

14 August 2017

Energy &amp; Petrochemicals | Oil &amp; Gas Services

## Serba Dinamik Holdings

### A Surprise Quarter

We were pleasantly surprised by Serba Dinamik's 1H17 earnings of MYR161m, making up 58% of our and consensus' expectations, as we had expected 2Q17 to be a slower period. Supported by a MYR4.7bn orderbook, we maintain our BUY recommendation with a higher SOP-based TP of MYR3.00 (from MYR2.78, 56% upside). Its O&M is likely to provide an earnings base while we believe the alpha would be generated by its EPCC segment.

**Core earnings of MYR161m.** Revenue for 2Q17 came in at MYR650m, higher 6% QoQ. On a segmental basis, revenue for operations and maintenance (O&M) was slightly lower at 3% QoQ due the fasting month during that quarter. Engineering, procurement, construction and commissioning (EPCC) revenue shot up 95% QoQ as contribution from its Kuala Terengganu Utara water supply scheme and UAE EPCC project kicked in. Malaysia continues to be the biggest revenue contributor followed by Qatar (Figure 4). Core earnings for 2Q17 reached MYR83m, a 6% improvement QoQ. 1H17's earnings of MYR161m comprised 58% of our and consensus' estimates which we deem to be higher than expected as 2Q is typically a slower quarter.

**Orderbook of MYR4.7bn.** Serba Dinamik's current orderbook across its two segments stands at MYR4.7bn; O&M is estimated at MYR4bn with the balance from EPCC. We estimate that 90% of its O&M orderbook is made up of maintenance, repair and overhaul (MRO) of rotating equipment while the remainder comprises inspection, repair and maintenance works. Its EPCC comprises of the Kota Marudu mini hydropower plant, Kuala Terengganu water treatment projects as well as various fabrication projects (Figure 3).

**Business as usual.** Even with the current controversy surrounding Qatar and its neighbouring countries, Serba Dinamik's maintenance operations are still ongoing (Figure 4). The Middle East still makes up the majority of its revenue, 61% in 2Q17 and 64% in 1Q17. From our conversations with people working in Qatar, the cost of living did escalate in the beginning but it has since stabilised after the other non-Gulf countries stepped in to fill the void.

**Maintain BUY.** We believe the strong showing in 2Q17 would quell some fears over Serba Dinamik's Middle East exposure. However, we do expect revenue from the Middle East to soften in 3Q17F as it coincides with the summer months before picking in 4Q17F again, hence we are keep our earnings estimates unchanged. We continue to be positive on the company as we believe its O&M business would continue to provide support to earnings while its EPCC segment is likely to provide the alpha. Maintain BUY with a higher SOP-based TP of MYR3.00 as we roll forward our valuations to FY18F.

**Buy** (Maintained)

Target Price: MYR3.00  
 Price: MYR1.93  
 Market Cap: USD601m  
 Bloomberg Ticker: SDH MK

#### Share Data

Avg Daily Turnover (MYR/USD) 9.39m/2.19m  
 52-wk Price low/high (MYR) 1.50 - 2.25  
 Free Float (%) 30  
 Shares outstanding (m) 1,335  
 Estimated Return 56%

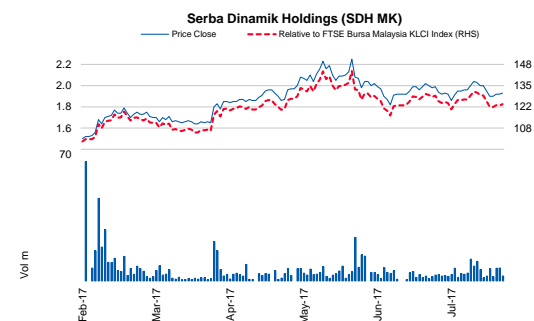
#### Shareholders (%)

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	(3.5)	(2.0)	27.0		
Relative	(4.5)	(2.6)	21.7		

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)	16.7	10.2	9.3	8.4	8.4
P/B (x)	5.50	3.36	1.84	1.60	1.41
P/CF (x)	14.1	28.5	6.2	7.3	6.7
Dividend Yield (%)	na	2.9	3.2	3.5	3.6
EV/EBITDA (x)	13.6	8.3	6.3	5.7	5.1
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

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## 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 basis</b>	<b>Valuation metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
SOP	Recurring P/E (x)	16.7	10.2	9.3	8.4	8.4
	P/E (x)	16.4	10.2	9.3	8.4	8.4
<b>Key drivers</b>	P/B (x)	5.50	3.36	1.84	1.60	1.41
Higher orderbook	FCF Yield (%)	(1.2)	(3.5)	8.6	7.7	13.6
	Dividend Yield (%)	0.0	2.9	3.2	3.5	3.6
<b>Key risks</b>	EV/EBITDA (x)	13.6	8.3	6.3	5.7	5.1
Lower-than-expected orderbook replenishment	EV/EBIT (x)	15.7	9.6	7.3	6.8	6.1
<b>Company Profile</b>	<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>
Serba Dinamik 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	2,583	2,575
	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

## A Surprise Quarter

Figure 1: 1H17 earnings review

FYE Dec (MYRm)	1Q17	2Q17	QoQ (%)	1H17	Comments
<b>Revenue</b>	<b>612</b>	<b>650</b>	6%	<b>1,262</b>	Higher revenue from EPCC
Other income	0	4	<i>nm</i>	<b>5</b>	
Admin expense	-18	-24	35%	<b>-42</b>	
<b>EBITDA</b>	<b>106</b>	<b>114</b>	8%	<b>219</b>	
Depreciation	-16	-17	10%	<b>-33</b>	
<b>EBIT</b>	<b>90</b>	<b>96</b>	7%	<b>186</b>	
EBITDA margin (%)	17	17		17	Stable EBITDA margin
Interest income	0	1	<i>nm</i>	<b>1</b>	
Interest expense	-8	-8	-6%	<b>-16</b>	
Share of associates	0	-1	<i>nm</i>	<b>-2</b>	
EI/Others	0	0	<i>nm</i>	<b>0</b>	
<b>Pretax profit</b>	<b>81</b>	<b>88</b>	9%	<b>170</b>	
Pretax margin (%)	13	14		13	
Tax	-4	-5	40%	<b>-9</b>	
Effective tax rate (%)	-5	-6		-5	Low effective tax rate as international operations are subjected to the Labuan tax rate
Minority interests	1	0	-72%	<b>1</b>	
<b>Net profit</b>	<b>78</b>	<b>83</b>	6%	<b>161</b>	
<b>Core profit</b>	<b>78</b>	<b>83</b>	6%	<b>161</b>	
Net margin (%)	13	13		13	Stable net margin

Note: \*2Q16 numbers are not available as Serba Dinamik was only incorporated in May 2016

Source: Company data, RHB

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Figure 2: 1H17 segmental revenue

FYE Dec (MYRm)	1Q17	2Q17	QoQ (%)	1H17	Comments
<b>Revenue</b>					
O&M	555	538	-3%	1,093	Stable revenue from O&M
EPCC	56	110	95%	167	Kuala Terengganu Utara water project and UAE EPCC
Others	1	1	-5%	2	
<b>EBIT</b>					
O&M	98	96	-2%	194	EBIT in line with revenue
EPCC	9	20	nm	29	
Others	0	0	5%	0	
<b>EBIT margins (%)</b>					
O&M	18%	18%		18%	Stable margin for both O&M and EPCC
EPCC	17%	18%		18%	
Others	21%	23%		22%	

Source: RHB

Figure 3: List of EPCC projects

Location	Client	Project	Amount (MYRm)	Period
Malaysia	Sarawak Shell	Design, supply & delivery of microturbine for E6 FDP	40.74	Sep 2014-May 2018
	One River Power	EPCC of small hydropower plants	218	May 2015-Jun 2018
	Petrofac E&C	Supply, fabrication & painting of structural steel for RAPID	33.61	Aug 2015-Oct 2017
	Syarikat Air Terengganu – KA JV	EPCC of membrane water treatment plant – KT Utara Water Supply Scheme	289	Dec 2016-May 2019
UAE	New Thunder Technical Services	Procurement, fabrication, construction and commissioning	187.04	Jan 2016-Jan 2018

Source: Company data

Figure 4: Geographical revenue

	1Q17	% of revenue	2Q17	QoQ (%)	% of revenue
Malaysia	193.8	32%	157.5	-19%	24%
Turkmenistan	0.0	0%	52.4	n/a	8%
Qatar	129.7	21%	116.2	-10%	18%
Kuwait	18.4	3%	16.4	-11%	3%
UAE	32.3	5%	47.0	45%	7%
Saudi Arabia	93.9	15%	80.7	-14%	12%
Indonesia	18.8	3%	41.4	120%	6%
Oman	30.6	5%	44.4	45%	7%
Bahrain	94.5	15%	92.5	-2%	14%
United Kingdom	0.4	0%	1.2	179%	0%

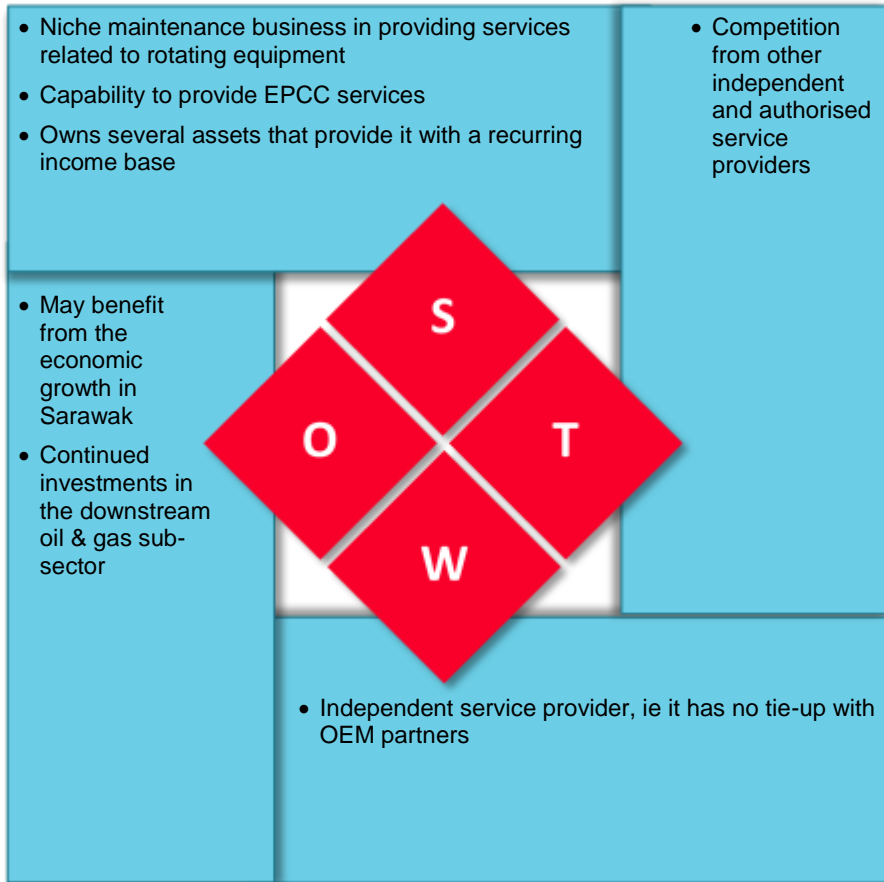
Source: Company data, RHB

Figure 5: SOP valuation

Segment	FY18F (MYRm)	Value	Remarks
Operations & maintenance	243.7	2,924.9	12x FY18F P/E
EPCC	60.9	585.0	9.6x FY18F
Assets	0.2	247.7	DCF at 8.4% WACC
Net cash/(debt)		252.5	Estimated end-FY18F
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
2017-05-08	Buy	2.78	1.96

Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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