

Serba Dinamik Holdings

Another Record Quarter in 2Q19

By Steven Chan / steven.chan@kenanga.com.my

SERBADK posted yet another record quarter in 2Q19, which was well expected, led by higher activities from both core O&M and EPCC segments. Expect further contract wins moving forward as the company targets its order-book to reach RM10b by year-end, from RM9b currently with YTD wins of RM2.6b. Reiterate OUTPERFORM and TP of RM5.25, given its earnings delivery while new contract wins will serve as further catalysts.

Within expectations. SERBADK posted yet another record quarter with 2Q19 PATAMI of RM130.4m. This brings 1H19 cumulative PATAMI to RM242.6m, coming in within expectations at 53% and 51% of our and consensus full-year forecasts, respectively. Announced dividend of 2.7 sen per share (YTD 5.0 sen) is also within expectations.

Another record quarter. 2Q19 PATAMI jumped 27% YoY, thanks to: (i) surge in EPCC profit (+73%) due to its chlor-alkali plant in Tanzania, (ii) higher O&M activities (+34%) in Malaysia, Indonesia and the Middle East, and (iii) higher IT-related services (recorded in "others" segment) from Qatar and India. Sequentially, 2Q19 PATAMI surged 16% QoQ, similarly thanks to: (i) higher EPCC (+28%) from jobs in Tanzania and Malaysia, (ii) mild climb in O&M (+7%) due to increased works in Malaysia and the Middle East, coupled with (iii) greater IT-related services. Cumulatively, 1H19 PATAMI also leapt 24%, due to similar aforementioned reasons, from stronger O&M (+36%), EPCC (+41%) and increase in IT-related services.

Further contract wins expected. Moving forward, we expect further contract wins throughout the year as the company targets an end-2019 order-book of RM10b, from the current RM9b with YTD wins of ~RM2.6b, providing 2-3 years of earnings' visibility. While Malaysia and the Middle East still remain as the company's stronghold markets, it is also eyeing further expansion opportunities in the central Asia region, as well as expansions in its IT-related services.

Reiterate OUTPERFORM, with unchanged TP of RM5.25 pegged to 15x PER on FY20E – which is around +2SD from its 2-year mean valuations. No changes were made to our FY19-20E numbers post-results, implying earnings growth of 17%/13%.

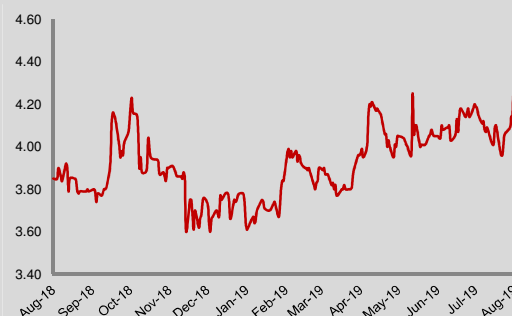
We continue to like SERBADK for having one of the best earnings delivery track records within the oil and gas space, coupled with its outstanding management and best-in-class ROE against sector peers. Further contract wins and continued earnings delivery would act as catalysts moving forward.

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 : **RM4.39**
Target Price : **RM5.25** ↔

Share Price Performance



KLCI	1,602.47
YTD KLCI chg	-5.2%
YTD stock price chg	16.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	6,446.7
Shares Outstanding	1,468.5
52-week range (H)	4.49
52-week range (L)	3.55
3-mth avg daily vol:	2,664,899
Free Float	100%
Beta	1.1

Major Shareholders

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

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Revenue	3283.2	4043.9	4620.7
EBIT	473.3	563.1	647.2
PBT	434.1	490.8	556.1
Net Profit (NP)	387.9	454.5	515.0
Core Net Profit	387.9	454.5	515.0
Consensus (CNP)		474.9	563.3
Earnings Revision (%)		-	-
Core EPS (sen)	26.4	31.0	35.1
CNP growth (%)	25.9	17.2	13.3
DPS (sen)	8.0	9.3	10.5
BV/Share (RM)	1.4	1.6	1.9
Core PER (x)	16.6	14.2	12.5
Price/BV (x)	3.1	2.7	2.3
Gearing (x)	0.5	0.4	0.3
Dividend Yield (%)	1.8	2.1	2.4

23 August 2019

Income Statement

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY19	FY18		FY18		FY19	FY18	
Y/E : Dec (RM'mil)								
Revenue	1,138.6	984.4	15.7%	804.1	41.6%	2,123.0	1,535.0	38.3%
Cost of sales/services	(941.1)	(806.0)	16.8%	(664.4)	41.7%	(1,747.1)	(1,265.0)	38.1%
Gross profit	197.6	178.4	10.7%	139.8	41.3%	375.9	270.0	39.2%
Other operating income	0.8	2.5	-68.1%	3.2	-74.9%	3.3	3.6	-6.1%
Admin expenses	(29.8)	(35.3)	-15.5%	(27.1)	10.1%	(65.2)	(54.8)	19.0%
EBIT	168.5	145.6	15.8%	115.9	45.4%	314.1	218.7	43.6%
Finance income	10.3	1.6	546.2%	0.9	1063.8%	11.9	2.1	454.1%
Finance costs	(37.5)	(26.0)	44.6%	(10.8)	247.8%	(63.5)	(19.3)	229.9%
Associates	2.6	3.3	-21.5%	3.2	-18.9%	5.9	4.1	45.1%
Profit before tax	143.8	124.5	15.5%	109.2	31.8%	268.3	205.7	30.5%
Tax expense	(12.7)	(12.1)	4.8%	(5.4)	136.8%	(24.8)	(9.1)	171.2%
Non-controlling interest	(0.7)	(0.2)	211.0%	(1.1)	-33.7%	(0.9)	(1.2)	-18.9%
Net profit	130.4	112.2	16.3%	102.7	27.0%	242.6	195.4	24.2%
Core net profit	130.4	112.2	16.3%	102.7	27.0%	242.6	195.4	24.2%
Gross margin	17.4%	18.1%		17.4%		17.7%	17.6%	
EBIT margin	14.8%	14.8%		14.4%		14.8%	14.3%	
PBT margin	12.6%	12.6%		13.6%		12.6%	13.4%	
Net margin	11.5%	11.4%		12.8%		11.4%	12.7%	
Core net margin	11.5%	11.4%		12.8%		11.4%	12.7%	
Effective tax rate	8.8%	9.7%		4.9%		9.2%	4.4%	

Source: Company

Segment Breakdown

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY19	FY18		FY18		FY19	FY18	
Y/E : Dec (RM'mil)								
<u>O&M</u>								
Revenue	951.7	858.7	10.8%	722.6	31.7%	1,810.4	1,357.1	33.4%
Operating Profit	168.7	157.8	6.9%	126.3	33.6%	326.5	240.8	35.6%
Operating Margins	17.7%	18.4%		17.5%		18.0%	17.7%	
<u>EPCC</u>								
Revenue	147.2	111.2	32.3%	79.5	85.0%	258.4	173.9	48.6%
Operating Profit	22.0	17.2	27.6%	12.7	73.0%	39.3	27.9	40.5%
Operating Margins	15.0%	15.5%		16.0%		15.2%	16.1%	
<u>Others</u>								
Revenue	39.8	14.4	175.7%	2.0	1905.3%	54.2	4.0	1266.6%
Operating Profit	6.8	3.3	105.1%	0.7	820.0%	10.1	1.2	726.1%
Operating Margins	17.1%	23.0%		37.3%		18.7%	30.9%	

Source: Company

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (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.	Price (RM)	
BUMI ARMADA BERHAD	0.225	1,322.2	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.9	4.2	4.1	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.52	1,466.5	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.9	13.5	12.4	1.3	1.3	9.5%	0.0%	1.35	MP
DIALOG GROUP BHD	3.49	19,677.7	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.7	35.1	32.0	5.2	4.9	14.4%	1.1%	4.15	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	7.30	32,585.3	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.6	18.9	18.0	0.9	0.9	4.9%	4.1%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.505	378.7	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.5	8.0	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.20	57,600.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.6	16.6	14.5	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	23.12	22,968.7	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	27.4	20.6	20.2	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	4.39	6,446.7	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.8	14.3	12.7	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.660	211.2	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	4.1	29.3	10.0	0.5	0.4	1.5%	0.0%	0.760	MP
VELESTO ENERGY BHD	0.300	2,464.7	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	162.2	64.4	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.650	500.8	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.0	9.8	12.0	0.5	0.5	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	6.77	7,314.9	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	27.8	30.0	19.2	4.2	3.8	13.5%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my