

10 October 2017

Energy & Petrochemicals | Oil & Gas Services

Serba Dinamik Holdings

Buy (Maintained)

From Similajau to Kilimanjaro

Target Price:	MYR3.10
Price:	MYR2.33
Market Cap:	USD735m
Bloomberg Ticker:	SDH MK

Serba Dinamik has announced a JV agreement with Junaco Group to build a 45 tonnes per day chlor-alkali plant in Tanzania. Serba Dinamik is expected to obtain the EPCC contract for the construction and also provide O&M services for the plant for a period of 10 + 5 years. The products from the plant would also provide a source of income for the company. We maintain our BUY recommendation on Serba Dinamik and increase our TP to MYR3.10 (from MYR3.00, 33% upside), backed by a MYR5.2bn orderbook.

Share Data

Avg Daily Turnover (MYR/USD)	10.7m/2.50m
52-wk Price low/high (MYR)	1.50 - 2.33
Free Float (%)	30
Shares outstanding (m)	1,335
Estimated Return	33%

Salient details. Serba Dinamik announced that it has entered into a JV agreement with Junaco Group for the establishment of a 45 tonnes per day chlor-alkali plant in Tanzania. Serba Dinamik is expected to hold a 25% equity stake in the JV company, while Junaco will hold the rest.

Shareholders (%)

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

Junaco Group is a Tanzanian company specialising in water solutions. Serba Dinamik is expected to be awarded the engineering, procurement, construction and commissioning (EPCC) contract for the construction of the plant worth USD69.8m (MYR295m). Apart from the EPCC contract, Serba Dinamik will also be appointed the operations & maintenance (O&M) operator of the plant for a period of 10 years plus an additional 5 years. We understand that the company is currently finalising the terms for the O&M contract.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.5	16.5	30.9		
Relative	5.4	16.3	29.6		

Source: Bloomberg

Chlor-alkali plant. The chlor-alkali plant will be producing chlorine – which we understand will be used for water treatment in Tanzania – and caustic soda, which is used as feedstock for a number of industrial processes. Industrial land of approximately 15,787 sqm has been identified, in the coastal region of Tanzania. The chlorine and caustic soda produced are to be marketed and distributed by the JV company domestically, as well as across the African continent, providing Serba Dinamik with another source of income.



Source: Bloomberg

MYR5.2bn orderbook. With the new EPCC win, Serba Dinamik's current orderbook has now ballooned to c.MYR5.2bn. Year to date, the company has managed to secure c.MYR1.2bn worth of contracts across both its O&M and EPCC segments.

Maintain BUY. We remain positive on Serba Dinamik, as it continues its fine form by winning new O&M and EPCC contracts. The new JV agreement is in line with Serba Dinamik's strategy of obtaining a stake in an asset, getting the EPCC contract, as well as being the O&M services provider. We increase our earnings for FY18F and FY19F by 3% in light of the new contract win, upgrade our SOP-based TP to MYR3.10 and maintain our BUY recommendation.

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	1,403	2,155	2,455	2,659	2,727
Reported net profit (MYRm)	157	253	278	315	326
Recurring net profit (MYRm)	154	253	278	315	326
Recurring net profit growth (%)	141.1	63.9	10.1	13.4	3.3
Recurring EPS (MYR)	0.12	0.19	0.21	0.24	0.24
DPS (MYR)	na	0.06	0.06	0.07	0.07
Recurring P/E (x)	20.2	12.3	11.2	9.9	9.5
P/B (x)	6.64	4.05	2.23	1.92	1.69
P/CF (x)	17.0	34.4	7.5	9.0	8.0
Dividend Yield (%)	na	2.4	2.7	3.0	3.1
EV/EBITDA (x)	16.1	9.8	7.7	6.9	6.1
Return on average equity (%)	42.4	40.9	25.7	20.9	18.8
Net debt to equity (%)	58.6	48.9	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			7.9	7.3	(15.9)

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2017-10-09.

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysia	Recurring EPS (MYR)	0.12	0.19	0.21	0.24	0.24
Energy & Petrochemicals	EPS (MYR)	0.12	0.19	0.21	0.24	0.24
Serba Dinamik Holdings	DPS (MYR)	0.00	0.06	0.06	0.07	0.07
Bloomberg SDH MK	BVPS (MYR)	0.35	0.57	1.05	1.21	1.38
Buy	Weighted avg adjusted shares (m)	1,335	1,335	1,335	1,335	1,335
Valuation basis	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
SOP	Recurring P/E (x)	20.2	12.3	11.2	9.9	9.5
Key drivers	P/E (x)	19.8	12.3	11.2	9.9	9.5
Higher orderbook	P/B (x)	6.64	4.05	2.23	1.92	1.69
Key risks	FCF Yield (%)	(1.0)	(2.9)	7.1	6.1	11.3
Lower-than-expected orderbook replenishment	Dividend Yield (%)	0.0	2.4	2.7	3.0	3.1
	EV/EBITDA (x)	16.1	9.8	7.7	6.9	6.1
	EV/EBIT (x)	18.6	11.3	8.9	8.1	7.2
Company Profile	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Serba Dinamik Holdings is an engineering services company providing engineering solutions mainly to the oil & gas and power industry. The company specialises in the maintenance and services of rotating equipment.	Total turnover	1,403	2,155	2,455	2,659	2,727
	Gross profit	232	396	382	408	417
	EBITDA	210	356	382	417	428
	Depreciation and amortisation	(28)	(48)	(53)	(63)	(65)
	Operating profit	182	308	329	354	363
	Net interest	(25)	(35)	(28)	(14)	(11)
	Income from associates & JVs	0	0	0	1	1
	Pre-tax profit	160	274	301	341	353
	Taxation	(3)	(18)	(20)	(23)	(23)
	Minority interests	0	(3)	(3)	(3)	(4)
	Recurring net profit	154	253	278	315	326
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Change in working capital	(57)	(297)	54	(51)	(17)
	Cash flow from operations	183	90	416	344	388
	Capex	(214)	(180)	(195)	(155)	(35)
	Cash flow from investing activities	(272)	(216)	(191)	(143)	(23)
	Proceeds from issue of shares	0	0	503	0	0
	Dividends paid	(1)	0	(83)	(94)	(98)
	Cash flow from financing activities	212	122	320	(194)	(148)
	Cash at beginning of period	80	195	228	671	652
	Net change in cash	123	(4)	544	6	217
	Ending balance cash	204	197	772	678	869
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total cash and equivalents	195	228	671	652	846
	Tangible fixed assets	349	490	632	725	695
	Intangible assets	4	4	4	4	4
	Total investments	12	12	12	12	12
	Total other assets	0	1	1	1	1
	Total assets	1,259	1,907	2,277	2,429	2,619
	Short-term debt	441	587	405	325	285
	Total long-term debt	32	19	101	81	71
	Other liabilities	64	1	1	1	1
	Total liabilities	783	1,132	871	799	758
	Shareholders' equity	468	767	1,397	1,617	1,844
	Minority interests	7	7	10	13	17
	Total equity	476	774	1,406	1,630	1,861
	Net debt	279	379	(165)	(246)	(490)
	Total liabilities & equity	1,259	1,907	2,277	2,429	2,619
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	85.6	53.6	13.9	8.3	2.5
	Recurrent EPS growth (%)	141.1	63.9	10.1	13.4	3.3
	Gross margin (%)	16.6	18.4	15.5	15.4	15.3
	Operating EBITDA margin (%)	15.0	16.5	15.6	15.7	15.7
	Net profit margin (%)	11.2	11.7	11.3	11.9	11.9
	Dividend payout ratio (%)	0.0	30.0	30.0	29.9	30.0
	Capex/sales (%)	15.2	8.3	8.0	5.8	1.3
	Interest cover (x)	6.70	8.06	10.30	13.82	16.14

Source: Company data, RHB

Figure 1: List of O&M projects won in 2017

Date	Location	Client	Project	Period
29 Sep 2017	Malaysia	Vestigo Petroleum	Transport and installation for Bentara field	1 year
		JX Nippon O&G	Maintenance services for mechanical & rotating	3 years
		Malaysian Refining	Manpower, equipment, tools, consumables and transportation	6 months
		Malaysia LNG	Fabrication and welding	3 years
25 Jul 2017	UAE	Agility Energy FZE	MRO for offshore & onshore pumps, turbines, compressors and rotating equipment	3 years
			Boiler & unfired pressure vessels upgrades, repair, maintenance, inspection, spare parts, manpower supply	
	Malaysia	Malaysia LNG	Rotating equipment maintenance for Petronas LNG	6 months
		PRPC Utilities and Facilities	Term contract for manpower and equipment supply	1 year
		Petronas Gas	Term contract for turbomachinery maintenance	2 year
06 Apr 2017	Qatar	Muhammed Jabar Trading and Contracting	Maintenance and repair for rotating equipment for Murphy oil	1 year
			Turbomachinery maintenance and engineering support services	3 years
	Malaysia	Shell MDS	Mechanical maintenance and project services	4 years
		Petronas Carigali	Maintenance services for Weir gas compressors	2 years
		Petrofac	Condition based monitoring	3 years
Petronas FLNG1	Manpower, workshop and equipment for rotating equipment	1 year		

Source: Company data

Figure 2: List of EPCC projects

Location	Client	Project	Period
Malaysia	Sarawak Shell	Design, supply & delivery of microturbine for E6 FDP	Sep 14 - May 18
	One River Power	EPCC of small hydropower plants	May 15 - Jun 18
	Petrofac E&C	Supply, fabrication & painting of structural steel for RAPID	Aug 15 - Oct 17
	Syarikat Air Terengganu - KA JV	EPCC of membrane water treatment plant - KT Utara Water Supply Scheme	Dec 16 - May 19
	Eversendai O&G	Erection, fitting, welding, testing and piping works	Jul 17 - Jul 18
	Indoor Air System	Lighting and air-condition for roads and buildings under Terengganu State	Aug 17 - Aug 27
	Lotus West	Energy saving equipment for 33 units of Ibusawat Telekom	Aug 18 - Aug 28
UAE	New Thunder Technical Services	Procurement, fabrication, construction and commissioning	Jan 16 - Jan 18
Tanzania	Msufini LLC	EPCC for a 45 ton per day chlor-alkali plant	Apr 18 - Apr 20

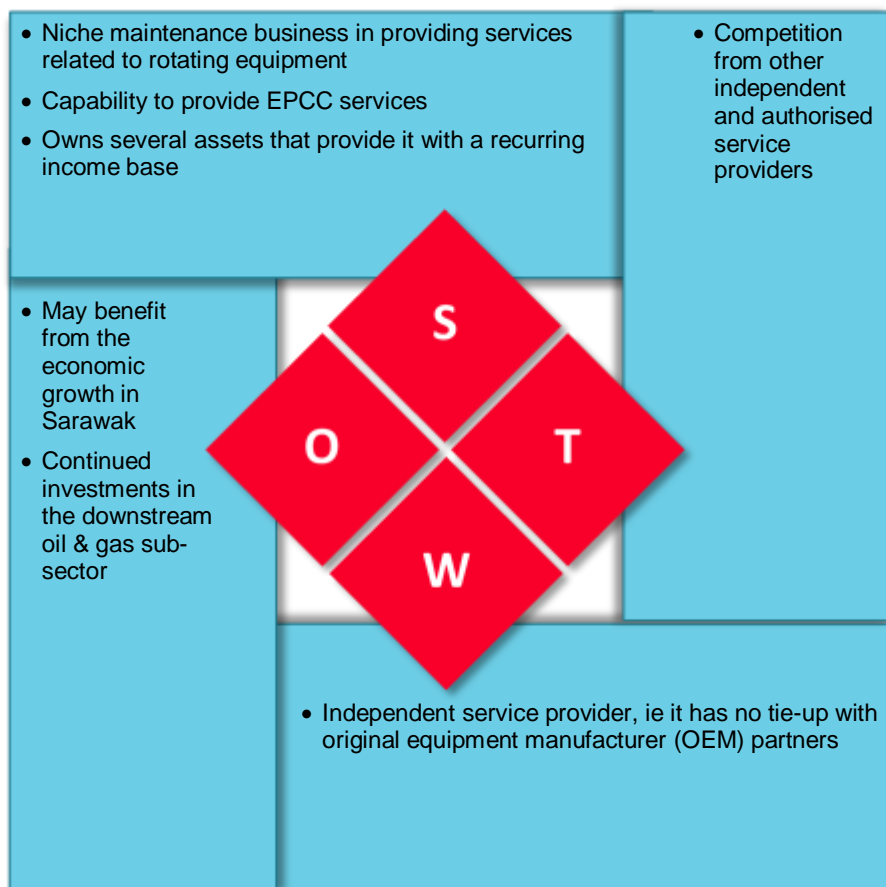
Source: Company data

Figure 3: SOP valuation

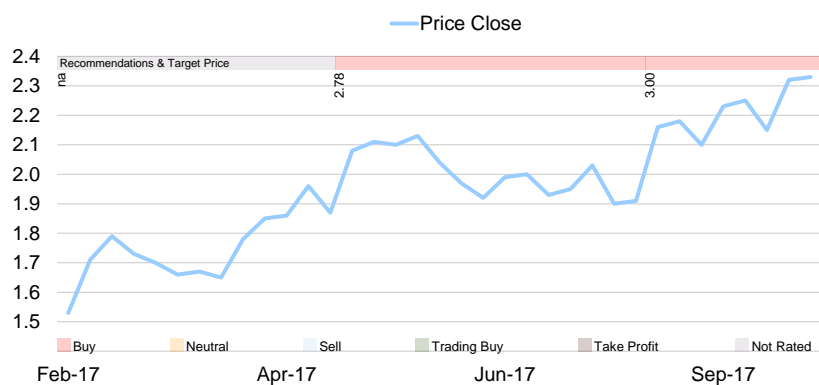
Segment	FY18F (MYRm)	Value	Remarks
Operations & maintenance	251.8	3,021.2	12x FY18F P/E
EPCC	62.9	626.9	9.6x FY18F P/E
Assets	0.2	247.7	DCF at 8.4% WACC
Net cash/(debt)		245.9	Estimated end-FY18F
Total		4,141.7	
Shares (m)		1,335.0	
TP (MYR)		3.10	

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-08-13	Buy	3.00	1.91
2017-05-08	Buy	2.78	1.96

Source: RHB, Bloomberg

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