

Serba Dinamik Holdings Berhad

A record breaking year ahead

Summary

- Serba Dinamik Holdings Bhd (Serba Dinamik) kick started 2021 on a buoyant note following another batch of contract wins; comprising of (i) nine operations & maintenance (O&M) contracts in Malaysia and Indonesia, (ii) one engineering, procurement, construction and commissioning (EPCC) contract in Malaysia and (iii) one information, communication & technology (ICT) contracts in India. The recent batch of contracts will ensure long-term sustainable income till 2035.
- With the exclusion of the O&M and EPCC contracts located at Malaysia due to their nature of work scopes being call-out basis, the remainder eight O&M and ICT contracts secured has a combined value of approximately US\$135.8m (c.RM548.2m). The move has sustained the outstanding orderbook at approximately RM18.7bn (relatively unchanged since early December 2020), representing 4.1x orderbook cover ratio against FY19 revenue of RM4.5bn.
- Following the latest win, we remain upbeat on Serba Dinamik's prospects, riding on the recovery in the oil & gas industry with Brent oil prices hovering above US\$50/bbl. We reckon that the recovery will provide room for oil & gas players to manoeuvre their CAPEX and OPEX. Already, crude oil rigs in US have risen close to 300 in mid-January 2021 (from slightly below 200 in October 2020).
- Approximately 88% of the outstanding orderbook remains within the O&M and EPCC segment, whilst the remainder 12% makes up from the ICT segment. Hence, we believe that the O&M and EPCC segments will continue to anchor the group's growth over the foreseeable future, contributing >80% of total revenue in FY21.
- We note that the five power-related O&M contracts with Super Ultima demonstrated Serba Dinamik's capability to secure non-oil & gas related jobs. Moving forward, Serba Dinamik remained committed to divert from the oil & gas industry overtime.

Valuation & Recommendation

- Given that the contract wins are within our forecast, we made no changes to our earnings estimates. We maintain our **BUY** recommendation on Serba Dinamik with an unchanged target price RM2.41. Our target price is derived by ascribing an unchanged target PER of 13.0x to its FY21f EPS of 18.5 sen.
- We continue to like Serba Dinamik as one of the key players in the oil & gas industry, backed by its sturdy orderbook comprising of dozens of jobs from local and overseas that will provide long-term earnings visibility, coupled with the group's ongoing effort diversification into businesses that generates recurring income.
- Risks to our recommendation include failure to hit the targeted outstanding orderbook of RM17.0bn by end-FY21f. Meanwhile, a firmer ringgit against the USD could affect the group's bottom line as it will have a negative impact on the group's earnings and vice versa with majority of existing orderbook derived from overseas.

Company Update

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

BUY

Share price	RM1.62
Target price	RM2.41
Previous TP	RM2.41
Capital upside	48.5%
Dividend return	3.1%
Total return	51.5%

Company profile

Engages in operations and maintenance (O&M), and engineering, procurement, construction and commissioning (EPCC), IT solutions and education & training

Stock information

Bursa Code	5279
Bloomberg ticker	SDH MK
Listing market	Main
Share issued (m)	3,390.1
Market Cap (m)	5,492.0
52W High/Low	2.48/1.02
Est. Free float	29.8%
Beta (x)	0.7
3-mth avg vol ('000)	14,771.3
Shariah compliant	Yes

Major shareholders

	%
Dato' Mohd Abdul Karim	26.9
Sahib Abdul Kadier	17.6
EPF	9.5

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-6.4	1.9	-29.3
Relative	-3.9	-4.8	-29.9

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI (m)	496.6	586.5	623.6
EPS (sen)	14.6	17.3	18.4
P/E (x)	11.1	9.4	8.8

Relative performance chart



Key Financial Data

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	2,722.3	3,283.2	4,528.6	5,441.4	6,055.5	Cash	300.8	760.8	1,306.6	1,044.8	1,499.6
EBITDA	446.9	591.0	774.8	891.0	932.2	Receivables	880.3	957.3	1,265.2	1,639.9	1,659.1
EBIT	380.0	487.2	633.3	735.5	766.1	Inventories	577.8	848.3	919.6	1,244.9	1,331.7
Net finance income/ (cost)	(33.9)	(49.6)	(88.4)	(78.6)	(75.4)	PPE	658.1	1,273.1	1,928.7	2,179.8	2,405.4
Associates & JV	(2.1)	13.9	(1.2)	(1.5)	(2.0)	Others	143.4	531.3	934.1	638.6	676.1
Profit before tax	346.1	437.6	544.8	656.9	690.7	Assets	2,560.4	4,370.8	6,354.2	6,748.0	7,571.8
Tax	(41.3)	(44.8)	(46.8)	(69.0)	(65.6)	Debts	706.0	1,711.5	3,351.4	3,164.1	3,345.0
Net profit	304.8	392.8	498.0	588.0	625.1	Payables	423.4	426.5	452.5	635.7	792.3
Minority interest	(3.3)	1.4	1.3	1.4	1.5	Others	43.3	140.5	110.4	90.6	122.8
Core earnings	308.1	391.5	496.6	586.5	623.6	Liabilities	1,172.7	2,278.5	3,914.3	3,890.4	4,260.1
Diluted core earnings	-	-	-	637.8	675.9	Shareholder's equity	1,383.9	2,088.2	2,432.7	2,850.1	3,304.5
Exceptional items	-	-	-	-	-	Minority interest	3.9	4.1	7.2	7.5	7.1
Reported earnings	308.1	391.5	496.6	586.5	623.6	Equity	1,387.7	2,092.3	2,439.9	2,857.6	3,311.6
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f	FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Profit before taxation	346.1	437.6	544.8	656.9	690.7	Core EPS (sen)	9.1	11.5	14.6	17.3	18.4
Depreciation & amortisation	69.0	91.8	142.7	157.0	168.0	Diluted Core EPS (sen)	-	-	-	14.9	15.8
Changes in working capital	1,096.9	1,561.6	2,228.0	2,421.3	2,389.4	P/E (x)	17.8	14.0	11.1	9.4	8.8
Share of JV profits	2.1	(13.9)	(35.0)	-	-	Diluted P/E (x)	-	-	-	10.8	10.2
Taxation	(17.9)	(22.2)	(51.5)	(39.0)	(35.6)	DPS (sen)	3.2	3.8	4.5	5.0	5.0
Others	14.4	(3.8)	7.7	(2.5)	(2.5)	Dividend yield	2.0%	2.4%	2.8%	3.1%	3.1%
Operating cash flow	85.3	83.2	212.6	149.5	788.6	BVPS (RM)	0.41	0.62	0.72	0.84	0.98
Net capex	(56.7)	(244.9)	(16.2)	(15.0)	(25.0)	P/B (x)	4.0	2.6	2.3	1.9	1.7
Others	(97.6)	(306.7)	(22.5)	(24.5)	13.5	EBITDA margin	16.4%	18.0%	17.1%	16.4%	15.4%
Investing cash flow	(354.1)	(858.6)	(890.8)	(432.6)	(380.1)	EBIT margin	14.0%	14.8%	14.0%	13.5%	12.7%
Changes in borrowings	66.4	1,005.4	1,640.0	(1,402.3)	120.9	PBT margin	12.7%	13.3%	12.0%	12.1%	11.4%
Issuance of shares	396.4	416.2	-	-	-	PAT margin	11.2%	12.0%	11.0%	10.8%	10.3%
Dividends paid	(69.4)	(107.2)	(141.4)	(169.5)	(169.5)	Core PAT margin	11.3%	11.9%	11.0%	10.8%	10.3%
Others	-	-	-	-	-	ROE	22.3%	18.7%	20.4%	20.6%	18.9%
Financing cash flow	387.2	1,242.7	1,311.6	63.0	46.3	ROA	12.0%	9.0%	7.8%	8.7%	8.2%
Net cash flow	118.4	467.3	633.4	(220.1)	454.8	Net gearing	29.2%	45.4%	83.8%	74.2%	55.7%
Forex	(3.7)	5.7	-	-	-						
Others	-	-	-	-	-						
Beginning cash	43.7	158.5	631.5	1,264.9	1,044.8						
Ending cash	158.5	631.5	1,264.9	1,044.8	1,499.6						

Disclaimer: This report is prepared exclusively for Malacca Securities Sdn Bhd's (MSSB) clients and is not intended to be distributed to any other party in any form or manner. All information, assumptions, estimates and opinions contained in this report is based on available data and the information is believed to be reliable at the time of writing. MSSB and/or its associated persons does not warrant, represent and/or guarantee the accuracy of any opinions and information herein in any manner whatsoever and no reliance upon the report and/or any parts thereof by anyone shall give rise to any claim whatsoever against MSSB. This report is for information purposes only and shall not be construed as an offer, invitation or solicitation to buy or sell the securities or any related investment or financial instruments mentioned in this report. MSSB and/or its associated persons may from time to time have an interest in the securities mentioned herein.