

14 August 2019

Serba Dinamik Holdings

Massive EPCC win in Uzbekistan

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We are positive on SERBADK securing 3 new contracts with combined value of >RM1b, demonstrating its job winning capabilities. These wins, which include 1 EPCC contract in Uzbekistan and two O&M contracts from Petronas Carigali, bring YTD wins to ~RM2.5b and current order-book to ~RM9b. We expect further contract wins moving forward, with management targeting RM10b order-book by year end. Reiterate OP with a higher TP of RM5.25.

New contract wins. Yesterday, SERBADK announced securing three new contracts, which include: (i) one engineering, procurement, construction and commissioning (EPCC) contract from Uzbekistan, valued at USD250m (or ~RM1b), and (ii) two operations and maintenance (O&M) contracts locally from Petronas Carigali, with no specific value as the contracts are on a "call-out" basis (refer to table below for more detailed breakdown of the contracts). Nonetheless, we believe the two local O&M contracts should be rather small in value (i.e. <RM100m combined).

Positive on the wins. We are positive on the contract wins, highlighting the company's continued capabilities in securing new jobs. In fact, the company had previously highlighted Central Asia as a key growth market, and hence, the massive EPCC contract win in Uzbekistan represents a fruition of this growth strategy.

The new contracts bring YTD wins to ~RM2.5b, and order book to ~RM9b. We expect these contracts to fetch roughly 17% gross margins.

Expect more contract wins. Moving forward, we expect more contract wins as management targets order-book to reach RM10b by end of the year, providing earnings visibility for at least the next 2-3 years. We expect more jobs flow to come from Central Asia as the company aims to expand further into the region, while also relying on its stronghold markets in the Middle-east and Malaysia.

Reiterate OUTPERFORM. Post-contract win, we raised our FY19E/FY20E earnings forecasts by 4%/10%, after imputing a higher order-book replenishment assumption of RM3b from RM2.5b previously. As such, **our TP has also been raised to RM5.25** (from RM4.80 previously), pegged to FY20E PER of 15x – which is around +2SD from its 2-year mean valuation.

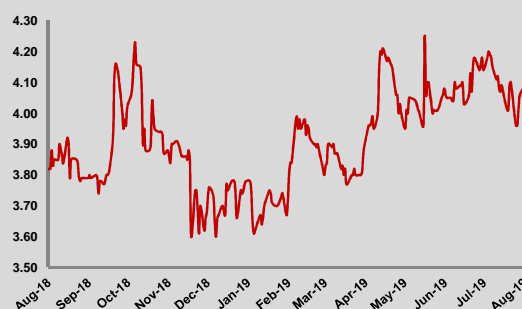
We continue to like SERBADK for having one of the best earnings delivery track records within the oil and gas space, coupled with its good management and best-in-class ROE against other sector peers. Further contract wins and continued earnings delivery would act as catalysts moving forward.

Risks to our call include: (i) lower-than-expected order-book replenishment, (ii) weaker-than-expected margins, and (iii) geopolitical unrest in the Middle-East affecting oil and gas-related activities.

OUTPERFORM ↔

Price : **RM4.09**
Target Price : **RM5.25** ↑

Share Price Performance



KLCI 1,592.88
YTD KLCI chg -5.8%
YTD stock price chg 8.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	6,006.2
Shares Outstanding	1,468.5
52-week range (H)	4.29
52-week range (L)	3.55
3-mth avg daily vol:	2,385,069
Free Float	47%
Beta	1.1

Major Shareholders

Abdullah Abdul Karim	23.6%
Sahib Abdul Kadier	19.0%
Putera Awang Daud	10.4%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Revenue	3283.2	4043.9	4620.7
EBIT	473.3	563.1	647.2
Profit Before Tax	434.1	490.8	556.1
Net Profit	387.9	454.5	515.0
Core Net Profit	387.9	454.5	515.0
Consensus (CNP)		472.7	558.3
Earnings Revision (%)		4.4	9.6
Core EPS (sen)	26.4	31.0	35.1
Core NP growth (%)	25.9	17.2	13.3
DPS (sen)	8.0	9.3	10.5
BV/Share (RM)	1.4	1.6	1.9
PER (x)	15.5	13.2	11.7
Price/BV (x)	2.9	2.5	2.2
Net Gearing (x)	0.5	0.4	0.3
Div Yield (%)	2.0	2.3	2.6

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Breakdown of Awarded Contracts

Contract Title	Client	Duration	Segment	Country
Engineering, Procurement, Construction & Commissioning (EPCC) for 90 Ton Per Day Chlorine Processing Plant at Hazarasp Free Economic at the Khorezm Region, Republic of Uzbekistan & 26MW/h Steam Turbine Independent Power Plant	Hazarasp Chlor Alkali LLC FC	8 August 2019 - 7 August 2021	EPCC	Uzbekistan
Provision of Maintenance Services for Weir Gas Compressor for Petronas Carigali Sdn Bhd	Petronas Carigali Sdn Bhd	10 June 2019 - 9 June 2020	O&M	Malaysia
Provision of Maintenance of Capstone Microturbine Generator for Petronas Carigali Sdn Bhd	Petronas Carigali Sdn Bhd	18 June 2019 - 17 June 2022	O&M	Malaysia

Source: Bursa Malaysia

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Income Statement

FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Revenue	2168.3	2722.3	3283.2	4043.9	4620.7
EBITDA	335.9	462.9	563.3	631.2	724.4
Depreciation	(33.0)	(68.8)	(89.9)	(68.1)	(77.2)
Operating Profit	302.9	394.1	473.3	563.1	647.2
Interest Exp	-35.0	-33.9	-49.6	-85.5	-106.2
Associate	0.0	-2.1	10.3	13.1	15.1
Excep. Items	0.0	0.0	0.0	0.0	0.0
PBT	267.9	358.1	434.1	490.8	556.1
Taxation	-22.1	-41.3	-44.8	-36.8	-41.7
Minority Interest	0.3	3.3	-1.4	0.6	0.7
Net Profit	246.1	308.1	387.9	454.5	515.0
Core Net Profit	246.1	308.1	387.9	454.5	515.0

Balance Sheet

FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	490.2	646.9	1,146.5	1,146.5	1,146.5
Int. Assets	3.8	3.8	6.4	6.4	6.4
Inv. in associate.	12.2	44.1	314.6	314.6	314.6
Other LT assets	1.0	3.1	1.0	1.0	1.0
Inventories	486.3	581.1	848.3	1,044.8	1,193.8
Receivables	741.2	854.9	1,018.5	1,254.4	1,433.4
Other CA	64.7	83.5	142.9	142.9	142.9
Cash	187.4	293.2	760.8	729.8	825.6
Total Assets	1,986.8	2,510.7	4,238.9	4,640.4	5,064.2
Payables	501.0	369.3	359.7	443.0	506.2
ST Borrowings	623.4	604.9	604.0	604.0	604.0
Other ST Liabil.	14.2	47.4	35.4	35.4	35.4
LT Borrowings	16.2	84.7	1,107.5	1,107.5	1,107.5
Other LT Liabil.	14.8	13.3	33.5	33.5	33.5
Minorities Int.	7.9	4.4	4.1	4.1	4.1
Net Assets	809.2	1,386.7	2,094.7	2,412.9	2,773.5
Share Capital	531.8	929.2	1,344.3	1,344.3	1,344.3
Reserves	277.4	457.5	750.4	1,068.6	1,429.1
Equity	809.2	1,386.7	2,094.7	2,412.9	2,773.5

Cashflow Statement

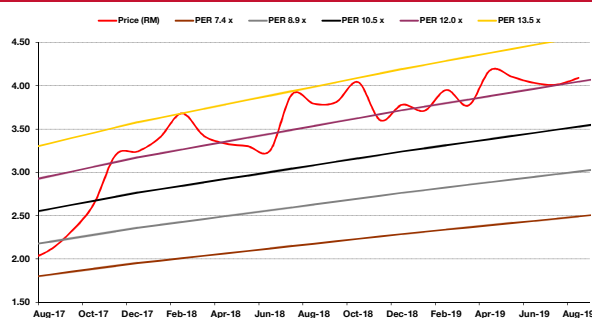
FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Operating CF	56.4	88.8	97.1	259.2	416.8
Investing CF	(75.5)	(255.2)	(873.4)	(200.0)	(200.0)
Financing CF	62.8	281.2	1,253.3	238.2	199.3

Source: Kenanga Research

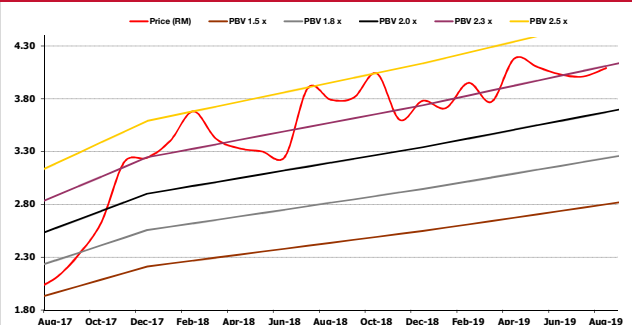
Financial Data & Ratios

FY Dec (RM'm)	2016A	2017A	2018A	2019E	2020E
Growth					
Turnover (%)	54.6	25.5	20.6	23.2	14.3
EBITDA (%)	58.0	37.8	21.7	12.1	14.8
Op. Profit (%)	64.0	30.1	20.1	19.0	14.9
PBT (%)	67.9	33.6	21.2	13.1	13.3
Net Profit (%)	57.0	25.2	25.9	17.2	13.3
Profitability (%)					
EBITDA Margin	15.5	17.0	17.2	15.6	15.7
Operating Margin	14.0	14.5	14.4	13.9	14.0
PBT Margin	12.4	13.2	13.2	12.1	12.0
Net Margin	11.4	11.3	11.8	11.2	11.1
Effective Tax Rate	8.3	11.5	10.3	7.5	7.5
ROA	12.4	12.3	9.2	9.8	10.2
ROE	30.4	22.2	18.5	18.8	18.6
DuPont Analysis					
Net Margin (%)	11.4	11.3	11.8	11.2	11.1
Assets T/O (x)	1.1	1.1	0.8	0.9	0.9
Lev. Factor (x)	2.5	1.8	2.0	1.9	1.8
ROE (%)	30.4	22.2	18.5	18.8	18.6
Leverage					
Debt/Asset (x)	0.3	0.3	0.4	0.4	0.3
Debt/Equity (x)	0.8	0.50	0.8	0.7	0.6
Net (Cash)/Debt	452.3	396.4	950.7	981.7	885.9
Net Debt/Eq. (x)	0.56	0.29	0.45	0.41	0.32
Valuations					
EPS (sen)	16.8	21.0	26.4	31.0	35.1
DPS (sen)	0.0	6.3	8.0	9.3	10.5
BVPS (RM)	0.6	0.9	1.4	1.6	1.9
PER (x)	24.1	19.3	15.5	13.2	11.7
Div. Yield (%)	0.0	1.6	2.0	2.3	2.6
P/BV (x)	7.3	4.3	2.9	2.5	2.2

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price	Rating
	(RM)	(RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BUMI ARMADA BERHAD	0.220	1,292.8	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.7	4.1	4.0	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.38	1,331.4	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.1	12.3	11.2	1.2	1.1	9.5%	0.0%	1.35	MP
DIALOG GROUP BHD	3.39	19,113.9	Y	06/2019	-22.9%	14.8%	10.1%	13.5%	44.6	40.5	35.7	5.5	5.2	13.2%	1.0%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.805	1,288.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	88.8	37.1	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.20	32,139.0	Y	12/2019	0.8%	-2.9%	21.2%	10.1%	24.3	20.1	18.2	0.9	0.9	4.6%	4.2%	6.65	MP
PANTECH GROUP HOLDINGS BHD	0.500	374.9	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.24	57,920.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.6	16.7	14.6	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	23.20	23,048.1	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	27.5	20.7	20.3	3.9	3.7	18.4%	3.4%	24.95	MP
SAPURA ENERGY BHD	0.280	4,463.0	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	92.5	25.8	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.09	6,006.2	Y	12/2019	23.2%	14.3%	17.2%	13.3%	15.7	13.4	11.8	2.9	2.5	20.2%	2.3%	5.25	OP
UZMA BHD	0.620	198.4	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	3.8	27.6	9.4	0.4	0.4	1.5%	0.0%	0.760	MP
WAH SEONG CORP BHD	0.675	520.1	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.3	10.2	12.4	0.5	0.5	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	6.86	7,412.2	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	28.2	30.4	19.5	4.3	3.9	13.5%	0.9%	7.75	OP
Simple Average					-4.4%	11.5%	205.1%	53.8%	16.9	29.7	17.5	1.8	1.7	8.8%	1.4%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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