Malaysia Company Focus

Serba Dinamik Holdings

Bloomberg: SDH MK | Reuters: SERB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 May 2017

BUY

(Initiating Coverage)

Last Traded Price (15 May 2017): RM2.07 (KLCI : 1,778.65)

Price Target 12-mth: RM2.90 (39% upside)

Potential Catalyst: Higher-than-expected orderbook replenishment and margins

Analyst

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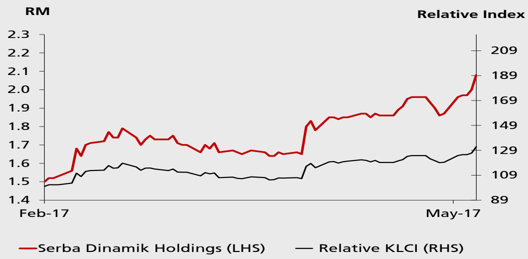
Price Relative



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
EPS (sen)	18.9	22.8	28.7	35.4
EPS Pre Ex. (sen)	18.9	22.8	28.7	35.4
EPS Gth (%)	61	21	26	23
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)	11.0	9.1	7.2	5.9
PE Pre Ex. (X)	11.0	9.1	7.2	5.9
P/Cash Flow (X)	49.2	7.5	9.2	7.1
EV/EBITDA (X)	9.4	7.5	6.2	5.2
Net Div Yield (%)	0.0	3.3	4.1	5.1
P/Book Value (X)	3.4	2.4	1.9	1.6
Net Debt/Equity (X)	0.5	0.3	0.3	0.3
ROAE (%)	39.6	31.0	29.7	29.7
Consensus EPS (sen):		21.8	24.8	28.6
Other Broker Recs:		B: 1	S: 0	H: 0

**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*

ICB Industry : Oil & Gas

ICB Sector: Oil Equipment; Services & Distribution

Principal Business: Serba Dinamik is an energy services group that provides engineering solutions to the oil and gas (O&G) and power generation industries. It has presence in Malaysia, Indonesia, Qatar, UAE, KSA, Oman, Bahrain, India and Turkmenistan.

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

The next big thing

- **Reputable O&M player with 3rd local ranking and international clientele base**
- **3-year EPS CAGR of 23% from FY16-FY19F driven by recovery in oil & gas sector and market penetration in the Middle East**
- **Initiate with high conviction BUY call and TP of RM2.90**

Initiate coverage on Serba with high conviction BUY. Our target price of RM2.90 is based on 9% WACC for its utility assets and 12x FY17F PE for its O&M and EPCC segments. The group posted a 3-year fully-diluted EPS CAGR of 63% from FY13-FY16. We conservatively forecast Serba's EPS CAGR of 23% from FY16-FY19F underpinned by strong 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, we are sanguine of its market penetration in the Middle East.

Key market is Middle East. Middle East revenue contribution grew from 19.5% in FY13 to c.51% in FY16 at RM1.1bn, mainly from the UAE, Qatar and Oman. This translates to a 3-year revenue/operating profit CAGR of 123%/98% for FY13-FY16. 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 due to competitive pricing pressure for Malaysia business, we expect to see progressive improvement in the group's operating margins in FY18/FY19 due to increasing contribution by Middle East's contracts with higher margins.

Opportunities in Sarawak and Johor. Besides Middle East, the group is poised to capitalise on business 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) and also for future projects in the Pengerang Integrated Petroleum Complex (PIPC).

At A Glance

Issued Capital (m shrs)	1,335
Mkt. Cap (RMm/US$m)	2,537 / 589
Major Shareholders (%)	
Dato' Karim	26.2
Hj Abdul Kadier	20.7
Dato' Awang Daud	13.2
Free Float (%)	39.9
3m Avg. Daily Val (US$m)	2.4

INVESTMENT THESIS

Profile	Rationale
Serba Dinamik is an energy services group that provides engineering solutions to the oil and gas (O&G) and power generation industries. It has presence in Malaysia, Indonesia, Qatar, the UAE, KSA, Oman, Bahrain, India and Turkmenistan.	**O&M segment to drive growth.** Serba's O&M revenue grew at a 3-year CAGR of 66% from FY13-FY16. The O&M segment contributed c.89%/110% of revenue/operating profit in FY16. As oil prices recover and stabilise over 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.** Middle East revenue contribution grew from 19.5% in FY13 to c.51% in FY16 at RM1.1bn, mainly from the UAE, Qatar and Oman. This translates to a 3-year revenue/operating profit CAGR of 123%/98% for FY13-FY16. 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 due to competitive pricing pressure for Malaysia business, we expect to see progressive improvement in the group's operating margins in FY18/FY19 due to increasing contribution by Middle East's contracts with higher margins. **Opportunities in Sarawak and Johor.** Besides Middle East, the group is poised to capitalise on business 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) and also for future projects in the Pengerang Integrated Petroleum Complex (PIPC).
Valuation	**Risks**
Our SOP target price is at RM2.90, based on 9% WACC for its utility assets and 12x FY17F PE for its O&M and EPCC segments, which is inline with the average CY17 PE for small-mid cap O&G maintenance service providers in Malaysia. This stock also provides an expected dividend yield of c.3.5% in FY17F. Management has guided for minimum dividend payout of 30%.	**Lower-than-expected orderbook replenishment.** The O&M outstanding orderbook is at RM4bn as at end-March 2017 while EPCC outstanding orderbook is at RM700m. In order to sustain its historical topline growth, Serba needs to secure an orderbook replenishment of RM3-4bn annually. We are positive of Serba's capability to replenish its current orderbook as it remains competitive in the local and Middle East markets and continues to grab market share from original equipment manufacturers (OEM). **Lower-than-expected margins.** Lower-than-expected margins could dampen the momentum of Serba's earnings growth in comparison to its top-line growth A -/+ 0.1% shift in O&M and EPCC operating margins would affect earnings by -/+ 0.75% and -/+0.08%, resulting in our fair value to increase/decrease by 0.6% and 0.07% respectively

Source: AllianceDBS

SWOT Analysis

Strengths	Weakness
• Niche speciality in the O&M segment • Capability to provide EPCC services • Owns several utility assets that provide recurring income base	• High orderbook replenishment target • Shift in margins due to pricing competition

Opportunities	Threats
• Business opportunities in Sarawak • EPCC and O&M jobs for the Refinery and Petrochemical Integrated Development (RAPID) • Expanding global clientele base in the Middle East, Indonesia and Europe	• Competition from other independent and authorised service providers • Weaker-than-expected macroeconomic environment may dampen customer demand • Downturn of the O&G sector

Source: AllianceDBS

Company Background

Passion to grow. The group started in 1993 as a provider of maintenance, repair, and overhaul (MRO) services for rotating equipment before expanding to inspection, repairs and maintenance (IRM) of static equipment in 1998. The group's big break was in 1997 when it was selected to be a vendor company under PETRONAS vendor development programme (VDP). Continuing its success, the group secured its first overseas contract from a global O&M service provider in 2001 for a LNG plant in Ras Laffan, Qatar. In 2007, the group expanded its business activities to EPCC works. On 13 May 2016, it was converted to a public limited company. Serba Dinamik Holdings Bhd (Serba) was listed on the Main Market of Bursa Malaysia on 8 Feb 2017.

Managed by founding members. Serba's leadership team comprises 1) its founder Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah, and 2) Dato' Awang Daud who has been with the group since 1994. Both own stakes of 26.2% and 13.2%, respectively, and are still actively managing the business. Therefore, management's interest appears to be aligned with the shareholders', in our view.

Dynamic company. Serba started out in the operation and maintenance (O&M) segment with its speciality in MRO services for rotating equipment (such as gas and steam turbines, engines, motors, pumps, compressors and industrial fans), and IRM for static equipment (such as steam boilers, unfired pressure vessels, heat exchangers, columns, reactors and separators). It has then moved up the value chain to provide engineering, procurement, construction and commissioning (EPCC) services which includes installation of piping systems, rotating and static equipment, power-generation equipment and plants; development of infrastructure; and construction of amenities and buildings. In Aug 2015, Serba acquired a 51% stake in a compressed natural gas (CNG) plant in Muaro Jambi, Indonesia. This marks the group's first foray into an asset-ownership business which provides recurring income stream.

PETRONAS-licensed company. In Malaysia, there are barriers to entry for the O&G industry due to the licensing requirements imposed by PETRONAS. To participate in the local O&G industry, it is mandatory that appropriate licences and registrations are obtained. Serba has obtained the necessary licences and registration to facilitate the provision of products and services to oil majors, production sharing contract (PSC) operators and risk service contract (RSC) operators. The group is licensed for a total of 48 Standardised Work and Equipment Categories (SWEC) codes.

Reputable O&M player. The group has built a solid reputation in the industry, with a wide local and international clientele base. Among the recognitions accorded to Serba is the 3rd ranking among the Oil and Gas Service and Equipment (OGSE) companies in Malaysia in providing MRO of rotating equipment services to the local O&G industry. Furthermore, it is also ranked 11th in providing maintenance services and 5th in providing IRM of static equipment services to the local O&G industry. These rankings were based on the consolidated revenue for FY14 of PETRONAS-licensed companies with SWEC codes.

Global presence. The group has a track record of 23 years in providing O&M services and EPCC services to the O&G industry. In addition to Malaysia, its clientele also encompasses Indonesia, Qatar, the UAE, KSA, Oman, Bahrain, India and Turkmenistan in the past three financial years.

Wide clientele base. Serba's clientele includes; PETRONAS Carigali Sdn Bhd, PETRONAS Carigali (Turkmenistan) Sdn Bhd, Sarawak Shell Berhad, PETRONAS Chemicals Methanol Sdn Bhd, Malaysia LNG Sdn Bhd, Sabah Shell Petroleum Company Limited, Petrofac E&C Sdn Bhd, MB Petroleum Services L.L.C., Oman and PT Ensco Sarida, Indonesia. Some of the plant owners that it serves indirectly through foreign business partners include Qatar Fertiliser Company, Petroleum Development Oman, Qatar Petroleum, Qatar Chemical Company Ltd and Saudi Aramco.

Firm debut on Bursa. Serba made a steady debut on the Main Market of Bursa Malaysia on 8 Feb 2017. Its public issue of 26.7m shares under its IPO was oversubscribed by 4.96 times. To date, the share price has appreciated by c.+24% since its listing. Serba's IPO involved the sale of up to 389.4m shares comprising an offer for sale of up to 118m existing shares and a public issue of 271.4m new shares at an offer price of RM1.50. The bulk of IPO proceeds from the new shares issued will be used to expand its business. See Exhibits 1 & 2.

Exhibit 1: Use of IPO proceeds

Utilisation	Time frame (from IPO)	RM'm	%
Expansion of business and operational facilities	36 mths	300.0	73.7%
Working capital	36 mths	29.3	7.2%
Repayment of borrowings	12 mths	60.0	14.7%
Listing expenses	6 mths	17.8	4.4%
		407.1	

Source: Prospectus, AllianceDBS

Exhibit 2: Business expansion

Utilisation	Time frame (from IPO)	RM'm
Expansion of operational facilities		**135**
MRO and ICM centre in Sarawak	24 mths	70
New corporate office building in Selangor	12 mths	30
New fabrication facility to support EPCC works and IRM services in Southern Johor	12 mths	20
Upgrade existing operational facilities in Malaysia and UAE	12 mths	15
Business expansion		**165**
Development of small gas power plants and water utilities in Indonesia	36 mths	70
M&A opportunities	36 mths	95

Source: Prospectus, AllianceDBS

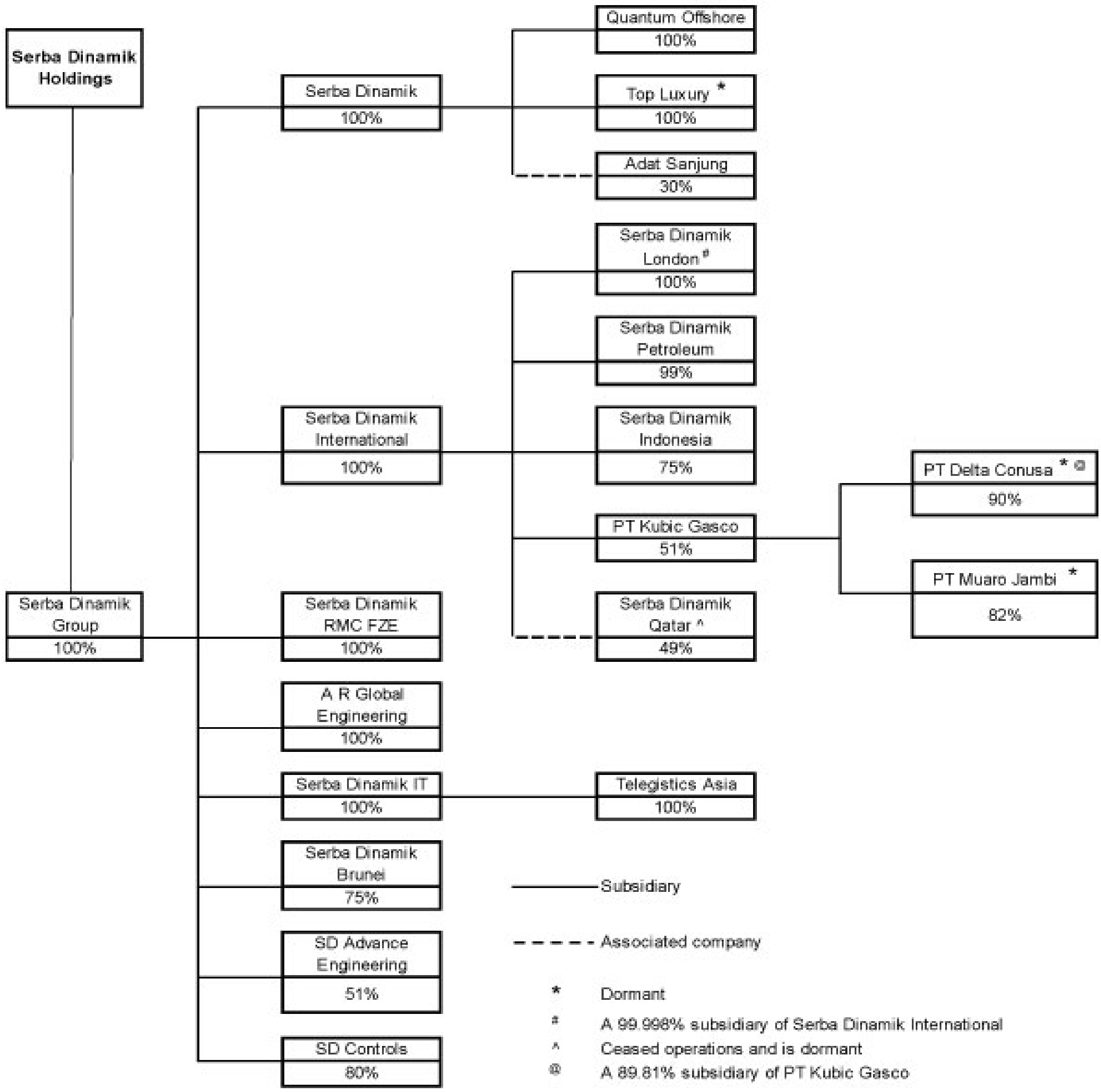
Experienced management team. The management of Serba is led by its founder Dato' Karim and Dato' Awang Daud who have over 29 years and 34 years of experience, respectively, in the energy industry and are well-known local entrepreneurs with in-depth knowledge and a wide network of contacts in the O&G industry. See Exhibit 3 for profile of the key management team

Exhibit 3: Key management team

Name and Designation	Age	Profile
Dato' Dr. Ir. Mohd Abdul Karim Bin Abdullah Group Managing Director/ Group Chief Executive Officer	51	• Founder of Serba Dinamik Group • Appointed to the Board in 1993 • More than 29 years of experience as an engineer in the O&G industry • Major shareholder of the group with 26.2% stake
Dato' Awang Daud Executive Director/Deputy Chief Executive Officer	55	• Appointed as Director in 1994 • Bachelor of Science in Mechanical Engineering from the University of the East, Philippines • Master in Mechanical Engineering from the Universitas Pancasila, Jakarta, Indonesia • Major shareholder of the group with 13.2% stake • Has no family relationship with any member of the key management team
Syed Nazim bin Syed Faisal Group Chief Financial Officer	35	• Appointed as Chief Financial Officer in 2015 • Bachelor of Accounting from the International Islamic University Malaya, Malaysia • Master Degree in Islamic Finance Practice from the International Centre for Education in Islamic Finance, Malaysia • Has no family relationship with any member of the key management team
Ir Abdul Halim bin Mohd Damiah Vice President, EPCC Business Unit	49	• Appointed as Vice President, EPCC unit in 2011 • Bachelor's degree in Electrical Engineering from the University of Malaya, Malaysia • Has no family relationship with any member of the key management team
Afandi bin Abd Hamid Vice President, O&M Business Unit	45	• Appointed as Vice President, O&M unit in 2009 • Bachelor of Science in Engineering from the Liberty International University, United States of America • Has no family relationship with any member of the key management team

Source: Company

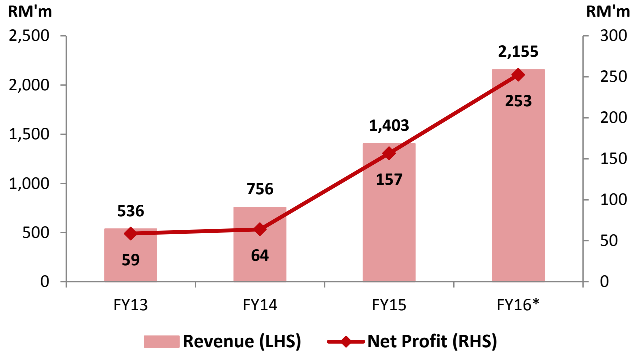
Exhibit 4: Corporate structure



Source: Company

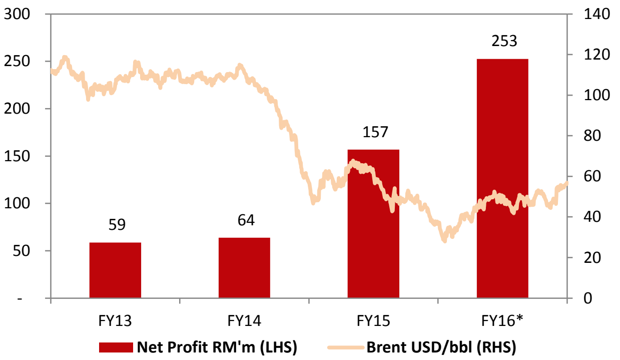
Competitive Strengths

Exhibit 5: Historical earnings and revenue trend



**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*
Source: Company, AllianceDBS

Exhibit 6: Historical earnings and Brent trend



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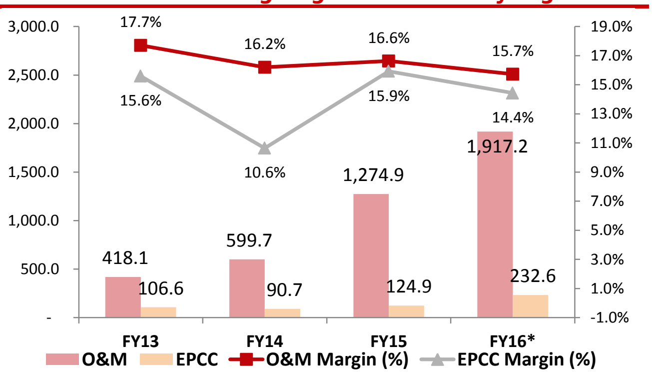
Source: Company, AllianceDBS

Exhibit 7: Revenue weightage breakdown by segments



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Source: Company, AllianceDBS

Growth driven by O&M segment. Since FY13, revenue and earnings have grown at a 3-year CAGR of 59%/63% from RM536m/RM59m to RM2.2bn/RM253m in FY16. The O&M segment which makes up c.89%/110% of Serba's revenue/operating profit in FY16 has been the key growth driver. Despite the O&G industry downcycle since 2014, it registered phenomenal growth and was able to grab market share from the original equipment manufacturers (OEM) via competitive pricing. Serba's O&M speciality is in reverse engineering which is understood to be c.30% cheaper than OEM's services. We believe this attests to Serba's ability to secure a stable flow of contracts over the years.

Stability of the O&M segment. Demand for maintenance services hinges on the level of operational activity at oil production assets. Even under a low oil-price environment, O&M activities remain essential to ensure operational efficiency of production assets. Furthermore, periodic maintenance is a mandated activity to comply with the strict health and safety regulations governing the oil & gas industry. As such, O&M business is relatively less affected during the O&G downturn as compared to capex cut for exploration and development activities.

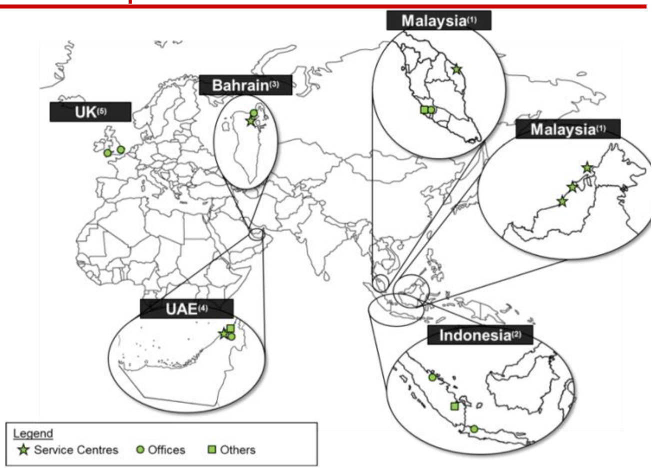
Niche segment of maintenance services. Serba is involved in rotating equipment maintenance services, which is a niche area that has high barriers of entry. This is due to the high precision and detailed engineering required for rotating equipment maintenance. As an independent maintenance provider, Serba is not restricted to servicing any specific brand of equipment. With its niche service offering, Serba has a wider scope of business opportunities and is not restricted to a single or a small number of clients.

Growing EPCC contributions. The EPCC segment contributes c.11%/12% of Serba's revenue/operating profit in FY16. 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. Some of Serba's notable outstanding orderbook include; 1) EPCC work for Kota Marudu plants for c.RM140m, 2) EPCC work in UAE for c.RM193m, and 3) EPCC sub-contractor work from Konsortium Amanie (KA) for RM289.7m. In addition to the conventional EPCC activities, Serba holds the exclusive rights for Capstone brand micro turbine in Malaysia, Indonesia and Brunei, which falls under its EPCC contribution. Capstone turbines offer range from 30kW to 1MW which can be stacked and combined to create multiple MW installations.

Long-term major customers. The group has existing maintenance contracts with its local and international major customers, with whom Serba has longstanding working relationships with ranging from three years to 22 years. Its top three customers contributed c.33% of its revenue in FY16. These longstanding relationships had provided the group with stable and earnings, and we believe this will continue.

Multiple locations around the world. Serba's operational facilities in Malaysia include its head office in Shah Alam, Selangor with five service centres, including one in Miri, one in Bintulu, Sarawak, two in Labuan, one in Paka, Terengganu, and one factory in Klang, Selangor. Operational facilities in Indonesia are primarily offices in Jakarta and Riau, and a CNG plant in Muaro Jambi, Sumatra, Indonesia. Operational facilities in Bahrain consist of an office and a service centre. Operational facilities in UAE consist of an office, a service centre and a logistics centre in Ras Al-Khaimah. Operational facilities in the UK comprise offices in London and Cornwall. A staff force of approximately 1,000 is needed to support Serba's operations. The widespread operational centres allow Serba to tap into various markets and grow its customer base.

Exhibit 8: Operational centres

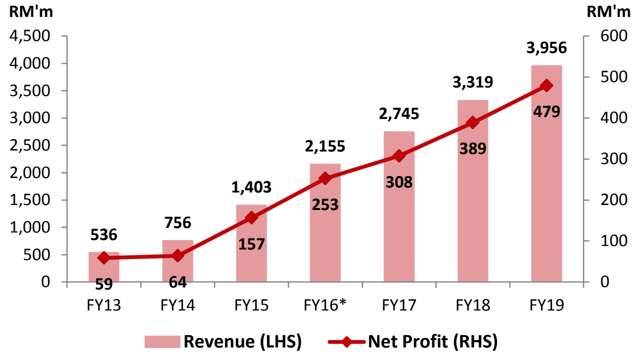


Source: Company, AllianceDBS

Natural hedging from currency fluctuations. Parts, consumables and services (PCS) forms a major portion of the group's cost of sales. Out of the 93% of the total PCS costs in 2016, 40% came from parts and consumables, and 30% from personnel costs. We understand that Serba is naturally shielded from forex risks, as the majority of its revenue and costs for overseas contracts are denominated in USD while and local contracts are denominated in MYR.

Growth Strategies

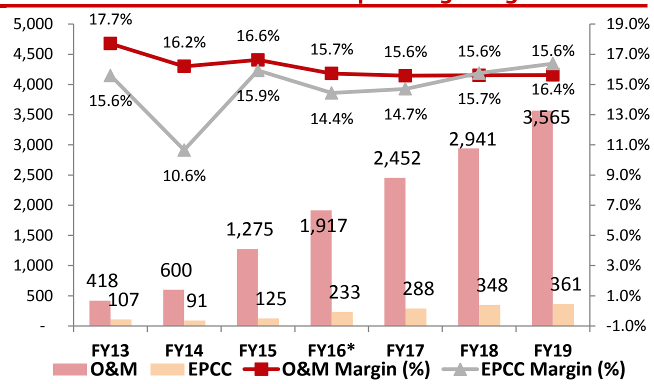
Exhibit 9: Estimated revenue/earnings trend



**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*

Source: Company, AllianceDBS

Exhibit 10: Estimated revenue/operating margins trend



**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*

Source: Company, AllianceDBS

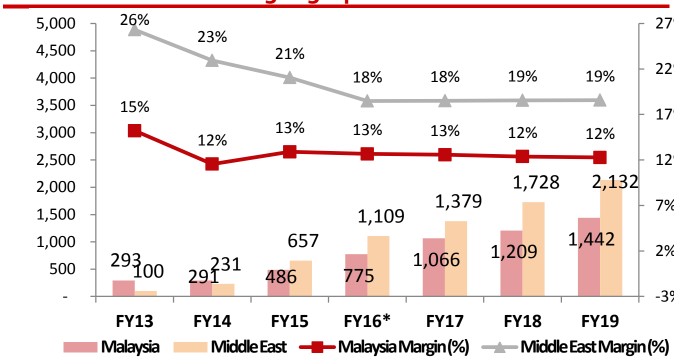
Growth momentum to be sustained going forward. We conservatively forecast Serba's revenue/earnings to grow at a 3-year CAGR of 22%/23% over FY16-FY19F. This is underpinned by its existing O&M and EPCC orderbook of RM4bn and RM700m respectively. In addition, we expect Serba to gain further traction in Middle East while its effort to expand its revenue sources with EPCC and recurring income from utility assets will pay off over the longer term.

O&M segment continue 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%/23% in FY16-FY19. This is supported by its current outstanding orderbook of c.RM4bn and expected annual replenishment of RM2.5-RM3bn. Besides normalisation of activities, we also expect Serba to gain market share from OEM service providers due to cost rationalisation by oil majors amid a low oil price environment.

EPCC segment still small but growing. We forecast revenue/operating profit to grow at a 3-year CAGR of 16%/21% for FY16-FY19, premised on its current outstanding orderbook of RM700m. We have also factored in annual c.RM140m (USD30m) in replenishment over FY17-FY19 on expectations that the EPCC orderbook will continue to grow as Serba strengthens its reputation and expands its clientele base.

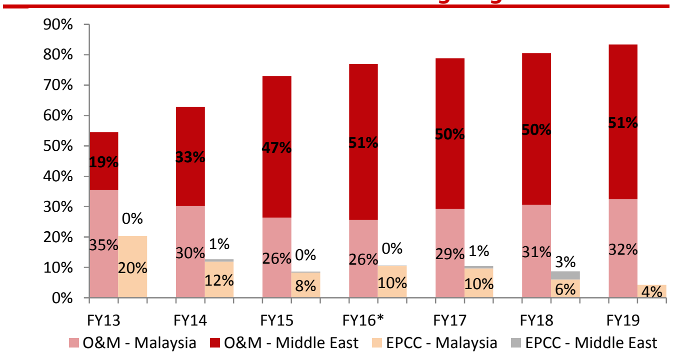
Key market is Middle East. Middle East revenue contribution grew from 19.5% in FY13 to c.51% in FY16 at RM1.1bn, mainly from the UAE, Qatar and Oman. This translates to a 3-year revenue/operating profit CAGR of 123%/98% for FY13-FY16. We view this positively as operating margins are better in the Middle East. We expect to see improvement in the group's operating margins as the majority of the work in the Middle East is for the O&M and EPCC segments. The group is also undertaking an EPCC contract in the UAE with an outstanding contract value of c.RM193m. Moving forward, we forecast revenue/operating profit from the Middle East 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 Middle East to remain Serba's main revenue contributor in FY17-FY19.

Exhibit 11: Estimated geographical trend



**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*
Source: Company, AllianceDBS

Exhibit 12: Revenue contribution weightage



**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*
Source: Company, AllianceDBS

Upgrade existing operational facilities in Malaysia and UAE. Serba has allocated RM15m of its IPO proceeds to upgrade and expand its existing facilities in Malaysia and Ras Al-Khaimah, UAE. Currently, it expects to purchase additional machinery, tools and equipment for its existing service centres in Malaysia (one each in Paka and Miri, and two in Labuan). Serba will also be upgrading its existing logistics centre in Ras Al Khaimah by constructing an administrative area within the warehouse, a covered workshop as well as a mobile workshop. We view this positively as Serba is preparing for additional work in Malaysia and UAE.

MRO and ICM centres in Sarawak. Serba has allocated RM70m of its IPO proceeds to expand its MRO and IRM service centres in Sarawak. Currently, there are nine operational LNG trains in Bintulu. Apart from LNG, Petronas and the state government of Sarawak has entered into a MoU to conduct a joint feasibility study for the Sarawak Petrochemical Master Plan to boost the local petrochemicals industry. Furthermore, Sarawak Energy has several major power generation facilities in Sarawak, such as Bakun hydropower plant, Murum hydropower plant, Mukah coal-fired power plant, Tanjung Kidurong combined cycle power plant, and Sejingkat coal-fired power plant. The state is planning to add a new 400MW combined cycle power plant in Tanjung Kidurong, a new 1,200MW combined cycle power plant in Samalaju, and an additional 600MW coal fired power plant in Balingian, Mukah. Currently, Serba only services gas and hydro power plants but we believe it will expand its services into coal-fired power plants in the future. We believe Serba is positioning itself to be the go-to MRO and IRM provider to cater for the growth in Sarawak's O&G and power generation industry.

Development of industrial park in Sarawak. The group plans to develop a centralised utility facility (CUF) that provides electricity, steam, chilled water, demineralised water, wastewater treatment, industrial gases and compressed air in Bintulu, Sarawak. Upon completion of the industrial park, the group aims to operate and maintain the CUF while the management of the industrial properties within the park would be subcontracted to an external party. Details of this plan are still in the preliminary stage. We noted that Serba has presence in the state's O&G maintenance service industry. We believe Serba is slated to win additional contracts as more O&G, power generation, and infrastructure investments pour into Sarawak.

New fabrication facility to support EPCC works and IRM services in Southern Johor. Serba has allocated RM20m of its IPO proceeds for a new fabrication facility to support EPCC works and IRM services in Southern Johor. This is to support its EPCC jobs for the Refinery and Petrochemical Integrated Development (RAPID) and also for future projects in the Pengerang Integrated Petroleum Complex (PIPC).

Expanding O&M business beyond oil & gas industry. To-date, Serba has stakes in three utility assets which it has secured the O&M contracts, which are; 1) Ambon Mall small gas power plant, 2) CNG plant in Muaro Jambi, and 3) Kota Marudu hydropower plant. Serba is also working closely with the Indonesian government to develop more gas power generation assets as it leverages on its O&M and EPCC expertise. In addition, Serba is currently targeting to secure the maintenance portion for the water treatment plant it is co-developing in Terengganu. The non-O&G O&M job contracts will be supported by Serba's asset ownership businesses.

Venture into asset-ownership business. 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 six years amounting to 5,475mmscfd, which will be used to support power generation and industries in the area. We estimate the project IRR at 15%. Serba will be generating two forms of recurring income from FY17 onwards: 1) dividend income from six years of GSA, and (2) provision of O&M services for 10 years. In addition, further expansion of the 4MW capacity gas power plant located next to the existing CNG plant is underway and Serba is in the midst of finalising the licensing and permits required before commencing construction.

Small hydropower plants in Sabah. Serba acquired a 30% stake in Adat Sanjung for RM12.2m in 2015, which holds three Feed-In Approvals granted by the Sustainable Energy Development Authority of Malaysia. The intention is to build three hydropower plants located in Kota Marudu, Sabah, with generation capacity of 10MW, 13.5MW and 5.6MW, respectively. Under this project, it will act as the EPCC contractor with a contract value estimated at RM218m. Upon completion by end-2017, Serba will provide O&M services to the plant for 21 years as well as deriving earnings from its 30% equity stake. We estimate the project IRR at 15%.

Gas power plants in Ambon Island and East Kalimantan. Serba is developing a 0.8MW small gas-power plant with a 30% stake in Ambon Island that will generate power and chilled water for Ambon City Centre shopping mall for a 10-year period. In addition, it has entered into an MOU in Nov 2015 with PT Kutai Timur Investama, a local government district development body, which is valid for five years till 2020 for developing and operating small gas power plants and water utilities in the regency of East Kutai in East Kalimantan. Currently, both parties are at the preliminary discussion stage that is a precursor to finalising the partnership and contract. We estimate the project IRR at 15%.

Water treatment venture project in Terengganu. Serba is acquiring a 40% stake in Konsortium Amanie (KA) for a purchase consideration of RM34m. KA was awarded a contract by the State Government of Terengganu for the design and building of a 120m litres per day (MLD) and 28-MLD membrane water treatment plant for a contract sum of RM1.3bn. Of the total value, approximately RM800m is related to the actual 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. KA has sub-contracted RM522m of EPCC work to Salcon (RM232.2m) and Serba (RM289.7m). We understand that Serba is targeting to secure the maintenance portion of the water treatment plant. We estimate the project IRR at 15%.

Strategic acquisition of OEM to lower cost. To remain competitive with other original equipment manufacturers (OEM) and international independent service providers, one of Serba's strategic initiatives outlined in its IPO prospectus 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 parts and consumable consist of 40% of its cost structure, this strategic acquisition could improve its O&M segment's gross margin in the long run. Serba is allocating USD20-30m for this strategic acquisition.

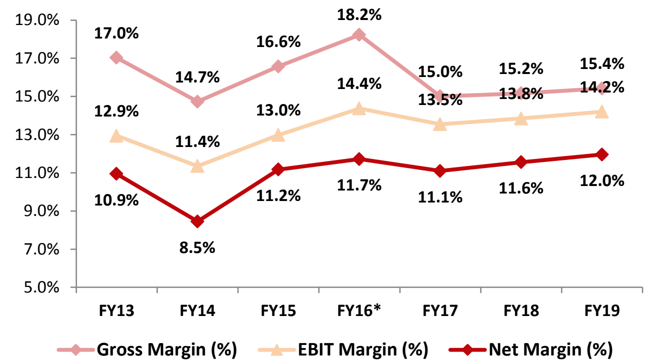
MOA with Nicol & Andrew. Serba entered into an MOA with Nicol & Andrew Group PLC (N&A) on 19 Apr 2017 to set out an Exclusive Service Partnership for MRO and onsite maintenance services for the Malaysian O&G, petrochemical, oleochemical, marine, plantation, energy, power production and distribution, water and waste water as well as general industries. The MOA is valid for five years and may be extended for another three years. We believe this venture may extend Serba's clientele base in the UK and Europe as N&A is a company incorporated in the UK.

MOU for plants in Bahrain. Serba entered into an MOU to form a consortium with EAG Capital Sdn Bhd and the Kingdom of Bahrain. The intention of the MOU is to conduct a feasibility study for an integrated solid waste management and water desalination plant in Bahrain. The feasibility study is expected to cost USD1m and will be borne by the consortium. Under the MOU, the plant shall be a forefront of green energy production with the aim of energy production and elimination of landfill usage. The plant will also increase potable water in Bahrain by utilising the natural resources available. The capital outlay for the plant is expected to be BHD320m (c.RM3.2bn) and will be funded by the consortium, with support from the Kingdom of Bahrain. The details of the consortium will be finalised pending the results of the feasibility study.

Key Risks

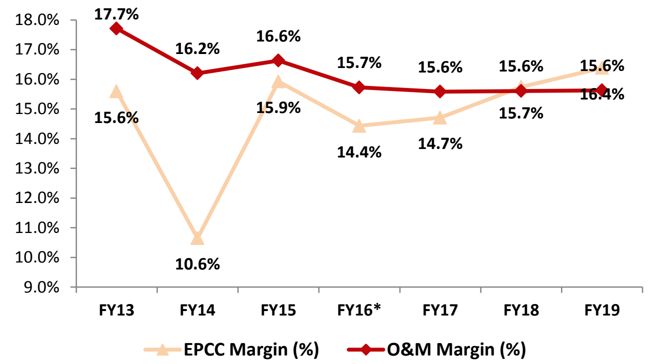
Lower-than-expected margins. Serba's FY16 net margin stood at 11.7% (+0.5bps y-o-y). The improvements in margins were due to increased work orders from the Middle East which provides higher margin. However, due to current challenging operating environment, we gathered that Malaysian clients have requested from Serba an average discount of 3-5%. Serba has yet to see this situation surfacing for overseas maintenance contracts. In FY17, we expect the operating margin for O&M and EPCC to weaken as a result. However, we expect operating margins to steadily improve thereafter as Serba builds up its overseas clientele. Going forward, lower-than-expected margins could dampen the momentum of Serba's earnings growth in comparison to its top-line growth. A -/+ 0.1% shift in O&M and EPCC operating margins will affect earnings by -/+ 0.75% and -/+0.08%, resulting in our fair value to increase/decrease by 0.6% and 0.07% respectively.

Exhibit 13: Estimated operating margins trend



**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*
Source: Company, AllianceDBS

Exhibit 14: Estimated operating margins trend



**Annualised FY16: reported figures effective 25 May to 31 Dec 16 due to incorporation of new reporting entity*
Source: Company, AllianceDBS

Lower than expected orderbook replenishment. Serba has demonstrated a strong ability to replenish its orderbook. The O&M outstanding orderbook expanded from RM2.0bn as at end-June 2016 to RM4bn as at end-March 2017, with an EPCC outstanding orderbook of RM700m. The pipeline of prospective projects remains promising with current tenderbook at RM10bn – of which 70% are O&M-related and the balance 40% are EPCC. Some 70% of the tenderbook stems from overseas. In order to sustain its historical topline growth, Serba needs to secure an orderbook replenishment of RM3-4bn annually. We are positive of Serba's capability to replenish its current orderbook as it remains competitive in the local and Middle East markets and continues to grab market share from original equipment manufacturers (OEM).

Further cuts in O&G spending. A prolonged recovery or further deterioration in market conditions could see global oil majors continue to hold back their capex investment and defer their scheduled maintenance timeline. Despite O&M contracts secured in hand, most of these contracts are on call basis. During a downturn, customers may defer maintenance activities in the near term and this could adversely affect the group's business.

Political risk in operational countries. As Serba's overseas businesses are subject to political conditions in the countries where it has operations, any adverse political developments in these countries may affect the group's earnings prospect. The risks are more pronounced in emerging markets, such as the Middle East and Indonesia. Gaining sufficient understanding of the countries' statutory and political risks is thus a prerequisite for expanding its operations to such countries.

Share overhang. CMS Opus Private Equity Sdn Bhd who is a pre-IPO investor of Serba is not subject to any moratorium post listing of Serba. We understand that they collectively own c.6% stake in Serba. Any selldown by the pre-IPO investor will lead to share overhang in the near term.

Valuation

Initiate coverage with BUY call and TP of RM2.90. Our SOP-based target price stands at RM2.90, based on 9% WACC for its utility assets and 12x FY17F PE for its O&M and EPCC segments, which is inline with the average CY17 PE for small-mid cap O&G maintenance service providers in Malaysia. We conservatively forecast Serba's EPS CAGR of 23% from FY16-FY19F underpinned by strong 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, we are sanguine of its market penetration in the Middle East. This stock also provides an expected dividend yield of c.3.5% in FY17F. Management has guided for minimum dividend payout of 30%.

Sum-of-parts valuation

Segment	RM m	Valuation
O&M	3,257	12x FY17 PE
EPCC	399	12x FY17 PE
Utility assets	174	DCF, 9% WACC
Total	**3,829**	
Target Price	**2.90**	
Implied PE	**12.7x**	

Source: AllianceDBS

Exhibit 15: Peer Comparison (as at 12 May 2017)

						EPS (FD) Growth (YoY)		P/E (FD)		Price/ BVPS		Dividend Yield		ROE	
	Call	Target Price (LC)	Currency	Current Price (LC)	Mkt Cap (USD'm)	CY2017	CY2018	CY2017	CY2018	CY2017	CY2018	CY2017	CY2018	CY2017	CY2018
Domestic															
Serba Dinamik*	BUY	2.90	MYR	2.08	640.6	21%	26%	9.1x	7.2x	2.4x	1.9x	3.3%	4.1%	26%	27%
Sapura Energy*	BUY	2.20	MYR	1.91	2,649.1	184%	26%	32.6x	25.9x	0.9x	0.8x	0.3%	0.4%	3%	3%
Dialog			MYR	1.92	2,395.9	6%	8%	29.1x	27.0x	3.7x	3.4x	1.3%	1.4%	13%	13%
Deleum			MYR	0.98	91.8	14%	28%	13.1x	10.2x	1.4x	1.3x	0.0%	0.0%	0%	0%
Petra Energy			MYR	1.18	85.9	129%	55%	11.2x	7.2x	0.7x	0.6x	3.3%	3.9%	7%	7%
International															
Weir Group			GBP	1,849.00	5,192.6	43%	26%	21.3x	16.9x	2.8x	2.6x	2.5%	2.5%	13%	13%
Wood Group			GBP	756.50	3,735.9	-11%	20%	17.1x	14.3x	1.6x	1.5x	3.5%	3.7%	9%	9%
Amec Foster Wheeler			GBP	539.00	2,709.0	-13%	15%	12.3x	10.7x	1.9x	1.8x	4.1%	4.2%	14%	14%
Fluor Corp			USD	46.61	6,515.3	10%	19%	18.3x	15.4x	1.9x	1.7x	2.0%	2.0%	11%	11%
Sulzer AG			CHF	114.20	3,909.4	19%	31%	27.4x	20.9x	2.5x	2.4x	3.1%	3.3%	7%	7%
Bilfinger AG			EUR	39.10	1,889.7	126%	111%	58.3x	27.6x	1.1x	1.1x	1.7%	2.3%	2%	2%
Total / weighted avg															
Domestic (ex-SAPE & DLG)					177.7	69%	41%	12.2x	8.8x	1.0x	0.9x	1.6%	1.9%	3%	4%
Domestic					5,222.7	99%	18%	30.3x	25.8x	2.1x	2.0x	0.8%	0.9%	7%	8%
International					23,951.8	22%	29%	22.7x	16.9x	2.1x	1.9x	2.7%	2.9%	10%	10%
Total					29,174.5	35%	27%	24.1x	18.5x	2.1x	2.0x	2.4%	2.5%	10%	10%

**AllianceDBS estimates*
Sources: AllianceDBS, Bloomberg Finance L.P

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
O&M orderbook replishment (RM'm)	-	-	-	2,500	3,000	3,000
Revenue weightage Malaysia (%)	35%	29%	29%	33%	34%	36%
Revenue weightage Middle East (%)	38%	51%	58%	55%	56%	56%
O&M operating margins (%)	16.2%	16.6%	15.7%	15.6%	15.6%	15.6%
EPCC operating margins (%)	10.6%	15.9%	14.4%	14.7%	15.7%	16.4%

Sensitivity Analysis

	2017
O&M operating margins +/- 0.1%	Net Profit +/- 0.75%
EPCC operating margins +/- 0.1%	Net Profit +/- 0.08%

Middle East as the largest revenue contributor

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)						
O&M	600	1,275	1,917	2,452	2,941	3,565
EPCC	90.7	125	233	288	348	361
Others	65.4	3.09	5.20	5.87	30.2	30.2
Total	756	1,403	2,155	2,745	3,319	3,956
Segmental profit (RMm)						
O&M	97.2	212	302	382	459	557
EPCC	9.66	19.9	33.6	42.3	54.8	59.1
Others	(39.1)	(72.4)	(60.7)	(87.6)	(94.3)	(101)
Total	67.7	160	274	337	420	516
Segmental profit Margins (%)						
O&M	16.2	16.6	15.7	15.6	15.6	15.6
EPCC	10.6	15.9	14.4	14.7	15.7	16.4
Total	9.0	11.4	12.7	12.3	12.6	13.0

Growth will be driven by O&M segment

Contribution from four assets

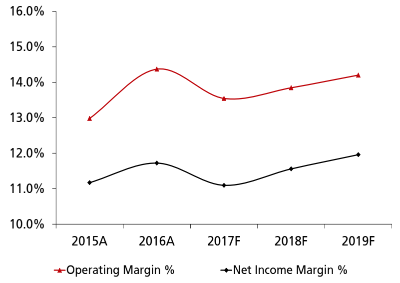
Source: Company, AllianceDBS

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Revenue	756	1,403	2,155	2,745	3,319	3,956
Cost of Goods Sold	(644)	(1,170)	(1,762)	(2,333)	(2,816)	(3,346)
Gross Profit	111	232	393	412	503	610
Other Opng (Exp)/Inc	(25.5)	(50.4)	(83.1)	(40.1)	(43.7)	(48.1)
Operating Profit	85.8	182	310	372	460	562
Other Non Opg (Exp)/Inc	0.0	2.59	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(18.1)	(25.1)	(35.3)	(35.1)	(40.0)	(46.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	67.7	160	274	337	420	516
Tax	(0.3)	(3.0)	(22.1)	(32.2)	(35.9)	(42.5)
Minority Interest	(3.5)	0.16	0.32	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	63.9	157	253	305	384	473
Net Profit before Except.	63.9	157	253	305	384	473
EBITDA	98.5	210	342	424	525	644
Growth						
Revenue Gth (%)	41.0	85.6	53.6	27.4	20.9	19.2
EBITDA Gth (%)	26.8	113.2	62.9	23.8	24.0	22.7
Opg Profit Gth (%)	23.6	112.2	70.0	20.1	23.6	22.3
Net Profit Gth (Pre-ex) (%)	8.9	145.3	61.2	20.6	25.9	23.3
Margins & Ratio						
Gross Margins (%)	14.7	16.6	18.2	15.0	15.2	15.4
Opg Profit Margin (%)	11.4	13.0	14.4	13.5	13.8	14.2
Net Profit Margin (%)	8.5	11.2	11.7	11.1	11.6	12.0
ROAE (%)	28.1	42.5	39.6	31.0	29.7	29.7
ROA (%)	11.6	16.5	15.6	14.0	14.8	15.3
ROCE (%)	9.8	16.9	17.5	16.3	17.1	17.7
Div Payout Ratio (%)	0.0	0.0	0.0	30.0	30.0	30.0
Net Interest Cover (x)	4.7	7.2	8.8	10.6	11.5	12.1

Source: Company, AllianceDBS

Margins Trend



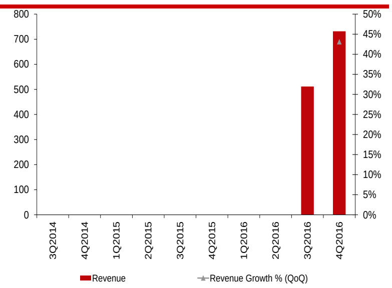
Middle East business provides better margins

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2016	4Q2016
Revenue	512	732
Cost of Goods Sold	(413)	(601)
Gross Profit	**98.6**	**131**
Other Oper. (Exp)/Inc	(45.5)	(17.9)
Operating Profit	**53.1**	**113**
Other Non Opg (Exp)/Inc	0.0	0.0
Associates & JV Inc	0.0	0.0
Net Interest (Exp)/Inc	(4.7)	(9.1)
Exceptional Gain/(Loss)	0.0	0.0
Pre-tax Profit	**48.4**	**104**
Tax	(2.6)	(7.2)
Minority Interest	0.72	(0.2)
Net Profit	**46.5**	**96.5**
Net profit bef Except.	46.5	96.5
EBITDA	65.1	125
Growth		
Revenue Gth (%)	N/A	43.1
EBITDA Gth (%)	nm	92.3
Opg Profit Gth (%)	nm	112.9
Net Profit Gth (Pre-ex) (%)	nm	107.7
Margins		
Gross Margins (%)	19.3	17.9
Opg Profit Margins (%)	10.4	15.4
Net Profit Margins (%)	9.1	13.2

Source: Company, AllianceDBS

Revenue Trend



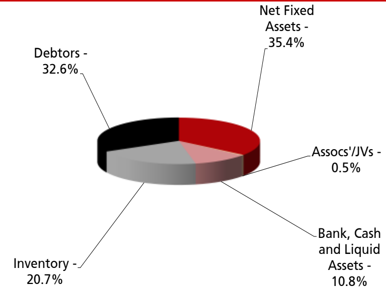
Balance Sheet (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	134	349	490	810	1,011	1,250
Invts in Associates & JVs	0.0	12.2	12.2	12.2	12.2	12.2
Other LT Assets	0.20	4.39	4.85	4.85	4.85	4.85
Cash & ST Invts	83.0	199	199	257	256	304
Inventory	199	230	486	474	572	680
Debtors	222	431	741	747	903	1,076
Other Current Assets	1.51	33.0	53.4	53.4	53.4	53.4
Total Assets	**639**	**1,259**	**1,987**	**2,358**	**2,813**	**3,381**
ST Debt	190	441	623	633	690	809
Creditor	102	239	501	490	591	703
Other Current Liab	1.38	1.37	14.2	32.2	35.9	42.5
LT Debt	20.8	32.4	16.2	22.6	46.0	46.2
Other LT Liabilities	53.3	69.4	14.9	14.9	14.9	14.9
Shareholder's Equity	271	468	809	1,158	1,427	1,758
Minority Interests	0.55	7.30	7.93	7.93	7.93	7.93
Total Cap. & Liab.	**639**	**1,259**	**1,987**	**2,358**	**2,813**	**3,381**
Non-Cash Wkg. Capital	319	453	766	752	901	1,064
Net Cash/(Debt)	(128)	(274)	(441)	(398)	(480)	(550)
Debtors Turn (avg days)	96.1	84.9	99.3	98.9	90.7	91.3
Creditors Turn (avg days)	48.1	54.4	78.1	79.3	71.8	72.4
Inventory Turn (avg days)	99.7	68.3	75.6	76.8	69.4	70.0
Asset Turnover (x)	1.4	1.5	1.3	1.3	1.3	1.3
Current Ratio (x)	1.7	1.3	1.3	1.3	1.4	1.4
Quick Ratio (x)	1.0	0.9	0.8	0.9	0.9	0.9
Net Debt/Equity (X)	0.5	0.6	0.5	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.5	0.6	0.5	0.3	0.3	0.3
Capex to Debt (%)	29.3	45.2	17.1	56.7	36.3	37.6

Source: Company, AllianceDBS

Gearing level to stay below 40%

Asset Breakdown

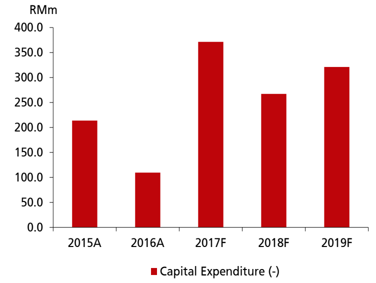


Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	67.7	160	274	337	420	516
Dep. & Amort.	12.7	25.4	32.5	51.9	65.8	82.6
Tax Paid	(0.3)	(3.0)	(22.1)	(14.2)	(32.2)	(35.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(45.3)	(57.2)	(176)	(4.3)	(153)	(170)
Other Operating CF	16.4	33.8	(52.9)	0.0	0.0	0.0
Net Operating CF	**51.2**	**159**	**56.4**	**370**	**300**	**393**
Capital Exp.(net)	(61.9)	(214)	(110)	(371)	(267)	(321)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(16.8)	(102)	34.1	0.0	0.0	0.0
Net Investing CF	**(78.7)**	**(316)**	**(75.5)**	**(371)**	**(267)**	**(321)**
Div Paid	0.0	0.0	0.0	(91.4)	(115)	(142)
Chg in Gross Debt	54.7	240	82.0	15.7	80.6	119
Capital Issues	0.0	0.0	0.0	136	0.0	0.0
Other Financing CF	(16.7)	(28.4)	(19.2)	0.0	0.0	0.0
Net Financing CF	**38.0**	**212**	**62.8**	**60.1**	**(34.5)**	**(23.3)**
Currency Adjustments	0.05	0.90	0.0	0.0	0.0	0.0
Chg in Cash	10.6	55.2	43.7	58.8	(1.3)	48.2
Opg CFPS (sen)	7.22	16.2	17.4	28.1	33.9	42.1
Free CFPS (sen)	(0.8)	(4.1)	(4.0)	(0.1)	2.48	5.35

Source: Company, AllianceDBS

Capital Expenditure



AllianceDBS recommendations are based an Absolute Total Return* Rating system, defined as follows:
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 i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 15 May 2017 08:20:29
Dissemination Date: 16 May 2017 08:33:00

Sources for all charts and tables are *AllianceDBS* unless otherwise specified.

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