

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

7 Jun 2017

Serba Dinamik Holdings (SDH MK) : BUY

Mkt. Cap: US\$651m | 3m Avg. Daily Val: US\$2.0m

Last Traded Price (6 Jun 2017): RM2.08

Price Target 12-mth: RM2.90 (39% upside) (Prev RM2.90)

Analyst

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Business as usual in Qatar...for now

- **Concern over implication of diplomatic crisis in Qatar on Serba**
- **No near term impact as logistics and manpower needs of Qatari contracts not dependent on disputing countries**
- **Termination risk low as Qatar is the biggest LNG supplier for Japan, China and India**
- **Reiterate BUY with TP of RM2.90**

Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	2,155	2,745	3,319	3,956
EBITDA	342	424	525	644
Pre-tax Profit	274	337	420	516
Net Profit	253	305	384	473
Net Pft (Pre Ex.)	253	305	384	473
Net Pft Gth (Pre-ex) (%)	61.2	20.6	25.9	23.3
EPS (sen)	18.9	22.8	28.7	35.4
EPS Pre Ex. (sen)	18.9	22.8	28.7	35.4
EPS Gth Pre Ex (%)	61	21	26	23
Diluted EPS (sen)	18.9	22.8	28.7	35.4
Net DPS (sen)	0.0	6.85	8.62	10.6
BV Per Share (sen)	60.6	86.8	107	132
PE (X)	11.0	9.1	7.2	5.9
PE Pre Ex. (X)	11.0	9.1	7.2	5.9
P/Cash Flow (X)	49.2	7.5	9.2	7.1
EV/EBITDA (X)	9.4	7.5	6.2	5.2
Net Div Yield (%)	0.0	3.3	4.1	5.1
P/Book Value (X)	3.4	2.4	1.9	1.6
Net Debt/Equity (X)	0.5	0.3	0.3	0.3
ROAE (%)	39.6	31.0	29.7	29.7

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

- Share price of Serba Dinamik (Serba) dropped 7.6% yesterday following news of Saudi Arabia, Bahrain, the United Arab Emirates (UAE), Egypt, Yemen, Libya and Maldives cutting diplomatic ties with Qatar over the latter's alleged support of terrorist groups.
- Furthermore, Saudi Arabia, Bahrain and the UAE took the unprecedented measures in banning all Qatari citizens from their nations and implementing air, land and sea blockades over Qatar.

No immediate impact on Serba's Qatari operations

- We believe there will be no immediate impact to Serba's existing contracts from Qatar as its operations are not dependent on Qatar's ties with these nations in terms of logistics and manpower needs.
- Serba's manpower largely consists of contract staff from India, the Philippines and Pakistan who are based in Qatar.
- According to news report, the Philippine government has banned sending workers to Qatar following concerns about the fate of 140,000 Filipinos workers already in Qatar, particularly given suggestions that the blockade could lead to food shortages. The suspension applies to newly-hired and returning Filipino workers. There is no plan yet to repatriate Filipino workers in Qatar.
- Currently, there are 250 employees stationed in Qatar. In the event of plant turnaround periods, management will source additional workers, if need be, directly from India and Pakistan.
- This event could turn out to be an opportunity to Serba as it already has a base in Qatar as compared to other M&O service providers which may be operating from those countries currently in diplomatic feud with Qatar.

Flash Note

These contractors might face problems and leave Qatar. As such, Serba could benefit from additional contract wins from plants in Qatar.

- We believe contract termination risk is low at the moment as Qatar is the largest LNG gas exporter, with Japan, South Korea, India and China being its major export destinations. The conflict is not expected to affect trade relation with its main trading partners.
- The operations of existing production platforms, plants, factories related to the oil and gas industry in Qatar are not expected to be jeopardised or interrupted. The routes transporting gas to the main buyer countries are also unaffected.
- That said, we could not rule out the knock-on effect of a prolonged blockade as Qatar depends on land transport over its only land border with Saudi Arabia for much of its supply of food and basic necessities. Already the livelihood of its population faces much uncertainty due to shortage of food and basic necessities following panic buying at various supermarkets. Furthermore, any widespread departure of foreign labour as a direct or indirect result of the blockade may affect the smooth running of the entire supply chain of Qatar's oil and gas industry.

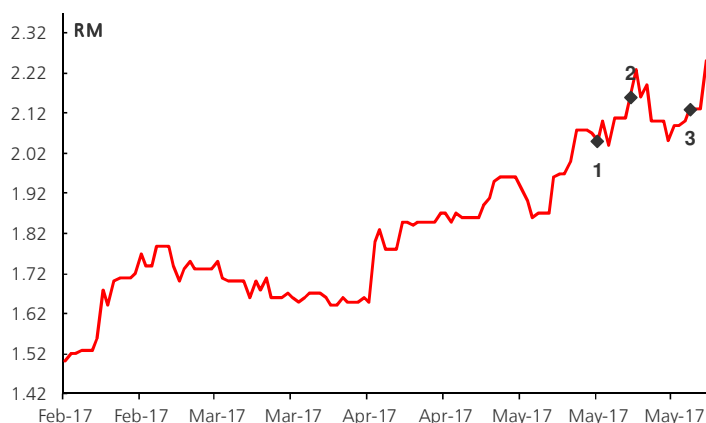
Maintain FY17/FY18/FY19 earnings

- We are maintaining our earnings forecast at this juncture as the contracts are intact.
- In FY16, 19% of Serba's revenue was derived from Qatar. We believe FY17F revenue contribution from Qatar to be at the same level with the total current O&M orderbook of RM4bn, of which 19% of the total contracts come from Qatar. The contracts are for a period of four years.
- There are six existing contracts in Qatar. In the event that all of these contracts being terminated, FY17 EPS will drop by 17%. We have included realised 1Q17 contributions in our calculations and we have assumed Middle East contracts to carry higher margins. FY18/FY19 EPS will drop by 19%/16% as contributions from other countries increase, coupled with inclusions of its new income-generating assets.

Valuation

Our SOP target price is at RM2.90, based on 9% WACC for its income-generating assets and 12x FY17F PE for its O&M and EPCC segments, which is in line with the average CY17 PE for local small-mid cap O&G maintenance service providers.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 May 17	2.05	2.90	BUY
2:	22 May 17	2.16	2.90	BUY
3:	02 Jun 17	2.13	2.90	BUY

Source: AllianceDBS

Analyst: Inani Rozidin

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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