

24 July 2017

Energy & Petrochemicals | Oil & Gas Services

Serba Dinamik Holdings

Buy (Maintained)

Preserving Its Upward Growth Momentum

Target Price:	MYR2.78
Price:	MYR1.95
Market Cap:	USD608m
Bloomberg Ticker:	SDH MK

We hosted Serba Dinamik at a roadshow in Singapore, meeting new and current investors alike. Most of the queries revolved around its Qatar and Middle East operations, O&M & EPCC orderbook, utilisation of IPO proceeds and potential projects. We remain upbeat in our outlook for the company. Its MYR4.7bn orderbook would enable it to chart earnings growth in the near term, while its venture into asset ownership would see additional recurring income sources for its bottomline. Maintain BUY, with a SOP-based TP of MYR2.78 (43% upside).

Orderbook of MYR4.7bn. Serba Dinamik's orderbook across its two main segments is valued at MYR4.7bn – with operations & maintenance (O&M) jobs making up the bulk, which is estimated at MYR4bn. Meanwhile, its engineering, procurement, construction and commissioning (EPCC) unit accounts for the remainder of orders. Its Middle East operation accounts for 65% of its O&M orderbook while the rest comes from its Malaysian division. We estimate the maintenance, repair and overhaul (MRO) of rotating equipment to make up c.90% of its O&M orderbook. The remainder would comprise inspection, repair and maintenance (IRM) works.

EPCC projects on the way. Its EPCC segment's current orderbook consists of:

- i. Jobs related to its mini hydro and Kuala Terengganu water treatment projects, which jointly account for c.70% of the orders.
- ii. Various fabrication projects, which make up the remainder.

Its EPCC projects tend to complement its O&M business, as Serba Dinamik would typically handle the O&M requirements of the projects once they are commissioned. This is in line with its asset ownership strategy, where it is likely to take an equity stake in the asset.

Business as usual in Qatar. Management reassured investors that it is business as usual for its Qatar unit, due to the necessity of maintenance works. We understand that Qatar, being a gas exporter, is still transporting LNG to the Far East as well as United Arab Emirates (UAE) via the pipeline. Serba Dinamik also mentioned that it is filling up the vacuum left by other maintenance players in Qatar. However, management did mention that the cost of living has gone up slightly, and food and beverages are estimated to be 10% higher now. The Qatar unit accounts for c.15% of Serba Dinamik's MYR4bn O&M orderbook.

BUY. We remain positive on Serba Dinamik despite the turbulence in Qatar. Business in Qatar is still on-going and, in turn, maintenance works would still be vital to operations. Over the near term, its MYR4.7bn total orderbook would still chart earnings growth YoY, while its planned asset acquisitions are likely to be a mid-term growth catalyst. We keep our earnings estimates, BUY call and SOP-based TP of MYR2.78. A downside risk to our call is its orderbook being replenished at a slower-than-expected rate.

Share Data

Avg Daily Turnover (MYR/USD)	8.27m/1.92m
52-wk Price low/high (MYR)	1.50 - 2.25
Free Float (%)	30
Shares outstanding (m)	1,335
Estimated Return	43%

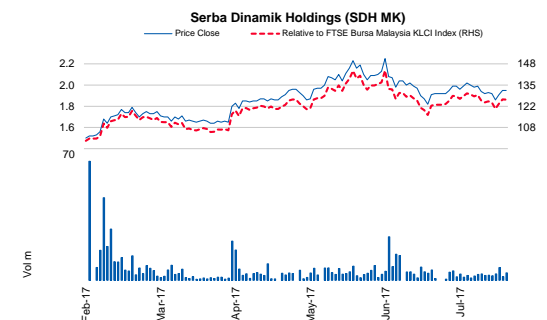
Shareholders (%)

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	7.1	4.8			
Relative	8.0	4.6			

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)	16.9	10.3	9.4	8.5	8.5
P/B (x)	5.56	3.39	1.86	1.62	1.43
P/CF (x)	14.2	28.8	6.3	7.4	6.7
Dividend Yield (%)	na	2.9	3.2	3.5	3.5
EV/EBITDA (x)	13.7	8.4	6.4	5.8	5.2
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 : 2017-05-05

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
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
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	1.37
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)	16.9	10.3	9.4	8.5	8.5
	P/E (x)	16.6	10.3	9.4	8.5	8.5
Key drivers	P/B (x)	5.56	3.39	1.86	1.62	1.43
Higher orderbook	FCF Yield (%)	(1.2)	(3.4)	8.5	7.6	13.5
	Dividend Yield (%)	0.0	2.9	3.2	3.5	3.5
Key risks	EV/EBITDA (x)	13.7	8.4	6.4	5.8	5.2
Lower-than-expected orderbook replenishment	EV/EBIT (x)	15.8	9.7	7.4	6.8	6.2
Company Profile	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Serba Dinamik is an engineering services company providing engineering solutions mainly to the oil & gas and power industries. 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
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	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
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	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
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	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

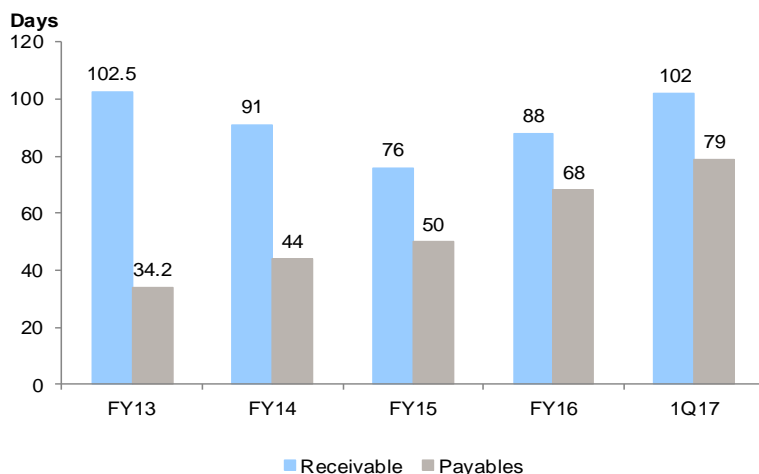
Source: Company data, RHB

Highlights From The Roadshow

High receivable days

In FY16, Serba Dinamik's receivable days came in at 88, compared to 102 days during 1Q17. Management attributed this to the nature of maintenance operations. After the work is done, its client would certify the work after 30 days to ensure there is no problem with the equipment. Payment would be made 30-60 days after the confirmation.

Figure 1: Receivables and payables days

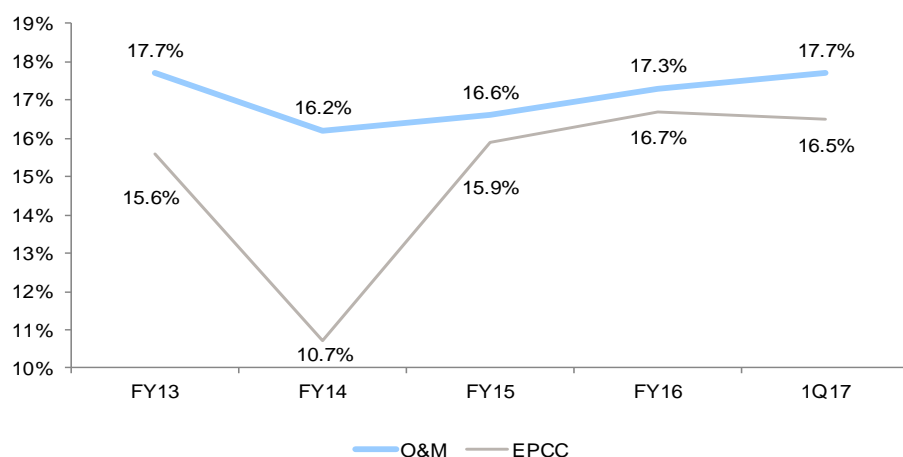


Source: Company data, RHB

Margins for O&M and EPCC

Margins for O&M tend to be better than EPCC. O&M works in Middle East tend to fetch a higher margin compared to Malaysia, due to the geopolitical risk. We understand that the hurdle rate for EPCC is 15%.

Figure 2: Trend of O&M and EPCC gross profit margins (%)



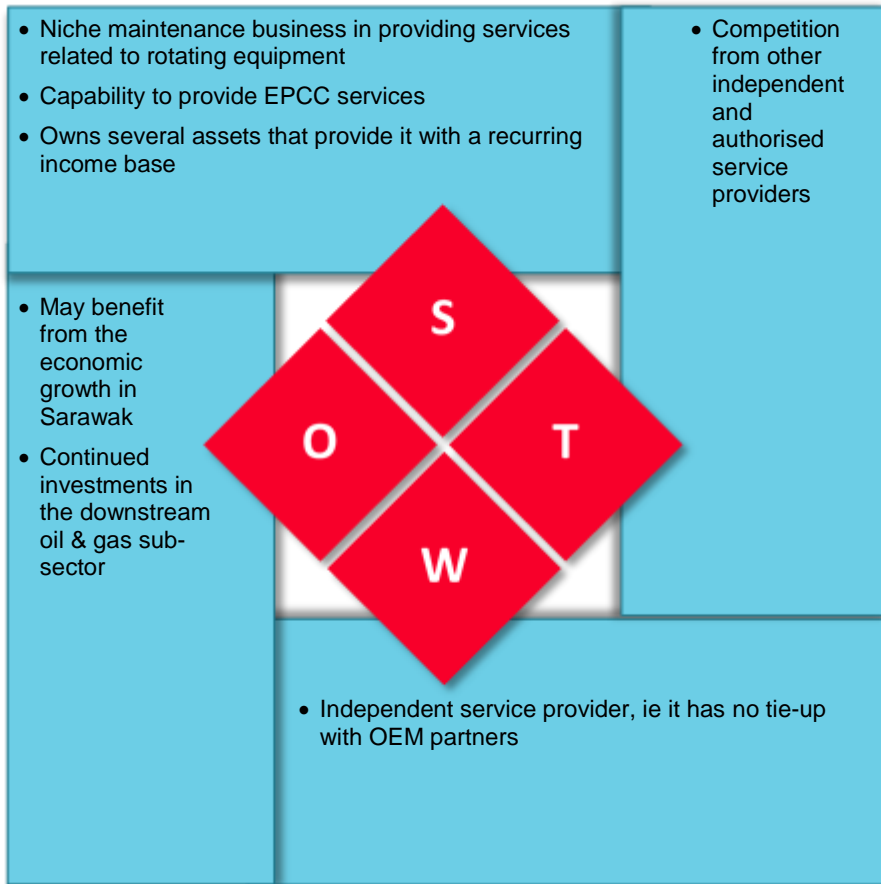
Source: Company data, RHB

Figure 3: SOP valuation

Segment	FY17F (MYRm)	Value	Remarks
O&M	222.5	2,892.2	13x P/E
EPCC	55.6	578.4	10.4x P/E
Assets	0.2	242.6	DCF at 8.4% WACC
Total		3,713.2	
Shares (m)		1,335.0	
TP (MYR)		2.78	

Source: RHB

SWOT Analysis



Recommendation Chart



Date	Recommendation	Target Price	Price
2017-05-08	Buy	2.78	1.96

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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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

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