

30 May 2019

Serba Dinamik Holdings

Another Record Quarter in 1Q19

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SERBADK posted yet another record quarter in 1Q19, with earnings matching expectations, led by higher activities in both core O&M and EPCC segments. Expect further contract wins moving forward as the company targets its order-book to reach RM10b by year end, from RM8.3b currently. Reiterate OUTPERFORM and TP of RM4.80, with key catalysts coming from further wins coupled with sustained earnings delivery.

Within expectations. SERBADK posted yet another record quarter with 1Q19 PATAMI coming in at RM112.2m, within expectations, making up 26%/24% of our/consensus full-year forecasts. Announced dividend of 2.3 sen per share, which was also within expectation (versus 1Q18 of 1.9 sen per share).

Record quarter. YoY, PATAMI jumped 21%, underpinned by growth in both its core segments namely; (i) O&M (+38%) on increased MRO activities in Southeast Asia and Middle-east, while (ii) EPCC (+13%) recorded its first contribution from its hydro-power plants in Laos.

Sequentially, PATAMI grew a marginal 3% YoY, helped by better EPCC (+3%) mainly from works in the UAE and Laos, offset by lower O&M (-3%), due to decreased activities in Turkmenistan, Bahrain and Qatar. Its "Others" segment also posted a sizable jump from the provision of IT-related services in countries such as Qatar and India.

Further contract wins expected. Moving forward, we expect further contract wins throughout the year as the company targets an end-2019 order-book of RM10b, from the current RM8.3b (YTD wins of ~RM1b) providing 2-3 years of earnings' visibility. While Malaysia and the Middle-east still remain as the company's stronghold markets, it is also eyeing further expansion opportunities in the central Asia region, namely in countries such as Turkmenistan, Kazakhstan and Uzbekistan.

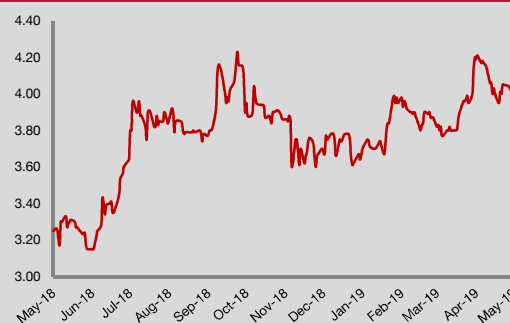
Reiterate OUTPERFORM with an unchanged TP of RM4.80, pegged to 15x PER on FY20E, implying <1x PEG ratio. We continue to like SERBADK for having one the best earnings delivery track record within the oil and gas space, coupled with its good management and best-in-class ROE against other oil and gas peers. That said, further contract wins and earnings delivery would act as key catalysts moving forward. Post-results, we kept our FY19-20E numbers unchanged, implying earnings growth of 12-8%.

Risks to our call include: (i) lower-than-expected order-book replenishment, (ii) weaker-than-expected margins, and (iii) geopolitical unrest in the Middle East affecting oil and gas-related activities.

OUTPERFORM ↔

Price : **RM4.06**
Target Price : **RM4.80** ↔

Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	7.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	5,962.1
Shares Outstanding	1,468.5
52-week range (H)	4.28
52-week range (L)	3.06
3-mth avg daily vol:	1,860,821
Free Float	47%
Beta	1.1

Major Shareholders

Abdullah Abdul Karim	23.7%
Sahib Abdul Kadir	19.0%
Putera Awang Daud	10.7%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Revenue	3283.2	3893.9	4270.7
EBIT	473.3	542.3	598.5
PBT	434.1	469.9	507.4
Net Profit (NP)	387.9	435.2	469.9
Core Net Profit	387.9	435.2	469.9
Consensus (CNP)		469.8	547.9
Earnings Revision (%)		-	-
Core EPS (sen)	26.4	29.6	32.0
CNP growth (%)	25.9	12.2	8.0
DPS (sen)	8.0	8.9	9.6
BV/Share (RM)	1.4	1.6	1.9
Core PER	16.1	14.3	13.3
Price/BV (x)	3.0	2.6	2.3
Gearing (x)	0.5	0.4	0.3
Dividend Yield (%)	1.9	2.1	2.3

30 May 2019

Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
	FY19	FY18		FY18		FY19	FY18	
Y/E : Dec (RM'mil)								
Revenue	984.4	978.0	0.7%	730.8	34.7%	984.4	730.8	34.7%
Cost of sales/services	(806.0)	(797.7)	1.0%	(600.6)	34.2%	(806.0)	(600.6)	34.2%
Gross profit	178.4	180.3	-1.1%	130.2	37.0%	178.4	130.2	37.0%
Other operating income	2.5	2.2	15.6%	0.3	657.2%	2.5	0.3	657.2%
Admin expenses	(35.3)	(39.9)	-11.4%	(27.7)	27.7%	(35.3)	(27.7)	27.7%
EBIT	145.6	142.6	2.1%	102.9	41.5%	145.6	102.9	41.5%
Finance income	1.6	9.5	-83.2%	1.3	26.2%	1.6	1.3	26.2%
Finance costs	(26.0)	(23.9)	8.9%	(8.5)	207.0%	(26.0)	(8.5)	207.0%
Associates	3.3	3.0	9.2%	0.9	283.1%	3.3	0.9	283.1%
Profit before tax	124.5	131.3	-5.2%	96.5	29.0%	124.5	96.5	29.0%
Tax expense	(12.1)	(20.9)	-42.2%	(3.8)	219.9%	(12.1)	(3.8)	219.9%
Non-controlling interest	(0.2)	(1.0)	-77.7%	(0.1)	165.1%	(0.2)	(0.1)	165.1%
Net profit	112.2	109.3	2.6%	92.6	21.1%	112.2	92.6	21.1%
Core net profit	112.2	109.3	2.6%	92.6	21.1%	112.2	92.6	21.1%
Gross margin	18.1%	18.4%		17.8%		18.1%	17.8%	
EBIT margin	14.8%	14.6%		14.1%		14.8%	14.1%	
PBT margin	12.6%	13.4%		13.2%		12.6%	13.2%	
Net margin	11.4%	11.2%		12.7%		11.4%	12.7%	
Core net margin	11.4%	11.2%		12.7%		11.4%	12.7%	
Effective tax rate	9.7%	16.0%		3.9%		9.7%	3.9%	

Source: Company

Segment Breakdown								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
	FY19	FY18		FY18		FY19	FY18	
Y/E : Dec (RM'mil)								
O&M								
Revenue	858.7	873.3	-1.7%	634.5	35.3%	858.7	634.5	35.3%
Operating Profit	157.8	163.3	-3.4%	114.5	37.8%	157.8	114.5	37.8%
Operating Margins	18.4%	18.7%		18.0%		18.4%	18.0%	
EPCC								
Revenue	111.2	103.8	7.2%	94.4	17.9%	111.2	94.4	17.9%
Operating Profit	17.2	16.8	2.6%	15.2	13.3%	17.2	15.2	13.3%
Operating Margins	15.5%	16.2%		16.1%		15.5%	16.1%	
Others								
Revenue	14.4	0.9	1456.6%	2.0	627.7%	14.4	2.0	627.7%
Operating Profit	3.3	0.2	1567.8%	0.5	584.3%	3.3	0.5	584.3%
Operating Margins	23.0%	21.5%		24.5%		23.0%	24.5%	

Source: Company

30 May 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
BUMI ARMADA BERHAD	0.200	1,175.3	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.2	3.8	3.7	0.3	0.3	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	0.890	858.7	Y	12/2019	22.2%	4.4%	-43.1%	4.0%	5.2	9.2	8.8	0.8	0.8	8.3%	0.0%	0.800	UP
DIALOG GROUP BHD	3.30	18,606.4	Y	06/2019	-22.9%	14.8%	10.1%	13.5%	43.4	39.4	34.7	5.3	5.1	13.2%	1.0%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.670	1,072.0	Y	12/2019	-10.1%	-25.6%	845.5%	123.4%	N.A.	73.9	33.1	0.4	0.5	0.6%	0.0%	0.770	MP
MISC BHD	6.81	30,398.1	Y	12/2019	0.8%	-2.9%	21.2%	10.1%	23.0	19.0	17.2	0.9	0.9	4.6%	4.4%	6.65	MP
PANTECH GROUP HOLDINGS BHD	0.500	374.7	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	8.34	66,720.0	Y	12/2019	-9.8%	7.7%	-15.9%	17.0%	13.4	15.9	13.6	2.2	2.0	13.2%	3.1%	8.75	MP
PETRONAS DAGANGAN BHD	24.80	24,637.7	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	29.4	22.1	21.7	4.2	4.0	18.4%	3.2%	24.95	MP
SAPURA ENERGY BHD	0.295	4,702.1	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	97.4	27.2	0.4	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.06	5,962.1	Y	12/2019	18.6%	9.7%	12.2%	8.0%	15.5	13.9	12.8	2.9	2.5	19.4%	2.2%	4.80	OP
UZMA BHD	0.805	257.6	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	5.0	35.8	12.2	0.6	0.5	1.5%	0.0%	0.690	UP
WAH SEONG CORP BHD	0.690	531.6	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.4	10.4	12.7	0.6	0.6	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	4.75	5,130.8	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	19.5	21.0	13.5	3.0	2.7	13.5%	1.3%	5.50	OP

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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