Initiate Coverage

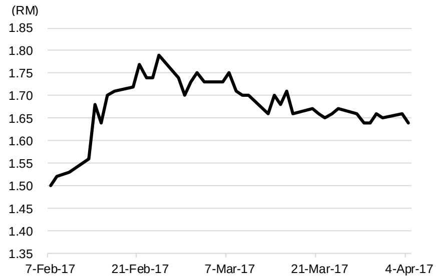
Serba Dinamik

SDH MK
Sector: Oil and Gas

RM1.65 @ 4 April 2017

BUY (Initiation)
Upside: +45%

Price Target: RM2.40
Previous Target: NA



Price Performance

	1M	3M	12M
Absolute	-4.6%	N.A	N.A
Rel to KLCI	-6.7%	N.A	N.A

Stock Data

Issued shares (m)	1,335.0
Mkt cap (RMm)/(US$m)	2202/497
Avg daily vol - 6mth (m)	N.A
52-wk range (RM)	1.51-1.8
Est free float	59.7%
BV per share (RM)	0.57
P/BV (x)	2.87
Net cash/ (debt) (RMm) (4Q16)	(378.5)
ROE (2017E)	27.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Dato Karim	28.0%
Dato Awang Daud	14.2%

Source: Affin Hwang, Bloomberg

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A rising star in the industry

We initiate coverage on Serba Dinamik with a BUY rating and 12-month price target of RM2.40, implying 45% upside potential. We are upbeat on earnings, expecting a 3-year forward EPS CAGR of 15% over FY16-19 driven by strong maintenance activity growth prospects and an expansion of EPCC revenue. We expect the group to pay out 25-30% of net profit in 2017-19, which translates into dividend yields of 3.3-5.2%.

Top three operation and maintenance (O&M) service provider

Listed recently in Feb 2017, Serba Dinamik (Serba) principally provides maintenance, repair and overhaul (MRO) services for rotating equipment in gas and steam turbines, engines, motors, pumps, compressors and industrial fans. It also provides inspection, repair and maintenance (IRM) services for static equipment and structures (e.g., boilers and unfired pressure vessels, piping systems and structures). Serba is unique vs. its peers as it derives 52% of revenue from the Middle East.

Attractive valuation, in our view

Serba is currently trading at a forward FY17E P/E of 7.6x, backed by a strong expected ROE of 27%. We view the group as an attractive O&M player compared to its domestic peers. We project free cash flow to turn positive in FY18, which reinforces our positive view on the company.

3-year EPS CAGR of 66% over FY14-17E

We expect a robust FY14-17 EPS CAGR of 66%, backed by increased O&M activities, expanding EPCC revenue and gross margin of 17.7%. Assuming our forecast is met, we do see strong dividend upside with a potential yield of 3.3%. Notwithstanding, there is still potential for future growth apart from the O&M business, as Serba is actively expanding its asset ownership to build recurring income streams.

Top pick among mid-cap players

Led by a strong management team with solid experience and technical knowledge, we like Serba as we expect the O&M segment to see strong growth driven by higher maintenance work orders from existing clients and new contract wins. In addition, its engineering, procurement & construction contracting (EPCC) segment should provide upside to earnings and expand on prior year's low base. We believe the stock is undervalued at below 8x 2017E PER vs. its O&G peers, based on the strong growth trajectory. Our 12-month target price of RM2.40 is based on a 2017E PER of 11x. Key risks include unforeseen delays for the client maintenance schedule and margin deterioration.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016^	2017E	2018E	2019E
Revenue (RMm)	1,402.9	1,395.2	2,598.1	2,984.2	3,412.9
EBITDA (RMm)	211.4	213.3	422.5	477.7	547.6
Pretax profit (RMm)	157.0	167.4	316.3	358.9	413.6
Net profit (RMm)	154.1	156.6	291.3	331.0	381.8
EPS (sen)	11.5	11.7	21.8	24.8	28.6
PER (x)	14.3	14.1	7.6	6.7	5.8
Core net profit (RMm)	155.5	156.6	291.3	331.0	381.8
Core EPS (sen)	11.6	11.7	21.8	24.8	28.6
Core EPS growth (%)	143.8	0.7	86.0*	13.6	15.4
Core PER (x)	14.2	14.1	7.6	6.7	5.8
Net DPS (sen)	-	-	5.5	7.4	8.6
Dividend Yield (%)	-	-	3.3	4.5	5.2
EV/EBITDA (x)	11.8	7.4	5.6	4.8	4.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			-	-	-

Source: Company, Bloomberg, Affin Hwang forecasts
^ FY16 effective 25 May to 31 Dec 16 due to incorporation of new reporting entity
* Normalised core EPS growth (%): 14.0% (based on restated unaudited 12-months RM256m net profit)

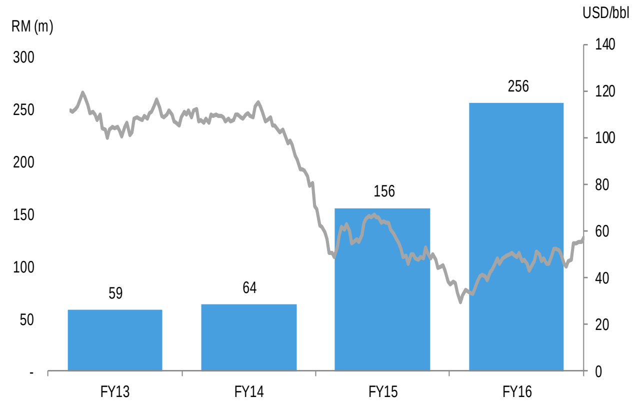
Serba Dinamik: Investment thesis

Initiating with BUY rating and target price of RM2.40

We initiate coverage on Serba with a **BUY** rating and 12-month target price of RM2.40 based on 11x our 2017E EPS, implying a 45% upside potential and a potential dividend yield of 3.3%. At current share price, we think Serba is trading at an attractive FY17E PER of 7.6x. We believe our ascribed PER multiple is justifiable as it is still below the 5-year historical PE mean among its O&G peers and supported by the company's strong global positioning and promising business growth.

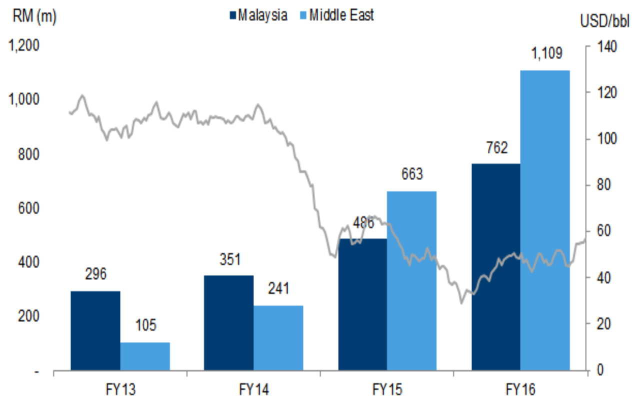
Despite industry concerns on low oil prices that have affected O&G companies' profitability, Serba has demonstrated a strong ability to continue growing its business both locally and internationally. Even back to the industry downcycle which started in mid-2014, Serba was able to compete more aggressively and grab market share from the original equipment manufacturers (OEM) in terms of pricing. On top of that, as an independent maintenance service provider, Serba is not restricted to servicing any one brand.

Fig 1: Historical net profit against Brent oil price



Source: Affin Hwang
restated FY16–based on unaudited 12-months figure

Fig 2: Malaysia and Middle East revenue against Brent oil price



Source: Affin Hwang
restated FY16–based on unaudited 12-months figure

Maintenance demand to be driven by increased activity

Demand for maintenance services in both the O&G and power generation industries hinges on the level of operational activity. For O&G, it would be dependent on the activities on exploration & production platforms and refinery & processing plants. For power-generation plants, demand would be dependent on installed power-generating capacity. Even under a relatively low oil-price environment, O&M remains a crucial part of the operation to ensure safety and operation efficiency, coupled with the fact that O&M generally makes up a small part of total overall spending. Besides, timely maintenance service according to a pre-agreed schedule is important to ensure equipment is able to work through its useful life effectively.

Attractive valuation among peers

We like Serba's valuation relative to its peers. Looking at its closest peers, Deleum (not rated) is trading at a more expensive forward FY17E valuation of 13.7x as compared to Serba at 7.6x. Assessing ROEs of both companies, Serba 2017E ROE is at 27% vis-à-vis Deleum's 15% based on consensus.

Introducing a rising star

Company background

Began as a maintenance service provider specialist…

Serba has over 23 years of experience in providing rotating equipment MRO services, for equipment such as gas and steam turbines, engines, motors, generators, pumps, compressors and industrial fans. Its targeted market segment is generally in the energy industry, which includes O&G production platforms, refineries and power plants.

Maintenance services can be separated into scheduled maintenance, which is carried out at predetermined intervals as recommended by rotating equipment manufacturers, and unscheduled maintenance, which includes unplanned ad-hoc repair service for specific problems or failures. Maintenance work provided includes:

i) **Predictive maintenance:** analyses the asset's condition and determines the timeliness and type of maintenance services that need to be carried out.

ii) **Equipment overhaul:** requires the entire equipment to be stripped down to its parts and components for cleaning, repair, reconditioning, replacement and recalibration. A major overhaul is typically performed after 30,000 fired hours which translates into 3-5 years.

iii) **Balancing and alignment:** fixes the rotor imbalances and rotating-shaft misalignments.

iv) **Replacement and upgrade of parts and components:** performs upgrade work on components and parts to improve performance and extend the life of rotating equipment (backed by a 6 to 12 months warranty period).

v) **Maintenance of process control and instrumentation:** maintenance here functions as a system to execute and control processes in an industrial application or the processing of O&G products in refineries or power plants. Instrumentation is the application and usage of devices that detect or measure operating or environmental variables (temperature, pressure, level and flow).

Serba is currently ranked no.3 in terms of consolidated revenue (based on FY2014 figures) among Petronas licensed companies for the provision of MRO services. According to the Department of Occupational Safety and Health (DOSH), pressure plants would have to be shut down for MRO work every 18 months. Serba is not restricted to providing MRO services for any specific brand of equipment, hence providing it with an advantage for a wider range of clients. Serba also has the capability to perform MRO services on large rotating equipment for:

i) Gas turbines to run generators with output power up to 160MW
ii) Steam turbines to run generators with output power up to 50MW
iii) Generators with output power up to 100MW
iv) Engines with output power up to 28MW
v) Compressors with output-power requirements up to 35MW
vi) Pumps with output-power requirements up to 4.5MW

…and expanded into inspection, repair and maintenance (IRM) of static equipment in 1998

Companies involved in the repair of steam boilers and unfired pressure vessels with business operations based in Malaysia are required to be certified by DOSH. As required by DOSH, manufacturing plants are required to undergo inspections every 15-21 months to obtain Certificate of Fitness (CoF) renewals. Besides steam boilers and unfired pressure vessels, Serba provides IRM for heat exchangers, columns, reactors and separators. Serbia's IRM work includes:

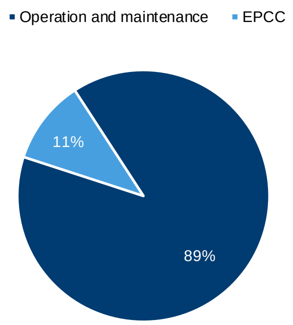
i) Inspection and preparation of repair methods
ii) Liaising with inspection authorities to witness repair work
iii) Chemical cleaning to eliminate scaling and minimise equipment failure
iv) Refractory repairs and modifications to eliminate heat leakage
v) Bore/video scope inspection, hydro jet cleaning, hydro testing, re-tubing
vi) Rehabilitation and repair services for pipelines

Serba's O&M orderbook stands at RM3.6bn, which would span until 2021. Local maintenance contracts are generally shorter in period (2+1 years), while overseas contracts are typically 3-4 years in length. Serba prefers to bid for contracts via cost plus approach instead of lump sum as it would provide more certainty to earnings.

Branching out to EPCC work in 2007

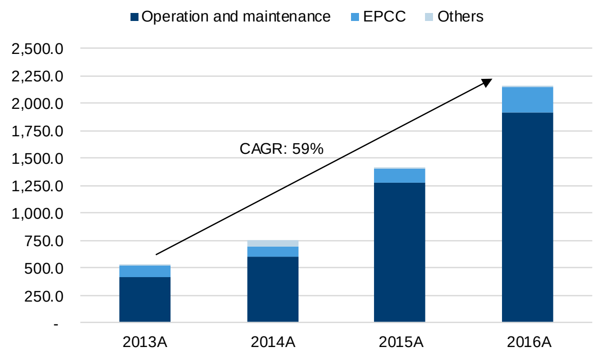
EPCC work includes the installation of piping systems, rotating and static equipment, power-generation equipment and plants; development of infrastructure; and construction of amenities and buildings. Current order book stands at RM700m, which will last the group through 2019. Beside the Kota Marudu power plants which Serba is currently developing with an outstanding contract value of c.RM145m, the group is also undertaking an EPCC contract in UAE with an estimated outstanding contract value of RM193m. In addition, Serba recently secured RM289.7m of sub-contractor EPCC work from Konsortium Amanie, which had been awarded a RM1.3bn project from the Terengganu state government. In addition to the traditional definition of EPCC, Serba holds the exclusive rights for Capstone brand micro turbine in Malaysia, Indonesia and Brunei region, which falls under the EPCC contribution. Capstone turbines offer range from 30kW to 1MW which can be stacked and combined to create multiple MW installations.

Fig 3: 2016 revenue mix



Source: Company, Affin Hwang

Fig 4: Historical revenue mix



Source: Company,Affin Hwang

Cost structure

To better understand the cost components that affect the O&M business, parts, consumables and services (PCS) portion forms a major portion of the group's cost of sales. Out of the 93% of the total PCS cost in 2015, 40% was comprised of parts, 40% was from personnel and the remaining 13% was other incidental costs. In terms of forex exposure on cost, we understand from management that if the contracts are performed overseas (i.e., Middle East), 65% of parts and personnel would be denominated in USD while contracts in Malaysia would be in MYR.

Fig 5: Breakdown of group's cost components

	2013	2014	2015
Parts, consumables and services (PCS)	89%	91%	93%
Professional fees	6%	4%	2%
Personnel expenses	2%	2%	2%
Depreciation	2%	2%	2%
Others	1%	1%	1%

Source: Prospectus

Detailed explanation of individual cost structure as below:

Parts comprise machine and equipment parts, tools and equipment, micro turbines, compressors, piping and metal structure. Consumables comprise oil, lubricants and fuel. Services are amounts paid for supply of parts and provision of services.

Professional fees include fees paid for provision of technical consultancy, technical analysis and testing as well as training services under City and Guilds.

Personnel fees are wages and salaries paid to project and contract staff as well as technical personnel.

Depreciation is depreciation of plant and equipment, tools and equipment.

Others include hiring and equipment chartering, traveling and transportation and maintenance of owned machinery and equipment.

Management background

Strong management with proven track record

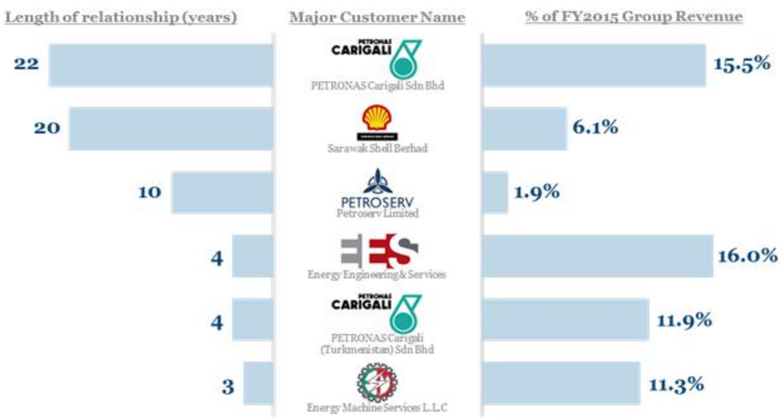
Serba is currently helmed by Dato' Karim who co-founded the company back in 1993, a veteran with over 29 years of experience in the O&G and power industries, and an engineer by profession. Alongside him, Serba has an experienced management team with proven track record. Serba was officially listed on the Main Market of Bursa Malaysia on 8 February 2017.

Fig 6: Serba Dinamik's key management

Name	Age	Designation	Background
Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah	51	Group MD/CEO	Co-founded Serba Dinamik back in 1993, Dato' Karim has over 29 years of experience in providing engineering and maintenance services to the O&G, petrochemical and power industries.
Dato' Awang Daud Bin Awang Putera	55	Deputy CEO	Started his career in overhauling and repairs of rotating equipment (eg: electrical motors, multi-centrifugal pumps, rotary-pump boilers and dryers). He has a vast knowledge in welding/fabrication and mechanical equipment maintenance repair as well as heavy machineries and vehicles. He joined Serba Dinamik in 1994.
Ir Abdul Halim Bin Mohd Damiah	49	Vice President, EPCC	Began his career as a maintenance engineer in 1992, and subsequently progressed to an electrical engineer and with experience working as an Electrical Quality Assurance Senior Executive and project manager under the marine business unit. He joined Serba Dinamik in 2011.
Afandi Bin Abd Hamid	45	Vice President, O&M	Has vast working experience as a mechanical technician, rotating equipment inspector and IMI technician. Later on he joined Petronas Carigali as a maintenance specialist, before moving to Serba Dinamik as Technical Engineer in 2001.
Syed Nazim Bin Syed Faisal	35	Group CFO	Over 13 years of experience in finance and audit specializing in banking and energy sectors. He joined Serba Dinamik in 2015.

Source: Prospectus

Fig 7: Customers and history of track record



Source: Company, Affin Hwang

Growth strategies

Despite being a strong maintenance services provider in the past, Serba is making strong inroads in diversifying its business to an asset-owner business model to build recurring income.

(1) 51% stake in compressed natural gas (CNG) plant

Serba acquired a 51% stake in a compressed natural gas (CNG) plant in August 2015 for total purchase consideration of RM3.83m. The plant is located in Muaro Jambi, Indonesia. Under the gas supply agreement (GSA), Serba is to collaborate with PD Muaro Jambi through PT Kubic Gasco, whereby Pertamina will supply 2.5mmscfd of gas for 6 years totalling up to 5,475mmscfd, which will be used to support power generation and industries in the area. This is expected to contribute to earnings from 2017 onwards. We opine that project capex is small and project IRR is estimated to be at 10%. Serba will be deriving two forms of recurring income moving forward, which is (1) dividend income from 6 years of GSA, and (2) provision of O&M services for 10 years.

(2) 4MW gas power-plant expansion besides existing CNG plant

Further to that, another expansion of 4MW capacity gas power plant is underway which will be located next to the existing CNG plant. The group is in the midst of preparing an application for licensing and permits prior to the commencement of construction.

(3) Small hydropower plants in Sabah

Serba acquired a 30% stake in Adat Sanjung for RM12.2m in 2015, which holds 3 Feed-In Approvals granted by the Sustainable Energy Development Authority of Malaysia. The intention is to build 3 hydropower plants located in Kota Marudu, Sabah, with individual capacity of 10MW, 13.5MW and 5.6MW, respectively. Under this project, Serba will act as the EPCC contractor with a contract value estimated at RM218m. Upon completion by end 2017, Serba will be providing O&M services on the plant for 21 years as well as deriving earnings from the 30% equity stake.

(4) Gas power plants in Ambon island and East Kalimantan

A 0.8MW small gas-power plant is to be developed in Ambon Island where Serba will be generating power and chilled water for Ambon City Centre shopping mall for a 10-year period. Separately, Serba has entered into an MoU with the local government development body of regency of East Kutai, East Kalimantan, which is valid for 5 years till 2020. Currently, both parties are at the preliminary discussion stage before finalizing the partnership and contract.

Strategic acquisition to reach out to broader market

To put it on a level playing field as the original equipment manufacturers (OEMs) and international independent service providers, one of its strategic initiatives moving forward is to identify and acquire a third-party parts manufacturer. This will allow the group to leverage its current O&M services and expand its business reach to supply parts and components on top of providing O&M services. As we highlighted earlier under the ‘’cost structure segment’’ in our report, parts and consumables make up a substantial portion of the group’s cost of sales. Management shared that this strategic acquisition could improve O&M segment’s gross margin by 1-2ppts going forward.

Recent development post IPO

Water treatment venture project

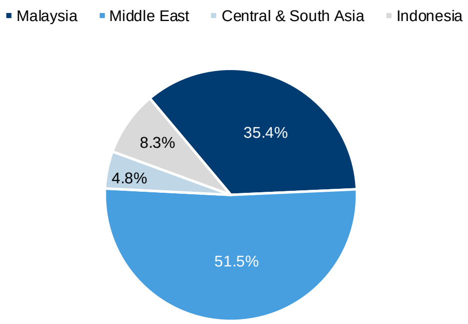
On 21 February 2017, Serba proposed to acquire a 40% stake in Konsortium Amanie (KA) for a purchase consideration of RM34m. KA was awarded a contract from the State Government of Terengganu for the design and building of a 120m litres per day ("MLD") and 28 MLD membrane water treatment plant, intake, service tank, installation of raw water and clean water pipes, retrofitting and other works for the Kuala Terengganu Utara Water Supply Scheme for a contract sum of RM1.3bn. Of the total value, approximately RM800m is related to the actual plant EPCC cost and the remaining RM500m is made up of finance costs. The finance cost has been imputed into the contract value and will be payable to KA over the years as a way to reimburse KA for raising the sukuk necessary to fund the entire water treatment project. In summary, Terengganu state government will bear the financing cost of the sukuk raised by KA. To date, KA has sub-contracted RM522m of EPCC work to 2 parties – Salcon (RM232.2m) and Serba (RM289.7m). We understand that Serba is eyeing to secure the maintenance portion of the water-treatment plant.

Financial analysis and forecast

Focus on Middle East, its key market

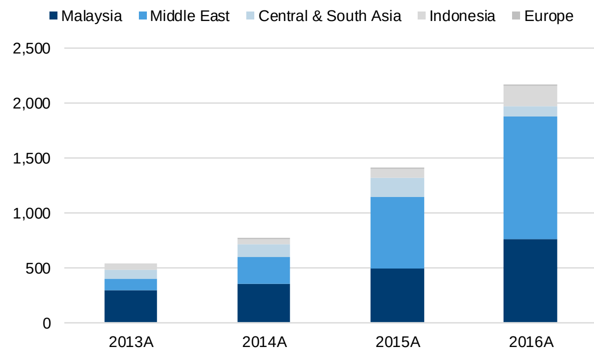
Serba will continue to focus on their key region that surrounds mainly the Middle East. The region's contribution to total revenue has expanded from 19.5% in FY13 to 51.5% in FY16, particularly from the UAE, Qatar and Oman *(refer Page 15, Appendix 2)*. We project overall earnings to grow at a CAGR of 15% for FY16-19E, alongside a revenue CAGR of 17%. This would be underpinned by (i) higher demand for maintenance services and (ii) expansion of EPCC work.

Fig 8: 2016 geographical revenue mix



Source: Company, Affin Hwang

Fig 9: Historical geographical revenue mix



Source: Company, Affin Hwang

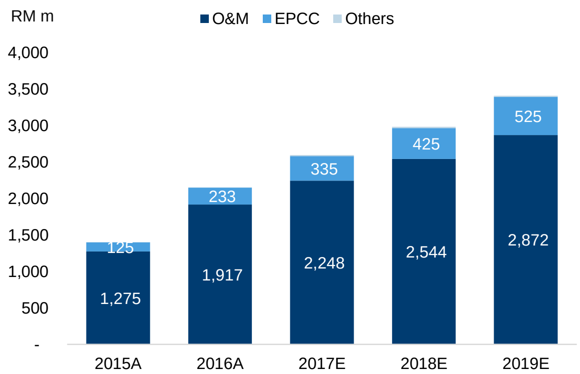
O&M segment anchor earnings

O&M will remain as Serba's biggest revenue contributor, making up close to 85% of total revenue over our 3-year forecast horizon. We expect the O&M segment to grow at 17% yoy in 2017 premised on progressive maintenance work to be executed and on the assumption of high renewal rates on existing contracts coupled with new contract wins. As oil prices recover and stabilise in the longer term, we expect operational activities to return which would lead to more demand for maintenance work.

With additional boost from EPCC

We project EPCC segment revenue to rise 44% yoy in 2017E premised on the current outstanding order book of RM700m. We also factored in RM300m in replenishment each year from 2017 onwards on expectations that the EPCC order book will continue to grow as Serba expands its asset base.

Fig 10: Revenue breakdown, by segment

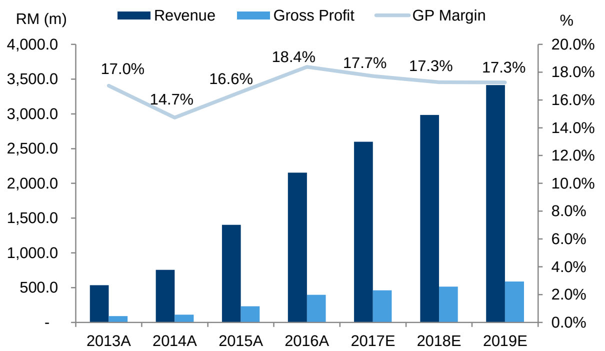


Source: Company, Affin Hwang forecasts

Conservative view on business margins

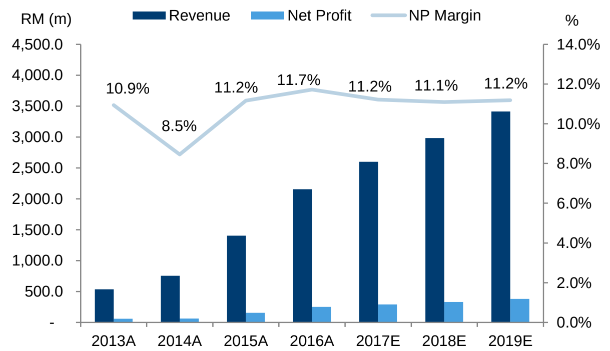
Serba's gross profit margin grew from 17% in FY13 to 18.4% in 2016, while net profit margin inched up from 10.9% to 11.7%. Gross margins for O&M have been relatively stable over the years at 16-17%. Amidst the current operating environment, we gather that Malaysian clients have requested from Serba an average discount of 3-5%. However, Serba has yet to see this situation surfacing for overseas maintenance contracts. Gross margins for EPCC have been stable at 16%. We expect the gross margin for 2017E to be at 17.7% and come down slightly at 17.3% in 2018-19E as the business continues to expand, thus bringing up the overall cost of conducting business.

Fig 11: Historical and forecast gross profit margins



Source: Company, Affin Hwang forecasts

Fig 12: Historical and forecast net profit margins



Source: Company, Affin Hwang forecasts

Separately, we conducted a sensitivity analysis on our current base case above to assess the impact on our 2017E net profit based on two variables, O&M and EPCC gross margins.

Fig 13: Sensitivity analysis

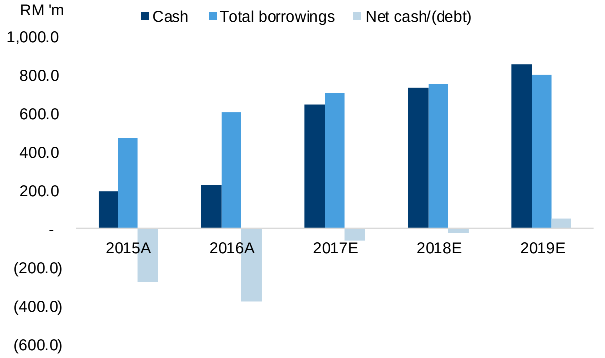
		EPCC GP Margin				
		14%	15%	16%	17%	18%
O&M GP margin	16%	243.3	246.4	249.5	252.7	255.8
	17%	264.2	267.3	270.4	273.6	276.7
	18%	285.1	288.2	291.4	294.5	297.6
	19%	306.0	309.1	312.3	315.4	318.5
	20%	326.9	330.0	333.2	336.3	339.4

Source: Affin Hwang estimates and forecasts
Note: Net profit in RMm

Decent dividend yield to be expected

Serba does not have a dividend policy but it is committed to start paying out at least 30% of its net profit in 2017. We project a dividend payout ratio which ranges between 25–30% for 2017-19E, implying a decent dividend yield of 3–5%. We expect Serba's free cash flow to turn positive from 2018E onwards, largely on a higher volume of business and better working-capital management going forward.

Fig 14: Cash and total borrowings position

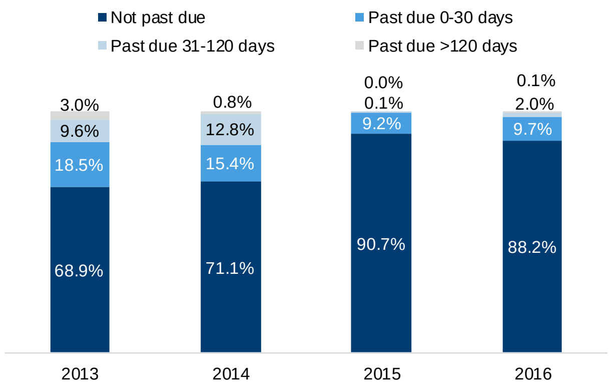


Source: Company, Affin Hwang forecasts

Strengthened balance sheet offers more leeway for expansion

Serba's net gearing level stood at 0.49x in 2016 based on a net debt position of RM378.5m. Through the IPO exercise, Serba was able to raise RM407.1m from the issuance of 271.4m new shares through public issue. We expect net gearing to fell to 0.04x in FY17 and return to net cash by FY19E. Based on the latest available data obtained from the prospectus, 52.1% of the 2015 debt was denominated in US dollar, while RM-denominated borrowings stood at 46.2% with the remaining in Indonesia rupiah. Serba's revenue and borrowings are naturally hedged.

Fig 15: Assessing the trade receivables ageing



Source: Company

Serba's debtor ageing for the past four years has been healthy, where we saw that a big portion of the total trade receivables still fall under the first column of the aging, where obligations are still not due.

Strong order book replenishment

Serba has demonstrated a strong ability to replenish their order book. The O&M order book expanded from RM2.0bn as at end-June 2016 to RM3.6bn as at end-December 2016. The pipeline of projects remains promising, and currently stands at RM10bn of which 75% are O&M related and balance 25% are EPCC. 60% of tender book are oversea derived. We are positive that Serba will continue to remain competitive in their targeted market in the Middle East resulting from their historical good track record which allows them to effectively grab market share from original equipment manufacturers (OEMs). We understand that its order book is usually replenished on a quarterly basis.

Valuation and recommendation

Initiate coverage with a BUY rating

We initiate our coverage on Serba with a **BUY** rating and 12-month target price of RM2.40, based on a 2017E PER of 11x. Our target price offers an upside potential of 45%, while the dividend yield is 3.3%, based on 2017E DPS. At the current share price, Serba is now trading at what we view as an attractive 2017E PER of 7.6x. We believe our ascribed PER multiple is justifiable, as it stands below the past-5-year mean forward PER mean of its O&G comparable peers, and takes into account Serba's strong global positioning as well as its promising business-growth outlook.

We see room for business growth on the robust demand for O&M services as the oil price recovers and stabilises, which would result in higher activity levels across the O&G and power-generation industries. Furthermore, O&M services are more resilient in nature compared to the rest of the more capital intensive services as O&M generally only makes up a small part of the oil majors' total spending. Hence, they are less susceptible to capex spending cuts which protect the business against downside risk to a certain extent. Lastly, we believe Serba has a competitive advantage from its peers through its vast geographical earnings base in the Middle East, Malaysia, Central and South East Asia as well as the rest of the countries across the region.

Key risks

Key risks to our positive stance on Serba would be :

(i) ***Timing challenges*** – Any delays in clients' maintenance, repair and overhaul schedule would have a negative impact on the group's earnings.

(ii) ***Deterioration in gross/net-profit margins*** – We expect Serba's gross profit margin to average at around 17.5% over 2017-19E. Weaker-than-expected gross-profit margins on the back of client demands for higher discounts would dampen our base earnings forecast.

(iii) ***Global oil prices*** – In the short-term, a drastic decline in crude oil price will dampen market sentiments and reduce investors' appetite for O&G related companies. Furthermore, this may also put downside risk to earnings as customers may postpone scheduled maintenance in attempts to save cost.

(iv) ***Further cuts in O&G capital spending*** – Prolonged or further deterioration in market conditions could see global oil majors continue to hold back their capex investment and defer their scheduled maintenance timeline. In turn, this could potentially negatively affect the group's business.

Fig 16: Peer comparison table

Local Peers Comparison Table

	Stock Ticker	Rating	Currency	Price (RM)	TP (RM)	Mkt Cap (RMm)	Year end	Core PE (x) CY17E	Core PE (x) CY18E	EPS growth (%) CY17E	EPS growth (%) CY18E	EV/EBITDA (x)	P/B (x)	ROE (%) CY17E	ROE (%) CY18E	Div. Yield (%) CY17E	Div. Yield (%) CY18E
Petronas Chemical	PCHEM MK	HOLD	MYR	7.75	7.09	62,000	Dec	18.6	18.3	5.0	1.4	10.1	2.1	11.5	11.9	2.8	2.8
Petronas Gas	PTG MK	HOLD	MYR	19.80	20.72	39,179	Dec	22.3	20.1	0.7	11.0	12.8	3.1	13.7	14.3	2.9	3.2
Sapura Energy	SAPE MK	HOLD	MYR	2.01	1.70	12,085	Jan	27.0	20.9	11.2	29.1	10.2	0.8	3.4	4.2	0.5	0.7
Dialog	DLG MK	HOLD	MYR	1.83	1.56	9,958	Jun	30.5	26.5	33.9	89.3	26.2	3.6	12.6	13.3	1.4	1.6
Bumi Armada	BAB MK	BUY	MYR	0.76	0.76	4,429	Dec	13.0	9.6	704.5	36.9	9.2	0.5	4.1	5.4	1.2	1.6
Gas Malaysia	GMB MK	HOLD	MYR	2.97	2.99	3,813	Dec	23.2	22.2	-0.5	4.9	13.4	3.6	15.6	17.6	4.3	4.5
Serba Dinamik	SDH MK	BUY	MYR	1.65	2.40	2,202	Dec	7.6	6.7	14.0	13.6	5.6	1.6	27.0	21.9	3.3	4.5
MMHE	MMHE MK	HOLD	MYR	0.98	1.12	1,560	Dec	68.2	33.4	253.6	104.1	8.6	0.5	0.9	1.8	0.0	0.0
UMW-OG	UMWOG MK	HOLD	MYR	0.62	0.63	1,340	Dec	n.m	n.m	47.7	21.5	23.8	0.4	n.m	n.m	0.0	0.0
Dayang*	DEHB MK	N/R	MYR	1.00	N/R	872	Dec	13.3	10.8	19.4	22.6	5.3	0.7	7.3	7.2	0.0	0.0
Deleum*	DLUM MK	N/R	MYR	1.03	N/R	412	Dec	13.7	10.7	13.6	28.0	4.7	1.4	15.2	14.6	4.1	4.6
Petra Energy	PENB MK	BUY	MYR	1.09	1.25	351	Dec	11.1	6.1	186.8	82.9	4.8	0.6	7.6	12.8	2.8	2.8
Alam Maritim	AMRB MK	SELL	MYR	0.31	0.16	282	Dec	101.7	27.7	103.0	271.3	7.7	0.3	0.3	1.3	0.0	0.0
Simple Average								**29.2**	**17.7**	**107.2**	**55.1**	**10.9**	**1.5**	**9.9**	**10.5**	**1.8**	**2.0**

Regional Peers Comparison Table

	Stock Ticker	Rating	Currency	Price LC	TP LC	Mkt Cap (USDm)	Year end	Core PE (x) CY17E	Core PE (x) CY18E	EPS growth (%) CY17E	EPS growth (%) CY18E	EV/EBITDA (x)	P/B (x)	ROE (%) CY17E	ROE (%) CY18E	Div. Yield (%) CY17E	Div. Yield (%) CY18E
Fluor Corporation*	FLR US	N/R	USD	52.62	N/R	7,353	Dec	18.2	16.1	44.0	12.7	7.5	2.1	11.9	12.5	1.6	1.6
The Weir Group*	WEIR LN	N/R	GBP	19.33	N/R	5,255	Dec	22.7	18.2	n.m	25.0	14.8	2.9	12.8	15.1	2.4	2.6
John Wood Group*	WG/ LN	N/R	GBP	7.67	N/R	3,655	Dec	18.8	15.8	n.m	19.1	9.7	1.8	9.3	10.4	3.1	3.3
Amec Foster Wheeler*	AMFW LN	N/R	GBP	5.36	N/R	2,600	Dec	9.4	10.3	0.0	-8.1	9.6	1.8	14.4	14.5	4.0	3.9
Chiyoda Corporation*	6366 JT	N/R	JPY	712.90	N/R	1,688	Mar	n.m	23.8	n.m	nm	3.7	1.2	0.4	6.3	1.1	1.1
Simple Average								**17.3**	**16.8**	**22.0**	**12.2**	**9.0**	**1.9**	**9.8**	**11.8**	**2.4**	**2.5**

*Bloomberg estimates

Source: Bloomberg, Affin Hwang forecasts

Appendix 1: Salient features of the IPO

Fig 17: Summary of IPO shares offering

Utilisation of proceeds	Estimated utilization time frame	Proposed utilization RM'000	Pencentage (%)	Actual utilization RM'000	Actual utilization (%)
*Expansion of business & operational facilities	Within 36 months	300,000	73.7	-	-
Working capital	Within 36 months	29,300	7.2	10,000	34.1
Repayment of bank borrowings/financing	Within 12 months	60,000	14.7	60,000	100
Estimated listing expenses	Within 6 months	17,800	4.4	13,718	77.1
Total Gross Proceeds		**407,100**	**100%**	**83,718**	**-**

*Source: Company (*as at 28 February 2017)*

*Breakdown of expansion of business and operational facilities

Events
Expansion of operational facilities
(i) Establish new MRO and ICM centre in Sarawak, Malaysia
(ii) Acquire corporate office building in Selangor, Malaysia
(iii) Establish new fabrication facility to support EPCC works and IRM services in Southern Johor, Malaysia
(iv) Upgrade of existing operational facilities in Malaysia and UAE
Business expansion
(v) Business expansion through investment and acquisition
(vi) Development of small gas power plants and water utilities in Indonesia

Source: Prospectus

Appendix 2: Historical geographical mix

Fig 18: Revenue by geographical markets

Geographical Markets	2013		2014		2015	
	RM (m)	%	RM (m)	%	RM (m)	%
South East Asia						
Malaysia	295.9	55.2%	350.8	46.4%	486.0	34.6%
Indonesia	51.3	9.6%	39.4	5.2%	84.4	6.0%
Sub-total	**347.2**	**64.8%**	**390.2**	**51.6%**	**570.4**	**40.7%**
Central and South Asia						
Turkmenistan	80.9	15.1%	123.7	16.4%	166.4	11.9%
India	3.2	0.6%	0.8	0.1%	0.6	0.0%
Sub-total	**84.1**	**15.7%**	**124.5**	**16.5%**	**167.0**	**11.9%**
Middle East						
Bahrain	4.9	0.9%	9.8	1.3%	5.6	0.4%
UAE	1.0	0.2%	38.7	5.1%	196.4	14.0%
Qatar	64.8	12.1%	91.6	12.1%	254.7	18.2%
Oman	7.2	1.3%	78.3	10.4%	177.8	12.7%
KSA	26.9	5.0%	12.3	1.6%	16.0	1.1%
Kuwait	-	0.0%	9.8	1.3%	12.4	0.9%
Sub-total	**104.8**	**19.5%**	**240.5**	**31.8%**	**662.8**	**47.2%**
Europe						
UK	-	0.0%	0.6	0.1%	2.7	0.2%
TOTAL REVENUE	**536.2**	**100%**	**755.8**	**100%**	**1,402.9**	**100%**

Source: Prospectus

Historical key milestones

Fig 19: Company milestones

Year	Milestone achieved
1993	Incorporated as maintenance, repair and overhaul (MRO) service provider
1994	Built its first mechanical and fabrication workshop in Bintulu, Sarawak
1997	Selected as vendor for provision of rotating equipment services under Petronas Vendor Development Programme (VDP)
1998	Extended its existing maintenance services to cover technical training in O&G maintenance, power generation and heavy industries
2001	Secured first oversea rotating equipment MRO services for LNG plant in Qatar
2002	Incorporated a subsidiary to focus on international business activities
2004	Established a new service centre in Terengganu to provide minor fabrication and maintenance services which also service as training centre.
2007	Expanded into EPCC by securing Bintulu LPG Bottling plant with Petronas Dagangan and also from Malaysia LNG S/B
2010	Became distributor of Capstone Turbine to distribute micro turbine in Malaysia, Indonesia and Brunei
2011	Serba Dinamik IT received MSC Malaysia status.
2015	Secured EPCC and O&M contracts for three small hydropower plants in Kota Marudu, Sabah.
2016	Secured 10-year agreement to lease out 0.8MW gas power plant for Ambon gas power plant for Ambon City Centre shopping mall located in Ambon island, Indonesia with 30% effective stake.

Source: Prospectus

Serba Dinamik – FINANCIAL SUMMARY

Out**think.** Out**perform.**

Profit & Loss Statement

FYE 31 Dec (RM m)	2015	2016*	2017E	2018E	2019E
Revenue	1,403	1,395	2,598	2,984	3,413
Operating expenses	-1,192	-1,182	-2,176	-2,506	-2,865
EBITDA	211	213	422	478	548
Depreciation	-28	-29	-65	-81	-94
EBIT	183	185	358	397	454
Net int income/(expense)	-25	-17	-41	-38	-40
Exceptional gains / (losses)	-1	0	0	0	0
Associates' contribution	0	0	0	0	0
Pretax profit	157	167	316	359	414
Tax	-3	-11	-22	-25	-29
Minority interest	0	0	-3	-3	-3
Net profit	154	157	291	331	382
Core net profit	**155**	**157**	**291**	**331**	**382**

Balance Sheet Statement

FYE 31 Dec (RM m)	2015	2016*	2017E	2018E	2019E
Fixed assets	349	490	625	695	751
Other long term assets	17	17	17	17	17
Total non-current assets	**366**	**507**	**642**	**711**	**767**
Cash and equivalents	225	236	654	743	868
Stocks	230	466	527	609	696
Debtors	431	698	783	899	1,029
Other current assets	7	0	0	0	0
Total current assets	**893**	**1,400**	**1,964**	**2,251**	**2,593**
Creditors	239	498	469	541	619
Short term borrowings	441	587	687	737	787
Other current liabilities	1	12	12	12	12
Total current liabilities	**681**	**1,097**	**1,168**	**1,290**	**1,418**
Long term borrowings	32	19	19	19	19
Other long term liabilities	69	16	16	16	16
Total long term liab.	**102**	**35**	**35**	**35**	**35**
Shareholders' Funds	**468**	**767**	**1,393**	**1,624**	**1,892**
Minority Interest	**7**	**7**	**10**	**13**	**15**

Cash Flow Statement

FYE 31 Dec (RM m)	2015	2016*	2017E	2018E	2019E
Pretax Profit	160	167	316	359	414
Depreciation & amortisation	28	29	65	81	94
Working capital changes	-57	1	-175	-125	-139
Cash tax paid	4	0	-22	-25	-29
Others	24	-163	-5	-13	-15
C/F from operation	**159**	**34**	**179**	**276**	**325**
Capex	-235	-108	-200	-150	-150
Others	-37	-22	5	13	15
C/F from investing	**-272**	**-130**	**-195**	**-137**	**-135**
Debt raised/(repaid)	240	92	100	50	50
Dividends paid	-1	0	-73	-99	-115
Others	-28	-18	407	0	0
C/F from financing	**212**	**74**	**434**	**-49**	**-65**
Net change in cash flow	98	-23	418	90	125
Free Cash Flow	**-77**	**-74**	**-21**	**126**	**175**

** FY2016 effective from 25 May - 31 Dec 16 due to change in new reporting entity to Serba Dinamik Holdings Berhad (previously Serba Dinamik Group)*

Key Financial Ratios and Margins

FYE 31 Dec (RM m)	2015	2016*	2017E	2018E	2019E
Growth					
Revenue (%)	85.6	-0.5	86.2	14.9	14.4
EBITDA (%)	110.0	0.9	98.1	13.1	14.6
Core net profit (%)	143.8	0.7	86.0	13.6	15.4
Profitability					
EBITDA margin (%)	15.1	15.3	16.3	16.0	16.0
PBT margin (%)	11.2	12.0	12.2	12.0	12.1
Net profit margin (%)	11.0	11.2	11.2	11.1	11.2
Effective tax rate (%)	1.9	6.7	7.0	7.0	7.0
ROA (%)	16.2	9.9	12.9	11.9	12.1
Core ROE (%)	41.7	25.4	27.0	21.9	21.7
ROCE (%)	25.8	16.0	20.6	17.7	17.9
Dividend payout ratio (%)	0.0	0.0	25.0	30.0	30.0
Liquidity					
Current ratio (x)	1.3	1.3	1.7	1.7	1.8
Op. cash flow (RM m)	159	34	179	276	325
Free cashflow (RM m)	-77	-74	-21	126	175
FCF/share (sen)	-5.8	-5.6	-1.6	9.4	13.1
Asset management					
Debtors turnover (days)	112.1	182.6	110.0	110.0	110.0
Stock turnover (days)	70.4	143.9	88.4	88.6	88.7
Creditors turnover (days)	73.2	153.7	78.6	78.8	78.8
Capital structure					
Net gearing (%)	53%	48%	4%	1%	-3%
Interest cover (x)	8.4	12.4	10.2	12.5	13.7

Source: Company, Affin Hwang forecasts

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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