Serba Dinamik Holdings

Dynamic Play

OUTPERFORM

Price : **RM2.21**

Target Price : **RM2.75**

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Despite already appreciated 47% since IPO, SERBADK, an experienced O&M services specialist, is still trading at undemanding valuation of 9.6x FY18E PER, in our view as we see further upside. This is premised on: (i) its decent earnings growth of 15-10% in FY17-18E backed by both O&M and EPCC segments via geographical expansion amidst weak oil prices, (ii) stable margins of 10.6-11.1%, and (iii) superior ROEs of 20-19%. The RM1.4b development project in Pengerang could position SERBADK as a leader in the maintenance services segment capitalising on the increasing demand from PIC in the long run. We initiate coverage on SERBADK with OUTPERFORM call at TP of RM2.75.

Experienced O&M services specialist focused on growing regional presence. SERBADK is an international energy services company providing engineering solutions to the O&G and power generation industries with operational facilities in Malaysia, Indonesia, UAE, Bahrain and the UK. Having established itself as a solid domestic MRO service provider, SERBADK is focused on growing its regional presence, actively bidding for projects of up to RM10b (70:30 split for O&M:EPCC) to add on to an already promising order-book of RM4.7b (87% attributable to O&M where historically 80% are renewed).

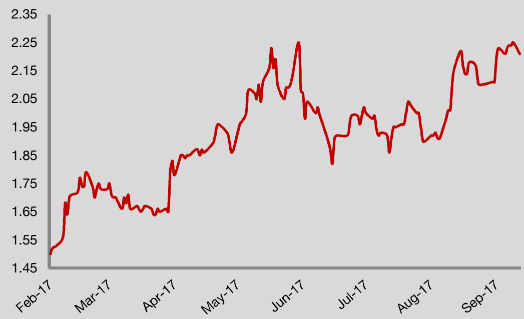
Qatar operations remained status quo. The Qatar concerns have been plaguing SERBADK's share price as Qatar contributed 19% of 1H17 revenue and 18% of its RM4b order-book. We understand that currently all the businesses are still on-going but scaling back on bidding efforts. The current situation remains uncertain at this juncture pending a firm solution, but strategists expect a peaceful negotiation given its strategic importance as an LNG exporter. In a worst-case scenario, stripping out related contracts from the order-book would cut FY18E-19E earnings by 15-12%.

Grounding in Pengerang. Following the venture into asset-ownership business model via the acquisition of: (i) a CNG plant in Muaro Jambi, and (ii) 30% stake in three hydropower plants in Sabah, SERBADK recently announced its RM1.4b development project in Pengerang which comprises PeIP, PICC and PNR. We believe the Phase 1 development of PeIP will allow SERBADK to capitalise on the maintenance opportunities arising from RAPID, which is slated to commence in 2019. We have yet to account for any potential earnings from the development project in Pengerang except for the EPCC portion of PNR to be awarded by its 30%-owned associate.

Estimating earnings growth of 15-10% for FY17-18E led by consistent top-line growth of 18-15%, underpinned by gradual recognition from existing projects and 20% success rate from tenders (RM2.0b order-book replenishment per annum). We believe a significant portion of the revenue is recurring in nature as the maintenance contract stands a good chance for renewal upon expiry should SERBADK provides quality services to clients. A dividend pay-out policy of at least 30% potentially translates to FY17-18E DPS of 6.3-6.9 sen, giving a dividend yield of 2.8-3.1%.

OUTPERFORM call with 25% upside. There are no directly comparable listed peers but Deleum (Not-Rated) is a much smaller domestic-centric player with less diversified customer base comes close. Pegging to 12.0x FY18E PER which is at 25% premium to Deleum for its 8x bigger market capitalisation, 2x profit margins and better ROE or a 35% discount to the average PER for our oil and gas universe (skewed by Petronas-related stocks with market cap of >RM20b), we arrive at a target price of RM2.75. Note that the total Pengerang project will give additional RM0.11/share to our TP applying 20% discount to its RNAV. Risks includes: (i) lower-than-expected order book replenishment, (ii) unable to execute power plants, and (iii) weaker-than-expected margins.

Share Price Performance



KLCI	1,783.66
YTD KLCI chg	8.6%
YTD stock price chg	47.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	2,950.4
Issued shares	1,335.0
52-week range (H)	2.30
52-week range (L)	1.51
3-mth avg daily vol:	4,882,160
Free Float	40%
Beta	N.A.

Major Shareholders

Mohd Abdul Abdul Karim	26.2%
Abdul Kadier Sahib	20.8%
Daud Awang	13.2%

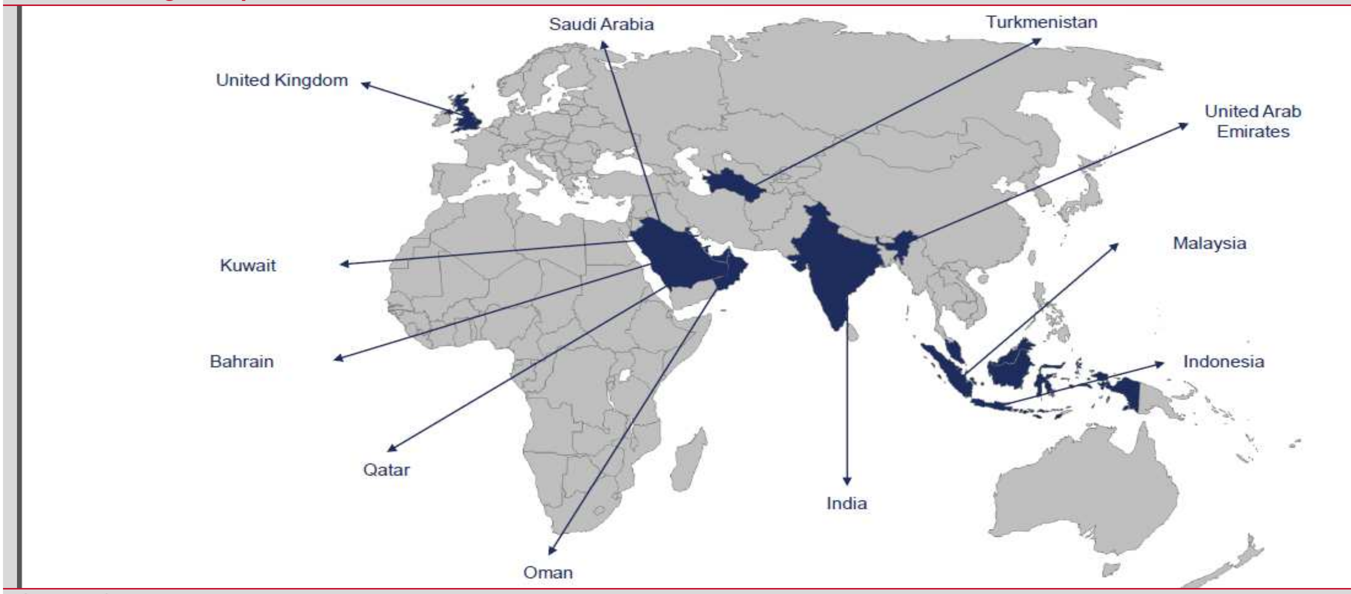
Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Revenue	2168.3	2561.2	2937.4
EBIT	302.9	352.7	391.5
Profit Before Tax	267.9	314.4	344.0
Net Profit	**246.1**	**283.3**	**310.1**
Core Net Profit	**246.1**	**283.3**	**310.1**
Consensus (CNP)			
Earnings Revision (%)		-	-
Core EPS (sen)	18.2	21.0	23.0
Core NP growth (%)	57.0	15.1	9.5
DPS (sen)	0.0	6.3	6.9
BV/Share (RM)	0.6	1.0	1.2
PER (x)	12.1	10.5	9.6
Price/BV (x)	3.7	2.1	1.8
Net Gearing (x)	0.6	0.1	0.1
Div Yield (%)	0.0	2.8	3.1

INVESTMENT MERITS

Experienced O&M service provider. According to the IMR report, SERBADK was ranked third among the MRO service providers in 2014. Domestically, SERBADK is a Petronas-licensed company with 48 SWEC codes, which allows them to bid for projects from oil majors, PSC and RSC operators as well as other O&G service providers. Besides the local presence, SERBADK also provides O&M services in other countries such as Indonesia, Qatar, UAE, KSA, Oman, Bahrain, India and Turkmenistan. We believe SERBADK is able to capitalise on its experience and proven track record in both local and international markets to expand its business by undertaking larger size projects with higher technical complexity.

SERBADK's global presence



Source: Company

Rapid geographical expansion amidst weak oil prices. Despite the challenging environment within the O&G upstream segment in the past two years due to spending cut by oil majors, SERBADK has managed to achieve commendable growth via several geographical expansions. Domestically, revenue contribution has grown at a CAGR of 38% from FY13 to FY16. However, the percentage contribution to the total revenue from Malaysia dropped from 55% in FY13 to 36% in FY16 as a result of rapid expansion in other areas led by Indonesia and Middle East. Indonesia's revenue achieved CAGR of 52% in the past four years while UAE and Bahrain were the fastest growing countries within the Middle Eastern region, at exponential CAGR of 498% and 222%. Going forward, we expect SERBADK to continue its strategy of expanding market share in these countries.

Quality services at competitive cost. We believe the rapid expansion growth achieved by SERBADK is largely attributable to its services offering at competitive pricing. Recall that prior to the plunge in oil prices, the O&M services were dominated by foreign established players. The fall in oil prices starting in mid-2014 prompted oil operators to embark on aggressive cost cutting. One of the options is to switch to services providers with better pricing and we reckon SERBADK capitalised on this opportunity to grab market share from foreign players. Additionally, being an independent MRO service provider, SERBADK is able to provide maintenance services on products of different brands rather than just one designated brand, allowing the company to capture a wider range of target markets. With these advantages, SERBADK has established strong relationship with some of its major clients for many years.

Multiple expansion plans in the pipeline. SERBADK has laid out its expansion plans in the IPO prospectus. As for its core bread and butter business, SERBADK intends to upgrade its existing service centre in Malaysia and construct/invest additional facilities in RAK, UAE. Meanwhile, SERBADK also intends to expand its business footprint in East Malaysia by establishing a new MRO and IRM centre in Sarawak. The new service centre will allow SERBADK to offer additional MRO and IRM services to clients. The development cost for the new centre is estimated at RM235.0m and SERBADK intends to fund 30% of it from IPO proceeds with the remaining from internally generated funds/borrowings. On the other hand, given that SERBADK currently performs its EPCC and IRM jobs at its service centres or clients' sites, SERBADK is looking to establish a new fabrication facility in Johor to cater for the business opportunity arising from Refinery and Petrochemical Integrated Development (RAPID).

Outstanding order-book of RM4.7b. As of 2Q17, SERBADK's order-book stood at RM4.7b, of which RM4.0b is attributable to O&M contracts and the remaining RM700m works are EPCC related. These contracts have contractual period ranging 2-5 years and subject to renewal upon expiry. We are guided that historically, 80% of the O&M contracts were renewed given that SERBADK is able to provide quality services to customers, Thus, SERBADK has managed to establish long-standing customer relationship with some of its key clients such as Petronas Carigali Sdn Bhd, Petronas Carigali (Turkmenistan) Sdn Bhd, Energy Engineering & Services, Energy Machines Services LLC, Sarawak Shell Bhd, and Petroserv Limited. Meanwhile, SERBADK is actively bidding for projects of up to RM10b with a split of 70:30 between O&M and EPCC segment. These job opportunities will allow SERBADK to continue replenishing its order-book and ensuring earnings visibility in the next few years.

Tapping into Sarawak's developments. SERBADK is looking to tap into Sarawak's upcoming development plans by leveraging its expertise in both EPCC and MRO services within both the O&G as well as power generation segments. In April last year, Petronas had entered into a MOU with the State Government of Sarawak to conduct feasibility study for the Sarawak Petrochemical Master Plan in view of future development of petrochemical industry in Sarawak. Meanwhile, according to the IMR report, there are new development plans such additional 400 MW combined cycle power plant at Tanjung Kidurong, Bintulu, a new 1,200 MW combined cycle power plant in Samalaju, Bintulu and an additional 600 MW coal-fired power plant in Balingian, Mukah to cater to increasing power demand. Additionally, the news reported that Sarawak Energy Bhd, the state government's arm is aggressively developing its transmission and distribution infrastructure. Thus, the upcoming new MRO and IRM centre is Bintulu is well poised to capture these job opportunities in the medium-long run.

Net gearing at 0.1x level. As of 2Q17, SERBADK's net gearing level stood at 0.2x, which is at a fairly manageable level and lower than industry average of 0.5x. Coupled with its estimated operating cash flow of RM234m-RM225m in FY17-18E, we reckon this would provide sufficient financial capacity to fund its expansion plan and to stay at net gearing of 0.14-0.12x in FY17-18E. Having said that, in our view, with the recent announcement of the development project in Pengerang, SERBADK's funding requirement for this project alone would peak at RM195m/ RM350m/RM260m in FY18-20. Assuming the sum is fully funded via borrowings, this would stretch its gross gearing up to 1.0x in FY20, which is still within the company's manageable gearing level of 1.0x. However, do take note that this may limit SERBADK's growth in its bread and butter business given that funds are also needed whenever the company secures a new contract.

COMPANY OUTLOOK

Raised RM407m IPO proceeds. SERBADK managed to raise IPO proceeds of RM407.1m in February this year where 73.7% will be used for expansion of business and operational facilities while the remaining is for working capital, repayment of bank borrowings/financing and listing expenses. According to the prospectus, SERBADK will spend RM135.0m on: (i) establishing a new MRO and IRM centre in Sarawak, (ii) acquiring a corporate office building in Selangor, (iii) establishing a new fabrication facility to support EPCC works and IRM services in Johor, and (iv) upgrading existing operational facilities in Malaysia and UAE. Additionally, SERBADK has allocated another RM165.0m to expand through investment and acquisition and development the small gas power plants in Indonesia.

Utilisation of Proceeds

Purpose	Proposed Utilisation (RM'm)	Percentage (%)	Estimated timeframe for utilisation upon Listing	Actual Utilisation (RM'm)	Actual Utilisation (%)
Expansion of business and operational facilities	300.0	73.7	Within 12-36 months	54.4	18.1
Working capital	29.3	7.2	Within 36 months	20.0	68.3
Repayment of bank borrowings/financing	60.0	14.7	Within 12 months	60.0	100.0
Estimated listing expenses	17.8	4.4	Within 6 months	17.8	78.8
TOTAL	**407.1**	**100.00**		**152.2**	**37.4**

Source: Company

37% of the fund utilised. As of 2Q17, SERBAK had utilised 100% of the allocated RM60m to repay bank borrowings in 1Q17. RM18.1m was mainly used to expand the new fabrication yard in Bandar Penawar, as well as RM20m as working capital. Moving forward, the focus will be on the construction of the new facility in Bintulu which could cost about RM100m. Meanwhile, SERBADK intends to acquire parts manufacturers in order to achieve better cost efficiency. By having its own manufacturing arm instead of sourcing from suppliers, SERBADK should be able to reduce its cost by 1-2% given that 40% of the operational costs are material costs. Additionally, companies with technologies and skill sets in small hydropower generation businesses in East Coast region and Northern region of Peninsular Malaysia also are within SERBADK's radar for inorganic growth, in order to complement its products and services offerings while penetrating into new markets.

New fabrication facility to support EPCC and IRM services in Johor. Currently, most of the works are performed at its own service centre or at its customers' sites. Having said that, SERBADK recently completed the new fabrication arm for both EPCC and IRM jobs in Bandar Penawar, Kota Tinggi in 2Q17. Besides this, SERBADK also has a series of facility upgrade plans in the pipeline, including purchase of machineries and equipment in its existing services centres in Paka, Miri and Labuan. In addition to that, there are plans to invest in mobile workshops at the logistic centre in RAK, UAE. However, we believe the capex needed for these upgrades are minimal, estimated at <RM10m.

Diversifying into asset ownership business model. In February 2016, SERBADK was awarded a contract to operate and maintain three small hydropower plants for 21 years in Kota Marudu, Sabah. While the EPCC work is also executed by SERBADK, the plant is slated for completion by end of 2017 and likely to commence in 2018. SERBADK has 30% equity stake in these three hydropower plants with nominal net capacities of 10.0MW, 13.5MW and 5.6MW, respectively. Apart from the local small power plants, SERBADK has also acquired a 51%-stake in a CNG plant in Muaro Jambi, Indonesia and entered into a 10-year agreement to lease a 0.8MW gas power plant and its auxiliary equipment to an Indonesian engineering company starting from 1Q17. We gather that the CNG plant in Muaro Jambi has started operations but still under-utilised at 30% of its capacity while the other power plant with a 10 year-lease is generating stable cash flow.

On the other hand, we understand that the two other MOUs signed are not progressing as smoothly. The MOU signed in May 2016 with PT PLN (Persero) South Sumatra in Jambi, Indonesia and Bengkulu Region for the sales of power upon the completion and commissioning of a small gas power plant with a 4 MW capacity might not be feasible at this juncture as the negotiated tariffs were lower than expected. Meanwhile, the MOU with PT Kutai Timur Investama, a local government district development body to form a partnership arrangement with the intention of developing small gas power plants and water utilities in the regency of East Kutai in East Kalimantan is still in the discussion and, in our view, may be not materialise in the near term. In all, we expect the contribution from these assets to be relatively minimal at this juncture as the main growth is still driven by O&M and EPCC segments.

Post IPO Update

In less than a month after the IPO in February, SERBADK **entered into a share purchase agreement for 400k ordinary shares, representing 40% equity stake in Konsortium Amanie** for cash consideration of RM34m. The target company was awarded a contract of the State Government of Terrengganu for the design and build of 120m litres/day and 28m litres/day membrane water treatment plant for RM1.3b. As stipulated in the SPA, SERBADK was awarded the EPCC portion amounting to RM289m of the water treatment plant which commenced in Dec 2016 and expected to be completed by May 2019. The proposed acquisition has been completed on 15 August 2017.

In late April this year, SERBADK entered into a **memorandum of agreement (MOA) with Nicol & Andrew Group PLC (N&A).** the UK designer, operator of patented machining solutions for rotating and static equipment for an exclusive service partnership for MRO and "In-Situ" or "On Site" services for various industries, including oil & gas, petrochemical, marine, plantation, energy and etc. With that, SERBADK will be the sole agency for the selling and distribution of N&A parts and products in Malaysia. The MOA will be valid for 5 years from 19 April 2017 with an extension option for another 3 years.

In less than a month later, SERBADK, together with EAG Capial Sdn Bhd as a consortium, has entered into a MOU with MBCC/BMBC Malaysia with the intention to reaching an agreement to make connection with government departments of the Kingdom of Bahrain. The purpose is to conduct a feasibility study for an integrated solid waste management and water desalination plant in Bahrain. Under the MOU, the plant is meant to increase potable water in Bahrain by utilising the natural source available while managing solid waste. Meanwhile, the plant is also able to generate 30MW energy to the grid on top of the 24MW energy for its own plant operation. The capital outlay required from SERBADK is BHD320m (c. RM3.2b) assuming a maximum 40% stake in the consortium. Having said that, we view that this might not materialise in the near term as well given that it is still at the preliminary stage.

Grounding in Pengerang. On 17 August 2017, SERBADK announced its intention to enter into a MOA with Izin Budi Sdn Bhd (IBSB) for a collaborative development of industrial and commercial projects on a 15.87 acres land located at Bukit Pelali, Mukim Pengerang, Johor and another MOA with AlMurisi Holdings Sdn Bhd (AHSB) involving the construction of a 70 acres mixed residential and commercial development area on a contiguous land located at Mukim Pantai Timur, Daerah Kota Tinggi, Johor.

With the MOAs, SERBADK will participate in the development of industrial, commercial and residential projects on a 132-acre project with estimated gross development value of RM1.4b, entailing Pengerang Industrial Park (PeIP), Pengerang International Commercial Centre, residential and commercial development namely Pengerang Northshore Residence. The PeIP will include the Malaysia first oil & gas MRO and IRM Global Centre of Excellence in Pengerang Johor. Eventually, the development will be resold, leased, rented out or self-operated by SERBADK and the terms of collaboration will be further defined in the subsequent Joint Venture Agreement. We understand that SERBADK will be the lead developer.

The purposes for such development are to (i) provide supporting services to oil & gas and petrochemical industry in Pengerang while (ii) to attract different MRO and IRM service providers to base their operations in this industrial park leveraging on its strategic proximity to Pengerang Integrated Complex whereby the RAPID is commencing in 2019. SERBADK, being the MRO and IRM service provider itself, will be the anchor service provider in the PeIP. As for PICC and PNR, Petronas has expressed interest to take up some of these units for its staff quarters but no formal commitment is given at this juncture.

We believe this development is **a strategic move to ground its presence in Pengerang in order to capture the potential demand for maintenance related jobs arising from PIC post commencement of RAPID in 2019**. Perisind Samudra Sdn Bhd (PSSB), a wholly-owned subsidiary of Johor State Government's arm, Perbadanan Islam Johor Holdings will be the project manager/project management consultant while SERBADK will be the EPCC contractor for the entire project.

The entire project development will be **split into 3 separate developments, namely: (i) Pengerang Eco-Industrial park (PeIP), (ii) Pengerang International Commercial Centre (PICC) and (iii) Pengerang Northshore Residence (PNR).** According to the management, SERBADK will pay RM24m upfront fee for the first phase of 15.87 acres land, implying a land cost of RM35/psf. The entire 16 acres will be used to develop PeIP, focusing on the plant turnaround village. The construction of this plant will start next year with estimated capex of RM100m. Phase 2 development is earmarked to start in 3Q19 but could be earlier if demand picks up.

Meanwhile, as for PNR development project, AHSB will be the largest shareholder of Al Murisi Development with 70% stake and SERBADK will own the remaining 30% stake. The entire 70 acres land is injected by AHSB with an implied price of RM20psf and SERBADK will inject RM18m capital for the initial equity start up. Pending further details from the company, it is highlighted that PNR development is likely to be carried out in two phases, whereby phase one to be carried out simultaneously as PeIP phase 1 in 2018.

Site of SERBADK's Pengerang Integrated Development

Source: Company

Details of the development project

Pengerang Eco-Industrial Park ("PeIP")	Pengerang International Commercial Centre ("PICC")	Pengerang Northshore Residence ("PNR")	Total Project
Land Size 53 acres	**Land Size** 9 acres	**Land Size** 70 acres	**Land Size** 132 acres
GDV RM308.9 million	**GDV** RM494.2 million	**GDV** RM593.0 million	**GDV** RM1.40 billion
GDC RM224.1 million	**GDC** RM441.9 million	**GDC** RM511.2 million	**GDC** RM1.18 billion
Project Manager Perisind Samudra	**Project Manager** Perisind Samudra	**Project Manager** Al Murisi Development (30% Serba's equity interest)	**Contractor** SERBA
Expected Completion 2020	**Expected Completion** 2021	**Expected Completion** Phase 1 – 2020 Phase 2 - 2022	**Expected Completion** 2022

Source: Company

<u>Pengerang Eco-Industrial Park (PeIP)</u>

- Land size of 53 acres with estimated GDV of RM308.9m.
- Facilities include plant turnaround village, IRM and MRO global centre of excellence, logistic hub, Vendor Development Programme (VDP) & Technical & Vocational Education & Training (TVET) centre.
- SERBADK will house its own IRM/MRP operational base in PeIP but is also considering selling/leasing out up to 75% of the property to service players which are interested to establish a base in Pengerang.

<u>Pengerang International Commercial Centre (PICC)</u>

- Land size of 9 acres with estimated GDV of RM494.2m, potentially opt for outright sale plus leasing model.
- Facilities include office towers, service apartments, small office versatile office, retail podium, conference and banquet halls, technical and vocational, educational, training lecture halls and classrooms.

Pengerang Northshore Residence

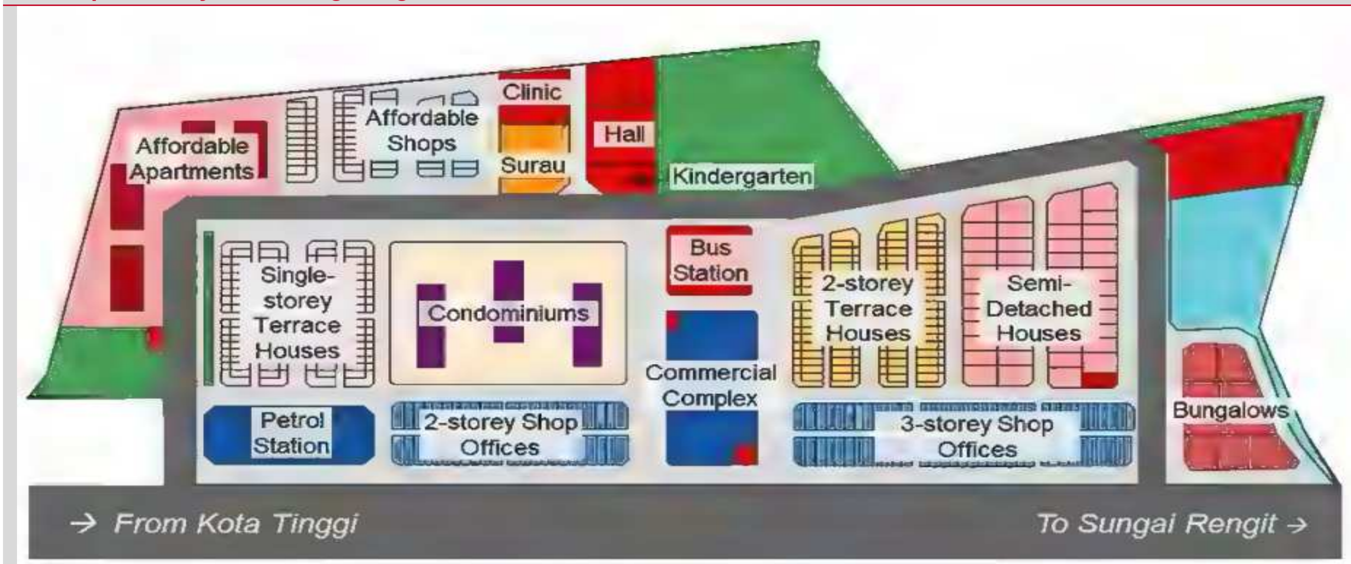
- 70 acres of mixed residential and commercial development with estimated GDV of RM593m for accommodation and community facilities, amenities and services to personnel working at the PeIP, PICC,PIPC and PDT.
- SERBADK will have 30% stake with the remaining stake held by AHSB.
- Comprises landed, residential properties, affordable apartments, shop offices and community complex.

Earnings impact to our valuation:

The earnings impact from the project development will be minimal in the next two years as Phase 1 development will only start in 2018. SERBADK will recognise PICC cost under property development cost and profit will only be recognised if the company is able to sell. On top of that, this is the maiden property development project by SERBADK and hence **project execution is also vital in determining the success of this venture**. Meanwhile, depending on the percentages of the asset used for self-operation and sold, the company will not recognise the EPCC revenue for PeIP but will have to capitalise the construction cost both as non-current asset and property development cost. Lastly, given that SERBADK holds only 30% of PNR and is treated as an associate, the construction revenue for PNR will be recognised as part of SERBADK's top-line commencing from FY18.

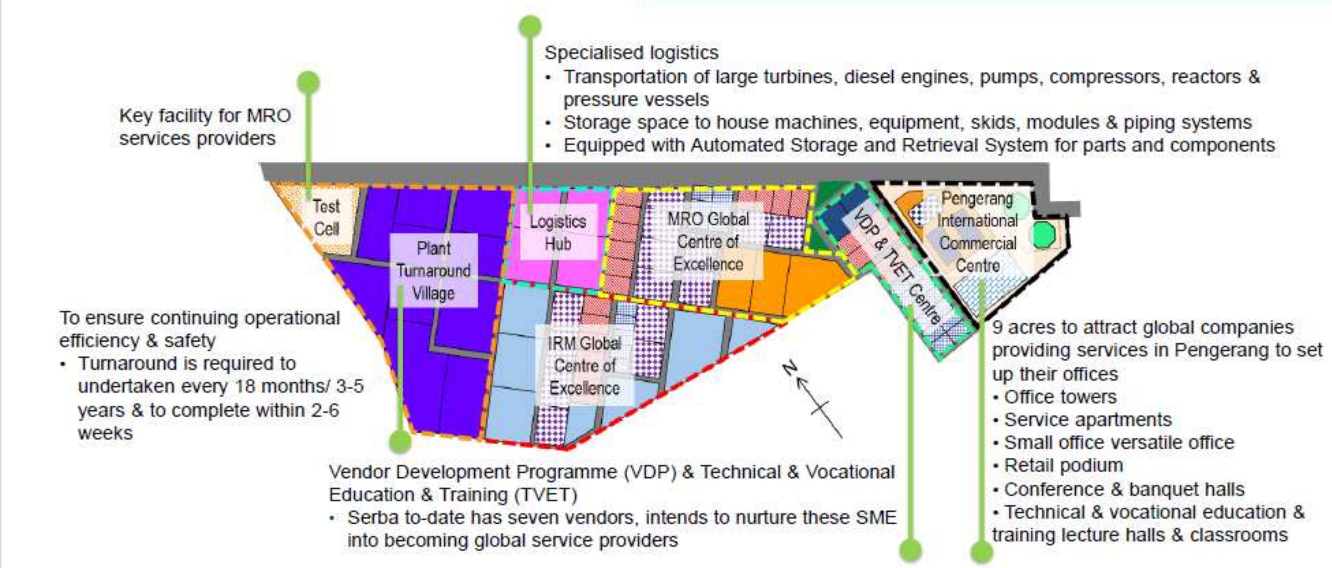
Funding-wise, as only Phase 1 plan is laid out starting from 2018, we believe the development of PeIP is split into 2 phases as priority is given to establish the new O&M site for clients while PICC and PNR will be split into 3 phases whereby 2nd and 3rd phase will be developed in 2019 and 2020. With that, SERBADK's funding requirement for this project would peak at RM195m/ RM350m/RM260m in FY18-20. Assuming SERBADK fully funds the requirements via borrowings, this would stretch its gross gearing up to 1.0x in FY20, which is still within the company's manageable gearing level of 1.0x. However, do take note that this may limit SERBADK's growth in its bread and butter business given that funds are also needed whenever the company secures a new contract. In all, the total project will give additional RM0.11/share applying 20% discount to its RNAV with the following assumptions; (i) SERBADK will sell off 50% of PeIP, (ii) 100% stake of PICC, and (iii) discount rate of 10%

Concept Site Layout of Pengerang Northshore Residence



Source: Company

Concept Site Layout of Pengerang Eco-Industrial Park and Pengerang International Commercial Centre



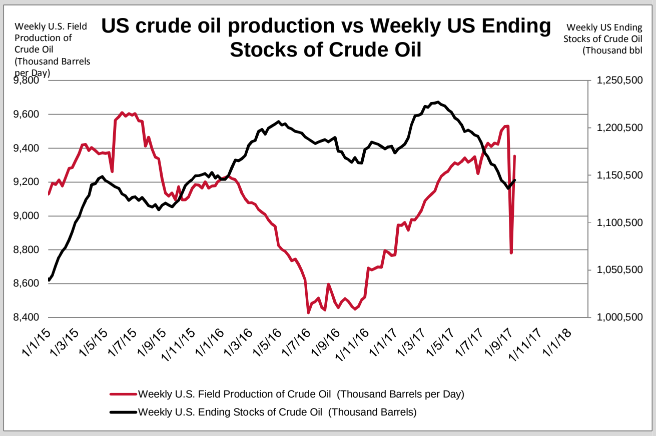
Source: Company

INDUSTRY OUTLOOK

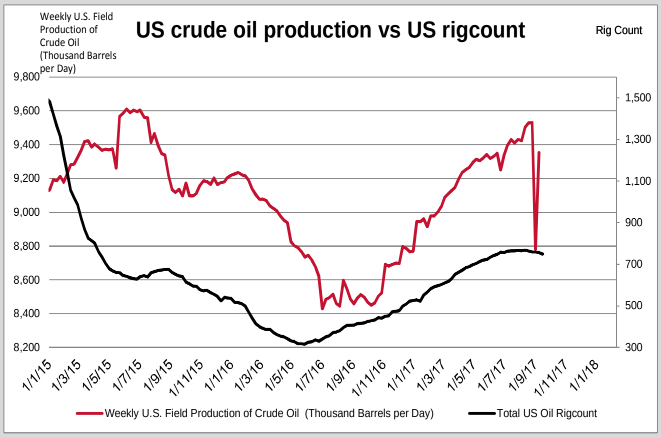
Healthy energy consumption in the long run. As SERBADK primarily serves energy players in oil and gas industry as well as power generation industry, the global energy demand generally affects the company's long-term prospect. According to *International Energy Outlook 2016* published by U.S. Energy Information Administration (EIA), the world energy consumption is projected to grow an average of 1.4% annually from 2012 to 2040, whereby non-OECD countries will drive the growth. Among that, the Africa region has the highest average annual growth of 2.6%, followed closely by Middle East and Asia regions, at 2.4% and 2.2%, respectively. Petroleum and other liquid fuels will remain the most relied-on energy source, even though their share of total energy consumption fell to 30% from 33% in 2012 backed by continuous uptrend in transportation liquid fuels consumption and minor increase in the commercial sector cushioning the decrease in residential and electrical power sectors.

We expect crude prices to stabilise at above USD50/bbl level in 2H17 following a more volatile 2Q dragged by rising US rigs count and US production number coupled with disappointment in the decision of OPEC and non-OPEC member agreeing to maintain the production cut quantum for another 9 months up to March 2018. We reckon that downside risk is limited given that overall global oil demand is expected to grow coupled with moderation of rigs count increase which will eventually lower the oil inventories. In all, we maintain our forecast 2017 average Brent crude price at USD51/bbl.

US Crude Oil Production vs US Stocks of Crude Oil



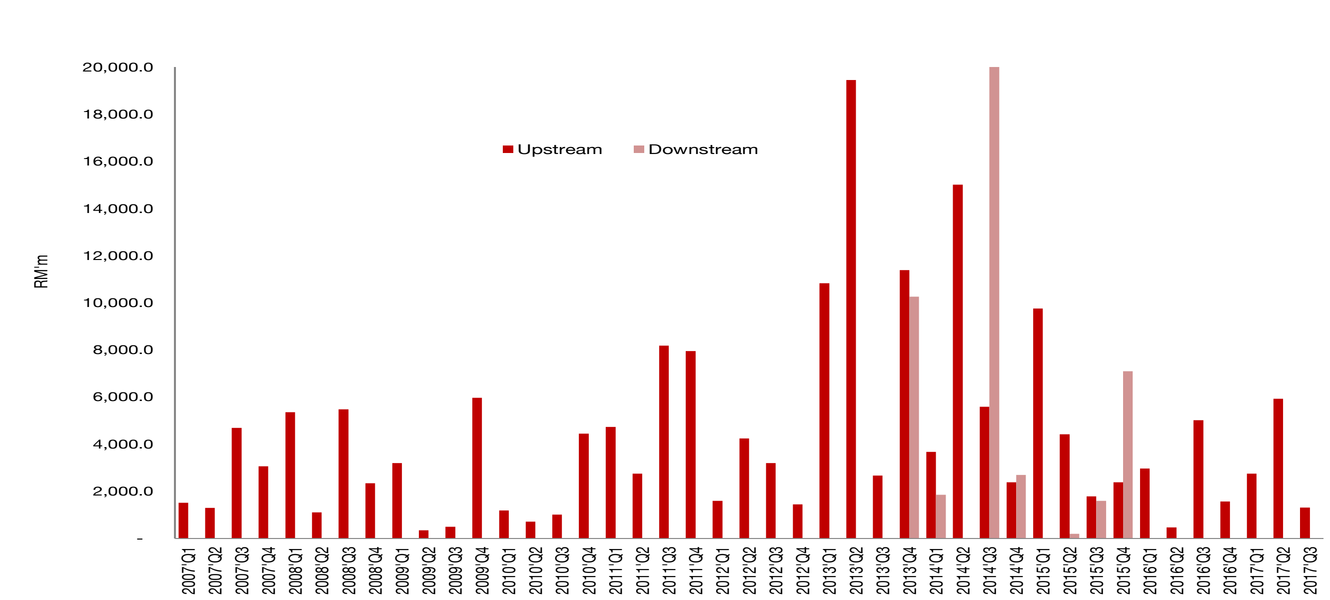
US Crude Oil Production vs US Rigcount



Source: EIA, Kenanga Research

Expecting better contract flow in 2H17. Within the local scene, the recent portfolio reshuffling by Petronas may not be seen to benefit the local upstream space as not much attention is given as far as the local services players are concerned. This could be due to the pullback in capex and opex spending that was disrupted by the volatility of oil prices in 2Q17, further delaying some of the contracts awards, including MCM, which were initially anticipated in 2Q17. Based on our channel check, the estimated RM4-6b 5-year maintenance, construction and modification (MCM) tender has been extended to October. Besides this, OSV players are also expecting the integrated logistic contract (ILC) award by end of the year. Recall that the tender entails 25 packages with variations of firm and call-out contracts with the option of 3+2 year tenure and 5+2 year tenure. The contract is potentially valued up to RM4.0b and expected to commence next year. We believe DAYANG and PENERGY (Not-Rated) stand good chance to win MCM contracts while the listed OSV players such as ALAM (UP; TP: RM0.08) and ICON (Not-Rated) are in favour to win the ILC. Thus, we expect better contract flow in 2H17, paving for better earnings outlook in 2018.

Contract trend as at end-Aug 2017



Source: Kenanga Research

RAPID is still brewing. Petronas had spent an average capex of RM36b/annum in the past five years with c.60% allocated to upstream segment. We believe higher priority will be given to downstream segment, particularly the RAPID project in the near term. Hence, this segment is still brewing with the development of Pengerang Integrated Petroleum Complex (PIPC) in Pengerang, Johor. The project will include oil refineries, naphtha crackers, petrochemical plants and liquefied natural gas terminal and regasification plant within a 20,000 acres land. As of 2Q17, the overall PIC project has achieved 70% completion and we expect the development activities for Petronas's RAPID project to stay busy within the next 12 months. Once the facilities are in operations, there should be a surge in maintenance services demand.

New exposure into property. On the other hand, its recent venture into property development in Pengerang is a new business exposure. While the overall property market remains soft at this point of time, the Johor property market is often viewed as one of the more challenging markets in terms of demand. According to *Property Market Report 2016 – Johor,* the total value of residential property transacted within Kota Tinggi area in 2016 is RM221.1m (+28% YoY) while total value of commercial properties transacted in Kota Tinggi in 2016 is RM58.3m (-57% YoY). Thus, unless the project is strongly supported by anchor tenants/buyers which could be Petronas as well as other foreign service players who wish to establish presence in Pengerang, we believe it might take longer than expected to fully develop and allow the market to absorb the entire RM1.4b project development in the estimated time frame of 2022.

What happened with Qatar?

In early June, five counties Saudi Arabia, the United Arab Emirates (UAE), Egypt, Bahrain and Yemen countries froze diplomatic ties with Qatar through withdrawal of ambassadors, imposition of trade and travel ban over its alleged support of terrorism. The list of countries was subsequently expanded to nine with the addition of Maldives, Mauritius, Mauritania and Libya. Despite Qatar rejecting the accusations, Saudi Arabia, the United Arab Emirates, Bahrain and Egypt handed Qatar a list of demands with 13 preconditions including closure of Al Jazeera, the government-owned satellite TV channel and its affiliates, scaling down diplomatic ties with Iran, shut-down of Turkish military base and etc.

Having said that, being the world's largest LNG export, Qatar has announced its plans to increase production by 30% in the next 5-7 years. We believe the diplomatic freeze will not affect the production of gas supply significantly given that Qatar has no plan to shut down the 364km Dolphin pipeline which transports 2.0b standard cubic feet per day of natural gas from North Field to UAE and Oman. Besides that, Saad Sherida al-Kaabi, the president and CEO of the state-owned Qatar Petroluem, according to news report, has highlighted that Qatar will continue to dominate the gas market with the newly signed 10-year contract supplying 300m cubic feet per day of gas to Qatar. Together with the 15 year LNG shipment supply contract, it will form c. 40% of Dubai's electricity requirement.

Recap that SERBADK has started to penetrate Qatar market in 2001. In the past four years, the revenue contribution has grown at the CAGR of 75% from RM64.8m in FY13 to RM348.9m in FY16. In Qatar, bulk of the revenue are attributable to: (i) the provision of MRO services for rotating equipment contract with Petroserv Limited, and (ii) provision of topside maintenance service, MRO of pressure testing, crude oil transfer pumps, safety relief valve and other associated rotating equipment contract with Process Dynamics Company. SERBDADK typically enters contracts with the local sponsors who ultimately provide services to the end customers such as Qatar Chemical Company Ltd, Qatar Gas Company, Qatar Petroluem and etc.

Qatar operations remain status quo. Qatar operations contributed c.19% of SERBADK's total revenue in 1H17 and c.18% of outstanding RM4.0b O&M order-book. We understand that currently all the businesses are still on-going and SERBADK is still proceeding with project bidding through its local sponsors. Furthermore, there are job opportunities when some companies from the abovementioned countries left Qatar. Despite so, we reckon that SERBADK would not want to expand excessively in Qatar for now to avoid agitating its clients in other Middle Eastern countries such as Saudi Arabia and UAE. The current situation remains uncertain at this juncture pending a concrete solution but we believe in peaceful negotiation and solution between these parties given its economic importance as an LNG exporter.

RISKS

Weakening of oil prices leading to spending cut from oil majors. SERBADK has been demonstrating strong growth amidst low crude oil prices environment. Having said that, the majority of its clients are O&G-related and SERBADK generates bulk of its revenue from O&M and EPCC contract services. It is essential for them to renew/extend the maintenance contract upon expiry. Thus, if oil prices go south substantially, it may trigger a new round of cost rationalisation and hold back contracts which will eventually lead to fall in revenue and bottom-line.

Renegotiation of services rates pressuring margins. Most service players experienced rate cut from oil majors when oil prices plunged substantially in view of cost optimisation despite having firm contract with the clients. This is because service players would not want to jeopardize their relationships with clients in the future. Similar to other service players within the O&G space, we believe SERBADK is subject to risk of re-negotiations of services rates if the operating environment turns sour.

Execution risk in developing new assets. SERBADK is looking to develop several small gas power plants and water utilities in Indonesia. One of the gas power plants in Muaro Jambi is meant to supply gas to its CNG plant. Given that SERBADK is relatively new in this sub-segment, any execution glitch will result in operating losses and dampen its bottom-line.

Escalation of geopolitical risk in Middle East. SERBADK has relatively huge exposure in the Middle East, accounting for 63% of total revenue in 1H17. Following the diplomatic cut imposed on Qatar by other countries led by Saudi Arabia, any increase in tensions between Qatar and these countries might have a repercussion to SERBADK's operations in Middle East.

Property Industry risk. Given SERBADK's recent foray into property development; we believe the company is exposed to property industry risk. This includes negative real estate policy (limiting demand or supply), tightening of bank liquidity, sharp interest rate hikes. Political instability and economic growth risks also have implications on the company's ability to sustain its sales momentum and thus, earnings.

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FINANCIAL ANALYSIS

2Q17 results review

2Q17 net earnings increased by 9% QoQ to RM88m, in tandem with top-line growth of 6% thanks to stronger contribution from EPCC segment (+1.2x QoQ) masking marginal decline (-2% QoQ) from the bread and butter O&M segment. Geographically, Malaysia remains the main top-line contributor at 24% of total revenue in 2Q17, followed by Qatar and Bahrain, at 18% and 14% respectively. SERBADK registered strong growth QoQ from Indonesia (+1.2x QoQ), UAE (+46% QoQ) and Oman (+45% QoQ), offsetting weaker contribution from Qatar (-10% QoQ), which experienced diplomatic freeze by neighbouring countries. We reckon 3Q17 to be seasonally weaker due to lower activities from the Middle East during summer and subsequently improve in 4Q17.

Income Statement

FY Dec (RM m)	2Q FY17	1Q FY17	Q-o-Q Chg
Turnover	649.7	612.4	6.1
EBIT	96.4	90.0	7.1
Interest expense	(7.9)	(8.4)	(6.0)
Associates	(1.1)	(0.4)	153.1
Pretax profit	88.3	81.2	8.7
Taxation	(5.4)	(3.9)	39.9
Profit after tax	82.9	77.3	7.2
Minority interest	0.3	1.0	(71.9)
Net profit	83.2	78.3	6.2
Core net profit	83.2	78.3	6.2
EPS (sen)	10.2	9.6	6.2
DPS (sen)	1.5	2.2	(31.8)
EBIT margin (%)	14.8	14.7	
Pretax margin (%)	13.6	13.3	
Net profit margin (%)	12.8	12.8	
Effective tax rate (%)	6.2	4.8	

Source: Company

Segment Breakdown

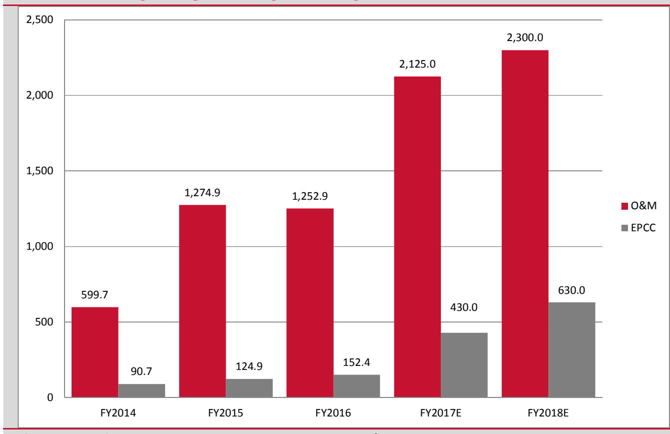
FY Dec (RM m)	2Q FY17	1Q FY17	Q-o-Q Chg
Turnover			
O&M	538.5	555.0	(3.0)
EPCC	110.3	56.5	95.3
Others	1.0	1.0	(4.5)
Group Turnover	649.7	612.4	**6.1**
Segment Results			
O&M	95.8	98.0	(2.2)
EPCC	20.1	9.3	115.6
Others	0.2	0.2	4.8
Corporate Expenses and Elimination	(27.8)	(26.3)	5.7
Group EBIT	**88.3**	**81.2**	**8.7**
EBIT Margin			
O&M	17.8	17.7	
EPCC	18.2	16.5	
Group EBIT Margin	**13.6**	**13.3**	

Source: Company

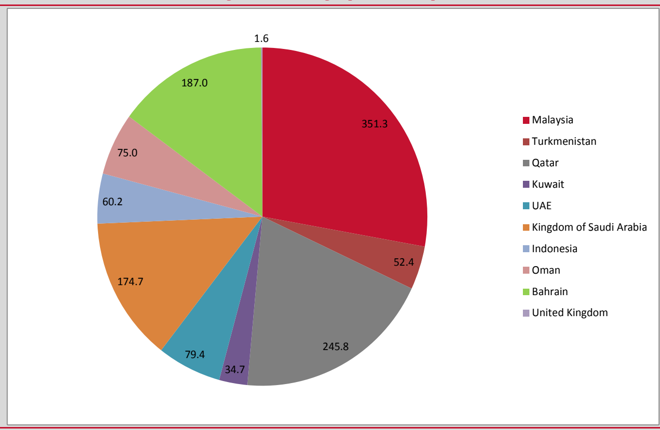
EPCC as a new source of growth. We believe the EPCC segment will drive the company's top-line growth in the next few years given its aggressive bidding in local and overseas projects. In the past four years, the EPCC segment has been growing at a CAGR of 30% and we expect the segmental top-line to grow 85-47% in FY17-18E assuming EPCC order-book win of RM500-500m. YTD, SERBADK has secured the RM289m EPCC of the membrane water treatment plant awarded by Konsortium Armanie in which SERBADK acquired a 40% stake in February this year.

Decent revenue growth of 10-8% from O&M segment. We expect SERBADK to continue growing its bread and butter business through: (i) market share expansion across diversified industries and geographic markets, and (ii) widening its range of services offerings. For instance, SERBADK expanded its services offerings from MRO of rotating equipment and IRM of static equipment to total plant and facility maintenance, turnaround instrumentation, allowing them to bid for more jobs. Meanwhile, apart from the servicing the O&G industry, SERBADK also has a track record of diversifying into other industries such as manufacturing and petrochemicals. In the longer run, SERBADK wishes to expand into marine engines and power generation facilities in large vessels, including bulk cargo and container ships. All in, we believe the growth trajectory for SERBADK will continue but the segmental top-line growth, in our view, is likely to moderate to 10-8% in FY17-18E from a CAGR of 67% in the past four years due to high base effect.

Revenue by Segment (RM mil)



1HFY17 Revenue by Country (RM mil)

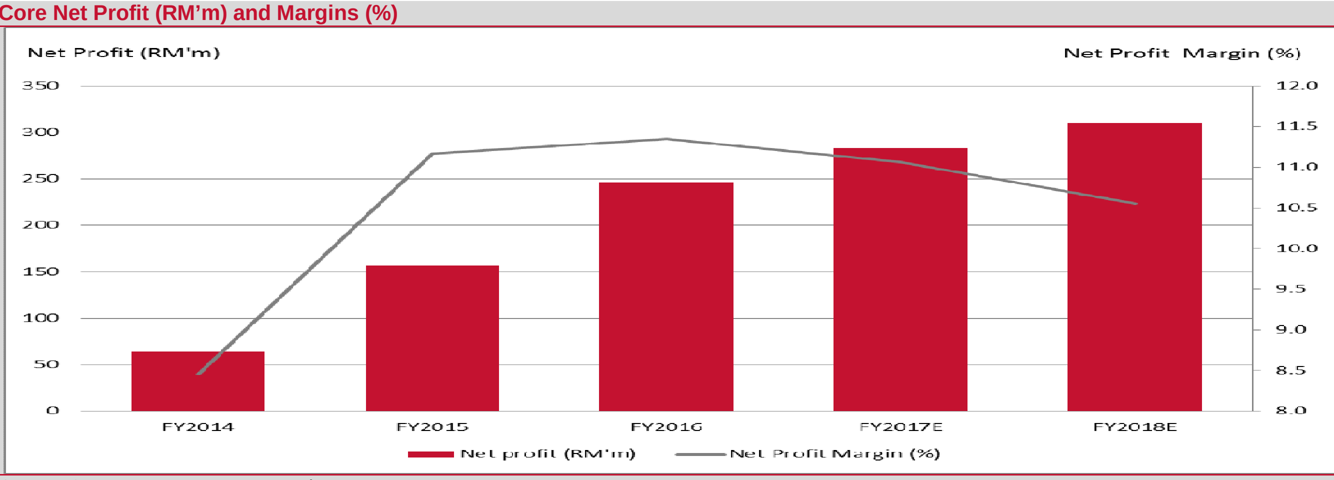


Source: Company, Kenanga Research

Gross margins sustaining at c.16% level. In the past four years, SERBADK's gross margins ranged from 14.7-17.2%. Bulk of the operations costs are parts, consumables and services, which comprise machine and equipment parts, tools and equipment, microturbines, compressors, piping and metal structures, oil, lubricants and fuel as well as fees paid to suppliers for their supply of parts and provision of services. This cost component is gaining weight relative to the total cost of operations as a result of new O&M jobs secured in the Middle East regions. Meanwhile, SERBADK is in the midst of expanding its internal expertise to perform the jobs instead of paying professional fees to hire third-party technical consultants. Hence, we have seen the spike in personnel fees (+58% YoY) and reduction in professional fees (-51% YoY) in FY16. Moving forward, we estimate the gross margins to sustain at 16.8-16.4% in FY17-18E backed by stable O&M contracts.

Estimating earnings growth of 15-10% for FY17-18E led by consistent top-line growth of 18-15% underpinned by both O&M services and EPCC segments. We believe a significant portion of revenue is recurring in nature as maintenance contract stands a good chance for renewal upon expiry should SERBADK provide quality services to clients. Meanwhile, SERBADK has adopted a dividend policy to pay out at least 30% of PATAMI excluding any unrealised income from adjustments due to accounting policies that are non-cash in nature. Should the management maintain the pay-out at such level, this will translate to FY17-18E DPS of 6.3-6.9 sen, implying a yield of 2.8-3.1%.

Core Net Profit (RM'm) and Margins (%)



Source: Company, Kenanga Research

Net gearing estimated at 0.1x. Pre-listing, SERBADK's gross gearing stood at 0.8x. Post IPO with enlarged share base, SERBA's gross gearing will stay at 0.4x-0.6x in FY17-18E assuming the company funds 80% of its capex via borrowings. Meanwhile, coupled with strong operating cash flows and unutilised cash from IPO, we expect the net gearing to stay as low as 0.1x in the next two years. However, note that the majority of the borrowings are revolving credits and trade loans, accounting for 95% of the total borrowings for the purpose to finance new and existing contracts. Hence, should SERBADK continue to secure new jobs, we do not discount the possibility of the company leveraging its gross gearing up to 1.0x coupled with a series of expansion plans in the pipeline. Following the venture of Pengerang development project, we reckon that the funding requirement will peak at FY19, bringing its gross gearing to 0.8x but still below its comfortable level of 1.0x.

PEERS COMPARISON

Within the local O&M space, Sapura Energy Bhd (SENERGY, MP; TP: RM1.80) and Deleum Bhd (DELEUM, Not-Rated) are direct competitors. DELEUM has tied up with Solar Turbines Incorporation, one of the international industrial gas turbines producers to supply various gas turbines solutions, including Build-Own-Operate (BOO), Build-Own-Transfer (BOT) as well as provision of gas turbine overhaul and repair services. Meanwhile, apart from maintenance services and refurbishment of heavy-duty gas turbines and rotating equipment, SENERGY has a joint-venture with GE Oil & Gas to provide after-sales services for turbomachinery equipment and maintenance services for gas turbines serving Petronas and other Production Sharing Contractors.

Besides this, SERBADK also has some minimal exposure in offshore maintenance work, which is c.10%-12% of its Malaysia revenue in the past. Thus, Dayang Enterprise Holdings Bhd (DAYANG, OP; TP: RM1.10) and Petra Energy Group Bhd (PENERGY, Not-Rated) are seen as the local benchmarks as they are the experienced players within this sub-segment, providing topside major maintenance services.

On the other hand, Dialog Group Bhd (DIALOG, OP; TP: RM2.30) is also involved in the provision of plant maintenance services. Instead of MRO, DIALOG's services include diagnostic inspection, plant revamp, rejuvenation & debottlenecking, tower & tray repair & upgrade, turnaround and shutdown, mechanical specialist, long term maintenance services. Internationally, the O&M market in the Middle East is dominated by international big names such as Larsen and Toubro, Masaood John Brown, General Electrics, Siemens and etc. These companies have multiple businesses with wide global presence. In order to compete with the players, SERBADK has to offer quality services at competitive pricings to gain market share.

As for EPCC, there are many players with the capabilities to perform EPCC with different specialties. Companies like SENERGY, DIALOG and Malaysia Marine and Heavy Engineering Holdings Bhd (MHB, UP; TP: RM0.65) have their own fabrication yards to execute complicated jobs with heavy offshore structures. On the other hand, Wah Seong Corporation Bhd (WASEONG, OP; TP: RM1.10) is experienced in the design, engineering and fabrication of gas compressor packages, gas process equipment, e-houses and substations for offshore and onshore as well as gas compression, gas processing, water treatment and power gen modules for floating production, storage and offloading (FPSO) units, whilst KNM Group Bhd (KNM, Not-Rated) manufactures custom designed process equipment and modular systems for the oil, gas, petrochemicals, minerals, power, environmental and renewable sectors.

Comparable Peers

		Net margin		ROE		Net profit growth		Net-gearing	
	Market Cap (RM mil)	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd. (%)	2-Yr. Fwd. (%)	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
DAYANG	1,003.4	1.8%	7.6%	1.6	8.4	N.M.	474.0%	1.2	1.2
DIALOG	11,276.6	11.3%	12.3%	11.6	11.2	11.9%	2.8%	0.0	0.1
DELEUM	356.2	N.A.	N.A.	10.3	11.8	N.A.	N.A.	N.A.	N.A.
KNM	511.9	0.4%	2.5%	0.3	1.9	-102.0%	504.9%	0.4	0.4
PENERGY	312.9	2.4%	8.7%	5.775	9.1	-107.6%	349.8%	-0.3	-0.1
SERBADK	2,950.4	**11.1%**	**10.6%**	**20.0**	**19.0**	**15.1%**	**9.5%**	**0.08**	**0.14**

Source: Kenanga Research

VALUATIONS

OUTPERFORM call with RM2.75 target. We value SERBADK at RM2.75 pegged to 12.0x FY18E PER which is at c.25% premium on its closest local listed competitor, DELEUM due to: (i) 8x larger than DELEUM in terms of market capitalisation, (ii) superior margins of 10.3-11.8% vs 4.9%-5.8% as well as (iii) better ROEs. Note that DELEUM's businesses are largely domestically driven but SERBADK's sources of growth are primarily fuelled by both local as well as overseas markets such as UAE, Qatar and Oman. Besides this, the applied PER of 12.0x also represents a 35% discount to the average PER for the oil and gas sector within our core coverage. Such discount is justifiable given that our core coverage is skewed by Petronas-related stocks where market cap are above RM20b with PER trading at the range of 15-24x.

Meanwhile, we have yet to account for any potential earnings from the development project in Pengerang except for the EPCC portion secured by PNR from its 30%-owned associate. We believe the total project will give additional RM0.11/share applying 20% discount to its RNAV with the following assumptions; (i) SERBADK will sell off 50% of PeIP, (ii) 100% stake of PICC, and (iii) discount rate of 10%. We would like to stay conservative in our valuation at this juncture given that sales of property development in Pengerang could be challenging in the upcoming years unless further commitment is given by Petronas.

Malaysian Oil & Gas Sector Comparisons

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target Price (RM)	Rating
			CY16	CY17	CY18	(%)	(%)	(x)	CY17	CY18		
Our Coverage												
ALAM	0.18	166.4	-2.0	-5.3	-8.6	0.0	-16.1	0.2	-63.1	-38.3	0.08	UP
ARMADA	0.74	4,311.7	-42.6	13.7	10.7	1.4	-20.8	0.8	-410.6	28.2	0.90	OP
COASTAL	1.28	675.1	7.8	11.8	15.9	0.5	2.8	0.4	-33.8	-25.6	1.25	MP
DAYANG	1.04	1,003.4	-68.3	67.8	11.8	0.0	9.2	0.8	200.7	472.3	1.10	OP
DIALOG	2.00	11,276.6	35.1	30.6	28.5	1.4	13.4	3.6	14.7	7.1	2.30	OP
GASMSIA	2.95	3,787.8	21.8	22.3	21.7	3.4	17.2	3.7	-1.9	2.8	3.18	MP
MHB	0.76	1,216.0	-868.6	-61.4	55.8	0.0	-6.0	0.5	-1,314.3	210.1	0.65	UP
PANTECH	0.64	471.3	15.2	10.6	9.5	3.6	7.0	0.9	42.5	12.6	0.75	OP
PCHEM	7.35	58,800.0	18.5	15.9	15.0	3.1	15.8	2.2	16.7	6.0	7.85	OP
PETDAG	24.26	24,101.2	24.1	23.7	22.7	3.0	19.4	4.5	1.9	4.2	26.70	OP
PETGAS	18.34	36,289.9	20.9	20.9	19.2	3.4	14.9	3.0	0.1	8.6	22.00	OP
SERBADK	2.21	2,950.4	12.0	10.4	9.5	2.9	30.4	3.6	15.1	9.5	2.75	OP
SENERGY	1.63	9,767.2	34.7	65.2	58.0	0.6	1.0	0.7	-46.8	12.5	1.80	MP
UZMA	1.33	425.6	14.8	12.1	10.6	0.0	8.1	1.1	23.0	14.2	1.65	OP
WASEONG	0.98	757.3	-11.2	10.9	8.6	2.8	-21.3	1.0	202.7	27.0	1.10	OP
YINSON	3.54	3,852.2	16.9	13.0	13.0	0.4	10.4	1.6	29.8	0.3	4.05	OP
Simple Average			**-48.2**	**16.4**	**18.9**							
Weighted Average			**12.8**	**22.0**	**21.0**							
Non-Coverage (Consensus Figures)												
DELEUM	0.89	356.2	13.4	N.A.	N.A.	N.A.	8.8%	1.2	N.A.	N.A.	NR	NR
KNM	0.24	511.9	-1.6	83.9	13.9	0.0%	-13.1%	0.2	-102.0%	504.9	NR	NR
PENERGY	0.98	312.9	-2.7	34.9	7.8	4.0%	-28.1%	0.7	-107.6%	349.8	NR	NR

Source: Kenanga Research

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APPENDIX

Company Background

Serba Dinamik Holdings Bhd (SERBADK) was incorporated in 1993 as a provider of maintenance, repair and overhaul (MRO) services for rotating equipment and subsequently expanded to inspection, repair and maintenance (IRM) of static equipment in 1998. Currently, SERBA is providing engineering solutions to O&G and power generation industries with operational facilities in Malaysia, Indonesia, UAE, Bahrain and UK. The company is predominantly involved in the O&G sector which includes both upstream production of O&G and downstream processing, refining and manufacturing sectors. Hence, its customers' profile are mainly engineering companies and contractors, followed by O&G operators, gas processing and oil refineries as well as petrochemical manufacturers. Besides this, SERBA also services independent power producers and O&G customers with power generation equipment for internal use.

(i) Operations and maintenance (O&M) services

In the past few years, O&M services segment has been the main revenue driver, accounting more than 75% of revenue. Within O&M services space, SERBADK mainly provides MRO of rotating equipment and IRM of static equipment.

(ii) Engineering, procurement, construction and commissioning (EPCC)

As an EPCC project requires delivery of entire project, a turnkey contractor may sub-contract some work to third parties with specific expertise and economies of scale. SERBADK performs EPCC work within O&G and power generation industries mainly on plants, facilities, road infrastructure and buildings including small hydropower plants, CNG plants, micro-turbine generators, steel structures, piping systems and fire fighting systems.

(iii) Other products and services

Provision of ICT solutions and services, supply of products and parts and provision of logistic services. It is relatively insignificant as it contributed only less than 1% of the total revenue in FY15.

Venturing into asset ownership business model

The vast experiences in MRO services, IRM work and EPCC jobs allow SERBADK to take a step further to become an asset owner. In 2015, SERBADK acquired 51% stake in a compressed natural gas (CNG) plant, located in Muaro Jambi, Indonesia. The plant is expected to supply gas for power generation and commence earnings contribution in FY17. Apart from that, SERBADK is looking to develop, own, operate and maintain the following assets in the future:

(i) one 0.8 MW gas power plant in Ambon Island, Indonesia,

(ii) one 4MW gas power plant in Muaro Jambi, Sumatra, Indonesia,

(iii) one 4 MW and one 1 MW gas power plants in East Kutai in East Kalimantan, Indonesia,

(iv) one industrial park with CUF in Sarawak.

Business segment (i) - Operations and maintenance (O&M) services

This business segment is deemed as the bread and butter for SERBADK as the company started as a MRO provider back in 1993. Eventually, SERBADK also expanded its business by providing IRM services for rotating equipment.

MRO of rotating equipment

SERBADK is an independent MRO specialist for various types of rotating equipment which works through a system of drivers such as turbines, engines or motors, driving components such as generators, pumps or compressors, transmission devices, gears, clutches and couplings and ancillary equipment and systems such as inlet air system and filter, fuel system, exhaust duct and piping system. The maintenance services of these equipment generally comprise scheduled maintenance, which are usually performed at a pre-determined intervals of time and unscheduled maintenance, which are unpredictable ad-hoc repair services upon equipment failure or malfunction. With 23 year experience in the business segment, SERBADK is capable to undertake MRO of large rotating equipment including: (i) gas turbines to run generators with an output power up to 160MW, (ii) steam turbines to run generators with an output power up to 50MW, (iii) generators with an output power up to 100 MW, (iv) engines with an output power up to 28MW, (v) compressors requiring an output power up to 35MW, and (vi) pumps requiring an output power up to 4.5MW. Several types of maintenance services undertaken include the following:

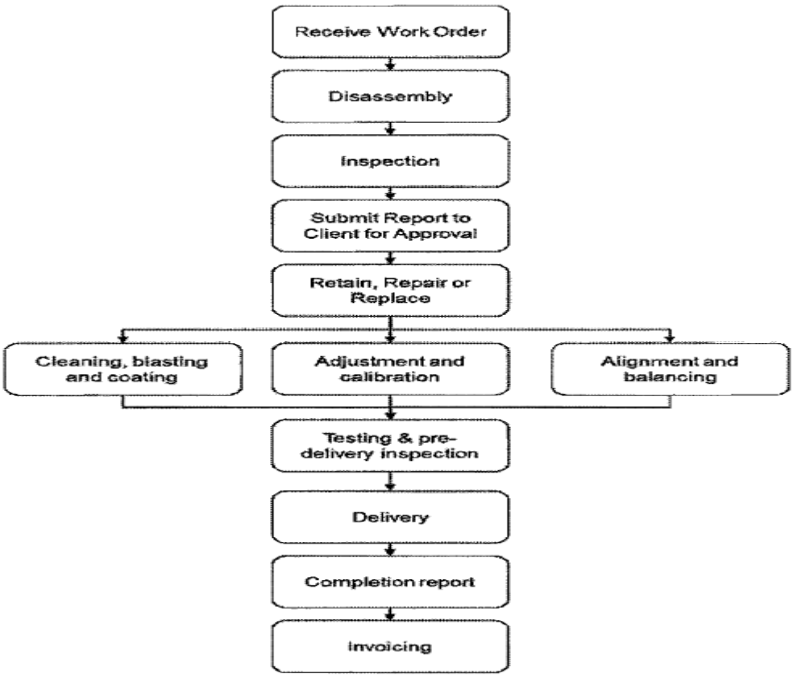
1. **Predictive maintenance or condition based maintenance.** Ascertain the timeliness and type of maintenance services depending on the actual condition of the equipment.
2. **Equipment overhaul.** Strip down the entire equipment into parts and components for cleaning, repair, reconditioning, replacement and recalibration and subsequently reassemble to its original form. A gas turbine is sent for overhaul upon 30,000 fired hours.

3. **Balancing and alignment.** Resolve rotor imbalance issue and rotating shaft misalignment through conventional methods such as dial indicators or advanced laser alignment

4. **Replacement and upgrades of components and parts.** Inspect and recommend to replace or upgrade components whenever necessary.

5. **Maintenance of process control and instrumentation.** Replace, upgrade and retrofit process controllers and instrumentation devices such as PLC, flow mater instrument and actuator.

General Process Flow for the provision of MRO services



Source: IPO Prospectus

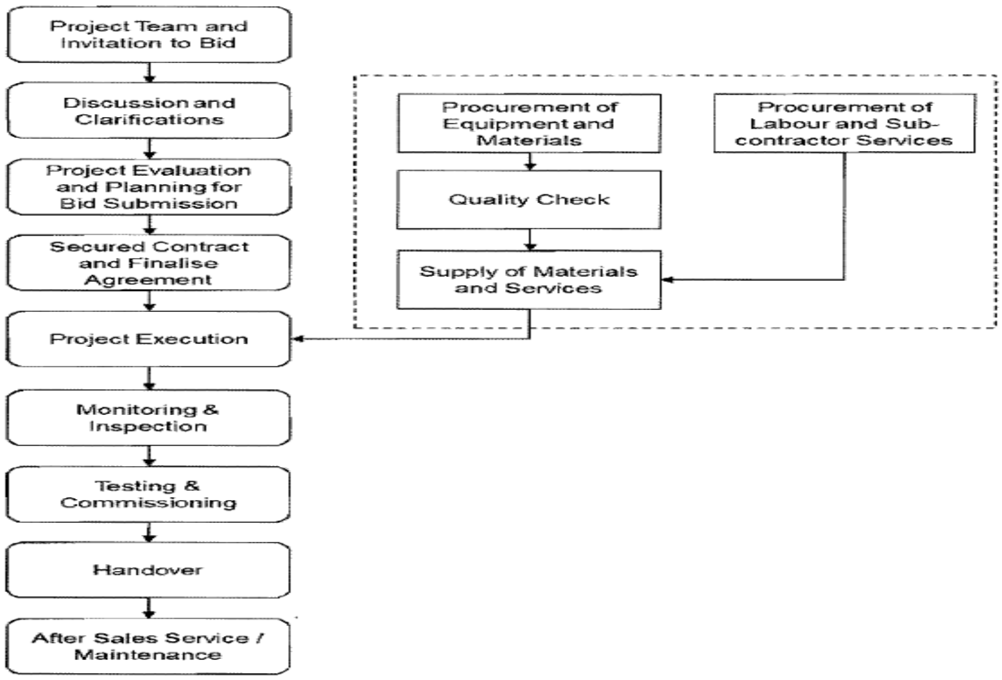
<u>IRM of static equipment</u>

SERBADK provides various IRM services on static equipment such as boilers, unfired pressure vessels, (typically used in process based industrial plants) heat exchangers, columns, reactors and separators. In Malaysia, it is mandatory for operators to be certified by DOSH in order to provide manufacturing and repair service for steam boilers and unfired pressure vessels. Furthermore, manufacturing plants are required to inspect its steam boilers and unfired pressure vessels every 15-21 months for renewal of certificates from DOSH.

Business segment (ii) - Engineering, procurement, construction and commissioning (EPCC)

SERBADK has the capability to carry out EPCC projects such as civil works, planning, design, engineering, equipment supply, procurement, delivery, installation, testing, commissioning and the after sales service and maintenance of the completed projects. In the past, SERBADK have performed mechanical and piping projects including storage tank, steel structures, industrial oil and piping as well as industrial pumps, fans and ducting. Furthermore, SERBADK have also undertaken electrical and instrumental projects such as control room upgrades, infrastructure with new design cabling, junction box, conduit and pipe run, networks and monitoring systems design.

General Process Flow for the provision of EPCC Work

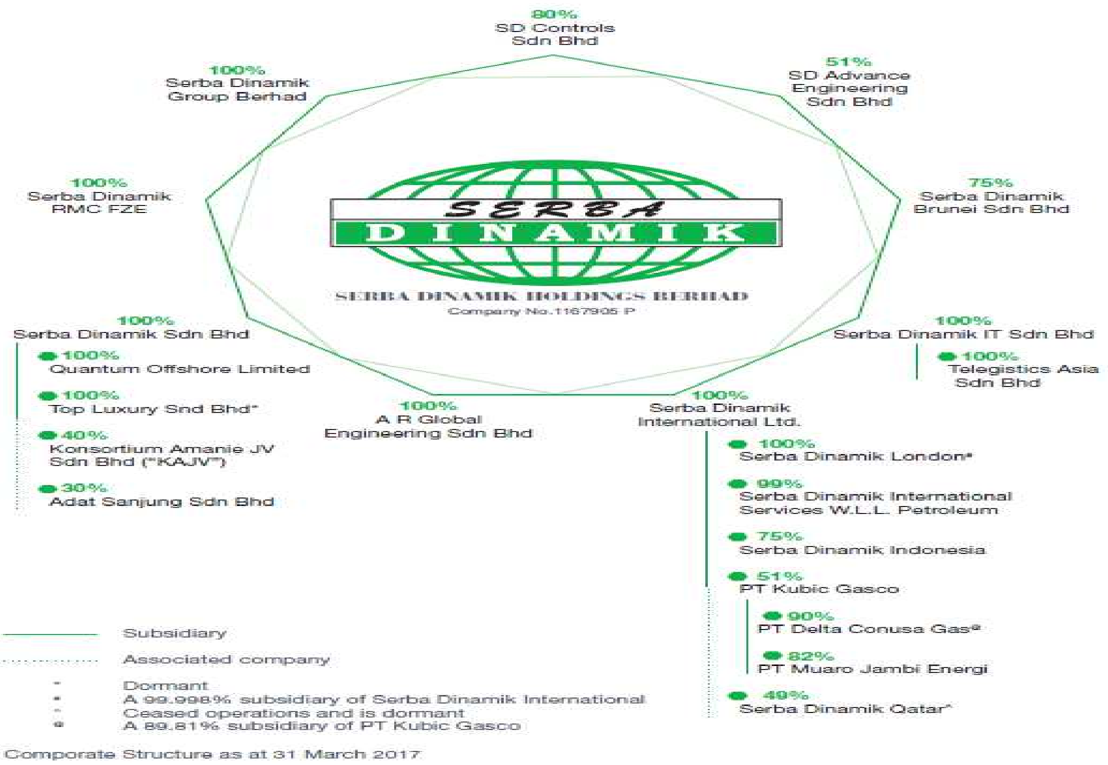


Source: IPO Prospectus

Business segment (iii) - Other products and services

SERBADK classifies its other businesses into this segment. The company's training and education unit started to provide short courses relating to oil and gas industry in 2000. Besides that, SERBADK also offers customised software solutions to clients such as supply base automation for offshore platform, online asset tracking system, catalogue album system, alignment solutions and etc. In 2015, SERBADK incorporated Serba Dinamik RMC FZE for operation of a logistics centre in Ras Al Khaimah, UAE.

Corporate Structure



Source: Company

Board of Directors

Name	Position	Background
DATO' MOHAMED NOR BIN ABU BAKAR	Chairman and Independent Non-Executive Director	Holds a Bachelor Degree in Chemical Engineering from the Heriot-Watt University, Scotland, UK Joined PETRONAS as Operations Manager of Asean Bintulu Fertiliser Sdn Bhd and was promoted as the Managing Director cum Chief Executive Officer of Asean Bintulu Fertiliser Sdn Bhd in 1992 Appointed as the Managing Director cum Chief Executive Officer of Ethylene and Polyethylene Malaysia Sdn Bhd, a joint venture between PETRONAS, British Petroleum and Idemitsu Kosan Co. Ltd. His last position in PETRONAS was as the Chairman of Kerteh Integrated Petrochemical Complex prior to his retirement in 2007 Sits on the board of several private limited companies in Malaysia
DATO' DR. IR. MOHD ABDUL KARIM BIN ABDULLAH	Group Managing Director, Group CEO and Non-Independent Executive Director	Holds a Bachelor in Mechanical Engineering from Universiti Teknologi Malaysia, an Honorary PhD in Industrial Engineering from InterAmerican University, USA and a PhD in Entrepreneurship from Golden State University, USA 29 years of experiences with Asean Bintulu Fertilizer Sdn Bhd (1988) as a Mechanical Engineer, the Coordinator for the Ammonia and Rotary 5th T/A Preparation Team (1990) and as a Rotating Equipment Area Engineer (1991). In 1993, he formed Serba Dinamik and assumed the position as the Group Chief Executive Officer Sits on the board of several private limited companies in Malaysia
DATO' AWANG DAUD BIN AWANG PUTERA	Deputy Group Managing Director and Non-Independent Executive Director	Holds a Bachelor of Science in Mechanical Engineering from the University of the East, Philippines and Master in Mechanical Engineering from the Universitas Pancasila, Jakarta, Indonesia. Joined Serba Dinamik in 1994 as a director and was involved in field supervision, coordination and managing various projects, construction and fabrication tasks, planning and tendering, attending negotiation and handling managerial portfolios. Sits on the board of several private limited companies in Malaysia
ABDUL KADIER SAHIB	Non-Independent Non-Executive Director	Holds a Bachelor Degree in Economics from the University of Malaya, Malaysia Started his own business in diversified areas of food industry, road transportation, agriculture and forestry. In July 1994, Appointed as a director in Serba Dinamik and subsequently became a shareholder of Serba Dinamik in October 1994. Appointed as a member of the Consultative Council to Local Government, whose main function is 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 Sits on the board of several private limited companies in Malaysia
SHARIFAH IRINA BINTI SYED AHMAD RADZI	Independent Non-Executive Director	Holds a Bachelor of Commerce (Accounting) from The University of Adelaide, Australia and a Master of Business of Administration (MBA) from University of Strathclyde, Scotland, UK Chartered Accountant and has memberships with Chartered Accountants Australia and New Zealand as well as and Malaysian Institute of Accountants (MIA) Began her career with PricewaterhouseCoopers Malaysia in 1999, in Business Advisory Services and joined Abeam Consulting (M) Sdn Bhd as a Senior SAP Financial Consultant in 2011 providing SAP services locally as well as overseas for companies in various industries including insurance, manufacturing, security enforcement and defence and plantation Appointed as a director of a private limited company in Malaysia

Source: Company

Board of Directors (Continued)

Name	Position	Background
TENGKU DATO' SERI HASMUDDIN BIN TENGKU OTHMAN	Independent Non-Executive Director	Holds a Bachelor of Law (Honours) in 1986 from the University of Malaya, Malaysia A practising advocate and solicitor since 1987 and presently the Principal Partner of Messrs Sits on the boards of several public companies in Malaysia including Bank Muamalat Malaysia Berhad and Aliran Ihsan Resources Berhad, as well as several private limited companies in Malaysia
HASMAN YUSRI BIN YUSOFF	Independent Non-Executive Director	Appointed as Chairman of the Audit Committee and a member of the Nomination & Remuneration Committee Member of the Malaysian Institute of Accountants and a Fellow of the Association of Chartered Certified Accountants Holds a Postgraduate Diploma in Islamic Studies from International Islamic University Malaysia. Was a Partner at KPMG Malaysia before his retirement in December 2015 and his experience in audit and commercial covers a wide range of industries including construction, property development, plantation, power generation and oil & gas

Source: Company

Key Milestones and Achievements

Year	Key milestones and achievement
1993	• Incorporation of Serba Dinamik in June 1993
1994	• Construction of the first mechanical and fabrication service centre in Bintulu
1997	• Was elected to be a vendor company under PETRONAS for the provision of overhaul of rotating equipment for plant turnaround and inspection services.
2001	• Secured first overseas MRO related contract with a global O&M service provider for upgrading of the turbine gas compressor and installation of a booster compressor for a LNG plant in Ras Laffan, Qatar.
2002	• Serba Dinamik International was incorporated in Labuan to handle overseas business operations.
2004	• Established second service centre in Paka, Terrengganu to provide minor fabrication and maintenance services • Incorporated Serba Dinamik Group Bhd as an investment holding company.
2005	• Incorporated head office in Pusat Dagangan UMNO Shah Alam, Selangor. • Incorporated Serba Dinamik Indonesia in October 2005.
2007	• Expanded business to EPCC works by securing contract from Malaysia LNG Sdn Bhd relating to the lubrication oil varnish remover and filtering solution equipment for gas turbines in February. • Subsequently in June, secured another EPCC work from PETRONAS Dagangan Bhd pertaining to design, supply, construction, testing and commissioning of a LPG pump and its associated facilities in Bintulu.
2010	• Appointed as a distributor of Capstone, a manufacturer of microturbine energy systems, for the distribution of microturbines in Malaysia, Indonesia and Brunei. • Incorporated Serba Dinamik IT to develop and provide ICT software and solutions for various industrial applications mainly to support the O&M operations.
2011	• Serbia Dinamik IT received MSC Malaysia status for research, development and commercialisation of our in-house developed proprietary software namely AlignSoft and myPLANT.
2013	• Established Serba Dinamik London and Serba Dinamik Petroleum with offices in London and Brahrain to service customers in UK and Middle East, respectively.

Source: Company

Key Milestones and Achievements (Continued)

Year	Key milestones and achievement
2015	• Established a facility in Klang to focus on systems design and specification, programming, configuration and assembly of process control systems and instrumentation, systems design and specification, configuration and assembly of auxiliary power generators and firefighting systems. • Incorporated Serba Dinamik Brunei in April. • Acquired both 100% stake in A R Global Engineering and Telegistics Asia, respectively in January. • Acquired 100% stake in Quantum Offshore in April. • Acquired 30% stake in Adat Sanjung in July • Acquired 51% stake in PT Kubic Gasco in August • Secured an EPCC contract followed by an O&M contract in February 2016 for three small hydropower plants along Sg Bengkoka and Sg Togohu, Sabah in September. • Acquired 51% stake in SD Advance Engineering in December. • Acquired 80% stake in SD Controls in December. • Incorporated Serba Dinamik RMC FZE in October and obtained commercial and trading licenses to operate a logistic centre in RAK, UAE. • Appointed by MITI to be one of the anchor companies under the VDP to assist in the nurturing and development of Malaysian Bumiputera entrepreneurs relating to MRO of rotating equipment and IRM of static equipment and structures.
2016	• Secured a 10-year lease agreement to lease out a gas power plant in Indonesia.

Source: Company

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Income Statement

FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Revenue	755.8	1402.9	2168.3	2561.2	2937.4
EBITDA	100.8	212.6	335.9	399.3	449.2
Depreciation	(15.0)	(27.9)	(33.0)	(46.6)	(57.8)
Operating Profit	85.8	184.7	302.9	352.7	391.5
Interest Exp	-18.1	-25.1	-35.0	-34.4	-43.4
Associate	0.0	0.0	0.0	-4.0	-4.0
Excep. Items	0.0	0.0	0.0	0.0	0.0
PBT	67.7	159.6	267.9	314.4	344.0
Taxation	-0.3	-3.0	-22.1	-31.4	-34.4
Minority Interest	-3.5	0.2	0.3	0.4	0.4
Net Profit	63.9	156.7	246.1	283.3	310.1
Core Net Profit	63.9	156.7	246.1	283.3	310.1

Balance Sheet

FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	134.1	349.3	490.2	593.6	735.8
Int. Assets	0.0	4.2	3.8	3.8	3.8
Inv. in assoc.	0.0	12.2	12.2	42.2	38.2
Other LT assets	0.2	0.2	1.0	1.0	1.0
Inventories	198.9	229.8	486.3	583.7	673.0
Receivables	221.6	431.0	741.2	692.3	794.0
Other CA	4.5	37.4	64.7	64.7	64.7
Cash	80.0	194.6	187.4	490.7	735.0
Total Assets	639.3	1,258.8	1,986.8	2,472.0	3,045.5
Payables	102.1	239.0	501.0	408.6	403.8
ST Borrowings	190.4	440.9	623.4	593.4	753.4
Other ST Liab.	1.4	1.4	14.2	14.2	14.2
LT Borrowings	20.8	32.4	16.2	16.2	216.2
Other LT Liab.	53.3	69.4	14.8	17.4	19.1
Minorities Int.	0.5	7.3	7.9	7.6	7.1
Net Assets	**270.8**	**468.4**	**809.2**	**1,414.6**	**1,631.7**
Share Capital	62.1	62.1	531.8	938.9	938.9
Reserves	208.7	406.3	277.4	475.7	692.8
Equity	**270.8**	**468.4**	**809.2**	**1,414.6**	**1,631.7**

Cashflow Statement

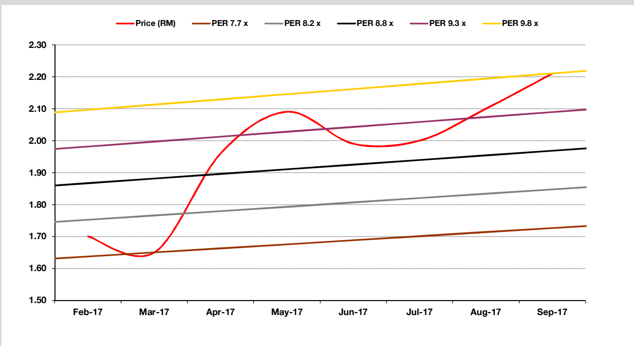
FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Operating CF	51.2	158.5	90.8	233.6	224.7
Investing CF	(78.7)	(272.2)	(242.7)	(184.0)	(250.0)
Financing CF	38.0	211.8	114.4	257.8	223.5
Change In Cash	10.5	98.2	(37.5)	307.3	198.3

Financial Data & Ratios

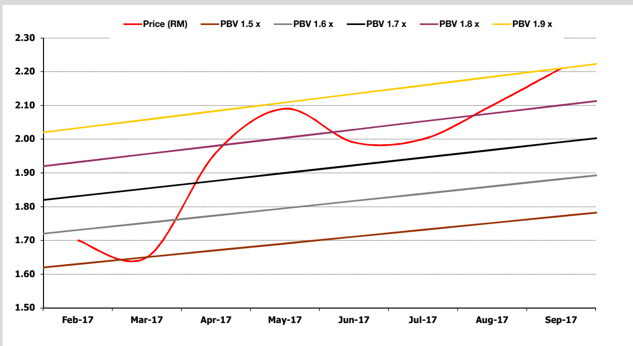
FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Growth					
Turnover (%)	41.0	85.6	54.6	18.1	14.7
EBITDA (%)	26.8	111.0	58.0	18.9	12.5
Op. Profit (%)	23.6	115.2	64.0	16.4	11.0
PBT (%)	2.8	135.8	67.9	17.3	9.4
Net Profit (%)	8.9	145.3	57.0	15.1	9.5
Profitability (%)					
EBITDA Margin	13.3	15.2	15.5	15.6	15.3
Operating Margin	11.4	13.2	14.0	13.8	13.3
PBT Margin	9.0	11.4	12.4	12.3	11.7
Net Margin	8.5	11.2	11.4	11.1	10.6
Effective Tax Rate	0.5	1.9	8.3	10.0	10.0
ROA	10.0	12.4	12.4	11.5	10.2
ROE	23.6	33.5	30.4	20.0	19.0
DuPont Analysis					
Net Margin (%)	8.5	11.2	11.4	11.1	10.6
Assets T/O (x)	1.2	1.1	1.1	1.0	1.0
Lev. Factor (x)	2.4	2.7	2.5	1.7	1.9
ROE (%)	23.6	33.5	30.4	20.0	19.0
Leverage					
Debt/Asset (x)	0.3	0.4	0.3	0.2	0.3
Debt/Equity (x)	0.8	1.0	0.8	0.4	0.6
Net (Cash)/Debt	131.2	278.7	452.3	119.0	234.7
Net Debt/Eq. (x)	0.48	0.60	0.56	0.08	0.14
Valuations					
EPS (sen)	4.7	11.6	18.2	21.0	23.0
GDPS (sen)	0.0	0.0	0.0	6.3	6.9
BVPS (RM)	0.2	0.3	0.6	1.0	1.2
PER (x)	46.7	19.0	12.1	10.5	9.6
Div. Yield (%)	0.0	0.0	0.0	2.8	3.1
P/BV (x)	11.0	6.4	3.7	2.1	1.8

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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