

HLIB Research

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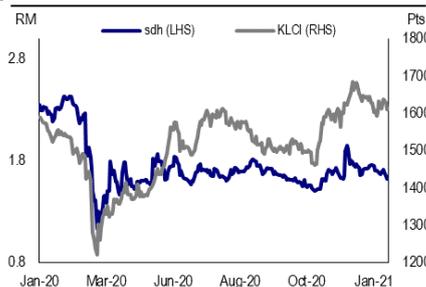
BUY (Maintain)

Target Price: **RM2.30**
Previously: **RM2.30**
Current Price: **RM1.62**

Capital upside	42.0%
Dividend yield	3.3%
Expected total return	45.3%

Sector coverage: Oil & Gas

Company description: Serba provides engineering solutions. The company offers operation and maintenance, system integration, training, civil works, planning, procurement, construction, and commissioning services

Share price


Historical return (%)	1M	3M	12M
Absolute	-12.1	-4.4	-33.6
Relative	-3.9	-4.8	-29.9

Stock information

Bloomberg ticker	SDH MK
Bursa code	5279
Issued shares (m)	3,368
Market capitalisation (RM m)	5,464
3-mth average volume ('000)	14,771
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★

Major shareholders

Dato' Karim Abdullah	26.9%
Sahib Abdul Kadir	17.6%
EPF	9.5%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	496.6	556.6	627.7
EPS - core (sen)	14.7	16.5	16.9
P/E (x)	11.1	9.8	9.6

Serba Dinamik Holdings

More long-term contracts secured

Serba has secured 8 O&M (c.RM350m) and 1 ICT (c.RM200m) contracts worth an estimated RM548.2m. Serba has also secured 1 O&M and 1 EPCC contract with no specific value attached. The contract wins were within expectations, bringing current orderbook to RM18.7bn (flat QoQ). We opine that Serba is still expected to record strong earnings going forward despite the volatility and challenges in the O&G industry due to its strong and sustainable earnings from its O&M segment and growing EPCC orderbook. Maintain BUY with TP of RM2.30 based on 13.5x FY21 EPS.

NEWSBREAK

Serba has announced that it has won 8 O&M contracts from its 75% owned Indonesian subsidiary PT SDI and 1 ICT contract from its wholly owned subsidiary SDITL with an estimated combined contract value of RM548.2m. It has also secured 1 on-call O&M contract and 1 EPCC contract with no specific value from Malaysia. Its 6 15-year Supply Super Ultima O&M contracts constituted about c.70% (RM330m) of the RM548.2m of contracts secured.

HLIB's VIEW

Contract wins within expectations. The aforementioned contract wins constituted c.3% of its previous orderbook balance (RM18.2bn). While we view this as a positive development for the Company, the contract wins were within expectation and is not expected to increase its earnings significantly. With these contracts, its current orderbook backlog now stands at RM18.7bn (EPCC: 47%; O&M: 41%, ICT: 12%)

Outlook. Serba's strong showing from a profitability standpoint is expected to continue in FY21 due to its large orderbook backlog of RM18.7bn. Its orderbook backlog would also be able to sustain its earnings growth in the next 2 years as the burn rate for the Block 7 and innovation hub contract is only expected to peak in FY22. We also view that the instance of a potential equity raising exercise in the future is low as Serba has raised enough funds for its working capital requirements for its Abu Dhabi innovation hub and data centre projects.

Forecast. We make no changes to our forecast as the contract wins were within our expectations.

Maintain BUY with TP of RM2.30 based on 13.5x FY21 EPS. We maintain our BUY call on Serba as we believe that (i) it would be able to maintain its high EBIT margins for its O&M division, (ii) the recurring nature of its O&M orderbook would ensure earnings sustainability in the foreseeable future and (iii) earnings are expected to grow exponentially in FY22 when its Block 7 project hits its peak earnings phase.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	760.8	1,305.6	2,113.2	2,455.1	2,455.4
Receivables	1,018.5	1,256.1	1,397.4	1,825.5	2,563.6
Inventories	848.3	919.6	1,050.1	1,438.7	2,058.0
PPE	1,273.1	1,688.6	1,935.0	2,286.4	2,604.1
Others	474.3	1,255.3	1,255.3	1,255.3	1,255.3
Assets	4,374.8	6,425.2	7,751.0	9,261.0	10,936.3
Payables	426.5	402.7	540.8	708.7	1,037.0
Debt	1,711.5	3,339.5	3,739.5	4,139.5	4,939.5
Others	140.5	235.9	235.9	235.9	235.9
Liabilities	2,278.5	3,978.1	4,516.3	5,084.1	6,212.5
Shareholder's	2,092.3	2,439.9	3,227.6	4,169.7	4,716.6
Minority interest	4.1	7.2	7.2	7.2	7.2
Equity	2,096.4	2,447.0	3,234.7	4,176.9	4,723.8

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	3,283.2	4,528.6	5,210.0	7,030.0	9,712.5
EBITDA	563.3	858.2	1,032.1	1,174.1	1,451.9
EBIT	473.3	691.0	832.0	932.7	1,168.7
Finance cost	(49.6)	(181.3)	(254.0)	(282.7)	(325.8)
Associates & JV	13.9	35.0	38.5	42.4	46.6
Profit before tax	437.6	544.8	616.5	692.3	889.5
Tax	(44.8)	(46.8)	(58.0)	(62.4)	(81.9)
Net profit	392.8	498.0	558.4	630.0	807.6
Minority interest	(1.4)	(1.3)	(1.9)	(2.3)	(3.3)
Core PATMI	391.5	496.6	556.6	627.7	804.3
Exceptionals	-	-	-	-	-
Reported PATMI	391.5	496.6	556.6	627.7	804.3
Consensus core PATMI			562.1	668.3	771.2
HLIB/ Consensus			1.0	0.9	1.0

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before tax	437.6	544.8	616.5	692.3	889.5
D&A	89.9	167.2	200.2	241.4	283.2
Working capital	(373.4)	(332.8)	(133.7)	(648.8)	(1,028.9)
Taxation	(44.8)	(46.8)	(58.0)	(62.4)	(81.9)
Others	(26.1)	(111.3)	(1.9)	(2.3)	(3.3)
CFO	83.2	221.0	623.0	220.2	58.6
Capex	(716.2)	(582.7)	(446.5)	(592.8)	(600.9)
Others	(142.5)	(247.8)	-	-	-
CFI	(858.6)	(830.5)	(446.5)	(592.8)	(600.9)
Changes in debt	1,021.9	1,628.1	400.0	400.0	800.0
Shares issued	-	-	-	-	-
Dividends	(107.2)	(141.4)	(178.1)	(200.9)	(257.4)
Others	328.1	(233.6)	409.2	515.4	-
CFF	1,242.7	1,253.1	631.1	714.5	542.6
Net cash flow	467.3	643.5	807.6	342.0	0.3
Forex	0.2	(115.6)	-	-	-
Others	-	-	-	-	-
Beginning cash	310.0	777.6	1,305.6	2,113.2	2,455.1
Ending cash	777.6	1,305.6	2,113.2	2,455.1	2,455.4

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	26.7	14.7	16.5	16.9	21.7
P/E (x)	13.7	11.1	9.8	9.6	7.5
EVEBITDA (x)	11.2	8.8	6.9	6.5	5.8
DPS (sen)	7.3	4.2	5.3	5.4	6.9
Dividend yield (%)	2.0	2.6	3.3	3.3	4.3
BVPS (RM)	1.4	0.7	1.0	1.1	1.3
P/B (x)	2.6	2.3	1.7	1.4	1.3
EBITDA margin	17.2	19.0	19.8	16.7	14.9
EBIT margin	14.4	15.3	16.0	13.3	12.0
PBT margin	13.3	12.0	11.8	9.8	9.2
Net margin	11.9	11.0	10.7	8.9	8.3
ROE	26.7	14.7	16.5	16.9	21.7
ROA	12.3	9.0	7.7	7.2	6.8
Net gearing	28.6	45.5	83.6	50.5	40.5

Assumptions

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Growth (%)					
Sales Growth	21.0	37.9	15.0	34.9	38.2
EBITDA Growth	35.3	21.6	52.4	20.3	13.8
EBIT Growth	20.1	46.0	20.4	12.1	25.3
PBT Growth	31.6	21.2	24.5	13.2	12.3
Core PATMI Growth	26.3	26.9	12.1	12.8	28.1

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next -12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next -12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next -12 months.