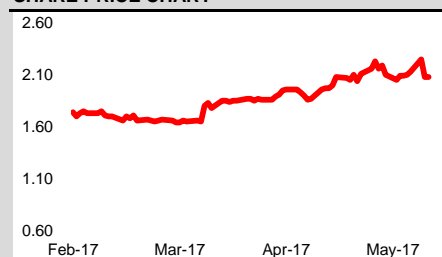


DESCRIPTION

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).

Target Price RM2.85
Current Price RM2.08
Upside +39.0%

Market Sector Main Oil & Gas
Bursa Code 5279
Bloomberg Ticker SDH MK
Shariah-compliant Yes

SHARE PRICE CHART


52 Week Range (RM) 1.51-2.30
3-Month Average Vol ('000) 4,275.3

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	12.4	21.5	n/a
Relative Returns	9.5	14.7	n/a

KEY STOCK DATA

Market Capitalisation (RM m) 2,776.8
No. of Shares (m) 1,335.0

MAJOR SHAREHOLDERS

	%
Dato' Karim	26.2
Dato' Awang Daud Dato' Awang	14.2
Commerce Trust	0.2

Mabel Tan

T 603 2268 3017

F 603 2268 3014

E mabeltan@publicinvestbank.com.my

No Concerns

Serba Dinamik's (Serba) management issued a note of clarification yesterday pertaining to the matter of isolation of Qatar by Saudi Arabia, Egypt and at least three other Arab nations. Serba's Group MD/CEO Dato' Dr. Ir. Karim bin Abdullah expressed that all of Serba's operations in Qatar remain active as the Company is not impacted by the ongoing rift that is happening in the Middle East region. Dato' Karim emphasises that Serba is a Malaysian entity and is in no position involved in the ongoing complication. We maintain that the Group's growth going forward will be underpinned by the expansion plans into the power generation sector as an asset owner, contractor and operator and thus bottom-line would be cushioned even if there was the absence of contributions from Qatar. Our **Outperform** call is supported by our TP of RM2.85 pegged to a 12x PE multiple on our FY18F EPS of 23.8 sen.

§ **Qatar contributions.** As of 1QFY17, Qatar is the Group's second largest country contributor by revenue with 21.2%. For 2016, the nation made up 16% of Serba's total revenue. We understand that the activities in Qatar are predominantly in operations and maintenance (O&M), and that the contributions in FY17 are expected to normalise to between 10%-13% for FY17 with the growth of other countries' contributions.

§ **Dato' Karim's note.** "We provide O&M services, which is not affected by the current matter. In fact, we are gearing up for opportunities to possibly provide our support to gas producers in Qatar, due to the vacuum of contractors from these respective countries pulling out of Qatar. On another note, the delivery of O&G, particularly LNG gases, will not be interrupted as there are different shipping routes that are still accessible for delivery to its major buyers through Oman and Iran, namely, Japan, South Korea, India and China. Hence, our O&M services will not be affected as production is still ongoing", Dato' Karim explains.

§ **Worst case scenario.** Assuming if the Group's Qatar operations were compromised, we would expect FY18F performance to see some effect on top-line by -c.13% and earnings at -c.14%. We however reiterate that we do not expect the operations in Qatar to have any significant impact on the Group.

§ **Outperform** reaffirmed, supported by our TP of RM2.85 pegged to a 12x PE multiple on our FY18F EPS of 23.8 sen. We like Serba for its engineering solutions to the O&G and power generation industries supported by its core O&M services and engineering, procurement, construction and commissioning (EPCC) works. Growth prospects are from both domestic and international markets while leveraging on its expertise to expand into the power generation sector as an asset owner, contractor and operator.

KEY FINANCIAL SUMMARY

FYE Dec (RMm)	2015A	2016A	2017F	2018F	2019F	CAGR
Revenue	1,402.9	2,168.3	2,511.5	2,894.9	3,179.8	22.7%
Operating Profit	182.1	302.9	345.9	392.9	425.2	23.6%
Pre-tax Profit	159.6	267.9	285.9	345.3	387.1	24.8%
PATAMI	156.7	246.1	262.6	317.2	355.6	22.7%
EPS (Sen)	11.7	18.4	19.7	23.8	26.6	22.7%
P/E (x)	17.8	11.3	10.6	8.7	7.8	
DPS (Sen)	0.0	5.5	5.9	7.1	8.0	
Dividend Yield (%)	0.0	2.6	2.8	3.4	3.8	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RMm)	2015A	2016A	2017F	2018F	2019F
Revenue	1,402.9	2,168.3	2,511.5	2,894.9	3,179.8
Operating Profit	182.1	302.9	345.9	392.9	425.2
Other Op. Income	0.9	1.1	1.2	1.4	1.6
Administration Expenses	-51.2	-71.8	-83.2	-95.9	-105.4
Pre-tax Profit	159.6	267.9	285.9	345.3	387.1
Income Tax	-3.0	-22.1	-23.6	-28.5	-32.0
Effective Tax Rate (%)	1.9	8.3	8.3	8.3	8.3
Minorities	0.2	0.3	0.4	0.4	0.5
PATAMI	156.7	246.1	262.6	317.2	355.6
Growth					
Revenue	86%	55%	16%	15%	10%
Gross Profit	109%	61%	14%	14%	9%
PATAMI	145%	57%	7%	21%	12%

Source: Company Prospectus, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RMm)	2015A	2016A	2017F	2018F	2019F
Property, plant and equipment	349.3	490.2	702.0	908.0	1,109.7
Inventories	229.8	486.3	564.7	652.5	718.4
Trade receivables	431.0	741.2	858.5	989.6	1,086.9
Cash and bank balances	194.6	187.4	391.6	100.0	100.0
Total Assets	1,258.8	1,986.9	2,598.6	2,731.8	3,096.8
ST Borrowings	440.9	623.4	566.7	390.6	442.0
LT Borrowings	32.4	16.2	13.0	9.7	6.5
Trade payables	239.0	501.0	581.8	672.3	740.3
Minority Interests	7.3	7.9	8.3	8.7	9.2
Total Liabilities	783.1	1,169.7	1,190.5	1,101.6	1,217.7
Total Equity	475.7	817.1	1,408.1	1,630.2	1,879.1
Total Equity and Liabilities	1,258.8	1,986.8	2,598.6	2,731.8	3,096.8

Source: Company Prospectus, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec (RMm)	2015A	2016A	2017F	2018F	2019F
Book Value Per Share	0.4	0.6	1.1	1.2	1.4
NTA Per Share	0.9	1.5	1.9	2.0	2.3
EPS (Sen)	11.7	18.4	19.7	23.8	26.6
DPS (Sen)	0.0	5.5	5.9	7.1	8.0
Payout Ratio (%)	0.0	30.0	30.0	30.0	30.0
ROA (%)	12.4	12.4	10.1	11.6	11.5
ROE (%)	32.9	30.1	18.6	19.4	18.9

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.

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

Published and printed by:
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