



AmInvestment Bank

SERBA DINAMIK HOLDINGS

(SDH MK EQUITY, SERB.KL)

1 March 2021

Company report

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03-2036 2280

Rationale for report: Company results

BUY

(Maintained)

Price RM1.71
Fair Value RM2.40
52-week High/Low RM2.44/RM1.02

Key Changes

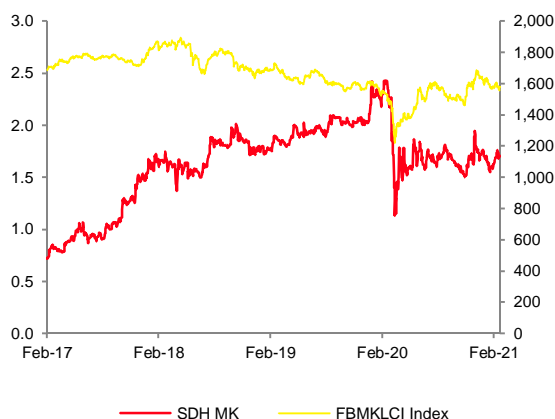
Fair value
EPS

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	6,014.1	6,628.3	7,205.9	7,723.8
Core net profit (RM mil)	631.7	721.3	807.4	868.8
FD Core EPS (sen)	17.0	19.4	21.8	23.4
FD Core EPS growth (%)	27.2	14.2	11.9	7.6
Consensus Net Profit (RM mil)	-	657.8	752.1	n/a
DPS (sen)	5.1	7.8	8.7	9.4
PE (x)	10.0	8.8	7.9	7.3
EV/EBITDA (x)	9.3	6.7	6.1	5.5
Div yield (%)	3.0	4.5	5.1	5.5
ROE (%)	22.2	19.3	18.2	17.6
Net Gearing (%)	94.9	40.1	37.6	33.3

Stock and Financial Data

Shares Outstanding (million)	3,708.4
Market Cap (RM mil)	6,341.4
Book Value (RM/share)	0.88
P/BV (x)	1.9
ROE (%)	22.2
Net Gearing (%)	94.9
Major Shareholders	Dato' Mohd Abd Karim bin Abdullah(23.2%) Abdul Kadier Sahib(19.6%) EPF(9.0%)
Free Float	19.7
Avg Daily Value (RM mil)	34.2

Price performance	3mth	6mth	12mth
Absolute (%)	1.8	(2.3)	(26.9)
Relative (%)	4.0	(4.0)	(30.7)



Investment Highlights

- We maintain our BUY call on Serba Dinamik Holdings (Serba) with a higher fair value of RM2.40/share (from an earlier RM2.20/share), based on a 20% discount to our diluted sum-of-parts (SOP) valuation of RM2.99/share (Exhibit 4). This implies an FY21F PE of 14x vs Dialog's 28x.
- We raise our FY21–FY22F earnings by 6%–7% on higher revenue assumptions with Serba's FY20 net profit of RM632mil exceeding expectations, 9% above our forecast and 10% above consensus. The group also declared a final 4QFY20 dividend of 1.6 sen, which brings FY20 DPS to 5.4 sen, 7% above our forecast.
- YoY, Serba's FY20 net profit grew 27% in tandem with a 33% revenue increase to RM6bil, partly offset by depreciation rising by 51% to RM1.1bil, net interest cost increase of 5%, reversal of associate losses and a 2 percentage-point rise in effective tax rate. This outstripped management's FY20F guidance for revenue and earnings growth rate of 10%–15%.
- Amid the conditional movement control order (CMCO) caused by the Covid-19 pandemic, Serba's 4QFY20 net profit soared 37% QoQ to RM202mil, driven by revenue increasing by 22.5%. This was further supported by net finance cost dropping by 38% from sukuk refinancing. Hence, 4QFY20 accounted for 32% of FY20 net profit, vs. 28% for 4QFY19.
- Geographically, 80% of the 4QFY20 revenue increase came from Malaysia, of which operation and maintenance jobs accounted for 77%. Hence, the proportion of Middle Eastern contribution to group revenue slid to 56% from 64% in 3QFY20.
- Including the RM1bil contracts secured over the past month, we believe Serba's outstanding order book rose slightly by 1% QoQ at RM18.7bil. However, as previously highlighted, this locked-in future revenue has exceeded the group's FY20F target of RM15bil (+50% YoY) which was set in early 2020.
- With management aiming for an FY21F order book growth of 15%, we expect the group's revenue growth prospects to be supported by plans to lease parts of the 170-acre Teluk Ramunia yard to third parties while angling for fresh jobs in decommissioning, petrochemicals and renewable sectors.
- The group's private placement of 337mil shares at RM1.51/share in January this year is expected to cut net gearing to 69% by from 95% as at 31 Dec 2020. This improved financial flexibility together with good earnings visibility from recurring O&M operations translate to an unjustified FY21F PE of only 9x vs. its closest peer Dialog Group's 28x.

EXHIBIT 1: RESULTS SUMMARY

YE 31 Dec (RMmil)	FY19	FY20	YoY (%)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)
Revenue	4,528.6	6,014.1	32.8	1,360.5	1,481.9	1,815.6	22.5	33.4
EBITDA	835.3	1,126.7	34.9	264.8	276.6	323.3	16.9	22.1
Depreciation	(142.7)	(216.1)	51.4	(41.8)	(57.1)	(62.6)	9.6	49.8
EBIT	692.6	910.5	31.5	223.0	219.5	260.7	18.8	16.9
Net finance cost	(182.8)	(191.6)	4.9	(104.3)	(52.0)	(32.2)	(38.0)	(69.1)
Associates & JVs	35.0	(12.6)	(>100)	20.5	(2.7)	(1.1)	(58.2)	(>100)
Pretax profit	544.8	706.3	29.6	139.1	164.8	227.3	37.9	63.4
Taxation	(46.8)	(74.2)	58.5	1.1	(16.3)	(25.2)	54.5	(>100)
Minorities	(1.3)	(0.3)	(74.4)	0.6	(0.5)	0.0	>100	(92.8)
Net profit	496.6	631.7	27.2	140.9	148.0	202.1	36.6	43.5
EPS (sen)	13.4	17.0	27.2	3.8	4.4	5.5	24.1	43.4
Gross DPS (sen)	7.5	5.5	(27.4)	1.4	1.4	1.6	18.5	14.3
BV/Share (RM)	0.79	0.89	12.7	0.79	0.94	0.89	(5.3)	12.7
EBITDA margin (%)	18.4	18.7		19.5	18.7	17.8		
Pretax margin (%)	12.0	11.7		10.2	11.1	12.5		
Effective tax rate (%)	8.6	10.5		(0.8)	9.9	11.1		

Source: Bursa Malaysia

EXHIBIT 2: RESULTS BREAKDOWN

YE 31 Dec (RMmil)	FY19	FY20	YoY (%)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)
O&M	3,895.2	5,043.6	29.5	1,159.1	1,241.0	1,497.1	20.6	29.2
EPCC	384.7	590.9	53.6	86.4	99.0	203.0	>100	>100
ICT	122.8	376.0	>100	56.6	141.3	113.0	(20.0)	99.7
E&T	1.6	3.6	>100	0.9	0.6	2.5	>100	>100
Revenue	4,528.6	6,014.1	32.8	1,360.5	1,481.9	1,815.6	22.5	33.4
O&M	710.9	899.4	26.5	222.8	222.4	255.3	14.8	14.6
EPCC	55.7	87.6	57.4	12.5	14.6	29.0	98.7	>100
ICT	21.2	65.1	>100	9.3	23.4	22.3	(4.5)	>100
E&T	0.9	1.7	90.1	0.5	0.3	1.2	>100	>100
Operating profit	810.8	1,053.9	30.0	254.9	260.7	307.8	18.1	20.7
Operating margin (%)								
O&M	18.3	17.8		19.2	17.9	17.1		
EPCC	14.5	14.8		14.5	14.8	14.3		
ICT	17.3	17.3		16.5	16.5	19.8		
E&T	55.5	47.3		53.2	49.1	46.2		

Source: Bursa Malaysia

EXHIBIT 3: REVENUE BREAKDOWN

Revenue breakdown	FY19	FY20	YoY (%)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)
Malaysia	1,305.6	1,887.1	44.5	395.5	421.8	688.7	63.3	74.2
Indonesia	155.4	162.2	4.4	12.5	37.5	42.3	12.8	>100
Laos	12.3	6.3	(48.8)	1.4	1.9	1.2	(34.7)	(8.9)
Turkmenistan	175.3	99.1	(43.5)	95.8	19.7	44.9	>100	(53.1)
India	16.6	42.9	>100	0.0	39.4	1.3	(96.6)	>100
Uzbekistan	24.3	16.0	(34.2)	7.9	0.0	0.0	n/m	n/m
Sri Lanka	0.0	12.8	n/m	0.0	0.0	12.8	n/m	n/m
Bahrain	382.0	430.2	12.6	122.0	186.0	65.9	(64.6)	(46.0)
UAE	889.9	1,228.9	38.1	232.3	225.1	267.5	18.8	15.2
Qatar	1,243.3	1,543.1	24.1	427.1	374.3	479.0	28.0	12.2
Oman	0.0	251.5	n/m	0.0	71.2	122.2	71.8	n/m
Saudi Arabia	188.3	205.6	9.2	25.0	63.3	59.1	(6.5)	>100
Kuwait	26.9	65.6	>100	0.1	33.5	18.6	(44.5)	>100
Tanzania	104.0	52.7	(49.4)	38.5	3.8	8.3	>100	(78.4)
UK	4.7	10.0	>100	2.6	4.4	3.7	(16.7)	40.5
Total	4,528.6	6,014.1	32.8	1,360.5	1,481.9	1,815.6	22.5	33.4
Share of Malaysia (%)	28.8	31.4	8.8	29.1	28.5	37.9	33.3	30.5
Share of Mid-East (%)	60.3	61.9	2.7	59.3	64.3	55.8	(13.3)	(5.9)

Source: Bursa Malaysia

EXHIBIT 4: SUM-OF-PARTS BREAKDOWN

	Equity stake	Net profit (RMmil)		Sum-of-parts	
Operations	%	FY21F	PE target	RMmil	%
Operations & Maintenance	100	613.3	15	9,260.8	85.0
Engineering, Procurement, Construction & Commissioning	100	108.2	12	1,298.8	11.9
Associates -					
Compressed Natural Gas (CNG) plant	51	2.9	15	43.5	0.4
Terengganu hydro-power plant	40	2.5	15	49.5	0.5
Sabah hydro-power plant	30	2.3	15	45.0	0.4
Perak hydro-power plant	40	6.8	15	135.0	1.2
Tanzanian Chlor-Alkali plant	25	4.1	15	61.5	0.6
Total				10,894.1	100.0
Holding company's shareholders' funds as at 31 Dec 2019				1,347.2	
Less: Cost of subsidiaries				(305.9)	
Add: 10% private placement completed on 22 Jan 2021				508.6	
Sum-of-Parts (SOP) - basic				12,444.0	
Sum-of-Parts (SOP) - diluted				14,752.4	
Basic No of shares (mil)				4,045.2	
Warrants (5 years with exercise price at RM2.62)				881.1	
Diluted share base (mil)				4,926.3	
Basic SOP (RM/share)				3.08	
Diluted SOP (RM/share)				2.99	
Holding company discount (%)				20%	
Fair value (RM/share)				2.40	
Implied FY21 PE (x)				14	

Source: AmBank Research

EXHIBIT 5: PB BAND CHART

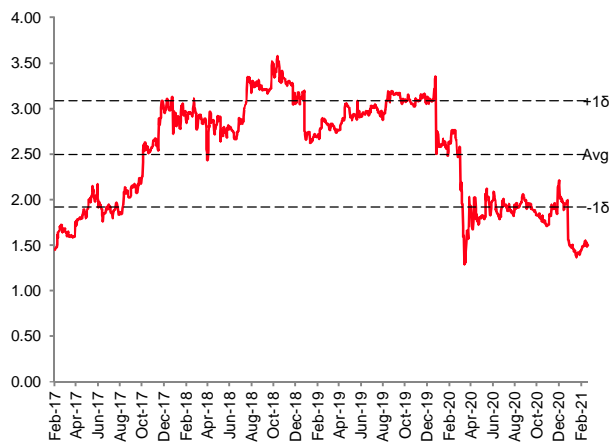


EXHIBIT 6: PE BAND CHART

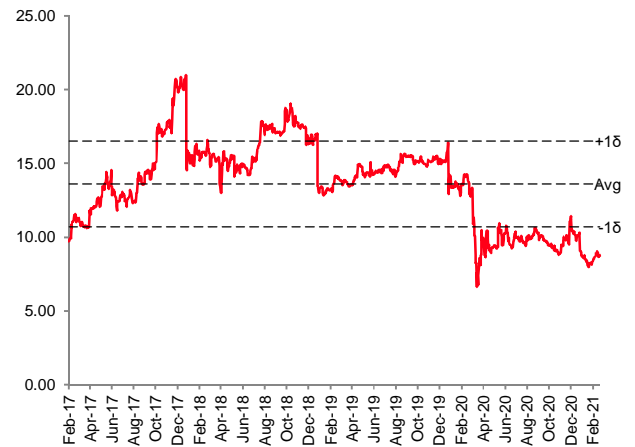


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,528.6	6,014.1	6,628.3	7,205.9	7,723.8
EBITDA	702.1	1,011.5	1,198.9	1,328.5	1,456.5
Depreciation/Amortisation	(142.7)	(243.0)	(297.0)	(351.0)	(405.0)
Operating income (EBIT)	559.4	768.5	901.9	977.5	1,051.5
Other income & associates	35.0	(12.6)	71.8	101.6	102.7
Net interest	(49.6)	(49.6)	(161.6)	(170.2)	(178.1)
Exceptional items	-	-	-	-	-
Pretax profit	544.8	706.3	812.1	908.9	976.2
Taxation	(46.8)	(74.2)	(89.3)	(100.0)	(107.4)
Minorities/pref dividends	(1.3)	(0.3)	(1.5)	(1.5)	-
Net profit	496.6	631.7	721.3	807.4	868.8
Core net profit	496.6	631.7	721.3	807.4	868.8
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	1,936.7	2,535.0	2,612.0	2,861.0	3,056.0
Intangible assets	119.0	136.7	136.7	136.7	136.7
Other long-term assets	397.1	235.5	290.6	368.2	446.6
Total non-current assets	2,452.9	2,907.2	3,039.3	3,365.9	3,639.3
Cash & equivalent	1,306.6	836.4	1,831.6	1,941.6	2,166.6
Stock	919.6	1,666.8	1,416.5	1,539.9	1,650.6
Trade debtors	1,577.7	2,386.2	2,360.8	2,566.5	2,751.0
Other current assets	161.3	239.8	251.8	264.4	277.6
Total current assets	3,965.1	5,129.1	5,860.6	6,312.3	6,845.7
Trade creditors	402.7	473.4	762.7	829.2	888.8
Short-term borrowings	400.9	807.5	888.2	977.0	1,074.7
Other current liabilities	122.2	210.3	253.1	283.2	304.2
Total current liabilities	925.7	1,491.2	1,904.0	2,089.4	2,267.7
Long-term borrowings	2,938.6	3,127.5	2,628.9	2,728.9	2,828.9
Other long-term liabilities	113.8	132.0	138.6	145.5	152.8
Total long-term liabilities	3,052.4	3,259.5	2,767.5	2,874.4	2,981.7
Shareholders' funds	2,432.7	3,263.5	4,204.8	4,689.3	5,210.5
Minority interests	7.2	22.1	23.6	25.1	25.1
BV/share (RM)	0.66	0.88	1.13	1.26	1.41
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	544.8	706.3	812.1	908.9	976.2
Depreciation/Amortisation	142.7	243.0	297.0	351.0	405.0
Net change in working capital	(590.7)	(1,475.3)	595.8	(245.1)	(227.8)
Others	(404.1)	1.8	339.1	99.6	106.9
Cash flow from operations	(307.3)	(524.2)	2,044.0	1,114.3	1,260.2
Capital expenditure	(390.0)	(600.0)	(600.0)	(600.0)	(600.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(390.0)	(600.0)	(600.0)	(600.0)	(600.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	(10.7)	371.9	508.6	-	-
Dividends paid	(278.1)	(189.5)	(288.5)	(323.0)	(347.5)
Others	(49.6)	(49.6)	(161.6)	(170.2)	(178.1)
Cash flow from financing	(338.4)	132.8	58.5	(493.2)	(525.6)
Net cash flow	(1,035.6)	(991.4)	1,502.4	21.1	134.7
Net cash/(debt) b/f	(950.7)	(2,032.9)	(3,098.6)	(1,685.5)	(1,764.4)
Net cash/(debt) c/f	(2,032.9)	(3,098.6)	(1,685.5)	(1,764.4)	(1,737.0)
Key Ratios (YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	37.9	32.8	10.2	8.7	7.2
EBITDA growth (%)	31.1	44.1	18.5	10.8	9.6
Pretax margin (%)	12.0	11.7	12.3	12.6	12.6
Net profit margin (%)	11.0	10.5	10.9	11.2	11.2
Interest cover (x)	11.3	15.5	5.6	5.7	5.9
Effective tax rate (%)	8.6	10.5	11.0	11.0	11.0
Dividend payout (%)	56.0	30.0	40.0	40.0	40.0
Debtors turnover (days)	105	120	131	125	126
Stock turnover (days)	71	78	85	75	75
Creditors turnover (days)	34	27	34	40	41

Source: Company, AmInvestment Bank estimates

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