

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

22 Jun 2017

Serba Dinamik Holdings (SDH MK) : BUY

Mkt. Cap: US\$567m | 3m Avg. Daily Val: US\$2.3m

Last Traded Price (21 Jun 2017): RM1.82

Price Target 12-mth: RM2.90 (59% upside) (Prev RM2.90)

Shariah Compliant: Yes

Analyst

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Eyeing African market

- Exploring opportunities in Côte d'Ivoire and Tanzania; bids up to RM2bn
- Business as usual in Qatar
- Growth will be driven by Middle East and potential for additional jobs in Sarawak and Johor
- Reiterate BUY with TP of RM2.90; recent selldown unwarranted and presents accumulation opportunity

Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	2,155	2,745	3,319	3,956
EBITDA	342	424	525	644
Pre-tax Profit	274	337	420	516
Net Profit	253	305	384	473
Net Pft (Pre Ex.)	253	305	384	473
Net Pft Gth (Pre-ex) (%)	61.2	20.6	25.9	23.3
EPS (sen)	18.9	22.8	28.7	35.4
EPS Pre Ex. (sen)	18.9	22.8	28.7	35.4
EPS Gth Pre Ex (%)	61	21	26	23
Diluted EPS (sen)	18.9	22.8	28.7	35.4
Net DPS (sen)	0.0	6.85	8.62	10.6
BV Per Share (sen)	60.6	86.8	107	132
PE (X)	9.6	8.0	6.3	5.1
PE Pre Ex. (X)	9.6	8.0	6.3	5.1
P/Cash Flow (X)	43.1	6.6	8.1	6.2
EV/EBITDA (X)	8.4	6.7	5.6	4.6
Net Div Yield (%)	0.0	3.8	4.7	5.8
P/Book Value (X)	3.0	2.1	1.7	1.4
Net Debt/Equity (X)	0.5	0.3	0.3	0.3
ROAE (%)	39.6	31.0	29.7	29.7

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

What's New

According to media report, Serba Dinamik (Serba) is partnering with Jeddah, Saudi Arabia-based Islamic Development Bank (IDB) to vie for its maiden contract in Africa by 4QFY17. The group had appointed IDB as its adviser in exploring the African market, given the bank's long-standing presence in the continent of over 30 years. If the plan materialises, the group expects income contribution to start from 1QFY18 and Africa to contribute 15-20% of revenue in FY18. Based on current FY18F revenue of RM3.3bn, the expected revenue contribution from Africa ranges from RM585m to RM830m which is 18%-25% of existing FY18 revenue forecast. We conservatively estimate that this will increase earnings by 16%-23% which takes into account higher corporate tax rates in Africa.

Having said that, the group managing director and CEO Datuk Dr Mohd Abdul Karim Abdullah stresses that Serba is not venturing into Africa at the expense of its Middle Eastern presence. Rather, it is looking to retain its current operations in the Middle East while adding new engines of growth.

At present, Serba has submitted bids totalling RM2bn across Côte d'Ivoire and Tanzania, through both its operations and maintenance (O&M) segment as well as engineering, procurement, construction and commissioning (EPCC) divisions. We are maintaining our earnings forecast at this juncture pending the announcement of contract award.

Flash Note

Qatar development

- To recap, diplomatic tensions erupted between Qatar and four Gulf neighbours — Saudi Arabia, Egypt, the United Arab Emirates (UAE) and Bahrain — over accusations that Qatar is supporting terrorism. Since then, a number of others countries including Yemen, the eastern government of Libya, Maldives, Mauritius, Mauritania and Senegal have cut diplomatic ties with Qatar. Sanctions and travel bans have followed.
- Supply lines for Qatar's oil and gas exports remain open to its major purchasers via Oman and Iran. According to CEO of Qatar Petroleum, Qatar will not cut off gas to the UAE despite a diplomatic dispute and a "force majeure" clause in its contract on the Dolphin gas pipeline, which links Qatar's North Field with the UAE.
- Serba's O&M activities in Qatar have so far not been disrupted. Moreover, this event could turn out to be an opportunity to Serba as it already has a base in Qatar as compared to other M&O service providers which may be operating from those countries currently in diplomatic feud with Qatar. These contractors might face problems and leave Qatar. As such, Serba could benefit from contract wins from plants in Qatar.
- While it is too early to tell how significant the opportunities could be for Serba, the group is already standing by to add another 50 personnel to its operations in Qatar if necessary. That would be a 20% increase to its current workforce of 250.

Outlook

O&M segment to drive growth. 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. We forecast this segment to remain Serba's main revenue/operating profit contributor with a 3-year CAGR of 23%/24% in FY17-FY19.

Key market is Middle East. We forecast revenue/operating profit to grow at a 3-year CAGR of 24%/25% in FY16-FY19. This will be supported by: 1) stronger market reputation and penetration, 2) higher demand for maintenance services, and 3) expansion of EPCC work. We expect the Middle East to remain Serba's main revenue contributor in FY17-FY19. Although overall margins are expected to be weaker in FY17F, we expect to see progressive improvement in the group's operating margins in FY18/FY19 due to increasing contribution by Middle East contracts with higher margins.

Opportunities in Sarawak and Johor. We believe Serba is slated to win additional contracts in Sarawak as more O&G, power generation, and infrastructure investments pour into the state in the coming years. Serba is also planning to develop a centralised utility facility (CUF) in Bintulu, Sarawak. In Johor, Serba plans to build a new fabrication facility to cater for EPCC works and IRM services for the Refinery and Petrochemical Integrated Development (RAPID) project and also for future projects in the Pengerang Integrated Petroleum Complex (PIPC).

Valuation

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

Target Price & Ratings History



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

Source: AllianceDBS

Analyst: Inani Rozidin

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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