

2 October 2017

Energy & Petrochemicals | Oil & Gas Services

## Serba Dinamik Holdings

### Continuing Its Fine Form

Serba Dinamik continued its fine form by announcing seven new contracts for both O&M as well as EPCC for a total amount of MYR206m. We estimate that the new contracts would increase its current orderbook to MYR5.3bn. We remain positive on Serba Dinamik as we expect its O&M segment to provide stable earnings, while its EPCC projects would provide the alpha to its bottomline. Maintain BUY with an unchanged SOP-based TP of MYR3.00 (34% upside).

**New contracts worth MYR206m.** Serba Dinamik announced seven new contracts worth MYR206m. Three contracts were for its operations & maintenance (O&M) arm while four contracts were for new engineering, procurement, construction and commissioning (EPCC) projects. The O&M contracts were awarded by Vestigo Petroleum for the provision of transport and offshore installation for the Bentara field, provision of maintenance services for mechanical and rotating equipment for JX Nippon Malaysia, and plant maintenance, repair, and overhaul for rotating equipment for Malaysia Refining company. The contract ranges from six months to three years.

For the EPCC contracts, the first is from Eversendai for the erection, fitting, testing and reinstatement of piping works. The second is for the installation of chiller, solar panels, air-conditioning systems, and LED lighting systems for all Terengganu State Government roads and buildings. The third is from Lotus West for the installation of energy saving equipment for telecommunication exchanges in the southern and central region. The final EPCC contract is a fabrication and welding project for Malaysia LNG. We estimate that the split between EPCC and O&M contracts to be 80:20 of the total amount.

**Pengerang EPCC.** Serba Dinamik announced that it had entered into an MOU to participate in the EPCC for the construction of Pengerang Eco-Industrial Park (PeIP), Pengerang International Commercial Centre, and Northshore Residences. The construction of PeIP will include the establishment of Malaysia's first maintenance, repair and overhaul (MRO) and inspection, repair and maintenance (IRM) centre of excellence. The construction work is expected to take two years with a contract value of MYR400m.

**Integrated Energy Hub in Bintulu.** The company will also commence construction of its new MRO and IRM centre in Bintulu. The new centre will enable the group to expand its operations in Sabah, Sarawak and Labuan. The centre is expected to be completed in 2019 and will cost c.MYR200m.

**Maintain BUY.** We remain positive on Serba Dinamik, as it continues its fine form by winning new O&M and EPCC contracts. We believe O&M will continue to provide stable earnings to the company while EPCC contracts will provide the alpha to its bottomline. Maintain BUY with an unchanged SOP-based TP of MYR3.00.

**Buy (Maintained)**

Target Price: MYR3.00  
 Price: MYR2.24  
 Market Cap: USD707m  
 Bloomberg Ticker: SDH MK

#### Share Data

Avg Daily Turnover (MYR/USD) 9.53m/2.23m  
 52-wk Price low/high (MYR) 1.50 - 2.25  
 Free Float (%) 30  
 Shares outstanding (m) 1,335  
 Estimated Return 34%

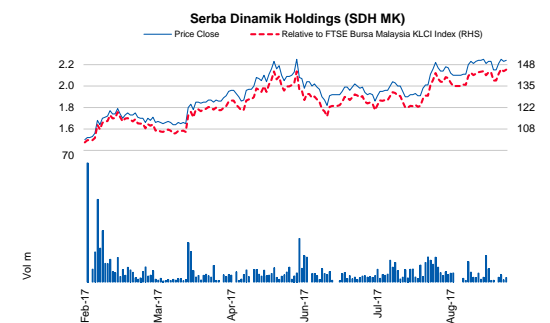
#### Shareholders (%)

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

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.2	16.7	36.6		
Relative	3.9	17.5	36.4		

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	1,403	2,155	2,455	2,583	2,575
Reported net profit (MYRm)	157	253	278	305	306
Recurring net profit (MYRm)	154	253	278	305	306
Recurring net profit growth (%)	141.1	63.9	10.1	9.8	0.2
Recurring EPS (MYR)	0.12	0.19	0.21	0.23	0.23
DPS (MYR)	na	0.06	0.06	0.07	0.07
Recurring P/E (x)	19.4	11.8	10.8	9.8	9.8
P/B (x)	6.38	3.90	2.14	1.86	1.64
P/CF (x)	16.3	33.1	7.2	8.5	7.7
Dividend Yield (%)	na	2.5	2.8	3.1	3.1
EV/EBITDA (x)	15.5	9.5	7.4	6.7	6.1
Return on average equity (%)	42.4	40.9	25.7	20.3	17.8
Net debt to equity (%)	58.6	48.9	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			7.9	3.9	(21.0)

Source: Company data, RHB

#### Analyst

Wan Mohd Zahidi  
 +603 9280 8879  
[wan.zahidi@rhbgroup.com](mailto:wan.zahidi@rhbgroup.com)



## Financial Exhibits

Financial model updated on : 2017-08-10.

Asia	<b>Financial summary</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Malaysia	Recurring EPS (MYR)	0.12	0.19	0.21	0.23	0.23
Energy & Petrochemicals	EPS (MYR)	0.12	0.19	0.21	0.23	0.23
<b>Serba Dinamik Holdings</b>	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	1.37
<b>Buy</b>	Weighted avg adjusted shares (m)	1,335	1,335	1,335	1,335	1,335
	<b>Valuation metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
<b>Valuation basis</b>	Recurring P/E (x)	19.4	11.8	10.8	9.8	9.8
SOP	P/E (x)	19.1	11.8	10.8	9.8	9.8
	P/B (x)	6.38	3.90	2.14	1.86	1.64
<b>Key drivers</b>	FCF Yield (%)	(1.0)	(3.0)	7.4	6.6	11.7
Higher orderbook	Dividend Yield (%)	0.0	2.5	2.8	3.1	3.1
	EV/EBITDA (x)	15.5	9.5	7.4	6.7	6.1
<b>Key risks</b>	EV/EBIT (x)	17.9	10.9	8.6	8.0	7.3
Lower-than-expected orderbook replenishment						
	<b>Income statement (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
<b>Company Profile</b>	Total turnover	1,403	2,155	2,455	2,583	2,575
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.	Gross profit	232	396	382	397	395
	EBITDA	210	356	382	406	406
	Depreciation and amortisation	(28)	(48)	(53)	(63)	(65)
	Operating profit	182	308	329	343	341
	Net interest	(25)	(35)	(28)	(14)	(11)
	Income from associates & JVs	0	0	0	1	1
	Pre-tax profit	160	274	301	330	331
	Taxation	(3)	(18)	(20)	(22)	(22)
	Minority interests	0	(3)	(3)	(3)	(3)
	Recurring net profit	154	253	278	305	306
	<b>Cash flow (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Change in working capital	(57)	(297)	54	(32)	2
	Cash flow from operations	183	90	416	353	387
	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)	(91)	(92)
	Cash flow from financing activities	212	122	320	(191)	(142)
	Cash at beginning of period	80	195	228	671	664
	Net change in cash	123	(4)	544	18	222
	Ending balance cash	204	197	772	689	885
	<b>Balance sheet (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Total cash and equivalents	195	228	671	664	863
	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	2,412	2,577
	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	788	737
	Shareholders' equity	468	767	1,397	1,610	1,824
	Minority interests	7	7	10	13	17
	Total equity	476	774	1,406	1,623	1,840
	Net debt	279	379	(165)	(258)	(507)
	Total liabilities & equity	1,259	1,907	2,277	2,412	2,577
	<b>Key metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Revenue growth (%)	85.6	53.6	13.9	5.2	(0.3)
	Recurrent EPS growth (%)	141.1	63.9	10.1	9.8	0.2
	Gross margin (%)	16.6	18.4	15.5	15.4	15.3
	Operating EBITDA margin (%)	15.0	16.5	15.6	15.7	15.8
	Net profit margin (%)	11.2	11.7	11.3	11.8	11.9
	Dividend payout ratio (%)	0.0	30.0	30.0	29.9	29.9
	Capex/sales (%)	15.2	8.3	8.0	6.0	1.4
	Interest cover (x)	6.70	8.06	10.30	13.40	15.17

Source: Company data, RHB

Figure 1: List of O&amp;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
6 Apr 2017	Qatar	Petronas Gas	Term contract for turbomachinery maintenance	2 year
		Murphy Oil	Maintenance and repair for rotating equipment for Murphy oil	1 year
	Malaysia	Muhammed Jabar Trading and Contracting	Turbomachinery maintenance and engineering support services	3 years
		Shell MDS	Mechanical maintenance and project services	4 years
		Petronas Carigali	Maintenance services for Weir gas compressors	2 years
21 Feb 2017	Malaysia	Petrofac	Condition based monitoring	3 years
		Petronas FLNG1	Manpower, workshop and equipment for rotating equipment	1 year
		Konsortium Amanie	EPCC of membrane water treatment plant	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 2014-May 2018
	One River Power	EPCC of small hydropower plants	May 2015-Jun 2018
	Petrofac E&C	Supply, fabrication & painting of structural steel for RAPID	Aug 2015 - Oct 2017
	Syarikat Air Terengganu - KA JV	EPCC of membrane water treatment plant - KT Utara Water Supply Scheme	Dec 2016 - May 2019
	Eversendai O&G	Erection, fitting, welding, testing and piping works	Jul 2017 - Jul 2018
	Indoor Air System	Lighting and air-condition for roads and buildings under Terengganu State	Aug 2017 - Aug 2027
	Lotus West	Energy saving equipment for 33 units of Ibusawat Telekom	Aug 2018 - Aug 2028
UAE	New Thunder Technical Services	Procurement, fabrication, construction and commissioning	Jan 2016 - Jan 2018

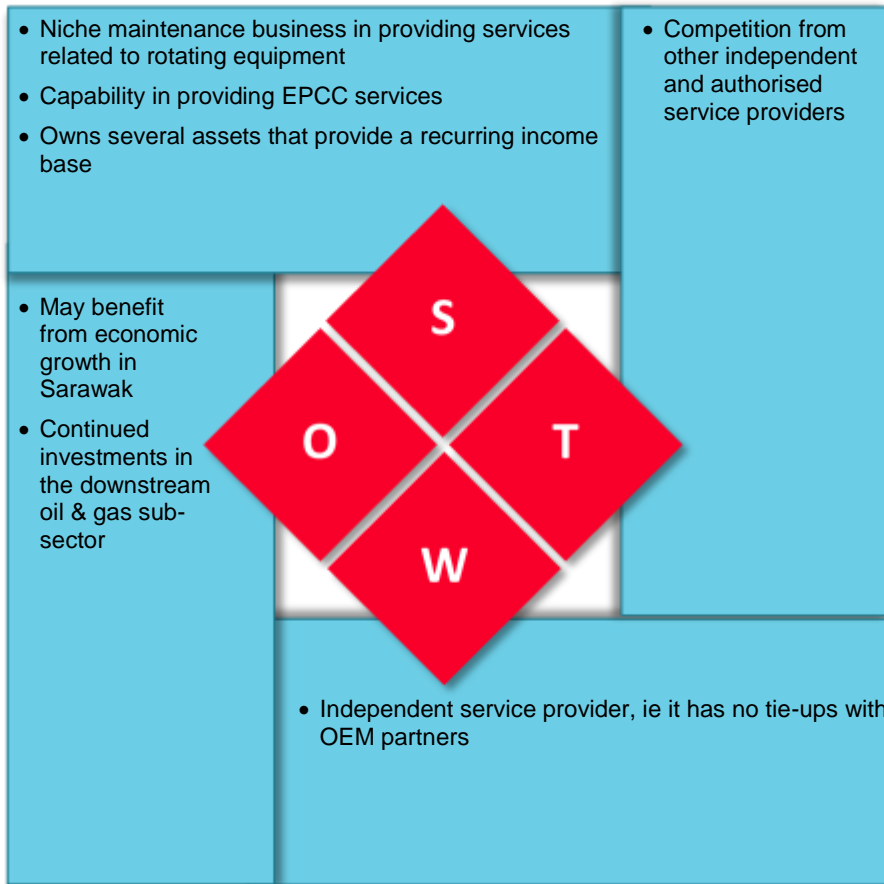
Source: Company data

Figure 3: SOP valuation

Segment	FY18F (MYRm)	Value	Remarks
Operations & maintenance	243.7	2,924.9	12x FY18 P/E
EPCC	60.9	585.0	9.6x FY18
Assets	0.2	247.7	DCF at 8.4% WACC
Net cash/(debt)		252.5	Estimated end-FY18
Total		4,010.1	
Shares (m)		1,335.0	
<b>TP (MYR)</b>		<b>3.00</b>	

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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Kuala Lumpur	Hong Kong	Singapore
<b>RHB Research Institute Sdn Bhd</b> Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	<b>RHB Securities Hong Kong Ltd.</b> 12 <sup>th</sup> Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	<b>RHB Research Institute Singapore Pte Ltd.</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Bangkok
<b>PT RHB Sekuritas Indonesia</b> Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777	<b>RHB (China) Investment Advisory Co. Ltd.</b> Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	<b>RHB Securities (Thailand) PCL</b> 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799