



AmInvestment Bank

SERBA DINAMIK HOLDINGS

(SDH MK EQUITY, SERB.KL)

28 Jun 2021

Company report

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03-2036 2280

Rationale for report: Company results

SELL

(Maintained)

Price RM0.41
Fair Value RM0.53 (U.R.)
52-week High/Low RM2.09/RM0.41

Key Changes

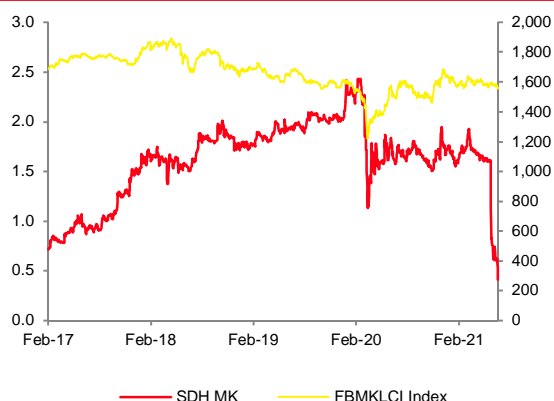
Fair value Under Review
EPS

YE to Jun	DecFY20	18MFY21F	FY22F	FY23F
Revenue (RM mil)	6,014.1	8,870.8	6,325.7	6,777.4
Core net profit (RM mil)	631.7	877.6	646.4	693.9
FD Core EPS (sen)	17.0	21.7	16.0	17.2
FD Core EPS growth (%)	27.2	n/a	n/a	7.3
Consensus Net Profit (RM mil)	-	783.9	739.3	810.4
DPS (sen)	5.1	6.5	4.8	5.1
PE (x)	2.4	1.9	2.6	2.4
EV/EBITDA (x)	4.7	3.0	3.0	2.7
Div yield (%)	8.2	15.9	11.7	12.6
ROE (%)	22.2	25.2	17.4	16.6
Net Gearing (%)	94.9	85.7	44.8	38.7

Stock and Financial Data

Shares Outstanding (million)	4,045.2
Market Cap (RM mil)	1,658.5
Book Value (RM/share)	0.88
P/BV (x)	0.5
ROE (%)	22.2
Net Gearing (%)	94.9
Major Shareholders	Dato' Mohd Abd Karim bin Abdullah (27.1%) Abdul Kadier Sahib (16.3%) EPF (7.6%)
Free Float	19.7
Avg Daily Value (RM mil)	98.4

Price performance	3mth	6mth	12mth
Absolute (%)	(76.4)	(76.2)	(73.9)
Relative (%)	(75.9)	(74.9)	(75.1)



Investment Highlights

- We maintain SELL on Serba Dinamik Holdings (Serba) with our fair value of RM0.53/share, based on a 40% discount to CY20 net book value, being under review currently given the potential provisions arising from audit concerns raised by its former auditor amid heightened balance sheet risks. Our valuation also reflects our neutral 3-star ESG rating.
- As Serba has changed its financial year-end from Dec to June, we have adjusted our forecasts accordingly from 18MFY21F onwards. However, we have reduced FY22F-FY23F earnings by 16%-17% on lower revenue growth assumptions as 1QCY21 net profit of RM113mil came in below expectations. On an annualised basis, the group's 1QCY21 net profit was lower than our earlier CY21F earnings by 35% and market consensus 42%.
- QoQ, Serba's 1QCY21 net profit fell 44% as revenue seasonally decreased 24% to RM1.4bil, which management indicated as also partly caused by the Covid-19 movement restriction orders (MCO) in Malaysia, Indonesia and the Middle East. We note that 65% of the revenue reduction stemmed from Malaysia. Notwithstanding the lower revenue, we note that the group's operating profit was commendably stable at 17%.
- As a comparison, 1Q revenue has seasonally decreased QoQ by a lower range of 6%-16% over the past 4 years. Geographically, 65% of 1QCY21 revenue came from the Middle-East while the proportion of Malaysian revenue slid to 30% from 38% in 4QCY20.
- YoY, Serba's FY20 net profit decreased by 15% despite revenue rising by 8%. This stemmed largely from a 41% YoY increase in depreciation, 11% increase in interest cost and 2%-point increase in effective tax rate. Given this declining YoY trajectory, we are doubtful of management's earlier CY21F guidance for revenue and earnings growth rate of 10%-15% against the negative backdrop of accounting issues raised by KPMG, which recently resigned as Serba's auditor.
- Together with the group's high net gearing of 77% currently, the likelihood of securing full financial support for the huge US\$1.7bil (RM7.4bil) contract awarded in April 2020 to engineer, procure and construct an IT-focused innovation hub in Abu Dhabi, United Arab Emirates (UAE) now appears uncertain after recent revelations that Serba has an effective 49% stake in the project owner, Block 7 Investments.
- Excluding this project and the US\$350mil job to build a data centre also in UAE, we estimate that Serba's outstanding order book would halve from RM18bil currently to RM9bil - only 1.4x FY22F revenue. In our view, Serba's share price appears precarious pending the restoration of confidence in the group's accounts and mitigation of balance sheet risks.

EXHIBIT 1: RESULTS SUMMARY

YE 30 June (RMmil)	15MFY21	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	QoQ (%)	YoY (%)
Revenue	7,398.3	1,278.7	1,437.9	1,481.9	1,815.6	1,384.3	(23.8)	8.3
EBITDA	1,378.0	244.0	282.7	276.6	323.3	251.3	(22.3)	3.0
Depreciation	(279.8)	(45.2)	(51.2)	(57.1)	(62.6)	(63.6)	1.6	40.8
EBIT	1,098.2	198.9	231.6	219.5	260.7	187.7	(28.0)	(5.6)
Net finance cost	(247.0)	(50.0)	(57.5)	(52.0)	(32.2)	(55.4)	71.9	10.8
Associates & JVs	(17.6)	(1.2)	(7.6)	(2.7)	(1.1)	(5.0)	>100	>100
Pretax profit	833.6	147.7	166.5	164.8	227.3	127.3	(44.0)	(13.8)
Taxation	(89.0)	(14.1)	(18.6)	(16.3)	(25.2)	(14.7)	(41.6)	4.6
Minorities	0.5	0.1	0.0	(0.5)	0.0	0.8	>100	>100
Net profit	745.1	133.7	147.9	148.0	202.1	113.3	(43.9)	(15.3)
EPS (sen)	20.1	4.4	4.4	4.4	5.5	3.1	(44.0)	(30.0)
Gross DPS (sen)	0.0	1.2	1.3	1.4	1.6	0.0	(100.0)	(100.0)
BV/Share (RM)	1.05	0.82	0.91	0.94	0.89	1.05	18.0	28.0
EBITDA margin (%)	18.6	19.1	19.7	18.7	17.8	18.2		
Pretax margin (%)	11.3	11.5	11.6	11.1	12.5	9.2		
Effective tax rate (%)	10.7	9.5	11.2	9.9	11.1	11.6		

Source: Bursa Malaysia

EXHIBIT 2: RESULTS BREAKDOWN

YE 30 June (RMmil)	15MFY21	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	QoQ (%)	YoY (%)
Revenue	7,398.3	1,278.7	1,437.9	1,481.9	1,815.6	1,384.3	(23.8)	8.3
EBITDA	1,378.0	244.0	282.7	276.6	323.3	251.3	(22.3)	3.0
Depreciation	(279.8)	(45.2)	(51.2)	(57.1)	(62.6)	(63.6)	1.6	40.8
EBIT	1,098.2	198.9	231.6	219.5	260.7	187.7	(28.0)	(5.6)
Net finance cost	(247.0)	(50.0)	(57.5)	(52.0)	(32.2)	(55.4)	71.9	10.8
Associates & JVs	(17.6)	(1.2)	(7.6)	(2.7)	(1.1)	(5.0)	>100	>100
Pretax profit	833.6	147.7	166.5	164.8	227.3	127.3	(44.0)	(13.8)
Taxation	(89.0)	(14.1)	(18.6)	(16.3)	(25.2)	(14.7)	(41.6)	4.6
Minorities	0.5	0.1	0.0	(0.5)	0.0	0.8	>100	>100
Net profit	745.1	133.7	147.9	148.0	202.1	113.3	(43.9)	(15.3)
EPS (sen)	20.1	4.4	4.4	4.4	5.5	3.1	(44.0)	(30.0)
Gross DPS (sen)	0.0	1.2	1.3	1.4	1.6	0.0	(100.0)	(100.0)
BV/Share (RM)	1.05	0.82	0.91	0.94	0.89	1.05	18.0	28.0
EBITDA margin (%)	18.6	19.1	19.7	18.7	17.8	18.2		
Pretax margin (%)	11.3	11.5	11.6	11.1	12.5	9.2		
Effective tax rate (%)	10.7	9.5	11.2	9.9	11.1	11.6		

Source: Bursa Malaysia

EXHIBIT 3: REVENUE BREAKDOWN

RMmil	15MFY21	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	QoQ (%)	YoY (%)
Malaysia	2,296.4	382.6	394.1	421.8	688.7	409.3	(40.6)	7.0
Indonesia	183.4	36.2	46.3	37.5	42.3	21.1	(50.1)	(41.6)
Laos	8.7	0.8	2.4	1.9	1.2	2.4	90.2	>100
Turkmenistan	135.9	26.9	7.6	19.7	44.9	36.9	(18.0)	37.2
India	43.0	0.0	2.2	39.4	1.3	0.1	(95.5)	>100
Uzbekistan	16.0	15.8	0.3	0.0	0.0	0.0	n/m	n/m
Sri Lanka	16.7			0.0	12.8	3.9	(69.4)	>100
Bahrain	559.5	100.3	77.9	186.0	65.9	129.3	96.1	28.8
UAE	1,412.2	314.3	421.9	225.1	267.5	183.4	(31.4)	(41.7)
Qatar	1,924.9	320.9	368.9	374.3	479.0	381.8	(20.3)	19.0
Oman	381.6	16.2	42.0	71.2	122.2	130.1	6.4	>100
Saudi Arabia	269.9	32.1	51.1	63.3	59.1	64.3	8.7	100.1
Kuwait	74.9	8.6	4.8	33.5	18.6	9.3	(50.0)	8.3
Tanzania	61.0	23.9	16.7	3.8	8.3	8.3	(0.3)	(65.3)
UK	14.2	0.2	1.7	4.4	3.7	4.2	14.1	>100
Total	7,398.3	1,278.7	1,437.9	1,481.9	1,815.6	1,384.3	(23.8)	8.3

Source: Bursa Malaysia

Source: AmInvestment Bank

EXHIBIT 4: PB BAND CHART

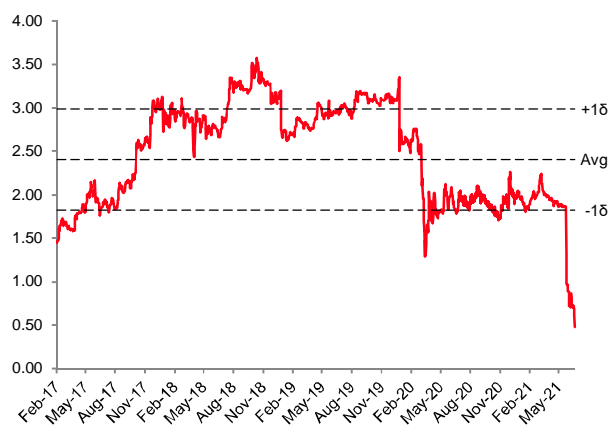


EXHIBIT 5: PE BAND CHART

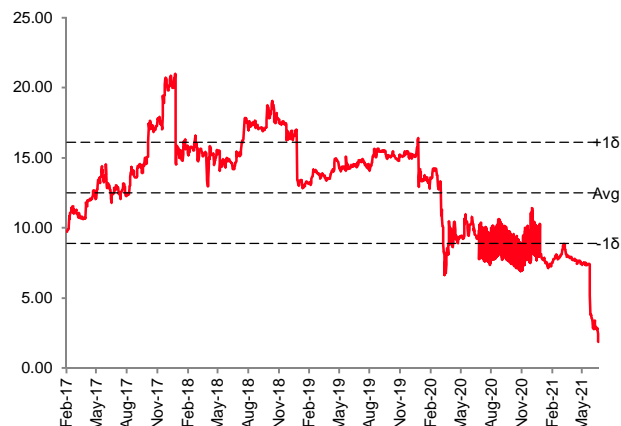


EXHIBIT 6: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★	★	★	
Health & Safety Compliance	★	★	★	★	★
Shareholder accountability	★	★			
Social responsibility	★	★	★		
Pollution control	★	★	★		
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	DecFY19	DecFY20	18MFY21F	FY22F	FY23F
Revenue	4,528.6	6,014.1	8,870.8	6,325.7	6,777.4
EBITDA	702.1	1,011.5	1,572.0	1,142.6	1,251.1
Depreciation/Amortisation	(142.7)	(243.0)	(405.0)	(297.0)	(351.0)
Operating income (EBIT)	559.4	768.5	1,167.0	845.6	900.1
Other income & associates	35.0	(12.6)	(18.9)	(18.4)	(17.3)
Net interest	(49.6)	(49.6)	(149.1)	(90.9)	(94.3)
Exceptional items	-	-	-	-	-
Pretax profit	544.8	706.3	999.0	736.2	788.5
Taxation	(46.8)	(74.2)	(119.9)	(88.3)	(94.6)
Minorities/pref dividends	(1.3)	(0.3)	(1.5)	(1.5)	-
Net profit	496.6	631.7	877.6	646.4	693.9
Core net profit	496.6	631.7	877.6	646.4	693.9
Balance Sheet (RMmil, YE 30 Jun)	DecFY19	DecFY20	18MFY21F	FY22F	FY23F
Fixed assets	1,936.7	2,535.0	2,147.0	2,450.0	2,699.0
Intangible assets	119.0	136.7	136.7	136.7	136.7
Other long-term assets	397.1	235.5	394.2	381.8	370.1
Total non-current assets	2,452.9	2,907.2	-	-	-
Cash & equivalent	1,306.6	836.4	528.9	1,940.0	2,192.4
Stock	919.6	1,666.8	1,895.7	1,351.8	1,448.3
Trade debtors	1,577.7	2,386.2	3,159.4	2,253.0	2,413.9
Other current assets	161.3	239.8	251.8	264.4	277.6
Total current assets	3,965.1	5,129.1	5,835.8	5,809.1	6,332.2
Trade creditors	402.7	473.4	1,024.4	727.9	779.9
Short-term borrowings	400.9	807.5	888.2	977.0	1,074.7
Other current liabilities	122.2	210.3	339.6	250.3	268.0
Total current liabilities	925.7	1,491.2	2,252.2	1,955.2	2,122.6
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	3,485.3	3,937.8	4,423.5
Minority interests	7.2	22.1	8.6	10.1	10.1
BV/share (RM)	0.66	0.88	0.86	0.97	1.09
Cash Flow (RMmil, YE 30 Jun)	DecFY19	DecFY20	18MFY21F	FY22F	FY23F
Pretax profit	544.8	706.3	999.0	736.2	788.5
Depreciation/Amortisation	142.7	243.0	405.0	297.0	351.0
Net change in working capital	(590.7)	(1,475.3)	(333.9)	1,051.9	(200.9)
Others	(403.5)	1.8	(336.0)	110.3	113.2
Cash flow from operations	(306.7)	(524.2)	734.1	2,195.5	1,051.8
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)	-	371.9	508.6	-	-
Dividends paid	(278.5)	(189.5)	(263.3)	(193.9)	(208.2)
Others	(49.6)	(49.6)	(149.1)	(90.9)	(94.3)
Cash flow from financing	(328.1)	132.8	96.2	(284.9)	(302.5)
Net cash flow	(1,024.7)	(991.4)	230.3	1,310.6	149.4
Net cash/(debt) b/f	(950.7)	(2,032.9)	(3,098.3)	(2,988.3)	(1,765.9)
Net cash/(debt) c/f	(2,032.9)	(3,098.6)	(2,988.3)	(1,765.9)	(1,711.2)
Key Ratios (YE 30 Jun)	DecFY19	DecFY20	18MFY21F	FY22F	FY23F
Revenue growth (%)	37.9	32.8	-	(28.7)	7.1
EBITDA growth (%)	31.1	44.1	-	(27.3)	9.5
Pretax margin (%)	12.0	11.7	11.3	11.6	11.6
Net profit margin (%)	11.0	10.5	9.9	10.2	10.2
Interest cover (x)	11.3	15.5	7.8	9.3	9.5
Effective tax rate (%)	8.6	10.5	12.0	12.0	12.0
Dividend payout (%)	56.1	30.0	30.0	30.0	30.0
Debtors turnover (days)	105	120	nm	156	126
Stock turnover (days)	71	78	nm	94	75
Creditors turnover (days)	34	27	nm	51	41

Source: Company, AmInvestment Bank estimates

§ From this year onwards year end is Jun

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