



Company report

SERBA DINAMIK HOLDINGS

(SDH MK EQUITY, SERB.KL)

19 Jan 2021

Starting off the year with fresh jobs

BUY

(Maintained)

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Rationale for report: Company update

Price	RM1.62
Fair Value	RM2.20
52-week High/Low	RM2.48/RM1.02

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	4,528.6	5,180.1	5,759.1	6,304.3
Core net profit (RM mil)	496.6	577.9	655.5	733.4
FD Core EPS (sen)	16.1	17.1	19.4	21.8
FD Core EPS growth (%)	26.9	6.4	13.4	11.9
Consensus Net Profit (RM mil)	-	562.1	668.3	771.2
DPS (sen)	7.5	5.1	7.8	8.7
PE (x)	10.1	9.5	8.3	7.4
EV/EBITDA (x)	10.7	7.2	6.7	6.2
Div yield (%)	4.3	3.0	4.5	5.0
ROE (%)	22.0	20.2	18.8	18.8
Net Gearing (%)	84.1	57.8	57.7	54.7

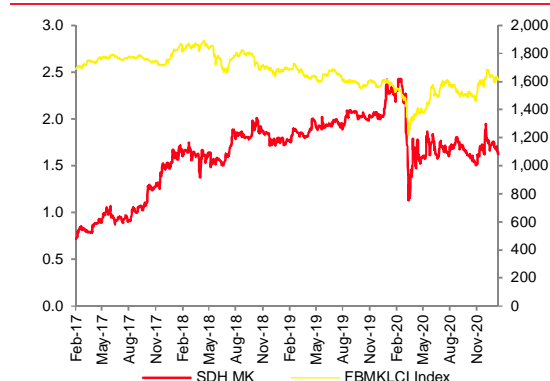
Stock and Financial Data

Shares Outstanding (million)	3,371.6
Market Cap (RM mil)	5,462.0
Book Value (RM/share)	0.79
P/BV (x)	2.1
ROE (%)	22.0
Net Gearing (%)	84.1

Major Shareholders	Dato' Mohd Abd Karim bin Abdullah(21.5%) Abdul Kadier Sahib(19.6%) Awang Daud Bin Awang Putera(7.0%)
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Free Float	19.7
Avg Daily Value (RM mil)	25.5

Price performance	3mth	6mth	12mth
Absolute (%)	1.9	(1.8)	(29.3)
Relative (%)	(4.8)	(2.6)	(29.9)



Investment Highlights

- We maintain our BUY call on Serba Dinamik Holdings (Serba) with an unchanged fair value of RM2.20/share, based on a 25% discount to our diluted sum-of-parts (SOP) valuation of RM2.93/share (Exhibit 4).
- Serba started 2021 with the announcement of 11 new contracts with a firm value of US\$136mil (RM548mil) to provide equipment and services to multiple clients over different periods from 3 months to 15 years.
- The contracts with firm values are all derived from overseas, comprising 8 operation & maintenance (O&M) projects in Indonesia and 1 ICT job in India. Five of the O&M jobs are from power supplier PT Pilar Bahtera Energi.
- The only contracts which are on a call-out basis with no firm value are based in Malaysia – 1 O&M from Petronas Chemicals Methanol S/B and 1 engineering, procurement, construction and commissioning job to provide a standby diesel generator for Sarawak Shell's E8DR-A platform.
- Including the RM466mil jobs secured early last month, we believe Serba's outstanding order book increased slightly by 1% QoQ at RM18.7bil.
- However, as previously highlighted, this locked-in future revenue has already exceeded the group's earlier FY20F target of RM15bil (+50% YoY) which was set in the beginning of 2020.
- While management has yet to provide fresh guidance for the group's year-end 2021 order book, we expect additional contracts later this year as Serba aims to lease parts of the 170-acre Teluk Ramunia yard, which cost RM320mil, to third parties while angling for fresh jobs in decommissioning, petrochemicals and renewable sectors.
- Meanwhile, we expect Serba's 10% proposed private placement to reduce its 3QFY20 net gearing of 0.9x to a more comfortable 0.6x while diluting its FY21F EPS by 7% to 18 sen, assuming interest savings at 3%.
- Upon completion of the placement by 1QFY21, this still translates to an attractive pro forma PE of 11x, far below Dialog's over 30x. Pending completion of the exercise, we maintain our FY21F–FY22F EPS for now.
- Hence, the group's good earnings growth trajectory together with its recurring income profile translate to a compelling FY21F PE of only 8x vs. its closest peer Dialog Group's over 30x.

EXHIBIT 1: REVENUE BREAKDOWN

Revenue breakdown	9MFY19	9MFY20	YoY (%)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)
Malaysia	910.1	1,198.5	31.7	264.7	394.1	421.8	7.0	59.3
Indonesia	143.0	119.9	(16.1)	43.9	46.3	37.5	(18.9)	(14.6)
Laos	11.0	5.1	(53.7)	0.0	2.4	1.9	(21.6)	>100
Turkmenistan	79.6	54.1	(32.0)	21.3	7.6	19.7	>100	(7.5)
India	16.5	41.6	>100	2.5	2.2	39.4	>100	>100
Uzbekistan	16.4	16.0	(2.9)	15.5	0.3	0.0	(100.0)	(100.0)
Bahrain	260.0	364.3	40.1	80.1	77.9	186.0	>100	>100
UAE	658.0	961.4	46.1	247.6	421.9	225.1	(46.6)	(9.1)
Qatar	816.2	1,064.1	30.4	295.5	368.9	374.3	1.4	26.7
Oman	0.0	129.3	>100	0.0	42.0	71.2	69.4	>100
Saudi Arabia	163.3	146.5	(10.3)	32.4	51.1	63.3	23.9	95.5
Kuwait	26.8	47.0	75.0	14.3	4.8	33.5	>100	>100
Tanzania	65.5	44.4	(32.3)	26.2	16.7	3.8	(77.5)	(85.7)
UK	2.1	6.4	>100	0.9	1.7	4.4	>100	>100
Total	3,168.4	4,198.4	32.5	1,045.1	1,437.9	1,481.9	3.1	41.8

Source: Bursa Malaysia

EXHIBIT 2: PB BAND CHART

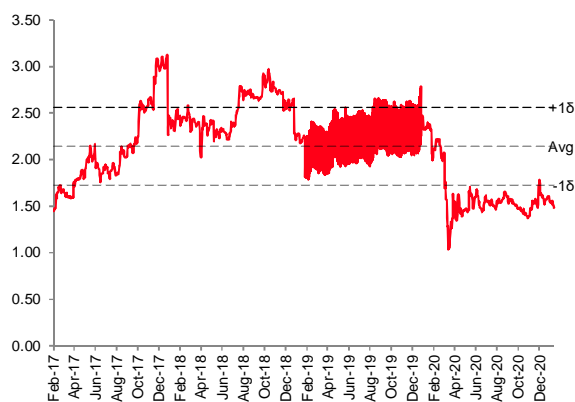


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: SUM-OF-PARTS BREAKDOWN

	Equity stake %	Net profit (RM mil)		Sum-of-parts	
		FY21F	PE target	RMmil	%
Operations					
Operations & Maintenance	100	564.5	14	7,789.8	85.4
Engineering, Procurement, Construction & Commissioning	100	99.6	10	996.1	10.9
Associates -					
Compressed Natural Gas (CNG) plant	51	2.9	15	43.5	0.5
Terengganu hydro-power plant	40	2.5	15	49.5	0.5
Sabah hydro-power plant	30	2.3	15	45.0	0.5
Perak hydro-power plant	40	6.8	15	135.0	1.5
Tanzanian Chlor-Alkali plant	25	4.1	15	61.5	0.7
Total				9,120.4	100.0
Holding company's shareholders' funds as at 31 Dec 2019				1,347.2	
Less: Cost of subsidiaries				(305.9)	
Sum-of-Parts (SOP) - basic				10,161.7	
Sum-of-Parts (SOP) - diluted				12,470.2	
Basic No of shares (mil)				3,371.6	
Warrants (5 years with exercise price at RM2.62)				881.1	
Diluted share base (mil)				4,252.7	
Basic SOP (RM/share)				3.01	
Diluted SOP (RM/share)				2.93	
Holding company discount (%)				25.0%	
Fair value (RM/share)				2.20	
Implied FY21 PE (x)				11	

Source: AmInvestment Bank Bhd

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	3,283.2	4,528.6	5,180.1	5,759.1	6,304.3
EBITDA	535.5	702.1	1,025.1	1,127.1	1,246.3
Depreciation/Amortisation	(62.1)	(142.7)	(243.0)	(297.0)	(351.0)
Operating income (EBIT)	473.3	559.4	782.1	830.1	895.3
Other income & associates	13.9	35.0	28.1	71.8	101.6
Net interest	(49.6)	(49.6)	(159.3)	(163.7)	(171.2)
Exceptional items	-	-	-	-	-
Pretax profit	437.6	544.8	650.9	738.2	825.7
Taxation	(44.8)	(46.8)	(71.6)	(81.2)	(90.8)
Minorities/pref dividends	(1.4)	(1.3)	(1.4)	(1.5)	(1.5)
Net profit	391.5	496.6	577.9	655.5	733.4
Core net profit	391.5	496.6	577.9	655.5	733.4
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	1,273.1	1,928.7	2,309.0	2,612.0	2,861.0
Intangible assets	6.4	13.2	13.2	13.2	13.2
Other long-term assets	306.9	397.1	418.4	472.6	549.1
Total non-current assets	1,586.4	2,339.1	2,740.7	3,097.8	3,423.3
Cash & equivalent	760.8	1,306.6	1,497.2	1,329.2	1,345.9
Stock	848.3	919.6	1,107.0	1,230.7	1,347.2
Trade debtors	1,018.5	1,602.2	1,845.0	2,051.2	2,245.4
Other current assets	156.9	186.7	196.1	205.9	216.2
Total current assets	2,784.3	4,015.1	4,645.2	4,817.0	5,154.7
Trade creditors	445.1	488.2	589.7	661.1	725.4
Short-term borrowings	604.0	404.7	445.2	489.7	538.7
Other current liabilities	35.4	28.0	42.8	48.5	54.3
Total current liabilities	1,084.5	920.9	1,077.7	1,199.4	1,318.4
Long-term borrowings	1,107.5	2,946.7	2,956.7	2,966.7	3,066.7
Other long-term liabilities	86.5	46.7	49.0	51.4	54.0
Total long-term liabilities	1,194.0	2,993.4	3,005.7	3,018.1	3,120.7
Shareholders' funds	2,088.2	2,432.7	3,293.9	3,687.2	4,127.3
Minority interests	4.1	7.2	8.6	10.1	11.6
BV/share (RM)	0.68	0.79	0.98	1.09	1.22
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	437.6	544.8	650.9	738.2	825.7
Depreciation/Amortisation	62.1	142.7	243.0	297.0	351.0
Net change in working capital	(446.2)	(649.2)	(323.3)	(262.6)	(250.9)
Others	(227.8)	421.6	341.4	304.4	317.3
Cash flow from operations	(174.2)	459.9	912.1	1,077.0	1,243.1
Capital expenditure	(330.0)	(390.0)	(600.0)	(600.0)	(600.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(330.0)	(390.0)	(600.0)	(600.0)	(600.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	420.0	(10.7)	456.7	-	-
Dividends paid	(246.7)	(231.3)	(173.4)	(262.2)	(293.4)
Others	(49.6)	(49.6)	(159.3)	(163.7)	(171.2)
Cash flow from financing	123.8	(291.5)	124.1	(425.9)	(464.5)
Net cash flow	(380.5)	(221.7)	436.1	51.1	178.5
Net cash/(debt) b/f	(405.3)	(950.7)	(2,044.8)	(1,904.7)	(2,127.2)
Net cash/(debt) c/f	(950.7)	(2,044.8)	(1,904.7)	(2,127.2)	(2,259.5)
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	20.6	37.9	14.4	11.2	9.5
EBITDA growth (%)	53.3	31.1	46.0	9.9	10.6
Pretax margin (%)	13.3	12.0	12.6	12.8	13.1
Net profit margin (%)	11.9	11.0	11.2	11.4	11.6
Interest cover (x)	9.5	11.3	4.9	5.1	5.2
Effective tax rate (%)	10.2	8.6	11.0	11.0	11.0
Dividend payout (%)	63.0	46.6	30.0	40.0	40.0
Debtors turnover (days)	106	106	121	123	124
Stock turnover (days)	79	71	71	74	75
Creditors turnover (days)	48	38	38	40	40

Source: Company, AmInvestment Bank Bhd estimates

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