



SERBA DINAMIK HOLDINGS BERHAD

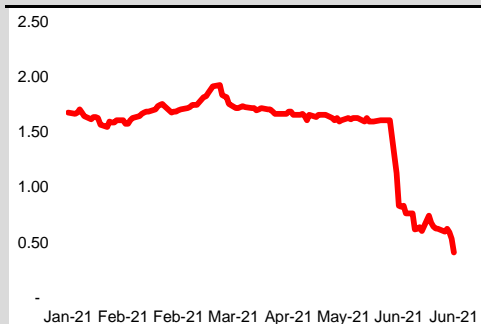
Neutral

DESCRIPTION

An energy services group providing engineering solutions to the O&G and power generation industries with operational facilities in Malaysia, Indonesia, United Arab Emirates (UAE), Bahrain and United Kingdom (UK).

Target Price	RM0.44
Current Price	RM0.41
Upside	7.3%
Market	Main
Sector	Oil & Gas
Bursa Code	5279
Bloomberg Ticker	SDH MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.41 – 2.09
3-Month Average Vol ('000)	123,086.2

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-66.8	-69.1	-68.6
Relative Returns	-74.2	-75.9	-74.9

KEY STOCK DATA

Market Capitalisation (RM m)	1,520.9
No. of Shares (m)	3,709.6

MAJOR SHAREHOLDERS

	%
Dato' Dr. Ir. Mohd Abdul Karim	27.1
Abdul Kadier Sahib	16.3
Employee Provident Fund	8.6

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Sidetracked By Other Issues

Serba Dinamik reported lower core net profit of RM113.3m in its 5QFY21 results, dropping 15.3% as compared to the same period last year, attributable to lower recognition in the EPCC segment with revenue and gross profit declining by 29.4% and 34.7% YoY respectively due to slower activities in Malaysia and the UAE. Gross profit margin for the segment dropped 1.2ppt YoY. While the Group reported a reasonable set of results, negative sentiment on the stock continues to cloud, with increasing focus on governance-related issues. While we make no comment on its public spat with its former external auditors KPMG which may or may not have its merits, we are troubled at the recent resignations of its independent directors due to differences in opinion. We make no changes to earnings at this juncture, though we change our valuation methodology from earnings-based to book value-based to guard against potential uncertainties ahead. We apply a discount of 50% to its trailing 12-month book value of 0.88 and derive our new TP of RM0.44 (from the earnings-based RM1.39 previously). While we maintain our call at **Neutral**, we continue to suggest investors stay sidelined in the interim given the uncertainties ahead.

§ **Results highlight.** The Group's 5QFY21 net profit dropped 37.8% QoQ to RM113.3m, in tandem with the lower revenue by 23.8% QoQ due to lower contribution by all segments. The performance was mainly due to slower activity in Malaysia (-40.5% QoQ) given the recent movement control order imposed. Slower activities were also seen in Indonesia (-50.1% QoQ), UAE (-31.4% QoQ) and Qatar (-20.3% QoQ). Overall, gross profit margin is stable at 17%, though net profit margin dropped 1.8ppt, dragged by the higher finance cost.

§ **View and valuation.** While management has reiterated that business is as usual despite the on-going statutory audit issues, concerns over corporate governance-related issues may continue to cloud until this issue is addressed convincingly. Recent resignation of its external auditor, KPMG, is understandable given the lawsuit against it. Resignation of its independent directors due to differences in opinion is troubling however.

We revise our valuation methodology for the stock by pegging a discount of 50% to its December 2020 book value (trailing FY20 period) of RM0.88 and hence, derive our new TP of RM0.44. Recent share price weakness may continue to persist in light of ongoing concerns. We continue to suggest investors remain sidelined at this juncture despite relative attractiveness from a forward-earnings standpoint.

KEY FINANCIAL SUMMARY

FYE Dec/June (RM m)	2018A	2019A	2021F*	2022F	2023F	CAGR
Revenue	3,283.2	4,528.6	9126.4	7383.0	8490.5	18.2%
Operating Profit	473.3	691.0	1346.7	1034.6	1189.7	13.2%
Pre-tax Profit	437.6	544.8	1048.4	813.0	938.1	14.4%
PATAMI	391.4	496.6	920.0	732.8	845.5	15.2%
EPS (Sen)	10.6	13.4	24.8	19.8	22.8	10.0%
P/E (x)	3.9	3.1	1.6	2.1	1.8	
DPS (Sen)	8.0	4.2	5.5	5.9	6.8	
Dividend Yield (%)	11.9	10.2	13.4	14.4	16.6	

* Change of FYE to June (18 months)

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec</u> <u>(RM m)</u>	<u>5Q21</u>	<u>1Q20</u>	<u>4Q20</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>15M</u> <u>FY21</u>	<u>Comments</u>
Revenue	1,384.3	1,278.7	1,815.6	8.3	-23.8	7,398.3	Lower contribution by all segments mainly in Malaysia given the recent movement control order imposed
Gross profit	235.5	228.7	307.8	3.0	-23.5	1,289.4	
Operating profit	187.7	198.9	260.7	-5.6	-28.0	1,098.2	
Finance costs	-55.4	-50.0	-32.2	10.8	71.9	-247.0	
Pre-tax profit	127.3	147.7	227.3	-13.8	-44.0	833.6	
Tax	-14.7	-14.1	-25.2	4.6	-41.6	-89.0	
Net profit	112.5	133.6	202.1	-15.8	-44.3	744.6	
Minorities	0.8	0.1	0.0	576.3	-1834.8	0.3	
PATAMI	113.3	133.7	182.1	-15.3	-37.8	724.9	
EPS (sen)	3.1	3.6	4.9	-15.3	-37.8	19.5	
<u>Profit Margins (%)</u>							
Gross	17.0	17.9	17.0			17.4	
Operating	13.6	15.6	14.4			14.8	
PBT	9.2	11.5	12.5			11.3	
PATAMI	8.2	10.5	10.0			9.8	
<u>Segmental Breakdown:</u>							
<u>Revenue</u>							
O&M	1252.5	1109.6	1497.1	12.9	-16.3	6296.1	
EPCC	99.3	140.7	203.0	-29.4	-51.1	690.2	
ICT	30.8	27.9	113.0	10.2	-72.8	406.8	
E&T	1.6	0.4	2.5	289.8	-36.8	5.2	
<u>Gross profit</u>							
O&M	214.6	202.5	255.3	6.0	-15.9	1114.0	
EPCC	14.2	21.7	29.0	-34.7	-51.1	101.8	
ICT	6.0	4.3	22.3	39.1	-73.3	71.1	
E&T	0.8	0.2	1.2	263.3	-35.2	2.5	
<u>GP Margins (%)</u>							
O&M	17.1	18.2	17.1			17.7	
EPCC	14.3	15.5	14.3			14.8	
ICT	19.3	15.3	19.8			17.5	
E&T	47.4	50.8	46.2			47.3	

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2018A	2019A	2021F*	2022F	2023F
Revenue	3,283.2	4,528.6	9126.4	7383.0	8490.5
Operating Profit	473.3	691.0	1346.7	1034.6	1189.7
Other Op. Income	7.9	8.4	20.0	1.0	1.0
Administration Expenses	-116.8	-128.2	-256.2	-221.5	-254.7
Pre-tax Profit	437.6	544.8	1048.4	813.0	938.1
Income Tax	-44.8	-46.8	-108.4	-81.3	-93.8
Effective Tax Rate (%)	10.4	8.6	10%	10%	10%
Minorities	1.4	1.3	-0.1	1.1	1.2
PATAMI	391.4	496.6	920.0	732.8	845.5

Growth

Revenue	21%	38%	101%	-19%	15%
Gross Profit	20%	39%	95%	-21%	15%
PATAMI	26%	43%	85%	-20%	15%

* Change of FYE to June (18 months)

Source: Company Prospectus, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2018A	2019A	2021F*	2022F	2023F
Property, plant and equipment	1,146.5	1,688.6	2,428.5	2704.0	2875.0
Inventories	848.2	919.6	1,666.8	1660.7	1909.8
Trade receivables	1,018.4	1,256.1	1,865.1	2523.7	2902.3
Other assets	1,225.8	2,553.7	2,075.9	1553.5	1553.9
Total Assets	4,238.9	6,418.0	8,036.3	8441.9	9241.0
Borrowings	1,711.4	3,339.5	3,935.0	3382.1	3043.9
Trade payables	359.7	460.4	531.2	858.5	987.2
Other liabilities	69.0	178.2	284.5	626.8	1044.3
Minority Interests	4.1	7.2	22.1	1.0	1.5
Total Liabilities	2,140.1	3,978.1	4,750.7	4867.4	5075.4
Total Equity	2,094.7	2,439.9	3,285.6	3574.5	4165.6
Total Equity and Liabilities	4,238.9	6,418.0	8,036.3	8441.9	9241.0

* Change of FYE to June (18 months)

Source: Company Prospectus, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2018A	2019A	2021F*	2022F	2023F
Book Value Per Share	0.6	0.7	0.9	1.0	1.1
NTA Per Share	1.1	1.7	2.1	2.2	2.5
EPS (Sen)	10.6	13.4	24.8	19.8	22.8
DPS (Sen)	8.0	4.2	5.5	5.9	6.8
Payout Ratio (%)	30.1	31.3	22.2	30.0	30.0
ROA (%)	9.2	7.7	11.4	8.7	9.1
ROE (%)	18.6	20.3	28.0	20.5	20.3

* Change of FYE to June (18 months)

Source: Company Prospectus, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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Published and printed by:

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