

8 May 2017

Energy & Petrochemicals | Oil & Gas Services

## Serba Dinamik Holdings

**Buy**

### The Art Of Rotational Dynamics

We initiate coverage on Serba Dinamik with a BUY call and SOP-based TP of MYR2.78 (49% upside). The company provides engineering services, mainly to the oil & gas and power industries, and banks on its expertise in rotating equipment. It also has capabilities in static structures, and provides EPCC services as well. Also, its several assets would provide it with a base for recurring earnings.

**From a rotating equipment specialist to an asset owner.** Serba Dinamik is involved in providing engineering services to the oil & gas and power generation industries. It provides:

- i. Maintenance, repair and overhaul (MRO) works for rotating equipment;
- ii. Inspection, repairs and maintenance (IRM) services for static equipment.

It has moved up the value chain to provide engineering, procurement, construction and commissioning (EPCC) services. As an asset owner, it also owns a CNG (compressed natural gas) plant in Muaro Jambi, Indonesia.

**Aims to expand capabilities.** Serba Dinamik has a 5-point strategy for future expansion. This includes having the operations and maintenance (O&M) expertise to operate small power plants, expanding existing facilities and establishing new ones, developing small gas power plants and water utilities facilities, as well as making new investments and acquisitions.

**Another proxy to Sarawak's development.** Serba Dinamik would be able to capitalise on the state's infrastructure growth through its presence in Miri, Bintulu, as well as in Labuan, Federal Territory. As more oil & gas, power generation and infrastructure investments pour into Sarawak, it could leverage on its O&M and EPCC expertise to complement the state's economic growth.

**Earnings from O&M and EPCC to be supported by asset income.** We expect earnings to grow by 10% and 9.8% YoY in FY17 and FY18 respectively. In our view, the growth would be driven by O&M and EPCC contracts, supported by recurring earnings coming from its assets. Management guided that approximately 80% of its O&M contracts are renewals from existing customers.

**Valuation.** We arrived at a TP of MYR2.78, using an SOP-based valuation. We valued the firm period of its assets (the assets have an optional extension period; we excluded the extension from our forecasts) using DCF, assuming a 7.5% WACC. We also conducted a corroborative DCF calculation, from which we derived a value of MYR2.86 (WACC: 7.5%, TG: 1%).

**Risks.** The main business risks to Serba Dinamik are lower-than-expected orderbook replenishment and competition from other independent and authorised service providers.

Target Price:	MYR2.78
Price:	MYR1.87
Market Cap:	USD577m
Bloomberg Ticker:	SDH MK

#### Share Data

Avg Daily Turnover (MYR/USD)	11.3m/2.57m
52-wk Price low/high (MYR)	1.50 - 1.96
Free Float (%)	30
Shares outstanding (m)	1,335
Estimated Return	49%

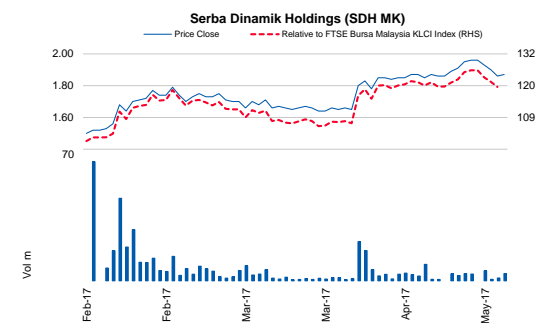
#### Shareholders (%)

Dato Dr Ir Mohd Abdul Karim	26.1
Haji Abdul Kadier	20.7
Dato Awang Daud	13.2

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute		3.9			
Relative		3.1			

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	1,403	2,155	2,455	2,583	2,575
Reported net profit (MYRm)	157	253	278	305	306
Recurring net profit (MYRm)	154	253	278	305	306
Recurring net profit growth (%)	141.1	63.9	10.1	9.8	0.2
Recurring EPS (MYR)	0.12	0.19	0.21	0.23	0.23
DPS (MYR)	na	0.06	0.06	0.07	0.07
Recurring P/E (x)	16.2	9.9	9.0	8.2	8.2
P/B (x)	5.33	3.25	1.79	1.55	1.37
P/CF (x)	13.6	27.6	6.0	7.1	6.5
Dividend Yield (%)	na	3.0	3.3	3.7	3.7
EV/EBITDA (x)	13.2	8.1	6.1	5.5	4.9
Return on average equity (%)	42.4	40.9	25.7	20.3	17.8
Net debt to equity (%)	58.6	48.9	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			7.9	3.9	(21.0)

Source: Company data, RHB

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Energy &amp; Petrochemicals | Oil &amp; Gas Services

## Financial Exhibits

Financial model updated on : 2017-05-05.

Asia	<b>Financial summary</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Malaysia	Recurring EPS (MYR)	0.12	0.19	0.21	0.23	0.23
Energy & Petrochemicals	EPS (MYR)	0.12	0.19	0.21	0.23	0.23
<b>Serba Dinamik Holdings</b>	DPS (MYR)	0.00	0.06	0.06	0.07	0.07
Bloomberg SDH MK	BVPS (MYR)	0.35	0.57	1.05	1.21	1.37
<b>Buy</b>	Weighted avg adjusted shares (m)	1,335	1,335	1,335	1,335	1,335
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
SOP	Recurring P/E (x)	16.2	9.9	9.0	8.2	8.2
<b>Key drivers</b>	P/E (x)	15.9	9.9	9.0	8.2	8.2
Higher orderbook	P/B (x)	5.33	3.25	1.79	1.55	1.37
<b>Key risks</b>	FCF Yield (%)	(1.2)	(3.6)	8.8	7.9	14.1
Lower-than-expected orderbook replenishment	Dividend Yield (%)	0.0	3.0	3.3	3.7	3.7
	EV/EBITDA (x)	13.2	8.1	6.1	5.5	4.9
	EV/EBIT (x)	15.2	9.3	7.1	6.5	5.8
<b>Company Profile</b>	<b>Income statement (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Serba Dinamik Holdings is an engineering services company providing engineering solutions mainly to the oil & gas and power industries. The company specialises in the maintenance and services related to rotating equipment.	Total turnover	1,403	2,155	2,455	2,583	2,575
	Gross profit	232	396	382	397	395
	EBITDA	210	356	382	406	406
	Depreciation and amortisation	(28)	(48)	(53)	(63)	(65)
	Operating profit	182	308	329	343	341
	Net interest	(25)	(35)	(28)	(14)	(11)
	Income from associates & JVs	0	0	0	1	1
	Pre-tax profit	160	274	301	330	331
	Taxation	(3)	(18)	(20)	(22)	(22)
	Minority interests	0	(3)	(3)	(3)	(3)
	Recurring net profit	154	253	278	305	306
	<b>Cash flow (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Change in working capital	(57)	(297)	54	(32)	2
	Cash flow from operations	183	90	416	353	387
	Capex	(214)	(180)	(195)	(155)	(35)
	Cash flow from investing activities	(272)	(216)	(191)	(143)	(23)
	Proceeds from issue of shares	0	0	503	0	0
	Dividends paid	(1)	0	(83)	(91)	(92)
	Cash flow from financing activities	212	122	320	(191)	(142)
	Cash at beginning of period	80	195	228	671	664
	Net change in cash	123	(4)	544	18	222
	Ending balance cash	204	197	772	689	885
	<b>Balance sheet (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Total cash and equivalents	195	228	671	664	863
	Tangible fixed assets	349	490	632	725	695
	Intangible assets	4	4	4	4	4
	Total investments	12	12	12	12	12
	Total other assets	0	1	1	1	1
	Total assets	1,259	1,907	2,277	2,412	2,577
	Short-term debt	441	587	405	325	285
	Total long-term debt	32	19	101	81	71
	Other liabilities	64	1	1	1	1
	Total liabilities	783	1,132	871	788	737
	Shareholders' equity	468	767	1,397	1,610	1,824
	Minority interests	7	7	10	13	17
	Total equity	476	774	1,406	1,623	1,840
	Net debt	279	379	(165)	(258)	(507)
	Total liabilities & equity	1,259	1,907	2,277	2,412	2,577
	<b>Key metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Revenue growth (%)	85.6	53.6	13.9	5.2	(0.3)
	Recurrent EPS growth (%)	141.1	63.9	10.1	9.8	0.2
	Gross margin (%)	16.6	18.4	15.5	15.4	15.3
	Operating EBITDA margin (%)	15.0	16.5	15.6	15.7	15.8
	Net profit margin (%)	11.2	11.7	11.3	11.8	11.9
	Dividend payout ratio (%)	0.0	30.0	30.0	29.9	29.9
	Capex/sales (%)	15.2	8.3	8.0	6.0	1.4
	Interest cover (x)	6.70	8.06	10.30	13.40	15.17

Source: Company data, RHB

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## Executive Summary

### From a rotating equipment specialist to an asset owner

Serba Dinamik began in 1993, by providing MRO services for rotating equipment. Five years later, the company expanded its capabilities and started offering IRM services as well. One of its earliest contracts was with a fertiliser plant in Bintulu, Sarawak where it was engaged to do MRO and minor fabrication works. The company then grew organically and received its first overseas contract which involved MRO works for rotating equipment, for a LNG plant in Qatar.

It won its first EPCC contract in Malaysia for a LPG bottling plant in Bintulu. The company grew from having just one service centre in Bintulu to five centres across Malaysia. It also has a logistics centre in Ras Al Khaimah, Qatar. As part of its asset owner business model strategy, Serba Dinamik also recently acquired a CNG plant in Muaro Jambi, Indonesia – which would provide it with a base of recurring earnings.

### Key investment themes

**Maintenance services are resilient.** In a period of depressed crude oil prices, Serba Dinamik managed to chart higher revenue and net profit. The outperformance can be attributed to the O&M services sub-segment, which Serba Dinamik operates in. MRO and IRM services are on-going as they are critical and necessary for their customers to maintain and extend the life of rotating and static equipment. This, in turn, enables companies to maintain production efficiency as well as to ensure operational safety. The need to maintain and optimise these assets ensures that there will always be demand for MRO and IRM services.

**Niche segment of maintenance services.** Serba Dinamik's main expertise is in rotating equipment maintenance services, which is a niche engineering segment with high barriers of entry. This is due to the high precision and detailed engineering required by rotating equipment maintenance. The company is also an independent service provider, which enables it to have a wider scope of business opportunities with no restrictions to a single or a small number of brands.

**Local and international source of revenue.** Serba Dinamik has an extended geographical presence, as its revenue comes from Malaysia, Indonesia, Turkmenistan, India, Middle East and the UK. In Malaysia, it is ranked third among oil & gas service and equipment companies providing MRO services for rotating equipment. Internationally, it has completed a range of projects as well as several on-going projects, for its O&M and EPCC segments. For FY16, the revenue split between local and international clients stood at 35% and 65% respectively, and we expect its international business to continue contributing the majority of revenue moving forward.

**Asset ownership to provide recurring income.** Serba Dinamik currently has three assets – the CNG plant in Muaro Jambi, the Kota Marudu hydro power plant and the Ambon Mall small gas power plant which will provide it with a source of recurring income. This, in turn, would support its O&M and EPCC business. Serba Dinamik is working closely with several Indonesian regional governments to develop more power generation based-assets as it leverages on its expertise in rotating equipment.

**Minimal impact from low oil price to core business.** For the oil & gas industry, Serba Dinamik is able to provide O&M services for both upstream and downstream segments of the value chain. For the upstream segment, its customers are primarily in the production value chain where activities are still on-going as opposed to exploration activities which are almost a halt. For the downstream segment, Serba Dinamik customers are mainly in refining, petrochemicals and gas processing which are benefitting from the lower crude oil prices – as margins between selling and feedstock prices are boosted, which in turn leads to an increase of activities.

**Proxy to Sarawak's economic growth.** Serba Dinamik has a presence in the state's oil & gas maintenance services industry. It is present in Miri, Bintulu and Labuan, Federal Territory. As more oil & gas, power generation, and infrastructure investments pour into Sarawak, Serba Dinamik may leverage on its O&M and EPCC expertise to complement the state's economic growth.

## Forecasts and valuation

We expect Serba Dinamik's revenue to grow by 14% in FY17 and 5% in FY18, due to the renewal of its O&M contracts as well as the commencement of its EPCC jobs. We have assumed a 65:35 split between international and local O&M projects. For its EPCC segment, we have only assumed that revenue would come in from its current projects, ie the Kota Marudu hydropower plant as well as its recent win related to the Kuala Terengganu Utara water project.

While we have not included any additional new EPCC wins for FY17 and FY18, we imputed an additional revenue recognition of MYR100m into our FY19 projection. Going forward, we expect the EPCC segment to generate c.MYR100m in revenue. We believe our EPCC assumptions are conservative as EPCC revenue from FY14 to FY16 ranged from MYR125m to MYR233m. We also have not factored in any potential upside coming from its venture into small gas power plants in East Kalimantan and benefits from the expansion of its facilities.

We expect net profit to increase 10% in FY17 and 9.5% in FY18. We attribute the expected higher FY17 and FY18 performance to the recognition of its EPCC projects and renewals of its O&M contracts. We expect recurring income to start contributing in FY17. We believe there is potential upside to our earnings estimates due to our conservative assumption for its O&M unit as well as EPCC orderbook.

We value Serba Dinamik at MYR3,713m, based on a SOP valuation, which translates to a TP of MYR2.78. We derive our TP by pegging:

- i. 13x FY17F P/E to its O&M segment, which is a 10% premium to Deleum (which we deem to be its closest competitor);
- ii. 10.4x FY17F P/E to its EPCC division, ie at a 10% discount to its O&M unit's P/E, due to lower margins.
- iii. We value its recurring income-generating assets using DCF, assuming a 7.5% WACC.

As a corroborative valuation, we used a DCF model with a discount of 7.5% WACC and a 1% TG, to arrive at an NPV of MYR3,823m. This implies a TP of MYR2.86.

## Risks

The main business risks to Serba Dinamik are lower-than-expected orderbook replenishment and competition from other independent and authorised service providers.

## Valuation And Recommendation

**Two local direct competitors.** In terms of market share for MRO services related to rotating equipment in Malaysia, Serba Dinamik ranks third, ie behind Sapura Energy (SAPE MK, BUY, MYR2.30) (the top player) and Deleum (DLUM MK, NR) (which is in second place). Sapura Energy has an exclusive agreement to service *General Electric* rotating equipment while Deleum has a similar agreement with *Solar Turbines*.

Deleum would be a more appropriate peer to compare Serba Dinamik with, instead of Sapura Energy. Sapura Energy has more diversified business segments, with only a small portion attributed to rotating equipment MRO services. In contrast, Deleum's rotating equipment services segment contributes about 60-70% of revenue. Other local direct competitors are not listed, eg Bayu Purnama SB and TTES Team & Specialist SB.

**Oil & gas maintenance services peers.** We deem Dayang Enterprise and Petra Energy, involved in the provision of offshore hook-up, construction and commissioning (HuCC), and topside major maintenance (TMM), to be Serba Dinamik's closest peers. However, both Dayang Enterprise and Petra Energy are only involved in offshore maintenance and not in downstream maintenance.

**International competitors.** We compared Serba Dinamik to other service providers involved in the provision of O&M services with an exposure to rotating equipment, such as Weir Group, Wood Group, Sulzer AG and Bilfinger. Although these are players involved in providing O&M services related to rotating equipment, O&M only makes up a small portion of their businesses. We understand that some of the company's more direct competitors in the Middle East are not listed.

Figure 1: Peer comparison

Company	Currency	Price (LC)	Mkt cap (USDm)	P/E (x)			P/BV (x)		EV/EBITDA (x)		Div yield %		ROE (%)	
				2016F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Deleum	MYR	1.02	93	15.4	12	10.6	1.3	1.2	4.6	4.3	4%	5%	10%	12%
Sapura Energy <sup>^</sup>	MYR	1.97	2,637	10.3	43.6	31.3	0.9	0.9	7.4	7.1	0%	1%	2%	3%
Dayang Enterprise	MYR	1.13	225	18.1	15	12.3	0.9	0.8	8.0	7.6	0.0	0.0	7%	7%
Petra Energy <sup>^</sup>	MYR	1.23	90	34.0	12	7.4	0.8	0.6	8.3	7.6	3%	3%	6%	8%
Weir Group	GBP	1,997	5,444	99.2	24	19.5	3.0	2.8	15.3	12.7	2%	2%	12%	15%
Wood Group	GBP	819	3,926	136.1	18	15.0	1.7	1.6	10.4	8.8	3%	4%	9%	10%
Sulzer AG	CHF	106	3,616	61.2	26	19.5	2.3	2.3	12.1	10.1	3%	4%	7%	10%
Bilfinger AG	EUR	37	1,739	n.a.	56	25.0	1.0	1.0	8.8	6.5	2%	2%	2%	5%
Average domestic				19.4	20.5	15.4	1.0	0.9	7.1	6.6	1.9%	2.1%	6%	7%
Average international				98.9	31.1	19.8	2.0	1.9	11.7	9.5	2.6%	3.0%	8%	10%
Minimum				10.3	11.7	7.4	0.8	0.6	4.6	4.3	0.0%	0.0%	2%	3%
Maximum				136.1	55.6	31.3	3.0	2.8	15.3	12.7	4.4%	4.8%	12%	15%
Median				34.0	21.2	17.3	1.1	1.1	8.6	7.6	2.6%	2.8%	7%	9%

Note: Data as of 27 Apr 2017

Source: RHB (for areas denoted with a ^), Bloomberg

**We value Serba Dinamik at MYR2.78.** We arrived at MYR2.78 using a SOP-based valuation. We valued the FY17F P/E of its O&M business at 13x, a 10% premium to Deleum, and 10.4x FY17F P/E for its EPCC division, ie at a 10% discount to O&M P/E due to lower margins. We valued the firm period of its assets using DCF, at 7.53% WACC.

We also did a corroborative DCF valuation in which we arrived at a value of MYR2.86, based on 1% terminal growth and a 7.53% WACC.

Our valuation implies a FY17F P/E range of 13.3x for Serba Dinamik – which is at a premium of 10% over its closest peer, Deleum, and well below the domestic and international average. We believe the premium over Deleum is justified, considering the presence of recurring earnings for Serba Dinamik as well as its regional presence in O&M as well as EPCC.

Figure 2: SOP valuation

Segment	FY17F Value	Remarks
Operations & maintenance	2,892.0	10% premium over Deleum at 13x
EPCC	578.4	At 10.4x P/E, 10% discount due to lower margins
Assets	242.6	Valued assets firm period using DCF at 7.53% WACC
Total	3,713.0	
Shares (m)	1,335.0	
<b>TP (MYR)</b>	<b>2.78</b>	

Source: RHB

Figure 3: Corroborative DCF valuation

	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
<b>EBIT</b>	329.0	343.5	341.2	292.9	258.7	248.3	263.0	260.0	257.1	254.2
- Taxes on EBIT	(20.0)	(22.0)	(22.0)	(19.1)	(20.3)	(19.9)	(20.2)	(20.5)	(20.9)	(21.1)
<b>NOPAT</b>	309.0	321.5	319.2	273.8	238.4	228.5	242.7	239.5	236.2	233.1
+Depreciation	52.8	62.9	65.2	51.9	52.6	53.2	53.8	54.3	54.7	55.0
<b>Gross cash flow</b>	361.8	384.4	384.4	325.7	291.1	281.7	296.5	293.8	290.9	288.1
<b>Changes in working cap</b>	53.4	(31.4)	2.1	90.4	70.1	19.9	0.0	0.0	0.0	0.0
-Gross capex	(195.3)	(155.2)	(35.2)	(35.2)	(35.2)	(35.2)	(35.2)	(35.2)	(35.2)	(35.2)
<b>FCFF</b>	219.9	197.9	351.3	380.9	326.0	266.4	261.3	258.5	255.7	252.9
Terminal value	3,897.3									
NPV	3,652.5									
Net debt (MYRm)	164.8									
MI (MYRm)	0.0									
DCF	3,817.3									
Shares (m)	1,335.0									
<b>DCF/share (MYR)</b>	<b>2.86</b>									

Source: RHB

Figure 4: WACC assumptions

Terminal value	1.0%
WACC	7.53%
Risk free rate	4.15%
Beta	1.00
Market expected return	9.25%
Cost of equity	9.25%
Interest rate	3.0%
Tax rate	7.0%
Cost of debt	2.8%
% equity	73%
% debt	27%

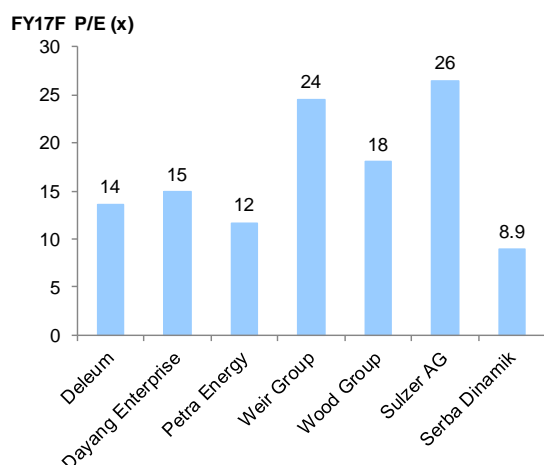
Source: RHB

Figure 5: DCF sensitivity to key inputs

Terminal Growth	WACC				
	5.5%	6.5%	7.5%	8.5%	9.5%
0.1%	3.62	3.08	2.69	2.40	2.16
0.5%	3.78	3.19	2.76	2.45	2.20
1.0%	4.02	3.34	2.86	2.51	2.25
1.5%	4.32	3.52	2.98	2.59	2.30
2.0%	4.71	3.74	3.12	2.68	2.37

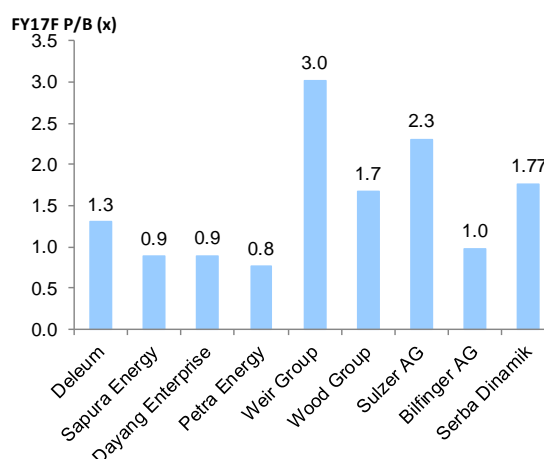
Source: RHB

Figure 6: FY17F P/E (x) peer comparison



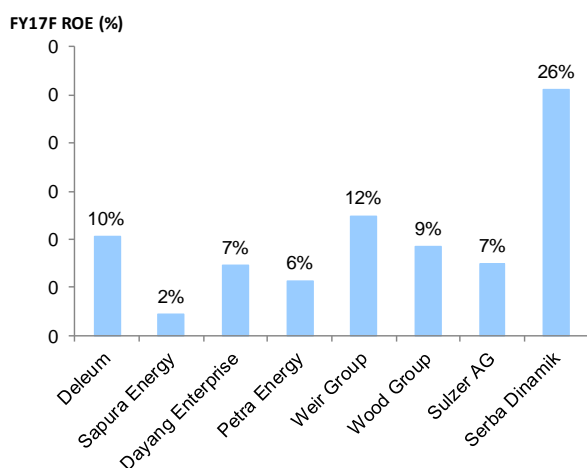
Source: RHB, Bloomberg

Figure 7: FY17F P/BV (x) peer comparison



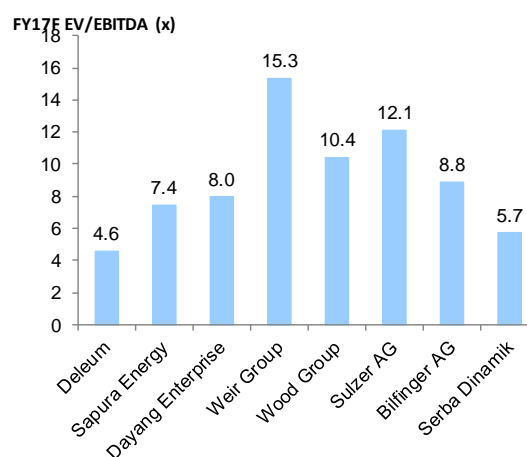
Source: RHB, Bloomberg

Figure 8: FY17F ROE (%) peer comparison



Source: RHB, Bloomberg

Figure 9: FY17F EV/EBITDA (x) peer comparison



Source: RHB, Bloomberg



## Management Profile

### Dato Dr Ir Mohd Abdul Karim bin Abdullah

Dato' Karim, 51, is the group's CEO and non-independent executive director. He obtained his Bachelor's degree in mechanical engineering in 1989 from Universiti Teknologi Malaysia. He later obtained an honorary doctorate in industrial engineering in 2009 from InterAmerican University, USA. He also obtained a doctorate in entrepreneurship in 2012 from USA's Golden State University. He is a member of the Institution of Engineers Malaysia since 1994, a registered member of the Board of Engineers, Malaysia since 1996 and a member of the ASEAN Federation of Engineering Organisations since 2002.

Dato' Karim had an extensive career as an engineer, spanning 29 years. He joined Asean Bintulu Fertiliser in 1988 as a mechanical engineer where he supervised the overhauling of pumps, turbines and compressors. He was appointed as the coordinator for the ammonia and rotary fifth turnaround preparation team in 1990 and was subsequently appointed as a rotating equipment area engineer in 1991 by Asean Bintulu Fertiliser. Dato' Karim formed Serba Dinamik in 1993 and assumed his current position as Group Chief Executive Officer. He has extensive experience in the field of maintenance and installation of rotating equipment which includes major overhaul and inspection of steam turbines in Malaysia LNG and overall supervision of plant shutdown maintenance on various rotating equipment. Dato' Karim also has hands-on experience from his works in overhauling steam and gas turbines, centrifugal pumps and compressors and machinery installation.

### Dato' Awang Daud bin Awang Putera

Dato' Awang Daud, 55, is the deputy CEO and non-independent executive director of the company. He obtained an intermediate certificate for a mechanical fitter/general mechanic qualification in 1980 from Institut Kemahiran MARA, Malaysia, and was certified by the National Industrial Trade Training Board in Jun 1980. He obtained his Bachelor of Science in mechanical engineering in 1994 from University of the East, Philippines. He subsequently obtained a Master's degree in mechanical engineering in 2007 from Universitas Pancasila, Jakarta. Throughout his career, he has attended various seminars on engine maintenance and mechanical training.

Dato' Awang Daud began his career with Syarikat Jengka Pahang as an apprentice in 1978 where he was trained in overhauling and repairs of rotating equipment. He joined Ballast Nedam International (Malaysia) SB in 1980 as a mechanical workshop supervisor. He then joined Daelim (Malaysia) SB in 1981 as a heavy industries equipment millwright. In 1983, Dato' Awang Daud joined Malaysia LNG as a technician and was subsequently promoted to supervisor. He was part of the pioneer group which set up the mechanical workshop for the first LNG product and maintenance of Malaysia LNG. Dato' Awang Daud remained at Malaysia LNG until 1993. He joined Serba Dinamik in 1994.

**Abdul Kadier bin Sahib**

Abdul Kadier, 67, is a non-independent non-executive director of the company. He obtained his Bachelor's degree in economics in 1973 from the University of Malaya. He began his career as a marketing executive with Diethlem SB in 1973 for one year and later joined Sarawak Economic Development Corporation, where he served as a marketing officer until 1976. In 1976, he started his own business in diversified areas of the food industry, road transportation, agriculture and forestry. In 1993, he became a shareholder of Serba Dinamik and subsequently was appointed as a director of the company.

He is a member of Party Pesaka Bumiputera Bersatu Sarawak (PBB) and sat as an executive committee member at the state level for the PBB youth wing from 1985 to 1989. He is an active member of the Bumiputera Chamber of Commerce Sarawak (DUBS) and was elected chairman of the Bintulu Branch in 1986 where he continued for three terms until 1991. Thereafter, he was the advisor of DUBS from 1992 to 1994. Currently, he is the vice president of DUBS at the state level, a position he was elected to in 2014 and will continue to hold until 2017. He was appointed as a member of the Consultative Council to Local Government, whose main function to advise the Bintulu Development Authority on the development and local government functions in Bintulu, for the periods between 1991 to 1997 and 2013 to 2018.

**Syed Nazim bin Syed Faisal**

Syed Nazim, aged 35, is the company's group CFO. He obtained a Bachelor's degree in accounting in 2004 from the International Islamic University Malaya, Malaysia. He later obtained a Master's degree in Islamic finance practice in 2014 from the International Centre for Education in Islamic Finance, Malaysia. He also obtained a certificate in Islamic banking and finance law in 2013 from the International Islamic University Malaysia. He has been a member of the Malaysian Institute of Accountants since 2007.

He began his career with KPMG in the assurance division as an audit assistant in 2003. In 2009, he joined MISC as its strategic planning manager. Syed then joined RHB Islamic Bank in 2012 as the head of statutory and management reporting. In 2013, he joined Ibdar Bank BSC(c), Kingdom of Bahrain as the vice president for its financial, compliance and administration department. Syed Nazim joined Serba Dinamik and assumed his current position in 2015.

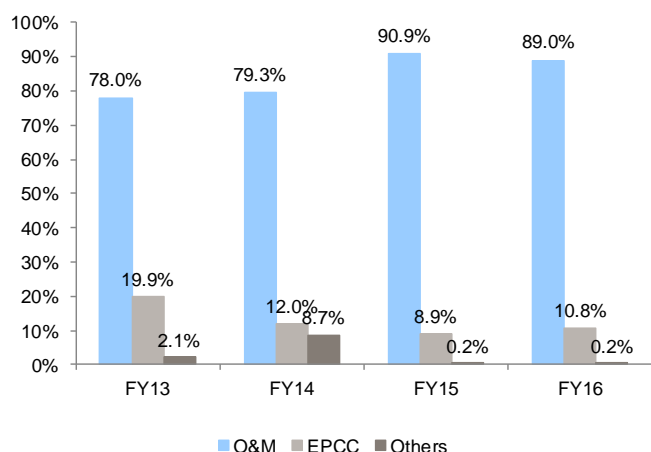
## Company Profile And Business Overview

**Home-grown company with an international presence.** Serba Dinamik is involved in the provision of engineering solutions to oil & gas companies as well as to power generation players. It has a presence in Malaysia, Indonesia, the United Arab Emirates (UAE), Bahrain and the UK.

Within engineering solutions, the group is primarily involved providing O&M services and EPCC works. O&M is currently the main contributor to the group’s revenue, making up 78%, 79%, 91%, and 89% of turnover in FY13, FY14, FY15 and FY16 respectively.

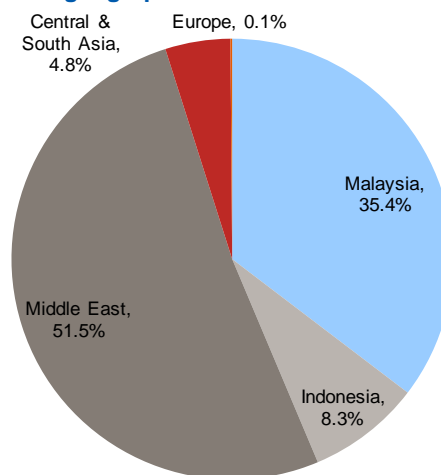
EPCC comes in second – accounting for 20%, 12%, 9% and 11% of revenue in FY13, FY14, FY15 and FY16 respectively.

**Figure 10: Segmental revenue breakdown**



Source: Company data

**Figure 11: FY16 geographical revenue**



Source: Company data

For O&M, Serba Dinamik provides MRO and IRM services. The company carries out MRO services for rotating equipment, which includes gas and steam turbines, engines, motors, pumps, compressors and industrial fans. For IRM services, it focuses on static equipment and structures that include boilers, unfired pressure vessels, piping systems and structures, as well as process control and instrumentation.

For its EPCC arm, Serba Dinamik is able to provide engineering services for plants, facilities, road infrastructure and buildings, as well as other related systems and solutions including the design and installation of process controls and instrumentation, auxiliary power generation and firefighting systems.

Serba Dinamik is moving up the value chain by embarking on an asset owner business strategy, with its acquisition of a CNG plant in Sumatra.

Figure 12: Key milestones for Serba Dinamik

Year	Key milestones
1993	Incorporated and commenced business, in which it provided MRO services for rotating equipment.
1994	Opened first mechanical and fabrication service centre in Kidrong Light Industrial Estate, Bintulu, Sarawak.
1997	Selected for Petronas' vendor development programme (VDP) for the provision of overhaul of rotating equipment for plant turnaround and inspection.
1998	Expanded into IRM services for static equipment.
	Branched into technical training for the maintenance of rotating equipment and related courses in collaboration with City & Guilds and Institute of Materials
2001	Secured first overseas contract for rotating equipment (MRO services) for an LNG plant in Ras Laffan, Qatar.
2002	Won more jobs related to the Ras Laffan LNG plant.
2004	Established a second service centre in Paka, Terengganu for minor fabrication and maintenance services. Incorporation of Serba Dinamik Group Bhd.
2005	Incorporated Serba Dinamik Indonesia.
2007	Expanded to EPCC, first project from Petronas Dagangan for Bintulu LPG. Secured first contract from LNG segment in Malaysia.
2007	Graduated from Petronas VDP.
2010	Appointed as a distributor of Capstone microturbines for Malaysia, Indonesia and Brunei. Incorporated Serba Dinamik IT, ICT solutions to support O&M operations.
2012	Established service centres in Labuan, Sarawak, Johor and Terengganu.
2013	Incorporated Serba Dinamik Petroleum in Bahrain and Serba Dinamik London for customers in Middle East and the UK.
2015	Secured EPCC and O&M contract for three small hydropower plants in Kota Marudu, Sabah Incorporated Serba Dinamik Brunei. Established Klang facility to focus on process control systems and instrumentation, auxiliary power generators and firefighting systems. Incorporated Serba Dinamik RMC FZE for operation of a logistics centre in Ras Al Khaimah, UAE. Selected to join Syarikat Skim Jejak Jaya under Unit Peneraju Agenda Bumiputera (TERAJU). Appointed as a VDP under the Ministry of International Trade and Industry (MITI).
2016	Serba Dinamik Indonesia secured a 10-year agreement to lease out a 0.8MW gas power plant for Ambon City Centre shopping mall
2017	Listed on Bursa Malaysia main board Bought 40% equity stake into Konsortium Amanie

Source: Company data

## O&M

### Rotating equipment MRO

Rotating equipment is a common classification of mechanical components designed to generate kinetic energy through a reciprocating or circular motion, which can then be harnessed to move or agitate materials. Rotating equipment is used to provide a source of power to do work such as:

- i. Turbines, engines or motors to drive components;
- ii. Generators, pumps or compressors to help transmit energy;
- iii. Gears, clutches, and couplings as well as ancillary equipment and systems;
- iv. Inlet air systems and filters, fuel systems, exhaust ducts and piping systems.

Figure 13: Serba Dinamik's service centre in Bintulu



Source: Company

Figure 14: Serba Dinamik's fabrication workshop in Bintulu



Source: Company

Rotating equipment is used in many different industries including oil & gas, power generation, mining, agriculture, manufacturing, transportation and construction. Serba Dinamik is a MRO specialist for various types of rotating equipment including gas and steam turbines, engines, motors, generators, pumps, compressors and industrial fans. The company has a particular focus on the energy industry. Being an independent MRO specialist, it is able to undertake works on rotating equipment across a number of global brands.

Serba Dinamik provides both scheduled maintenance (carried out at predetermined intervals, as recommended by the rotating equipment manufacturer) and unscheduled maintenance (*ad hoc* repair services undertaken for specific problems or failures that are unplanned) services. These include:

- i. **Predictive maintenance:** Analyses the actual condition of the rotating equipment to determine the timeliness and type of maintenance services to be carried out. Otherwise known as condition-based maintenance;
- ii. **Equipment overhaul:** Entire equipment is dismantled to its parts and components for cleaning, repair, reconditioning, replacement and recalibration. Typically done every 30,000 hours of operation;
- iii. **Balancing and alignment:** Done to ensure rotors and shafts are perfectly balanced to eliminate friction and vibration which can increase wear and tear as well as equipment failure;
- iv. **Replacement and upgrades of components and parts:** Replaces and upgrades rotating equipment parts. Serba Dinamik can also retrofit and remanufacture components using reverse engineering methods;
- v. **Maintenance of process control and instrumentation:** Upgrade and calibrate process control systems and instrumentation associated with rotating equipment.

Upon completion of physical maintenance, the company will then test the reassembled machines, measure its performance and – when required – recalibrate to ensure optimum operational capability.

#### IRM of static equipment and structures

Static equipment refers to components that are part of a processing or manufacturing line that do not have any mechanical moving parts. Serba Dinamik is able to conduct IRM services (scheduled and unscheduled) for various types of static equipment such as boilers, unfired pressure vessels, heat exchangers, columns, reactors, separators as well as static structures. Under Malaysian regulations, manufacturing plants are required to undergo inspection for its steam boilers and unfired pressure vessels every 15-21 months for a renewal of their certificates of fitness. The scope of work for IRM services includes:

- i. Inspection and preparation of repair methods based on the American Society of Mechanical Engineers' code of practice;

- ii. Liaising with inspection authorities to witness and certify repair work and other necessary tests;
- iii. Chemical cleaning to eliminate scaling and minimise equipment failure;
- iv. Refractory repairs and modification to eliminate heat leakages;
- v. Bore scope or video scope inspection, hydro jet cleaning, hydro testing, re-tubing and repair works;
- vi. Rehabilitation and repair services for pipelines.

**Figure 15: On-going and completed O&M services**

Customer	Location	Status	Description of O&M services
Shell MDS	Malaysia	Ongoing	Provision of mechanical maintenance and project services
Malaysia LNG	Malaysia	Ongoing	Provision of MRO services for rotating equipment.
Petronas Carigali	Malaysia	Ongoing	Provision of MRO services for rotating equipment (PMO).
Sarawak Shell	Malaysia	Ongoing	Provision of MRO services for rotating equipment.
Petrofac	Malaysia	Ongoing	Provision of condition based monitoring
Petronas FLNG1	Malaysia	Ongoing	Provision of manpower, workshop facilities and equipment for rotating equipment
Petronas Carigali	Malaysia	Completed	Provision of MRO services and technical support for compressors.
Petronas Carigali	Malaysia	Completed	Provision of MRO services for gas compressor inclusive of specialist and parts supply.
Petronas Methanol	Malaysia	Completed	Plant turnaround maintenance focusing on rotating equipment .
Petronas Carigali	Malaysia	Completed	Provision of MRO services for rotating equipment (SKO & SBO).
Petronas Carigali	Malaysia	Completed	Provision of MRO services for microturbine generator at J4 platform.
Sabah Shell	Malaysia	Completed	Provision of vendor support services and supply of parts for microturbine.
Petronas Carigali	Malaysia	Completed	Provision of MRO services for microturbine.
Muhammad Jabar Trading	Qatar	Ongoing	Provision of turbomachinery maintenance and engineering support services
Energy Machine Services	Oman	Ongoing	Supply of spare parts for Ruston gas turbines.
Energy Engineering & Services	UAE & Qatar	Ongoing	MRO of pressure testing, COTP, safety relief valve and associated rotating equipment.
Process Dynamic Company	Qatar	Ongoing	Topside maintenance service, MRO pressure testing, COTP, safety relief valve and associated rotating equipment.
Yusof bin Ahmed Kanoo	UAE	Ongoing	Provision of inspection and turnaround maintenance for Taweelah Asia Power Company boilers.
PT Gunawan Construction	Indonesia	Ongoing	Supply of manpower, equipment and tools for rotating equipment maintenance.
Elliot Gas Services	Saudi Arabia	Ongoing	Provision of manpower for MRO rotating equipment services.
Suwaidi Engineering Group	UAE	Ongoing	Manpower services for plant turnaround and overhaul for Train 3, Boilers 5 & 6 for Abu Dhabi Gas Liquefaction Company.
Petroserv	Qatar	Completed	MRO services for rotating equipment.
Petronas Carigali	Turkmenistan	Completed	MRO services for rotating equipment.
PT Ensco Sarida	Indonesia	Completed	MRO services for centrifugal compressor and associated equipment.

Source: Company data

## EPCC

Serba Dinamik is able to undertake EPCC works. EPCC refers to the responsibility of delivering an entire defined project comprising engineering design, obtaining parts and materials necessary to the project, construction or fabrication, installing and testing the project before it is delivered to the end-client.

The company is able to deliver EPCC works for piping systems, rotating and static equipment, power generation, infrastructure, construction of amenities and buildings, process control and instrumentation, auxiliary power generation as well as firefighting systems.

The engineering and procurement portion is ably supported by the company's in-house engineering facility and technical expertise. Depending on the nature of the project, construction and fabrication can be done at its service centres in Labuan, Miri, Bintulu and Paka. Serba Dinamik also has the capability to carry out on-site assembly, installation, hook-up and commissioning as well as on-site inspection and final testing.



Figure 16: On-going and completed EPCC works

Customer	Location	Status	Description of EPCC services
Terengganu State	Malaysia	Ongoing	Kuala Terengganu Utara water supply scheme
One River Power	Malaysia	Ongoing	EPCC of small hydropower plants.
Petrofac E&C	Malaysia	Ongoing	Supply, fabrication and painting of structural steel for RAPID package 4.
Petronas Carigali	Malaysia	Completed	Provision for supply, installation, testing and commissioning of bar coding and material album system.
Petronas Methanol	Malaysia	Completed	Procurement, fabrication and installation of new firefighting system (Phase 2) for Plant 1.
Sarawak Shell	Malaysia	Completed	Design, supply and delivery of microturbine for E6 FDP.
Metix Malaysia	Malaysia	Completed	Supply and install of piping systems.
MB Petroleum Services	Oman	Ongoing	Provision of supply for piping and painting.
PT Kubic Gasco	Indonesia	Completed	EPCC of CNG plant.

Source: Company

### Other products and services

Apart from offering O&M services and its EPCC capability, Serba Dinamik is also able to provide technical training, ICT solutions and services, supply products and parts, as well as logistics services in Ras Al Khaimah, UAE. The services it offers include:

- i. **Technical training:** The company provides training (as part of its MRO & IRM services) upon request by customers to upskill their personnel, or to students. Serba Dinamik's technical training centre is approved by City & Guilds, a vocational education organisation in the UK;
- ii. **ICT solutions and services:** Serba Dinamik offers a suite of software packages to support its customers for its O&M and EPCC contracts, or sells them on a standalone basis;
- iii. **Supply of products and parts:** It is the exclusive agent for Capstone microturbines in Malaysia, Indonesia and Brunei, Turbine Efficiency Group for Ruston gas turbines in Malaysia, MeteoGroup Ireland for weather forecasting services in Malaysia, Psicon BV for pumps and other products for UK and Iran, and SKF AB monitoring equipment and other related products for Malaysia;
- iv. **Logistics services:** Serba Dinamik operates a 1,944 sqm warehouse and 25,000 sqm open yard in Ras Al Khaimah Port in the UAE for the provision of logistics services.

### CNG plant

Serba Dinamik is also moving up the value chain through its asset ownership business model. Through its 51%-owned subsidiary, PT Kubic Gasco, the company owns a CNG plant in Muaro Jambi, Sumatra. The acquisition was completed in Aug 2015 for MYR3.83m. The plant, located on an estimated 11,200 sq m of land, is equipped with a gas metering station, gas dryer, gas compressors, control room, microturbine, CNG buffer storage, air compressors and a CNG filling station. We understand that Serba Dinamik is in the midst of negotiations with the gas supplier as well as with potential customers.

### Revenue

For its bread-and-butter O&M business, Serba Dinamik's main focus is on MRO contracts to service rotating equipment. Static equipment IRM contracts are sometimes bundled with the MRO contracts. In our view, rotating equipment MRO work typically fetch a higher value compared to static equipment IRM, due to its complexity and more demanding engineering requirements.

For its EPCC segment, the company is currently working on the Kota Marudu hydropower plants as well as the recently-announced Kuala Terengganu Utara Water project.

The 51%-owned CNG plant in Muaro Jambi, Sumatra would provide Serba Dinamik with a recurring earnings base. We expect the plant to start commercial operations in 4Q16, with full-year contribution to come in FY17. Once the EPCC work is completed, Serba Dinamik would also be receiving recurring income from the sale of electricity from the Kota Marudu hydro power plants, expected to commence operation in FY18. The Ambon Mall gas power plant will also be generating recurring income from the lease of generation equipment.

### Cost structure

We understand that cost structures are similar from one O&M project to another for Serba Dinamik, owing to its long track record and extensive industry knowledge. Being a maintenance services provider, a big part of its costs are related to parts and consumables followed by professional fees, personnel expenses, depreciation and others.

**Figure 17: Cost of operations**

	FY13	FY14	FY15
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: Company data

Parts refer to machine and equipment parts, tools and equipment, microturbines, compressors, piping and metal structures. Consumables are oil, lubricants and fuel. Services are payment to suppliers for the supply of parts and provision of services.

Professional fees are paid to technical experts and consultants for the provision of technical consultancy, technical analysis, testing as well as training services under City & Guilds.

Personnel expenses are wages and salaries paid to personnel directly related to the contracts or projects as well as technical personnel.

Depreciation in its books refers to the depreciation of plant, tools and equipment.

Costs parked under others include the hiring and chartering of equipment, travelling and transportation expenses, and maintenance of its own equipment and machinery.



## Post-IPO Update

### Kuala Terengganu Utara Water project

Serba Dinamik announced in Feb 2017 that it intends to acquire a 40% equity interest in Konsortium Amanie for a total cash consideration of MYR34m. Upon completion, Konsortium Amanie will be a 40%-associated company of Serba Dinamik.

In Apr 2016, Konsortium Amanie was awarded a contract from the Terengganu State Government for the design and build of a 120 million litres per day (MLD) and 28 MLD membrane water treatment plant, intakes, service tank, installation of raw water and clean water pipes, retrofitting and other works for the Kuala Terengganu Utara water supply scheme. The total sum of the contracts is approximately MYR1.3bn.

Under the terms of the SPA, Serba Dinamik was awarded with the EPCC job for the membrane water treatment plant under the project. The job is valued at MYR289m. Construction will start immediately and the project is expected to be completed in 2H18. With the acquisition, we believe Serba Dinamik would be able to offer its O&M expertise for the water treatment plant upon completion of the EPCC job, which is in line with its business strategy.

### MoU with Nicol & Andrew Group

Serba Dinamik announced in April that it has entered into a memorandum of agreement (MoA) with Nicol & Andrew Group to form an exclusive partnership and sole agency for the marketing and performing of Nicol & Andrew's machining and finishing services, as well as to be the sole agency for the selling and distribution of Nicol & Andrew's parts and products in Malaysia.

Nicol & Andrew Group is the designer and operator for Orbitool, In-Situ or On-Site patented machining solutions for rotating and static equipment. Orbitool is a machining device that rotates around the shaft, producing a faster and more accurate end-result.

The agreement is valid for a period of five years from Apr 2017 and may be extended for another three years.

The agreement with Nicol & Andrew Group provides Serba Dinamik with the ability to provide more integrated rotating and static equipment maintenance services to its clients. The Orbitool allows on-site maintenance to the crankshaft without having to remove it from its housing. We have not included any forecast from this agreement as we believe it is difficult to be quantified at this juncture.

### MOU for waste management and water desalination in Bahrain

Serba Dinamik announced on 4 May 2017 that it has entered into an MoU with EAG Capital and Malaysia-Bahrain Business Council and Bahrain-Malaysia Business Council. The MoU is for the purpose of sourcing and making connections with the government agencies of the Kingdom of Bahrain to conduct a feasibility study for an integrated solid waste management and water desalination plant in Bahrain.

The plant will be at the forefront of green energy utilisation, while minimising land usage at the same time. It will also increase potable water in Bahrain by utilising natural resources in the Kingdom. The plant is expected to generate 30MW of power to the grid after deducting its expected utilisation of 24MW.

Serba Dinamik is expected to incur c.MYR3.2bn for the capital outlay of the plant, which will be funded by both internal funds and bank borrowings. We have not imputed any earnings contribution from this project into our forecasts.

## Future Expansion Plans

Serba Dinamik has a 5-point strategy for its future expansion, which includes:

- i. Having the O&M expertise to operate small hydropower plants;
- ii. Expanding existing facilities and establishing new ones;
- iii. Developing small gas power plants and water utilities facilities;
- iv. Making new investments and acquisitions.

### O&M of small hydropower plants

Leveraging on its O&M capability, Serba Dinamik will expand into operating small power plants. The company won a contract in Feb 2016 to operate as well as maintain three hydropower plants for 21 years in Kota Marudu, Sabah with an expected operational date of end-2017.

The three small hydropower plants will have net capacities of 10MW, 13.5MW, and 5.6MW respectively for a total generation capability of 29.1MW. The EPCC of the power plants, valued at MYR218m, are also being undertaken by Serba Dinamik, which will effectively own a 30% stake in the power plants with an investment cost of MYR12.22m.

We expect the commencement of operations for power plants to start contributing to earnings in FY18.

### Expansion of existing facilities

The company will also be expanding its current facilities in Malaysia as well as constructing additional facilities in Ras Al Khaimah, UAE.

For its existing Malaysia service centres (one each in Paka and Miri, and two in Labuan), it expects to purchase additional machinery, tools and equipment. The company will also be upgrading its existing logistics centre in Ras Al Khaimah by constructing an administrative area within the warehouse, a covered workshop as well as a mobile workshop. The expansion of both facilities is expected to be funded by IPO proceeds.

### New facilities in Malaysia

**A new MRO and IRM centre in Sarawak.** Due to the growth of the oil & gas and power generation industries in East Malaysia, Serba Dinamik intends to have a larger presence in the state to enable it to expand its MRO and IRM capabilities.

For oil & gas, there are currently eight operational LNG trains in Bintulu – with the ninth train scheduled to start commercial operations in 1Q17. Apart from LNG, Petronas and the state government of Sarawak has entered into an MoU to conduct a joint feasibility study for the Sarawak Petrochemical Master Plan to boost the local petrochemicals industry. The service centre will also be catering to the new Petronas floating liquefied natural gas FLNG1 vessel located in offshore Sarawak.

Sarawak Energy has several major power generation facilities in Sarawak, ie the Bakun hydropower plant, Murum hydropower plant, Mukah coal-fired power plant, Tanjung Kidurong combined cycle power plant, and Sejingkat coal-fired power plant. The state is planning to add a new 400MW combined cycle power plant in Tanjung Kidurong, a new 1,200MW combined cycle power plant in Samalaju, and an additional 600MW coal fired power plant in Balingian, Mukah.

The new developments in the oil & gas and power generation industries could bode well for Serba Dinamik, as it would be able to offer its rotating equipment MRO as well as its static equipment IRM capability to service both industries. The company intends to build a workshop and fabrication yard, and is in the midst of finalising the preferred location. We understand that the proposed land acquisition is targeted to be completed by 1H18. The new MRO and IRM centres are expected to be funded by proceeds from the IPO.

**New fabrication facility for EPCC and IRM in Johor.** The new facility in Johor is expected to support its engineering and fabrication works for the Refinery and Petrochemical Integrated Development (RAPID) and also for future projects in the Pengerang Integrated Petroleum Complex (PIPC) in southern Johor. Serba Dinamik has entered into a share sale agreement to purchase 2,183 acres of land in Kota Tinggi for about MYR2m. It expects to fund the construction of the new fabrication facility from the IPO proceeds.

### Small gas power plants and water utilities in Indonesia

**Ambon City Centre Shopping Mall gas power plant.** In July, Serba Dinamik entered into a 10-year leasing agreement to lease a 0.8MW gas power plant and its auxiliary equipment to Ambon City Centre Shopping Mall in Maluku, Indonesia for a total investment of approximately USD1.12m. The company will own, install and integrate the 0.8MW gas power plant using a microturbine with the electricity distribution system of the shopping mall. Apart from electricity, the gas power plant will also generate chilled water for the shopping mall. Serba Dinamik will also provide operations and maintenance capability for the power plant. We expect to see a full-year contribution from the gas power plant in FY18.

**Small gas power plant in Muaro Jambi.** Serba Dinamik intends to develop a small gas power plant next to its existing CNG plant in Muaro Jambi. The development of the gas power plant would provide synergy to its CNG plant as the gas supply from the latter can be used as a source of fuel for the gas power plant. Currently, the company is in the midst of applying for relevant licenses and permits for the plant. We have not factored in the potential contributions from this gas power plant to our earnings.

**Small gas power plant and water utilities in East Kalimantan.** The company also signed a MoU in Nov 2015 with PT Kutai Timur Investama, a local government district development body to form a partnership arrangement. The MoU, which is valid until 2020, was established with the intention of developing and operating small gas power plants and water utilities in the regency of East Kutai in East Kalimantan. The proposed initial developments are for the development of a 1MW gas power plant for a local water supply utility company, a 4MW gas power plant and a water treatment plant. The partnership arrangement is expected to be finalised by 2017.

## Industry Overview

Serba Dinamik is involved in the provision of engineering solutions to the oil & gas and power generation industries. The company performs operations and maintenance services for production platforms, refineries, gas processing and liquefaction plants and petrochemical manufacturing plants in addition to power generation plants.

The energy sector (which includes both oil & gas and power generation) is asset-intensive. The overall performance of its players depends heavily on the reliability and the performance of these assets. Maintaining these assets is vitally important in ensuring that the plants and facilities are able to work at an optimum performance level.

Demand for and supply of maintenance services are dependent on:

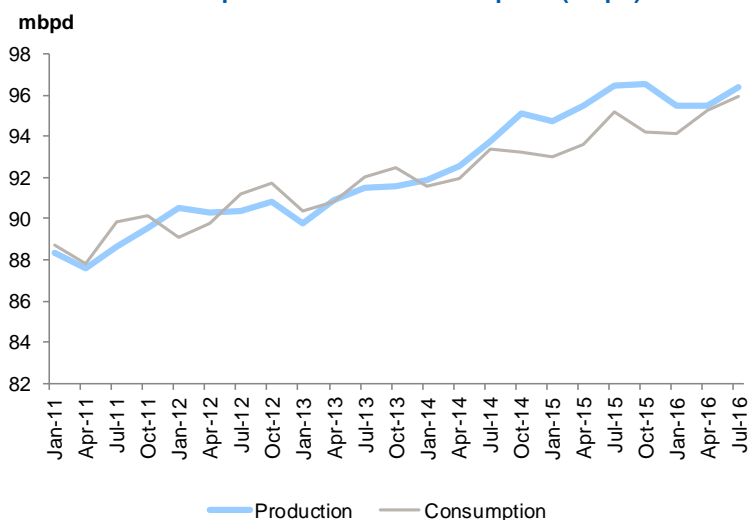
- i. Production activities in the upstream sub-sector;
- ii. Refining, processing and manufacturing of petrochemicals in the downstream sub-sector;
- iii. The installed capacity of power generation plants and facilities.

### Oil & gas production

According to the US Energy Information Administration (EIA), global oil output in 2016 was at 97.2mbpd, ie up 0.2mbpd from end-2015 levels, due to strong supply from Organisation of the Petroleum Exporting Countries (OPEC) countries. Supply from the group was higher by 0.9mbpd from 2015 levels, due to robust Middle East supply.

According to EIA, non-OPEC supply is expected to decline in 2016, with US producers accounting for 0.43mbpd of the decline in production. Non-OPEC supply is expected to pick up by 0.38mbpd in 2017, with Brazil adding 0.29mbpd to total supply – which coincides with our house view. Even in the current oversupply situation, oil production remains robust as crude oil is still the main source of global energy.

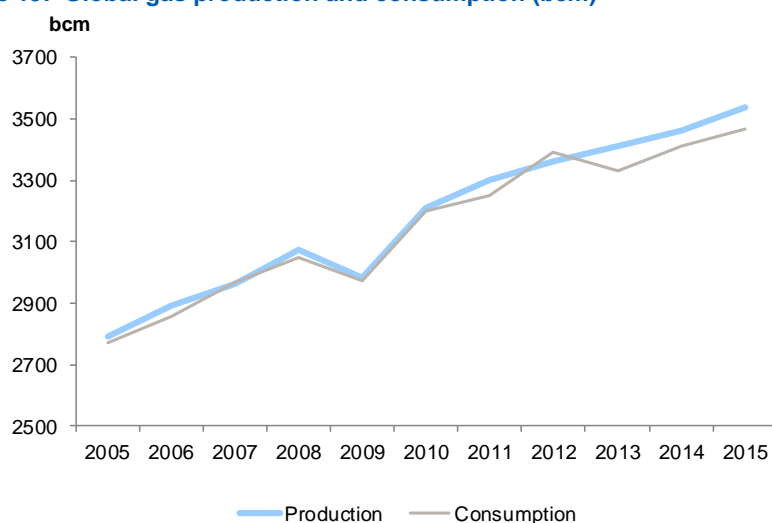
**Figure 18: Global crude oil production and consumption (mbpd)**



Source: EIA

According to BP's 2015 statistical review, global natural gas consumption has seen constant stable growth over the past 50 years. In the last five years, it had a CAGR of 2.7%, while total consumption was at 3,066m tonnes of oil equivalent (toe) in 2014. We expect natural gas consumption to continue on this trend going forward, regardless of where global oil prices are at and what the global economic growth rate is.

According to BP's long-term outlook (up to 2035), natural gas consumption is expected to grow 1.9% pa. Growth would be driven mainly by non-Organisation for Economic Co-operation and Development (OECD) demand (+2.5% pa, with demand from OECD countries growing at 1.1% pa over the same period).

**Figure 19: Global gas production and consumption (bcm)**

Source: BP Statistical Review

### Crude oil refineries and petrochemicals

Demand for downstream maintenance services is related to the installed capacity of assets, which includes crude oil refineries. According to the EIA, at end-2015 the global refining capacity stood at 97.2mbpd. Asia and the Pacific region have the largest refining capacity in the world, followed by the Americas, Europe & Eurasia, Middle East and Africa. Malaysia currently has a net refining capacity of 553,000 bpd, with Petronas owning a total of 310,000 bpd of refining capacity in Melaka and Kertih. The rest are owned by Shell, Petron and TIPCO Technologies.

According to GlobalData, global crude distillation units are expected to grow to 118.1mbpd in 2020 with China and South-East Asia leading the growth and adding 42.5mbpd of capacity to the region. Closer to home, Malaysia will add 300,000bpd of capacity with the commercial operations of RAPID. We understand that Pertamina is expected to undertake a 10-year USD25bn plan to modernise five of its Indonesian refineries.

For petrochemicals, Petronas Chemicals has a total of 10.4mtpa of nameplate capacity, while the start-up of the Sabah Ammonia and Urea (SAMUR) project will add a further 1.74mtpa of nameplate capacity. The petrochemicals portion of RAPID, expected to start commercial operations in 2019, will add a further 2.7mtpa of capacity to Petronas Chemicals.

### Liquefied natural gas: liquefaction and regasification

According to the International Gas Union's Sep 2016 report on the global LNG market, a total of 240mtpa of LNG is traded currently, with 19 exporting countries and 30 importing countries. LNG makes up around 8% of total gas consumed globally. BG Group estimates that LNG trade could have a CAGR of 4.2-5.7% over the next 10 years, ie more than twice as fast as natural gas.

Qatar has the largest LNG liquefaction capacity in the world at 77mtpa, followed by Australia at 33mtpa. Malaysia is third, with 24mtpa. Over the next four years, Asia Pacific is expected to add 60mtpa of capacity, with North America expected to add another 42mtpa.

Global regasification capacity stood at 757mtpa at end-2015 across 33 importing countries, with another 54.9mtpa of new regasification capacity under construction.

### Power generation

According to the Energy Commission, as of 2014, Malaysia has a total installed capacity of 30,875MW. Of this, 24,567MW is located in Peninsula Malaysia, 3,951MW in Sarawak and another 2,356MW in Sabah. The Energy Commission intends to add another 4,800MW of capacity in Peninsula, 550MW in Sabah, and Sarawak Energy aims to add an additional 2,200MW over the next 10 years.

Developments of new power plants will translate into higher demand for maintenance services to keep the facility running at peak performance. Ageing oil & gas and power generation assets would also increase demand for maintenance services.

### Maintenance operators in the industry

The maintenance industry is fragmented, with companies ranging from large global and regional organisations to small single-location companies. Service providers are also segmented by being OEM service providers, independent service providers (ISP), authorised service providers (ASP) and in-house service providers.

Figure 20: International MRO & IRM service providers

International Company	Status	Service	Presence		
			Malaysia	Middle East	Other
Elliot Company	OEM	MRO, IRM	X	X	X
General Electric	OEM	MRO, IRM	X	X	X
Hyundai Heavy Industries	OEM	MRO, IRM	X	X	X
IHI Corporation	OEM	MRO, IRM	X	X	X
KSB AG	OEM	MRO	X	X	X
Mitsubishi Heavy Industries	OEM	MRO, IRM	X	X	X
Siemens AG	OEM	MRO, IRM	X	X	X
Sulzer AG	OEM	MRO	X	X	X
The Weir Group	OEM	MRO, IRM		X	X
Al Hassan Engineering	ISP	MRO, IRM		X	
Ansaldo Thommasen	ISP	MRO		X	X
Bilfinger SE	ISP	MRO, IRM		X	X
Enerflex	ISP	MRO	X	X	X
Ensure Engineering	ISP	MRO, IRM	X		X
JEL Maintenance	ISP	MRO, IRM	X	X	
Rotary Engineering	ISP	IRM	X	X	X
SMH Industrial	ISP	MRO		X	X
Special Technical Services	ISP	MRO, IRM		X	
SPIE Oil & Gas Services	ISP	MRO	X	X	X
Stork Technical Services	ISP	MRO	X	X	X
Wood Group	ISP	MRO	X	X	X

Source: Vital Factor

Figure 21: Domestic MRO & IRM service providers

Malaysian Companies	Status	Service	Presence		
			Malaysia	Middle East	Other
Boilermaster	ISP	IRM	X		
Deleum	ISP	MRO	X		
Duragate Engineering & Services	ISP	MRO	X		
EPIC Mushtari Engineering	ISP	IRM	X		
KNM Process Systems	ISP	IRM	X	X	X
Makarmas Tenaga	ISP	MRO	X		
Mushtari Maintenance	ISP	IRM	X		
Sapura Energy	ISP	MRO,IRM	X	X	X
Serba Dinamik	ISP	MRO,IRM	X	X	X
Tenaga Tiub	ISP	IRM	X		
Technofit	ISP	IRM	X		
TNB Repair & Maintenance	ISP	MRO,IRM	X		
Turbo Mech	ISP	MRO	X	X	X
Turcomp Engineering Services	ISP	MRO,IRM	X		

Source: Vital Factor

## Investment Merits

### Established service provider with an international presence

Serba Dinamik is an established service provider to both the oil & gas and power generation industries, with an extensive track record. The company is ranked third in Malaysia among oil & gas service and equipment companies providing MRO services for rotating equipment.

The company started providing rotating equipment maintenance services to the Malaysian market and has since grown its presence to include Indonesia, Qatar, UAE, Saudi Arabia, Oman, Bahrain, India and Turkmenistan for the past three financial years. Its overseas expansion has been fruitful as it contributed about 65% of total revenue in FY15 and we expect this trend of higher overseas contributions to continue.

### Niche segment of maintenance services

Serba Dinamik is involved in rotating equipment maintenance services, which in our view is a niche area that has high barriers of entry. This is due to the high precision and detailed engineering required by rotating equipment maintenance.

### Independent service provider

Being an independent MRO service provider, Serba Dinamik has a wider scope of business opportunities. It is not restricted to a single or a small number of brands. For OEM equipment, it is able to service these after the expiration of the warranty periods. An edge that it has, too, is the ability to provide competitive pricing compared to brand owners and their respective agents.

### Visible growth plans

Moving from its bread-and-butter business of O&M, Serba Dinamik is moving up the value chain to provide EPCC services and also to become an asset owner. The company has completed several domestic and international EPCC projects and is actively looking to secure more. It currently has three assets, ie the CNG plant in Muaro Jambi, the Kota Marudu hydro power plant and Ambon Mall small gas power plant which will provide the company with a source of recurring income, supporting its O&M and EPCC business. Serba Dinamik is working closely with several Indonesian regional governments to develop more power generation based-assets as it leverages on its rotating equipment expertise.

Serba Dinamik will be utilising a significant portion of its IPO proceeds to expand its O&M and EPCC capability in Sarawak and Johor as well as to upgrade its existing facility in UAE. Furthermore, the company intends to acquire companies that complement and expand its existing products and service offerings.

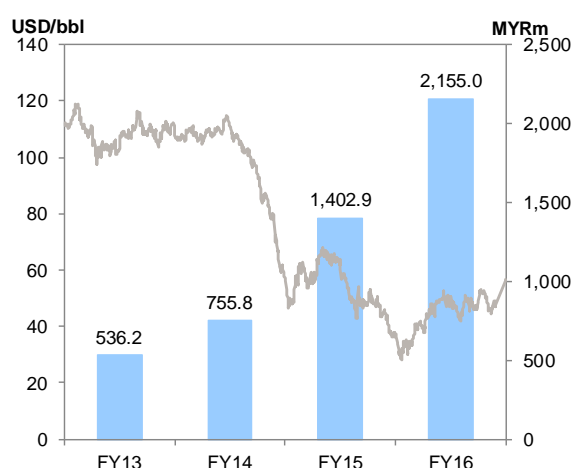
### Minimal impact from oil price for core business

In a period of depressed crude oil prices, Serba Dinamik has managed to chart higher revenue and net profit. The outperformance can be attributed to the O&M services that it operates in. MRO and IRM services are on-going as it is critical to maintain and extend the life of rotating and static equipment to maintain production efficiency as well as to ensure operational safety. The need to maintain and optimise these assets ensures that there will always be demand for MRO and IRM services.

For the oil & gas industry, Serba Dinamik is able to provide services for both the upstream and downstream segments of the value chain. For the upstream segment, Serba Dinamik customers are primarily in the production, where activities are still on-going as opposed to exploration activities which have almost grinded to a halt. For the downstream segment, Serba Dinamik customers are mainly in refining, petrochemicals and gas processing which are benefitting from the lower crude oil price as margins between selling and feedstock prices are boosted, resulting in an increase of activities.

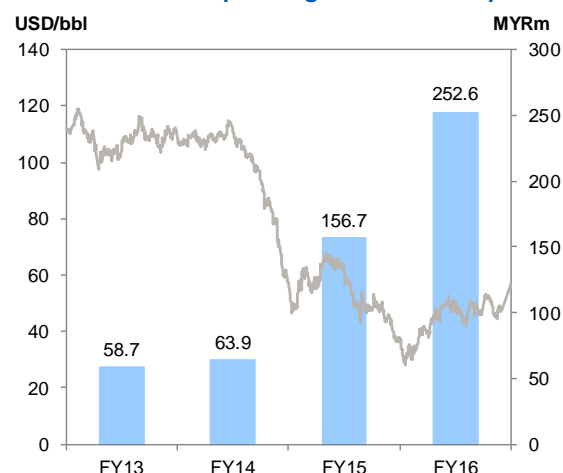


Figure 22: Historical revenue against crude oil price



Source: Company data, Bloomberg

Figure 23: Historical net profit against crude oil price



Source: Company data, Bloomberg

### Proxy to Sarawak's economic growth

Being a Sarawak company, Serba Dinamik is in a good position to capitalise on the state's infrastructure growth through its presence in Miri, Bintulu and Labuan. As more oil & gas, power generation, and infrastructure investments pour into Sarawak, Serba Dinamik may leverage on its O&M and EPCC expertise to complement the state's economic growth.

The company would also be able to leverage on the continued development of Samalaju Industrial Park, located about 80km from its Bintulu service centre. The company would be able to offer its O&M and EPCC capabilities to the heavy industries operating in the region. As Samalaju is one of the hubs of the Sarawak Corridor of Renewable Energy (SCORE), the growth of investments in other hubs of SCORE, Tanjung Manis, Mukah, and Kidurong would also benefit it to a certain extent.

Figure 24: SCORE development hubs

Growth nodes	Projects	Investments (MYRbn)	Water (ML/day)	Electricity (MW)	Gas (mcsfd)
Samalaju	27	44.5	127.4	3,923	14.9
Mukah	1	0.6	4	90	17.7
Tanjung Manis	3	2.3	3.7	61	0
Kidurong	1	2.6	0	10	0

Source: SCORE

We believe Serba Dinamik would capitalise on its position as a Sarawak-based power plant O&M service provider in tandem with the growth in demand of electricity in the state. Sarawak Energy intends to almost double the state's electricity generation level to 10,601MW in 2020 from 5,778MW in 2015. The generation mix will be between hydropower, coal, gas, and renewables.

Figure 25: Sarawak's current and planned electricity mix

Source	2015	2020
Hydroelectric	61%	73%
Coal	29%	16%
Gas	11%	6%
Renewables	0%	6%

Source: SCORE



## Key Risks

### Company-specific risks

**Orderbook replenishment risk.** Serba Dinamik is highly reliant on contractual agreements for O&M services and EPCC works. The company needs to constantly replenish its orderbook for both O&M and EPCC services to function as a business entity. Unexpected contract cancellation, delays in work orders, or inability to secure new work orders would adversely affect its operations and financial performance. We understand that Serba Dinamik's MYR3.7bn orderbook would last until end-FY20.

**Competition risk.** As an independent service provider, Serba Dinamik operates in an industry that is highly competitive, as the company would face competition from OEMs and their respective authorised service providers as well as other independent service providers. Inability to compete effectively on pricing and efficiency could affect the company's business performance.

**International company risk.** Serba Dinamik's international operations are subject to political stability, foreign laws and regulations. A drastic change in the stability of political climates of the nations that Serba Dinamik operates in could have an adverse effect on its ability to continue its business operations.

### Industry risk

**Crude oil price risk.** The company operates its O&M and EPCC businesses in the oil & gas industry, which is impacted by the volatility of oil prices. A prolonged period of depressed oil prices could affect investments in the industry, which would affect future maintenance contracts for Serba Dinamik.

**Currency fluctuations.** Serba Dinamik's international business revenue stands at 65% for FY15. The company is subject to foreign currency fluctuations which may affect its financial performance.

## FY16 Earnings Review

For FY16, revenue came in at MYR2,155m (+54% YoY), driven by higher turnover from both the O&M and EPCC segments. The O&M unit registered a 50% growth in revenue compared to FY15 while that of its EPCC segment surged 86% YoY. The growth in revenue for O&M came from higher maintenance works in Malaysia and the Middle East. Higher EPCC revenue was attributed by recognition from its CNG plant and the Kota Marudu hydropower plants.

Its bottomline grew by 61% YoY, in line with the higher revenue. Net profit came in at MYR253m compared to MYR157m in FY15. Its EBITDA margin for FY16 improved to 16.6% compared to 14.9% due to higher EPCC works.

Net gearing at end-FY16 improved to 48.9%, vs 58.6% in FY15, due to improved cash flow from the revenue growth.

## Financial Forecasts

**80% of O&M revenue comes from repeat customers.** From management's guidance, we understand that approximately 80% of revenue for O&M is from renewed contracts. Owing to its track record and past performance, Serba Dinamik has been able to renew most of its O&M contracts. We also understand that its domestic contracts are typically on a 2+1 basis, while its international contracts are for a 3-4 year period.

For contract renewals, we have assumed that 65% of its contracts are from international operations and 35% from its domestic operations. Note that Serba Dinamik's domestic performance is recorded in MYR terms while its international operations' numbers are USD-denominated.

The remainder of its O&M revenue, ie 20%, is booked for works that are won on an *ad hoc* basis. For this, we have assumed a similar 65% and 35% split between international and domestic operations respectively.

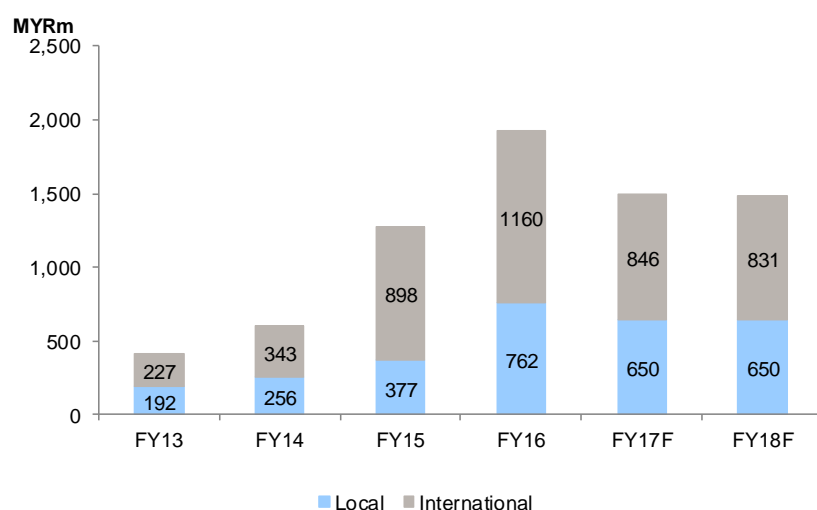
We show below Serba Dinamik's earnings sensitivity to USD/MYR changes, according to both its SOP and DCF valuations.

**Figure 26: Earnings sensitivity to MYR/USD**

Base case		5% higher		5% lower	
USD/MYR: 4.43		USD/MYR: 4.65		USD/MYR: 4.21	
<b>FY17F (MYRm)</b>	278.1	<b>FY17F (MYRm)</b>	287.0	<b>FY17F (MYRm)</b>	269.1
<i>Change (%)</i>		<i>Change (%)</i>	3.2%	<i>Change (%)</i>	-3.2%
<b>SOP TP (MYR)</b>	2.78	<b>SOP TP (MYR)</b>	2.87	<b>SOP TP (MYR)</b>	2.69
<i>Change (%)</i>		<i>Change (%)</i>	3.1%	<i>Change (%)</i>	-3.1%
<b>DCF TP (MYR)</b>	2.86	<b>DCF TP (MYR)</b>	2.92	<b>DCF TP (MYR)</b>	2.81
<i>Change (%)</i>		<i>Change (%)</i>	1.9%	<i>Change (%)</i>	-1.9%

Source: RHB

**Figure 27: Historical and forecasts for international and local O&M revenue (MYRm)**

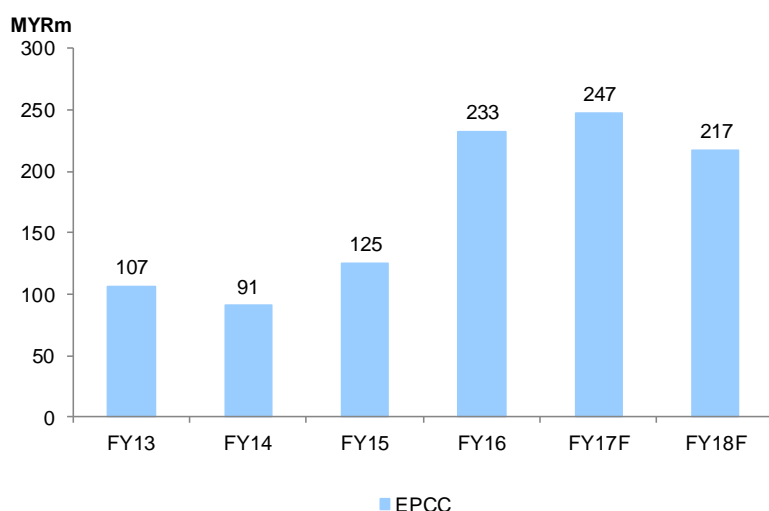


Source: Company data, RHB

**EPCC orderbook is filled up to FY18.** We have assumed revenue for EPCC to come in from its current orderbook, the Kota Marudu power plant and the Kuala Terengganu Utara water project. We have not included any additional new EPCC wins for these two years.

Going forward, we expect Serba Dinamik to generate MYR100m-200m pa in revenue from its EPCC segment. We believe our EPCC assumptions are conservative as EPCC revenue from FY13 to FY16 ranged from MYR91m to MYR233m. We also have not factored in the potential upside coming from its venture into small gas power plants in East Kalimantan and benefits from the expansion of its facilities.

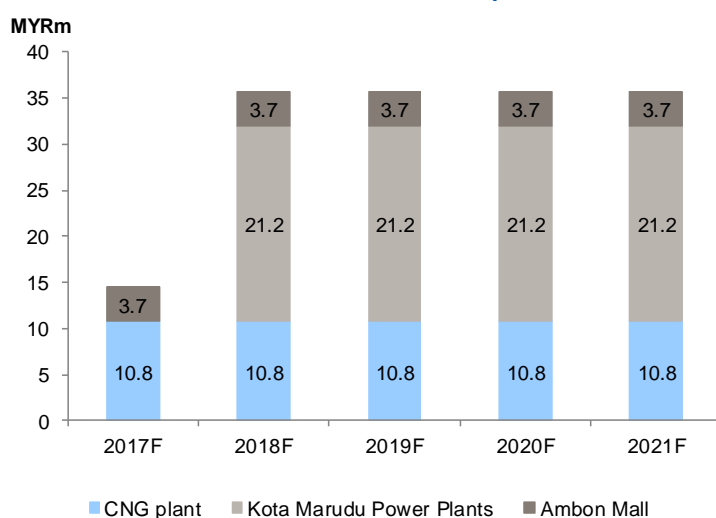
Figure 28: Historical and forecasted EPCC revenue (MYRm)



Source: Company data, RHB

**Recurring income from asset ownership.** We expect Serba Dinamik to generate revenue from three confirmed assets, ie the CNG plant in Muaro Jambi, Kota Marudu power plant and lease of a small gas power plant to Ambon Mall city centre shopping mall. We have not forecasted any other source of revenue for its asset ownership segment. Note that Serba Dinamik will consolidate the CNG plant (which brings in 51% of revenue) and the Ambon city centre shopping mall gas power plant lease (100%-owned) while the Kota Marudu power plant (30% equity stake) will be contributing to its associate line.

Figure 29: Forecasted revenue from asset ownership



Note: Revenue from Kota Marudu power plants is not consolidated

Source: Company data, RHB

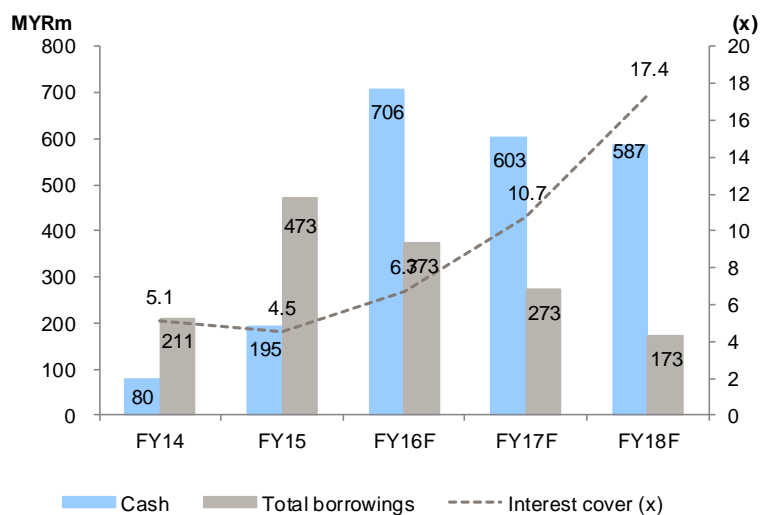
**Healthy balance sheet.** At end-FY16, Serba Dinamik's total borrowings stood at MYR606m. The company will be using proceeds from the IPO to pare down its borrowings. Net gearing as of FY16 stood at 0.49x, and we expect the company to turn into a net cash entity after its IPO exercise – even after paring down its debt. Serba Dinamik will utilise its net cash position to expand its business and operational facilities. Note that the company intends to adopt a dividend payout ratio of at least 30%.

Figure 30: Status of the utilisation of Serba Dinamik’s IPO proceeds

Utilisation	Estimated timeframe	Proposed utilisation (MYRm)	Percentage	Actual utilisation (MYRm)
Expansion of business & operational facilities	Within 36 months	300	73.7%	-
Working capital	Within 36 months	29.3	7.2%	10
Repayment of bank borrowings/financing	Within 12 months	60	14.7%	60
Listing expenses	Within 6 months	17.8	4.4%	13.718

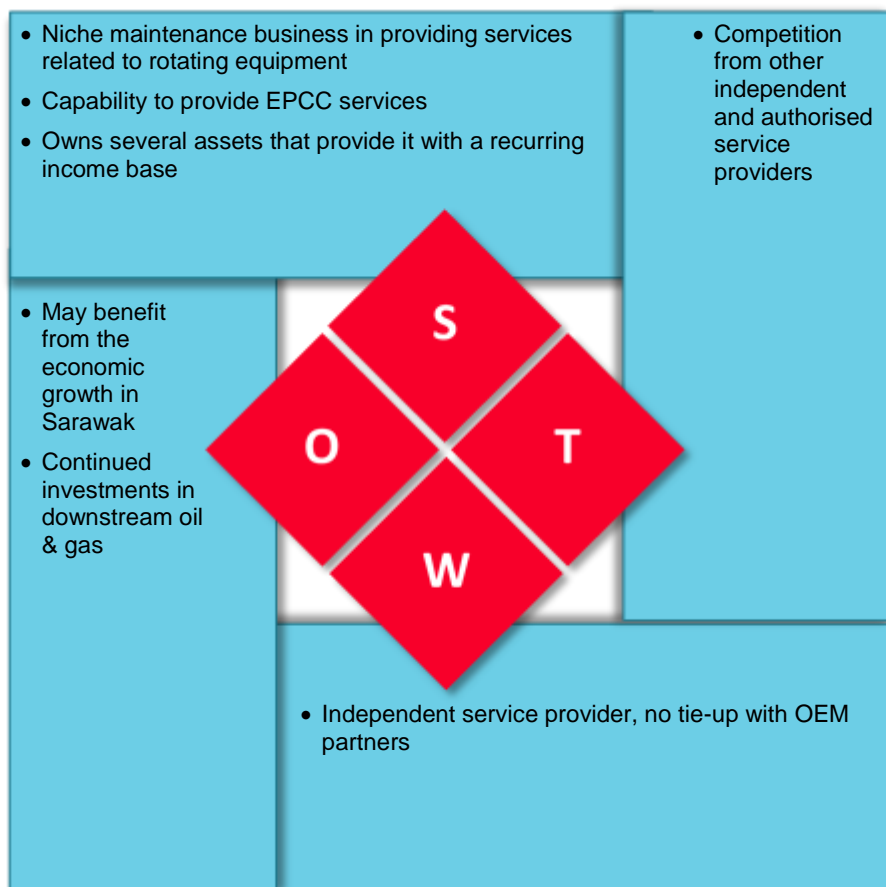
Source: Company data, RHB

Figure 31: Serba Dinamik’s historical and forecast cash, total borrowings and interest coverage

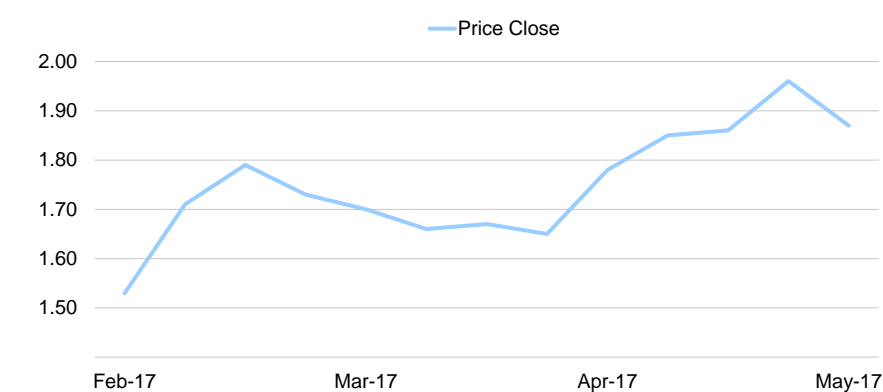


Source: Company data, RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-05-05			

Source: RHB, Bloomberg

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