

28 June 2021

Serba Dinamik Holdings

First Ever Results Disappointment

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SERBADK posted its first ever earnings disappointment in its 5QFY21 (i.e. 1QCY21) quarter, with core net profit of RM113m coming in 15%/44% weaker QoQ/YoY. Additionally, the unfolding recent events have placed the group's corporate governance under intense scrutiny. As such, short of it releasing its fully audited accounts, the group's corporate governance and reliability of its reported financial statements may remain a point of contention. Amidst the uncertainties, we are placing the stock UNDER REVIEW.

Deemed below expectations. SERBADK posted 5QFY21 (i.e. 1QCY21) core net profit of RM113m (note that the group has changed its financial year-end to June 2021, from December 2020). We deem this to be below expectations, with cumulative 15MFY21 core net profit of RM745m coming in at 77% of our 18-month FY21E forecasts. Against consensus, 5QFY21 quarter core net profit only made up 14% of Bloomberg consensus' 12-month CY21 forecasts (Bloomberg has yet to adjust for the change in financial year end). **This marked the first time SERBADK had disappointed in earnings since its IPO.** Meanwhile, absence of dividends is also below expectations, as the company had previously paid dividends every quarter.

Overall weaker earnings. YoY against 1QFY21 (i.e. 1QCY20), 5QFY21 saw earnings dropping by 15%. Despite higher gross profit (+3%) led by greater O&M works masking slower EPCC job progressions, the group's bottom-line was dragged by significantly higher administrative expenses. Meanwhile, QoQ against 4QFY21 (i.e. 4QCY20), 5QFY21 saw earnings plunging 44% sequentially. While 1QCY is typically a seasonally weaker quarter, the quarter was dragged by significantly slower jobs flow especially in Malaysia, given the re-imposition of MCO.

Corporate governance under heavy scrutiny. Following the group's decision to bring KPMG to court, KPMG had since resigned as the group's external auditors, citing that the legal action had compromised the auditor's ability to independently continue its audit. In protest against this, the group on Friday lost almost half of its board members, with five of its independent non-executive directors resigning (although one of them had cited "personal commitment" as the reason for her resignation). We believe the unfolding of recent events has now put the group's corporate governance under heavy scrutiny. As such, short of it successfully releasing its fully audited accounts, the group's corporate governance and reliability of its reported financial statements may remain a point of contention.

UNDER REVIEW. Amidst uncertainties surrounding the name, we are placing our call and TP under review until the situation is fully resolved.

Just solely as a reference, current trough valuation within the local oil and gas universe is at approximately 0.3x PBV (e.g. KNM, SCOMIES, REACH, SAPNRG). Should we apply this as a distressed valuation onto SERBADK, we would arrive at a **hypothetical "floor" fair value of RM0.32** (based on FY21E).

Post results, we trimmed our FY21E/FY22E earnings by 8%/9% following lower work order recognition assumption. Note that we have also removed any dividend assumptions for the remainder of FY21, and for FY22. Following its recent audit issue, the group saw its credit ratings downgraded on the basis of reduced funding access. This may heighten refinancing risk for its USD-denominated RM900m Sukuk due May 2022. As such, we believe the group may need to undertake capital preservation efforts e.g. reducing capex and cessation of dividends in order to keep its borrowings manageable.

Risks to our call: a successful release of its audited accounts, restoration of dividends.

UNDER REVIEW

Price: RM0.41
Target Price: UNDER REVIEW

Share Price Performance



KLCI 1,559.68
YTD KLCI chg -4.2%
YTD stock price chg -76.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	1,520.9
Shares Outstanding	3,709.6
52-week range (H)	2.09
52-week range (L)	0.41
3-mth avg daily vol:	130,670,000
Free Float	49%
Beta	1.5

Major Shareholders

Abdullah Mohd Abdul Karim	27.1%
Sahib Abdul Kadier	16.3%
Employees Provident Fund	7.6%

Summary Earnings Table

FY Dec (RM m)	2019A	2021E*	2022E
Revenue	4528.6	8878.0	6340.1
EBIT	692.6	1317.9	951.0
PBT	544.8	1000.3	712.6
Net Profit (NP)	496.6	894.1	641.3
Core Net Profit	496.6	894.1	641.3
Consensus (CNP)		N.A.	N.A.
Earnings Revision (%)		-7.9	-8.7
Core EPS (sen)	13.4	24.1	17.3
CNP growth (%)	26.9	80.0	-28.3
DPS (sen)	4.5	5.5	0.0
BV/Share (RM)	0.7	0.9	1.1
Core PER (x)	3.1	1.7	2.4
Price/BV (x)	0.6	0.5	0.4
Net Gearing (x)	0.8	0.9	0.6
Dividend Yield (%)	10.9	13.3	0.0

*Note: FY2021E consists of 18 months, given that the company had changed its financial year end to June 2021, from December 2020.

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Income Statement								
	5Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
	FY21	FY21		FY21		1QCY21	1QCY20	
Y/E : Dec (RM m)								
Revenue	1,384.3	1,815.6	-23.8%	1,278.7	8.3%	1,384.3	1,278.7	8.3%
Cost of sales/services	(1,148.8)	(1,507.9)	-23.8%	(1,050.0)	9.4%	(1,148.8)	(1,050.0)	9.4%
Gross profit	235.5	307.8	-23.5%	228.7	3.0%	235.5	228.7	3.0%
Other operating income	1.4	12.4	-89.0%	1.8	-25.3%	1.4	1.8	-25.3%
Admin expenses	(49.2)	(59.5)	-17.4%	(31.7)	55.4%	(49.2)	(31.7)	55.4%
Operating profit	187.7	260.7	-28.0%	198.9	-5.6%	187.7	198.9	-5.6%
Finance income	0.8	26.2	-96.9%	3.8	-78.6%	0.8	3.8	-78.6%
Finance costs	(56.2)	(58.4)	-3.8%	(53.7)	4.6%	(56.2)	(53.7)	4.6%
Associates	(5.0)	(1.1)	352.8%	(1.2)	322.8%	(5.0)	(1.2)	322.8%
Profit before tax	127.3	227.3	-44.0%	147.7	-13.8%	127.3	147.7	-13.8%
Tax expense	(14.7)	(25.2)	-41.6%	(14.1)	4.6%	(14.7)	(14.1)	4.6%
Non-controlling interest	0.8	0.0	1634.8%	0.1	576.3%	0.8	0.1	576.3%
Net profit	113.3	202.1	-43.9%	133.7	-15.3%	113.3	133.7	-15.3%
Core net profit	113.3	202.1	-43.9%	133.7	-15.3%	113.3	133.7	-15.3%
Gross margin	17.0%	17.0%		17.9%		17.0%	17.9%	
Operating margin	13.6%	14.4%		15.6%		13.6%	15.6%	
PBT margin	9.2%	12.5%		11.5%		9.2%	11.5%	
Net margin	8.2%	11.1%		10.5%		8.2%	10.5%	
Core net margin	8.2%	11.1%		10.5%		8.2%	10.5%	
Effective tax rate	11.6%	11.1%		9.5%		11.6%	9.5%	

Source: Company

Segment Breakdown								
	5Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
	FY21	FY21		FY21		1QCY21	1QCY20	
Y/E : Dec (RM m)								
O&M								
Revenue	1,252.5	1,497.1	-16.3%	1,109.6	12.9%	1,252.5	1,109.6	12.9%
Operating Profit	214.6	255.3	-15.9%	202.5	6.0%	214.6	202.5	6.0%
Operating Margins	17.1%	17.1%		18.2%		17.1%	18.2%	
EPCC								
Revenue	99.3	203.0	-51.1%	140.7	-29.4%	99.3	140.7	-29.4%
Operating Profit	14.2	29.0	-51.1%	21.7	-34.7%	14.2	21.7	-34.7%
Operating Margins	14.3%	14.3%		15.5%		14.3%	15.5%	
ICT								
Revenue	30.8	113.0	-72.8%	27.9	10.2%	30.8	27.9	10.2%
Operating Profit	6.0	22.3	-73.3%	4.3	39.1%	6.0	4.3	39.1%
Operating Margins	19.3%	19.8%		15.3%		19.3%	15.3%	
E&T								
Revenue	1.6	2.5	-36.8%	0.4	289.8%	1.6	0.4	289.8%
Operating Profit	0.8	1.2	-35.2%	0.2	263.3%	0.8	0.2	263.3%
Operating Margins	47.4%	46.2%		50.8%		47.4%	50.8%	

Source: Company

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Peer Comparison

Name	Last Price (RM)	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
					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.		
BUMI ARMADA BHD	0.450	2,652.6	N	12/2021	4.3%	0.0%	-3.4%	6.9%	5.6	5.8	5.4	0.8	0.7	13.6%	0.0%	0.500	OP
DAYANG ENTERPRISE HLDGS BHD	1.36	1,574.6	Y	12/2021	13.6%	16.1%	42.9%	60.5%	23.5	16.5	10.3	1.0	0.9	5.7%	0.0%	1.80	OP
DIALOG GROUP BHD	2.90	16,363.0	Y	06/2021	-38.1%	28.1%	-7.9%	15.4%	27.2	29.5	25.6	4.0	3.6	12.8%	1.0%	3.50	OP
MISC BHD	6.83	30,487.4	Y	12/2021	20.3%	7.3%	0.2%	1.0%	14.1	14.1	14.0	0.9	0.9	6.6%	4.8%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	8.00	64,000.0	Y	12/2021	9.3%	10.3%	97.7%	-10.7%	33.4	16.9	18.9	2.1	2.0	12.1%	2.0%	8.90	MP
PETRONAS DAGANGAN BHD	19.60	19,471.7	Y	12/2021	10.2%	10.2%	140.7%	10.5%	68.3	28.4	25.7	3.5	3.5	12.2%	3.5%	19.80	MP
SAPURA ENERGY BHD	0.135	2,157.2	Y	01/2022	16.3%	10.6%	-182.1%	-153.3%	N.A.	N.A.	N.A.	0.2	0.3	-2.8%	0.0%	0.210	OP
SERBA DINAMIK HOLDINGS	0.410	1,520.9	Y	06/2021	96.0%	-28.6%	80.0%	-28.3%	3.1	1.7	2.4	0.6	0.5	31.4%	13.4%	UR	UR
UZMA BHD	0.675	216.0	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	80.0	8.4	7.0	0.5	0.4	5.5%	0.0%	1.00	OP
VELESTO ENERGY BHD	0.150	1,232.3	Y	12/2021	-28.3%	24.0%	-265.3%	-141.4%	N.A.	N.A.	N.A.	0.5	0.6	-3.1%	0.0%	0.110	UP
WAH SEONG CORP BHD	0.735	569.1	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	25.3	8.3	0.8	0.8	3.1%	0.0%	0.720	UP
YINSON HOLDINGS BHD	5.00	5,326.9	Y	01/2022	-6.6%	-15.5%	-13.8%	-20.4%	8.6	10.0	12.5	3.0	2.4	26.4%	1.2%	6.55	OP
Simple Average					10.4%	6.7%	56.8%	-3.0%	29.3	15.6	13.0	1.5	1.4	10.3%	2.2%		

Source: Bloomberg, Kenanga Research

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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.**

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Published and printed by:

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