

**HLIB Research**  
PP 9484/12/2012 (031413)

LowJin Wu  
[JWLow@hlib.hongleong.com.my](mailto:JWLow@hlib.hongleong.com.my)  
(603) 2083 1711

**SELL** (from Hold)

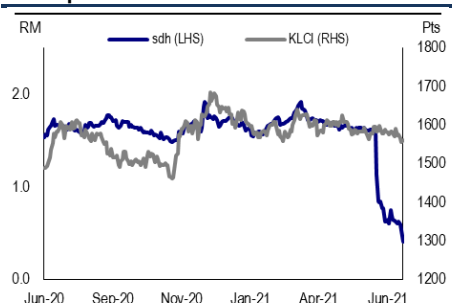
**Target Price:** **RM0.28**  
**Previously:** **RM0.78**  
**Current Price:** **RM0.41**

Capital upside -31.7%  
Dividend yield 0.0%  
Expected total return -31.7%

**Sector coverage:** Oil & Gas

**Company description:** Serba provides engineering solutions. The company offers operation and maintenance, system integration, training, civil works, planning, procurement, construction, and commissioning services

#### Share price



Historical return (%)	1M	3M	12M
Absolute	-5.6	-12.6	-3.2
Relative	-74.0	-75.8	-75.1

#### Stock information

Bloomberg ticker	SDH MK
Bursa code	5279
Issued shares (m)	3,710
Market capitalisation (RM m)	1,521
3-mth average volume ('000)	123,086
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★

#### Major shareholders

Dato' Karim Abdullah	27.1%
Sahib Abdul Kadir	16.3%
EPF	7.6%

#### Earnings summary

	FY19 <sup>a</sup>	18M21	FY22f
FYE (June)			
PATMI - core (RM m)	496.6	908.5	803.4
EPS - core (sen)	14.7	24.4	21.6
P/E (x)	2.8	1.7	1.9

<sup>a</sup>FYE December

## Serba Dinamik Holdings

### Plagued by audit issues

Serba reported 5QFY21 core profit of RM113m (-33.9% QoQ, -14.4% YoY) bringing 15MFY21's sum to RM707m, coming in within our expectations, at 78% of full year estimates. We opine that the recent 2 key developments, namely, suing KPMG and resignation of 5 of its independent directors may create a perception issue towards Serba. As such, we reckon these recent developments will possibly continue to exert selling pressure on the stock while buying interest is unlikely to resurface until its audit issues are resolved. Hence, we downgrade the stock from Hold to SELL at TP of RM0.28 (from RM0.78) based on 0.3x (from 0.7x) 18MFY21 BVPS. To be on the prudent side, we also assume no dividends will be paid until the audit issues are resolved.

**Within expectations.** Serba's 5QFY21 core profit of RM113m (-33.9% QoQ, -14.4% YoY) and 15MFY21's sum of RM707m came in within our expectations, constituting 78% of full year estimates. Core profit was derived after excluding RM17.7m of forex gain and a one-off gain of RM20m from its repurchase of its Sukuk programme.

**Dividend.** None declared (SPLY: 1.2sen / share).

**QoQ.** Core profit was down -33.9% due to lower contribution from its O&M and EPCC business in Malaysia due to MCO 2.0.

**YoY.** Core profit was down -14.4% due to the same reasons mentioned above.

**Perception issues from recent developments.** We believe that the decision by Serba to take KPMG to court, along with the recent resignation of 5 of its independent directors would cause jitters. Recall that we previously commended Serba for hiring Masleena Zaid (previously held roles in CCM and SC) to the board as an independent director. However, Masleena was one of the 5 independent directors who resigned, after only serving for 2 weeks. We opine that this may create a "perception risk" as it is currently left with only 2 independent directors (Mohamed Ilyas Pakeer: Independent Non-Executive Chairman and Johan Ishak: Independent Non-Executive director). In light of the recent audit issues, we believe that Serba needs more independent directors in its board to bring more balance and improve the optics amongst investors. We expect that funds with stringent ESG guidelines may continue to disassociate themselves with Serba for the time being and this may cause further weaknesses to its already weak share price, which has already plunged by c.75% since its audit issues surfaced.

**Forecast.** No changes to earnings forecast. However, given the uncertainties surrounding its audit matters, we have decided to take the prudent path and assume no dividends will be declared until the issue is resolved.

**Downgrade to SELL with TP of RM0.28 based on 0.3x 18MFY21 BVPS.** We downgrade our Hold rating to a SELL at TP of RM0.28 (from RM0.78) based on 0.3x (from 0.7x) 18MFY21 BVPS. This is to reflect the 2 recent developments, notably (i) its decision to sue KPMG and (ii) resignation of 5 of its independent directors, both of which may bring perception risk to the company. In a nutshell, we believe these recent developments will possibly continue to exert selling pressure on the stock while buying interest is unlikely to resurface until its audit issues are resolved.

## Financial Forecast

All items in (RM m) unless otherwise stated

## Balance Sheet

FYE June	FY18^	FY19^	18M21f	FY22f	FY23f
Cash	760.8	1,305.6	1,468.0	2,541.5	3,461.3
Receivables	1,018.5	1,256.1	2,097.5	2,257.9	2,563.6
Inventories	848.3	919.6	1,608.4	1,800.5	2,046.4
PPE	1,273.1	1,688.6	1,935.0	2,286.4	2,604.1
Others	474.3	1,255.3	1,255.3	1,255.3	1,255.3
<b>Assets</b>	<b>4,374.8</b>	<b>6,425.2</b>	<b>8,364.1</b>	<b>10,141.5</b>	<b>11,930.6</b>
Payables	426.5	402.7	828.3	886.9	1,031.2
Debt	1,711.5	3,339.5	3,739.5	4,139.5	4,939.5
Others	140.5	235.9	235.9	235.9	235.9
<b>Liabilities</b>	<b>2,278.5</b>	<b>3,978.1</b>	<b>4,803.8</b>	<b>5,262.3</b>	<b>6,206.7</b>
Shareholder's equity	2,092.3	2,439.9	3,553.2	4,872.0	5,716.8
Minority interest	4.1	7.2	7.2	7.2	7.2
<b>Equity</b>	<b>2,096.4</b>	<b>2,447.0</b>	<b>3,560.4</b>	<b>4,879.2</b>	<b>5,724.0</b>

## Cash Flow Statement

FYE June	FY18^	FY19^	18M21f	FY22f	FY23f
Profit before taxation	437.6	544.8	1,006.0	886.1	934.2
D&A	89.9	167.2	200.2	241.4	283.2
Working capital	(373.4)	(332.8)	(1,104.6)	(293.9)	(407.3)
Taxation	(44.8)	(46.8)	(94.7)	(79.8)	(86.0)
Others	(26.1)	(111.3)	(2.8)	(2.8)	(3.3)
<b>CFO</b>	<b>83.2</b>	<b>221.0</b>	<b>4.1</b>	<b>750.9</b>	<b>720.8</b>
Capex	(716.2)	(582.7)	(446.5)	(592.8)	(600.9)
Others	(142.5)	(247.8)	-	-	-
<b>CFI</b>	<b>(858.6)</b>	<b>(830.5)</b>	<b>(446.5)</b>	<b>(592.8)</b>	<b>(600.9)</b>
Changes in debt	1,021.9	1,628.1	400.0	400.0	800.0
Shares issued	-	-	-	-	-
Dividends	(107.2)	(141.4)	(204.4)	-	-
Others	328.1	(233.6)	409.2	515.4	-
<b>CFF</b>	<b>1,242.7</b>	<b>1,253.1</b>	<b>604.8</b>	<b>915.4</b>	<b>800.0</b>
<b>Net cash flow</b>	<b>467.3</b>	<b>643.5</b>	<b>162.4</b>	<b>1,073.5</b>	<b>919.8</b>
Forex	0.2	(115.6)	-	-	-
Others	-	-	-	-	-
Beginning cash	310.0	777.6	1,305.6	1,468.0	2,541.5
Ending cash	777.6	1,305.6	1,468.0	2,541.5	3,461.3

## Income Statement

FYE June	FY18^	FY19^	18M21f	FY22f	FY23f
Revenue	3,283.2	4,528.6	7,820.0	8,695.0	9,712.5
EBITDA	563.3	858.2	1,421.7	1,367.8	1,496.6
EBIT	473.3	691.0	1,221.5	1,126.4	1,213.3
Finance cost	(49.6)	(181.3)	(254.0)	(282.7)	(325.8)
Associates & JV	13.9	35.0	38.5	42.4	46.6
Profit before tax	437.6	544.8	1,006.0	886.1	934.2
Tax	(44.8)	(46.8)	(94.7)	(79.8)	(86.0)
Net profit	392.8	498.0	911.3	806.3	848.1
Minority interest	(1.4)	(1.3)	(2.8)	(2.8)	(3.3)
<b>Core PATMI</b>	<b>391.5</b>	<b>496.6</b>	<b>908.5</b>	<b>803.4</b>	<b>844.8</b>
Exceptionals	-	-	-	-	-
Reported PATMI	391.5	496.6	908.5	803.4	844.8
Consensus core PATMI			NM	739.3	810.4
HLIB/ Consensus			NM	1.1	1.0

## Valuation &amp; Ratios

FYE June	FY18^	FY19^	18M21f	FY22f	FY23f
Core EPS (sen)	26.7	14.7	24.4	21.6	22.7
P/E (x)	13.7	2.8	1.7	1.9	1.8
EV/EBITDA (x)	11.2	4.0	2.7	2.3	2.0
DPS (sen)	7.3	4.2	5.5	-	-
Dividend yield (%)	2.0	10.2	13.4	-	-
BVPS (RM)	1.4	0.7	1.0	1.3	1.5
P/B (x)	2.6	0.6	0.4	0.3	0.3
EBITDA margin (%)	17.2	19.0	18.2	15.7	15.4
EBIT margin (%)	14.4	15.3	15.6	13.0	12.5
PBT margin (%)	13.3	12.0	12.9	10.2	9.6
Net margin (%)	11.9	11.0	11.6	9.2	8.7
ROE (%)	26.7	14.7	24.4	21.6	22.7
ROA (%)	12.3	9.0	7.7	10.9	7.9
Net gearing (%)	28.6	45.5	83.6	64.1	32.8

## Assumptions

FYE Dec	FY18^	FY19^	18M21f	FY22f	FY23f
<b>Growth (%)</b>					
Sales Growth	21.0	37.9	72.7	11.2	11.7
EBITDA Growth	35.3	21.6	52.4	65.7	(3.8)
EBIT Growth	20.1	46.0	76.8	(7.8)	7.7
PBT Growth	31.6	21.2	24.5	84.7	(11.9)
Core PATMI Growth	26.3	26.9	82.9	(11.6)	5.1

^FYE December

18MFY21 DPS reflects DPS paid for 12MCY20

**Figure #1** Quarterly results comparison

FYE June (m)	1QCY20	4QCY20	5QFY21	QoQ	YoY	15M21
Sales	1278.7	1815.6	1384.3	-23.8%	8.3%	7398.3
Cost of Goods Sold	-1050.0	-1507.9	-1148.8	-23.8%	9.4%	-6109.0
Gross Profit	228.7	307.8	235.5	-23.5%	3.0%	1289.4
Other Operating Income	1.8	12.4	1.4	-89.0%	-25.3%	20.9
Depreciation	45.2	62.6	63.6	1.6%	40.8%	279.7
EBITDA	244.0	323.3	251.3	-22.3%	3.0%	1378.0
Other Operating Expenses	-31.7	-59.5	-49.2	-17.4%	55.4%	-212.0
EBIT	198.9	260.7	187.7	-28.0%	-5.6%	1098.2
Non-Operating Income	0.0	0.0	0.0	NM	NM	0.0
Interest Income	3.8	26.2	0.8	-96.9%	-78.6%	35.6
Interest Expense	-53.7	-58.4	-56.2	-3.8%	4.6%	-282.6
Share of Associates' or JV Income	-1.2	-1.1	-5.0	352.8%	322.8%	-17.6
Pretax Profit	147.7	227.3	127.3	-44.0%	-13.8%	833.6
Tax	-14.1	-25.2	-14.7	-41.6%	4.6%	-89.0
Minority Interests	0.1	0.0	0.8	NM	576.3%	0.4
Net Profit	133.7	202.1	113.3	-43.9%	-15.3%	745.0
Exceptional Items	-1.9	-31.5	-0.5	-98.5%	-75.1%	-37.7
Core Net profit	131.8	170.6	112.8	-33.9%	-14.4%	707.3
EBITDA Margins	19.1%	17.8%	18.2%			18.6%
EBIT Margins	15.6%	14.4%	13.6%			14.8%
Pre-tax Margins	11.5%	12.5%	9.2%			11.3%
Net margins	10.3%	9.4%	8.2%			9.6%
Effective tax rate	9.5%	11.1%	11.6%			10.7%

Segmental revenue	1QFY20	4QFY20	5QFY21	QoQ	YoY	15M21
O&M	1109.6	1497.1	1252.5	-16.3%	12.9%	6296.1
EPCC	140.7	203.0	99.3	-51.1%	-29.4%	690.2
ICT & Others	28.3	115.6	32.4	-72.0%	14.3%	411.4
Revenue	1278.7	1815.6	1384.3	-23.8%	8.3%	7354.3

**Segmental PBT**

O&M	202.5	255.3	214.6	-15.9%	6.0%	1114.0
EPCC	21.7	29.0	14.2	-51.1%	-34.7%	101.8
ICT & Others	4.5	23.5	6.7	-71.4%	49.6%	73.5
Eliminations	-81.0	-80.5	-108.2	34.5%	33.6%	-455.8
Pre-tax profit	147.7	227.3	127.3	-44.0%	-13.8%	833.6

**Segmental PBT Margins**

O&M	18.2%	17.1%	17.1%			17.7%
EPCC	15.5%	14.3%	14.3%			14.8%
ICT & Others	15.8%	20.3%	20.7%			17.9%

Company, HLIB Research

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 28 June 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 28 June 2021, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -.

## Published & printed by:

**Hong Leong Investment Bank Berhad (10209-W)**

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

## Stock rating definitions

<b>BUY</b>	Expected absolute return of +10% or more over the next 12-months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12-months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12-months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating definitions

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next -12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next -12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next -12 months.