

28 June 2021

Hold

Price
RM0.41Target Price
RM0.38

Market Data

Bloomberg Code	SDH MK
No. of shares (m)	1,468.5
Market cap (RMm)	2,452.4
52-week high/low (RM)	2.52 / 1.02
Avg daily turnover (RMm)	12.1
KLCI (pts)	1,593.8
Source: Bloomberg, KAF	

Major Shareholder (%)

Dato' Mohd Abdul Karim	(23.7%)
Abdul Kadier Sahib	(19.0%)

Free Float 28.4

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(2.9)	(10.7)	(19.2)
Rel Market (%)	(3.9)	(19.5)	(19.0)



Source: Bloomberg, KAF

Serba Dinamik Holdings

Uncertainties To Be Drawn Out

Maintain Hold, with TP further reduced to RM0.38 (from RM1.01), as the ongoing audit controversy escalates. 5QFY21 earnings came in below expectations, due to lower-than-expected EPCC contribution and widening losses from associates. At this juncture, financial results remain academic amid ongoing audit issues. Market uncertainty on the stock would likely be drawn out until a new auditor is appointed coupled with subsequent clarity on the issue, which may or may not ease investor concerns depending on the outcome. To note, the share price has gone below IPO share-based adjusted price of RM0.56/share, but we believe a bounce in the share price is still possible if there is a successful resolution to the ongoing audit issues materializes.

Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	4,529	6,014	5,040	4,792	5,621
Core net profit (RMm)	497	615	499	523	609
Core EPS (Sen)	15.4	19.6	13.5	14.1	16.4
EPS growth (%)	(41.8)	27.2	(31.2)	4.8	16.4
DPS (Sen)	4.6	5.9	4.0	4.2	4.9
Core PE (x)	2.7	2.1	3.0	2.9	2.5
Div yield (%)	11.2	14.3	9.8	10.3	12.0
ROE (%)	20.4	19.4	13.8	13.1	13.8
Net Gearing (%)	84.1	94.9	63.3	51.8	52.1
PBV(x)	0.5	0.4	0.4	0.4	0.3

Source: Company, KAF *not adjusted for new financial year end

5Q21 below expectations

Serba Dinamik posted core net profit of RM111.7m, bringing 15-month cumulative core profit to RM726.5m, accounting for 76.4% of our implied 15-month FY21 forecast (note that Serba Dinamik is changing its financial year-end to 30 June from 31 December). This is below our expectation, due to lower-than-expected contribution from the EPCC and ICT department. DPS of RM0.545 was declared, which was lower than the levels observed in previous quarters. Nonetheless, the financial results are academic in nature at this juncture in light of recent events as the audit is in the midst of being finalized.

Market uncertainty likely to be drawn out

SDH's share price is likely to remain depressed given ongoing uncertainty surrounding the resignation of the current auditor (KPMG) together with several board members. Market uncertainty should persist at least until a new external auditor is appointed and clarity on the outstanding issues surfaces gradually with regards to the issues being raised by KPMG, which may or may not assuage investor concerns on the stock depending on what the new external auditor discovers (namely whether the final outcome is favourable to Serba Dinamik or not).

Maintain Hold

We cut our FY21-23F earnings by 27-21%, after adjusting for lower EPCC work progress and margins. Our SOP TP is further cut to RM0.38 post earnings adjustments, as well as applying an 80% discount to SOP (from 60%) to price in increasing uncertainty on the company's audit matters. At this juncture, we do not have sufficient information to determine when the issue with KPMG will come to an end as well as the outcomes. However, it is noteworthy that the share price has fallen below the IPO price (adjusted for new share base) of c. RM0.56/share. Therefore, we still believe that a successful resolution to the ongoing audit legal issues in the future may lead to a potential bounce in the share price.

Analyst

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Exhibit 1: Results summary

	1Q21	4Q21	5Q21	QoQ (%)	YoY (%)
Revenue	1,278.7	1,815.6	1,384.3	-24%	8%
EBITDA	244.0	323.3	251.3	-22%	3%
Depreciation	(45.2)	(62.6)	(63.6)	2%	41%
EBIT	198.9	260.7	187.7	-28%	-6%
Finance cost	(53.7)	(58.4)	(56.2)	-4%	5%
Interest Income	3.8	26.2	0.8	-97%	-79%
JV & Asso	(1.2)	(1.1)	(5.0)	nm	nm
PBT	147.7	227.3	127.3	-44%	-14%
Taxation	(14.1)	(25.2)	(14.7)	-42%	5%
Minorities	0.1	0.0	(0.8)	nm	nm
Net profit	133.7	202.2	111.7	-45%	-16%
EI	-	17.0	-	-100%	nm
Core net profit	133.7	185.2	111.7	-40%	-16%
EPS (sen)	3.6	5.0	3.0	-40%	-16%
Gross DPS (sen)	1.2	1.6	0.5	-66%	-55%
BV/Share (RM)	0.8	0.9	1.1	18%	28%
Margin (%)					
EBIT	15.6	14.4	13.6		
Pretax	11.5	12.5	9.2		
Tax	-9.5	-11.1	-11.6		

Source: Company *Due to change in financial year end

Exhibit 2: Segmental breakdown

	1Q21	4Q21	5Q21	QoQ (%)	YoY (%)
O&M	1,109.6	1,497.1	1,252.5	-16%	13%
EPCC	140.7	203.0	99.3	-51%	-29%
ICT	27.9	113.0	30.8	-73%	10%
Others	0.4	2.5	1.6	nm	nm
Revenue	1,278.7	1,815.6	1,384.3	-24%	8%
O&M	202.5	255.3	214.6	-16%	6%
EPCC	21.7	29.0	14.2	-51%	-35%
ICT	4.3	22.3	6.0	-73%	39%
Others	0.2	1.2	0.8	-35%	nm
EBIT	228.7	307.8	235.5	-23%	3%
EBIT margin (%)					
O&M	18.2	17.1	17.1		
EPCC	15.5	14.3	14.3		
ICT	15.3	19.8	19.3		

Source: Company

Exhibit 3: SOP valuation

	Valuation RM mil	Methodology
Core businesses	6,105.4	13x FY21F PE
Asset-ownership	313.6	DCF at 9% WACC, net of debt
Sum-of-parts valuation	6,958.0	
Number of shares	3,709.6	
SOP / share	1.88	
Number of shares	80%	
Fully diluted SOP/share	0.38	

Source: Company, KAF

Exhibit 4: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 5: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Revenue	4,528.62	6,014.08	5,039.74	4,792.37	5,621.45
EBITDA	730.5	871.0	866.6	910.9	1,026.3
Depreciation/Amortisation	(142.7)	(181.1)	(209.2)	(238.2)	(269.5)
Operating income (EBIT)	509.8	718.9	530.5	556.9	652.1
Other income & associates	35.0	(12.6)	22.3	22.3	22.3
Net interest	(182.8)	(191.6)	(126.9)	(115.8)	(104.7)
Exceptional items	0	0	0	0	0
Pretax profit	544.8	706.3	552.8	579.2	674.4
Taxation	(46.8)	(74.2)	(55.3)	(57.9)	(67.4)
Minorities/pref dividends	(1.3)	(0.3)	1.7	1.8	2.1
Net profit	496.6	631.7	499.3	523.1	609.1
Core net profit	496.6	614.8	499.3	523.1	609.1

Balance Sheet

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	1,928.7	2,428.5	2,687.6	2,932.6	3,184.6
Intangible assets	13.2	136.7	136.7	136.7	136.7
Other long-term assets	397.1	342.0	364.3	386.6	408.9
Total non-current assets	2,339.1	2,907.2	3,188.6	3,455.9	3,730.2
Cash & equivalent	1,306.6	836.4	1,448.2	1,474.4	1,038.9
Stock	919.6	1,666.8	1,301.4	1,210.5	1,433.1
Trade debtors	1,265.2	1,865.1	1,563.3	1,486.6	1,743.8
Other current assets	523.8	760.9	760.9	760.9	760.9
Total current assets	4,015.1	5,129.1	5,073.9	4,932.4	4,976.7
Trade creditors	452.5	473.4	551.8	513.3	607.7
Short-term borrowings	404.7	807.5	807.5	807.5	807.5
Other current liabilities	63.7	210.3	210.3	210.3	210.3
Total current liabilities	920.9	1,491.2	1,569.6	1,531.1	1,625.4
Long-term borrowings	2,946.7	3,127.5	2,927.5	2,727.5	2,527.5
Other long-term liabilities	46.7	132.0	132.0	132.0	132.0
Total long-term liabilities	2,993.4	3,259.5	3,059.5	2,859.5	2,659.5
Shareholders' funds	2,432.7	3,263.5	3,613.0	3,979.1	4,405.5
Minority interests	7.2	22.1	20.3	18.5	16.4

Cash flow Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	544.8	706.3	552.8	579.2	674.4
Depreciation/Amortisation	142.7	181.1	209.2	238.2	269.5
Net change in working capital	(319.3)	(1,326.2)	745.5	129.1	(385.4)
Others	-152.8	-104.8	-116.5	-121.9	-120.9
Cash flow from operations	212.6	45.7	1,394.1	829.4	430.8
Capital expenditure	(868.2)	(1,041.2)	(468.4)	(483.2)	(521.5)
Net investments & sale of fixed assets	0	0	0	0	1
Others	(22.5)	25.3	35.8	36.9	38.0
Cash flow from investing	(890.8)	(1,015.9)	(432.5)	(446.3)	(482.5)
Debt raised/(repaid)	1,596.4	477.1	(200.0)	(200.0)	(200.0)
Equity raised/(repaid)	-	446.1	-	-	-
Dividends paid	(141.4)	(172.9)	(149.8)	(156.9)	(182.7)
Others	(143.4)	-	-	-	-
Cash flow from financing	1,311.6	750.4	(349.8)	(356.9)	(382.7)
Net cash flow	633.4	(219.8)	611.8	26.2	(434.5)
Net cash/(debt) b/f	760.8	1,306.6	836.4	1,448.2	1,474.4
Net cash/(debt) c/f	1,306.6	836.4	1,448.2	1,474.4	1,038.9

Key Ratios

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue growth (%)	37.9	32.8	(16.2)	(4.9)	17.3
EBITDA growth (%)	29.7	19.2	(0.5)	5.1	12.7
Pretax margins (%)	12.0	11.7	11.0	12.1	12.0
Net profit margins (%)	11.0	10.2	9.9	10.9	10.8
Interest cover (x)	2.5	3.2	3.3	3.6	4.6
Effective tax rate (%)	8.6	10.5	10.0	10.0	10.0
Net dividend payout (%)	30	30	30	30	30
Debtors turnover (days)	102	113	113	113	113
Stock turnover (days)	24	32	31	31	31
Creditors turnover (days)	43	34	48	48	48

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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