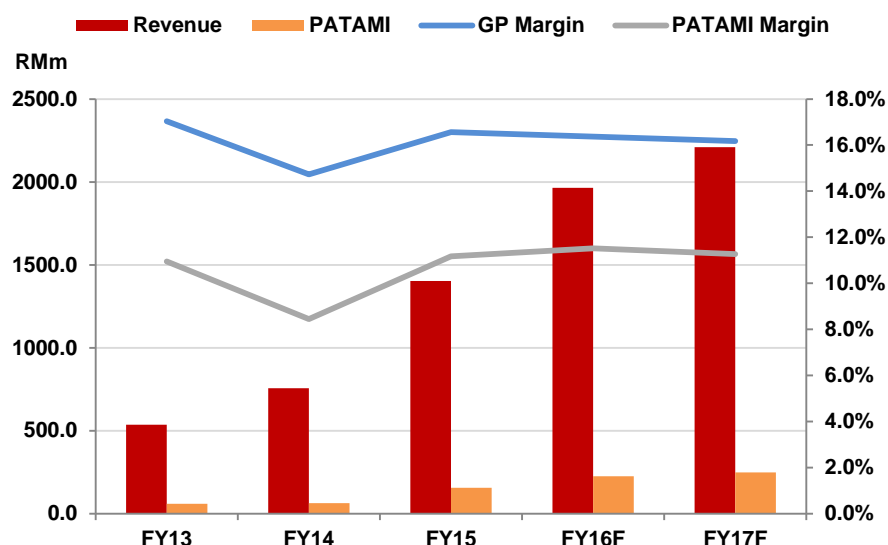
Financials

Strong revenue growth trend. Revenue increased from RM536.20m in FY13 to RM1.40bn in FY2015 attributed to new contracts and expansion of its business activities and geographical coverage. The group achieved a strong 3-year revenue and PBT CAGR of 61.8% and 55.7% between FY13 and FY15. We understand that historically the group has been able to successfully renew c.80% of their contracts, despite the annual burn-rate of c.30% to 40%.

Serba Dinamik has existing maintenance contracts with its major customers in Malaysia and overseas, predominantly in the O&G sectors. Going forward we expect the composition of revenue to be 85%-90% from the O&G industry, and 10%-15% from power plants.

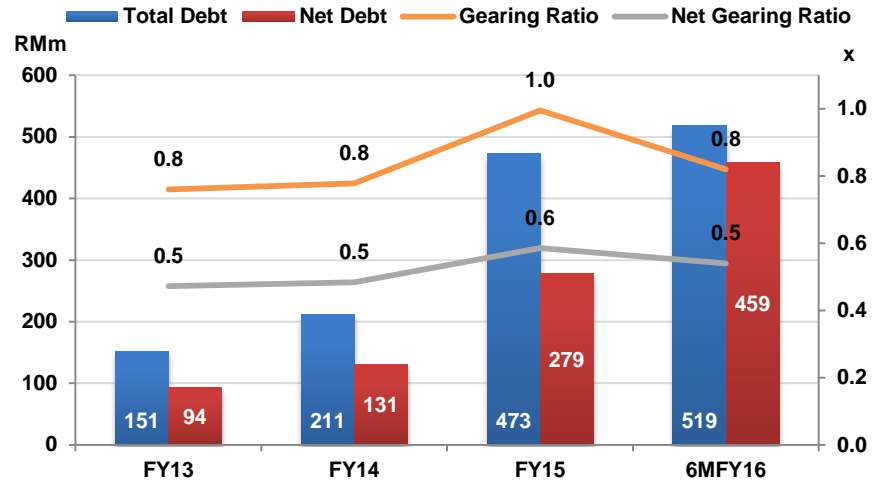
RM3.6bn outstanding order book will sustain the group's growth for FY17F, comprising of 60% to 70% of international orders whereby 50% are from the Middle East where it has been established for more than 15 years. We continue to expect strong contributions from international markets in particular the Middle East, supported by longer-term earnings visibility from international vs. domestic projects. Today, international projects can range between 3 to 4 years, whereas domestically, contracts are about 2 years + optional 1 year (or more) type. Subsequently the international contract size range is also larger, ranging between USD30m to USD90m. For domestic markets, contracts are approximately RM20m to RM160m.

Figure 11: Financial Summary



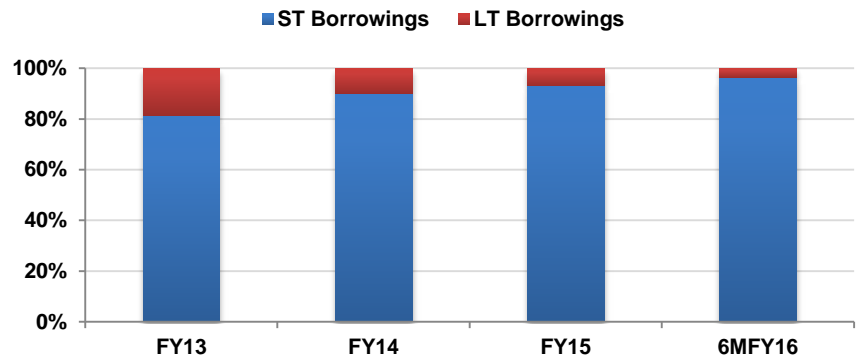
Source: Company Prospectus, PublicInvest Research Estimates

Net Profit (after minority interests). The Group's 3-year CAGR from FY13 to FY16F is 56.8%, in tandem with the CAGR growth in revenue of 54.2%. The major boost in earnings however was in FY15 when the Group's gross profit margins improved to 16.6% from 14.7% in the previous year owing to better management of costs. We expect gross profit (GP) margins to remain at this level which would translate to a healthy growing bottom-line. Margins may seem to be trending downwards slightly, due to intensifying competition coupled with continued higher costs, despite revenue strengthening. We do however see net margins to trend at a sustained level of c.11% with the expansion in capacity coupled with continued penetration into markets with better margins for the longer-term.

Figure 12: Debt Analysis


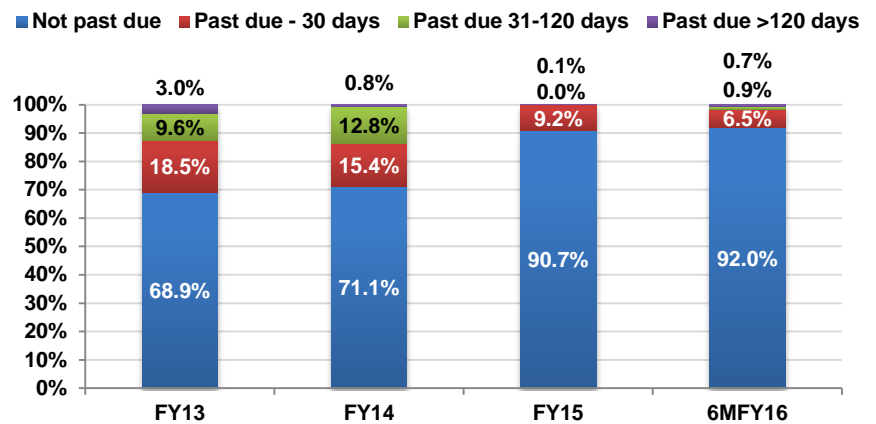
Source: Company

Debt analysis. The group's debt level has been rising in tandem with the growing revenue, with the requirement to gear up to expand its operations. For FY17F, the gearing level is expected at 0.6x with net gearing at 0.3x. Going forward however due to Serba Dinamik's strategy to move into asset ownership, we do see gearing levels to be slightly higher but maintained below 1.0x.

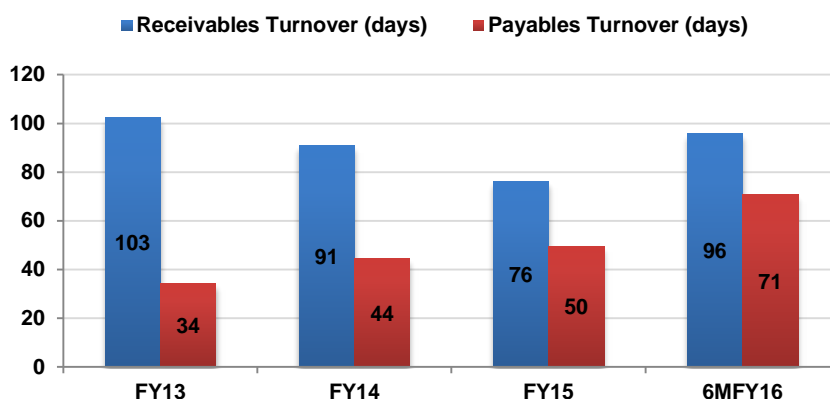
Figure 13: Debt Profile


Source: Company

Trade receivables. The Group's receivables remain healthy, with its on-time collection standing at c.90% levels for FY15 and to improve further as of 6MFY16. Analysing further, its receivables turnover days is also reducing, while its payables turnover to be increasing signaling better cashflow efficiency trends.

Figure 14: Trade Receivables Analysis


Source: Company

Figure 15: Liquidity & Efficiency Analysis


Source: Company

30% dividend policy. Serba Dinamik will be adopting a dividend payout policy of at least 30% of its net profit (after minority interests). This would translate to an estimated 2.5% and 2.7% yield for FY16F and FY17F respectively.

Valuations

Price-earnings approach. We are valuing Serba Dinamik with a fair value of RM2.05 based on a 18.6sen FY17F EPS, pegged to an 11x P/E multiple. Our P/E multiple is at a 30% discount against its average peers' P/E, premised on the O&G market having its rates decreased by 20%-30% during the oil price slump. Our 11x multiple has not taken into account the future growth of the group that will also stem from longer-term earnings from its energy asset ownership and long-term secured O&M contracts. As at FY17F, contributions from its future plans such as the hydropower plants, gas power plant and water utilities activities will only start 2018 onwards and therefore sees no contribution as at our valuation period.

Figure 16: P/E Valuation

<u>FY17F PATAMI</u>	<u>P/E Multiple</u>	
248.8	11.0	2737.28
	No. of Shares ('000)	1335.0
	EPS (sen)	18.6
	Fair Value (RM)	2.05
	Upside	36.7%

Source: Public Investment Research estimates

Key Risks

Reliance on contractual agreements for O&M services and EPCC works. Serba Dinamik is reliant on contractual agreements for both its O&M and EPCC divisions. Therefore any interruptions in terms of procurement, renewal, termination of contracts or securing work orders from contracts could adversely affect its business operations and financial performance.

The group's revenue is furthermore dependent on work orders from contracts. In particular O&M whereby its contracts are on a call-out basis. Call-out basis contracts are subject to work orders made as per the client's schedule. Thus there is uncertainty to the amount of work orders issued and hence difficulty in determine the real size of the orderbook. For EPCC, it would also depend on the volume and duration of contracts where resources allocated for certain projects would likely be committed for a certain project and if under-utilised will not be able to benefit from gains from other projects.

Cross-border investment risks. Serba Dinamik has overseas operations and expects to continue expanding its business activities outside of Malaysia. Growing abroad in new environments may subject the group to different risks other than those it faces in growing its operations in Malaysia, including foreign legal and regulatory risks associated with cross-border transactions and operational risks related to managing transactions outside of Malaysia, such as those arising from dealing with entrenched domestic competitors in overseas markets.

Political risk, especially in emerging markets. The business operations are subjected to prevailing political conditions which may adversely affect its business operations, especially in emerging markets, such as Middle East and Indonesia. Sufficient understandings on the countries' statutory and political risk are thus required prior to extending its operations in the countries.

Increasing intensity in competition. As an independent service provider that provides maintenances services on various brands of rotating equipment, the Group generally faces competition from original equipment manufacturers (OEM) and their respective authorized service providers as well as other independent service providers. Contracts in the industry are awarded on a competitive bid basis and its ability to compete with its peers will be dependent on, among other factors, its pricing, service quality and responsiveness, ability to provide total solutions, safety record, technical capabilities and track record. Besides, as a non-OEM service provider, Serba Dinamik may not be able to secure contracts if the equipment is still under the warranty period.

Foreign exchange risk. Part of Serba Dinamik's income and expenses, particularly those relating to its overseas investments and operations, are denominated in foreign currencies, in particular USD. One of its subsidiaries, Serba Dinamik International, uses USD as their functional currency, while the group's reporting currency is RM. Changes in the exchange rate between RM and USD may not have a material impact on our foreign currency denominated cash flows, but may have an adverse impact on its reported income and expenses as well as its financial performance as it is required to be stated in RM in its consolidated financial statements.

Interest rate risk. Any movements in the base rates of the relevant financial institutions may increase its interest expense and therefore, adversely affect its profitability. The interest rate risk exposure may as a consequence materially and adversely affect the group's business, financial condition, results of operations and cash flow. Nevertheless, the group monitors its exposure to changes in interest rates on a regular basis.

Risk of fluctuation in O&G prices and industry. Serba Dinamik operates in an industry that is subject to the risk of fluctuation in O&G prices. There is a risk that the demand for its maintenance services may be affected by the depressed O&G prices which may continue to dampen the level of activities in the O&G industry. O&G companies generally react to declining O&G prices by reducing capital and development activities, and operational expenditure such as exploration. It may result in either a postponement or non-renewal of the group's maintenance contracts until such a time the O&G prices stabilise at a commercially viable level. Alternatively, the reduction in operational expenditure by O&G companies may affect Serba Dinamik's pricing for new or existing maintenance contracts while maintaining a similar scope of work.

IPO Details

Serba Dinamik is seeking a listing with an enlarged issued and paid-up share capital of 1,335,000,000 shares with RM0.50 par value on Bursa Malaysia's Main Market. Pursuant to IPO listing, the company's market capitalization is RM2,002.5m based on its IPO price of RM1.50.

The IPO allocation, post-IPO share capital of Serba Dinamik and utilisation of IPO proceeds are shown in the following tables.

Figure 17: IPO Allocation

<u>Categories</u>	<u>No. of shares</u>	<u>% of enlarged share capital</u>
Public issue:		
Institutional offering	223,300,000	16.7
- Bumiputera investors	35,525,000	
- Malaysian institutional and selected investors	187,775,000	
Retail offering	48,100,000	3.6
- Eligible directors of the group	4,920,000	
- Eligible employees of the group	16,480,000	
- Malaysian Public*	26,700,000	
Sub-total	271,400,000	20.3
Offer for sale:		
Institutional offering	118,000,000	8.8
Sub-total	118,000,000	8.8
Total	389,400,000	29.2

Source: Company Prospectus, PublicInvest Research
* via balloting

Figure 18: Post-IPO Share Capital

	<u>No. of shares</u>
Authorised	1,500,000,000
Issued and fully paid-up share capital as at 21 Nov 2016	1,063,600,000
Shares to be issued pursuant to the Public Issue	271,400,000
Enlarged issued and paid-up share capital upon listing	1,335,000,000

Source: Company Prospectus, PublicInvest Research

Figure 19 : Utilisation of IPO proceeds*

<u>Details of utilisation</u>	<u>RM'000</u>	<u>%</u>	<u>Timeframe for utilisation upon listing</u>
Expansion of business and operational facilities	300,000	73.7	Within 12 to 36 months
Working capital	29,300	7.2	Within 36 months
Repayment of bank borrowing/financing	60,000	14.7	Within 12 months
Estimated listing expenses	17,800	4.4	Within 6 months
Total	407,100	100.0	

Source: Company Prospectus, PublicInvest Research
*based on RM1.50 for 271,400,000 new shares issued

Figure 20: Peer Comparison

Company	Price		Mkt Cap (m)	EPS (sen)		EPS Growth (%)		P/E (x)	
		@13-Jan		2016F	2017F	2016F	2017F	2016F	2017F
Deleum	MYR	1.01	404.0	4.4	4.9	-61.4	11.4	23.0	20.6
KNM Group	MYR	0.37	799.8	1.3	3.5	-50.0	169.2	28.5	10.6
KSB AG	EUR	357.75	616.1	2008.0	2755.0	-5.3	37.2	17.8	13.0
Siemens AG	EUR	116.10	98,686.7	642.1	747.6	-0.6	16.4	18.1	15.5
Mitsubishi Heavy Industries	JPY	533.90	1,801,163.5	1,902.0	2,989.8	-44.4	57.2	28.1	17.9
Hyundai Heavy Industries	KRW	142,000.00	10,792,000.0	1,451,500.0	1,240,000.0	100.7	-14.6	9.8	11.5
General Electric	USD	31.36	277,422.8	149.3	166.1	14.0	11.3	21.0	18.9
Average						-6.7	41.2	20.9	15.4

Source: Bloomberg

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2013A	2014A	2015A	2016F	2017F
Revenue	536.2	755.8	1,402.9	1,964.1	2,209.6
Operating Profit	69.4	2,058.9	1,479.6	1,644.5	2,169.9
Other Op. Income	1.8	8.2	0.9	1.2	1.3
Administration Expenses	-23.7	-33.6	-51.2	-73.6	-85.1
Pre-tax Profit	65.8	1,489.1	192.7	441.7	990.2
Income Tax	-4.2	-0.3	-3.0	-4.3	-4.8
Effective Tax Rate (%)	0.1	0.0	0.0	0.0	0.0
Minorities	-2.9	-3.5	0.2	0.2	0.3
PATAMI	58.7	63.9	156.7	226.3	248.8
Growth					
Revenue	n/a	41%	86%	40%	13%
Gross Profit	n/a	22%	109%	38%	11%
PATAMI	n/a	9%	145%	44%	10%

Source: Company Prospectus, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2013A	2014A	2015A	2016F	2017F
PPE	79.1	134.1	349.3	410.2	566.3
Inventories	146.1	198.9	229.8	322.5	363.7
Trade receivables	176.6	221.6	431.0	603.4	678.9
Cash and bank balances	57.0	80.0	194.6	100.0	100.0
Total Assets	461.5	639.3	1,258.8	1,490.2	1,762.9
ST Borrowings	122.8	190.4	440.9	424.4	79.9
LT Borrowings	28.0	20.8	32.4	25.9	19.4
Trade payables	3,264.2	4,371.7	6,004.0	6,775.4	8,939.7
Minority Interests	12.8	0.5	7.3	7.5	7.8
Total Liabilities	263.1	367.9	783.1	856.1	547.5
Total Equity	198.4	271.3	475.7	634.1	1,215.4
Total Equity and Liabilities	461.5	639.3	1,258.8	1,490.2	1,762.9

Source: Company Prospectus, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec (RMm)	2013A	2014A	2015A	2016F	2017F
Book Value Per Share	0.1	0.2	0.4	0.5	0.9
NTA Per Share	0.3	0.5	0.9	1.1	1.3
EPS (Sen)	4.4	4.8	11.7	16.9	18.6
DPS (Sen)	0.0	0.0	0.0	5.1	5.6
Payout Ratio	0%	0%	0%	30%	30%
ROA (%)	0.1	0.1	0.1	0.2	0.1
ROE (%)	0.3	0.2	0.3	0.4	0.2

Source: Company Prospectus, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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PUBLIC INVESTMENT BANK BERHAD (20027-W)
9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014
Dealing Line 603 2268 3129