

# Serba Dinamik Holdings

## Seasonally Weaker 3QFY19

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SERBADK's 3QFY19 results came within expectations, posting a YoY growth of 36% from higher O&M and EPCC activities, although QoQ decline of 13% was well anticipated due to summer seasonality factor. Moving forward, the group is targeting to reach RM15b order-book by end-FY20 (from RM10b currently) and maintaining its earnings growth target of 15-20%. Reiterate **OUTPERFORM** and TP of RM5.25 (or RM2.50 on an ex-basis).

**Within expectations.** SERBADK posted 9MFY19 net profit of RM355.8m, coming in within expectations at 78%/76% of our/consensus full-year earnings forecasts. Announced dividend of 2.34 sen per share (or 1.11 sen per share on an ex-basis) was also within expectations, bringing YTD dividends of 7.3 sen per share.

**Seasonally weaker quarter.** YoY, strong results (3QFY19: +36%, cumulative 9MFY19: +28%) were driven by both its core segment, as (i) O&M saw greater activities from maintenance, repair and overhaul of rotating equipment from regions such as the Middle East and Malaysia, while (ii) EPCC posted greater billings from jobs in Tanzania and UAE. However, 3QFY19 results were sequentially weaker by 13% QoQ, as 3Q is typically a seasonally weaker quarter due to the summer weather. As such, the quarter saw slower O&M and EPCC activities from the Middle East.

**Strong growth to sustain.** With the group having already met its target of reaching RM10b order-book by end-FY19, moving forward, the group is setting a new target of RM15b order book by end-FY20. Earnings-wise, the group is also targeting to continue its current trajectory of 15-20% growth YoY (hence, implying further upsides to our FY20E numbers, with current forecasts of only 13% growth). The group's recently secured master service agreement from Petronas would help to further strengthen its position in the Malaysian market, while continued efforts in penetrating the central Asia region, as well as established strength in the Middle East would continue to anchor growth.

**Reiterate OUTPERFORM**, with unchanged TP of RM5.25 (or RM2.50 on an ex-basis) pegged to 15x PER on FY20E – which is around +2SD from its 2-year mean valuations. No changes were made to our FY19-20E numbers post-results, implying earnings growth of 17%/13%.

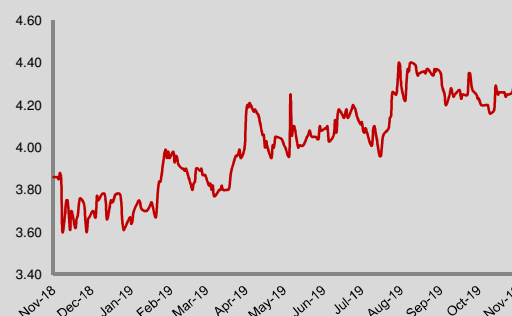
We continue to like SERBADK for having one of the best earnings delivery track records within the oil and gas space, coupled with its outstanding management. Further contract wins and continued earnings delivery would act as catalysts moving forward.

**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 / Ex-Price : RM4.30 / RM2.05  
Target Price / Ex-TP : RM5.25 / RM2.50 ↔

### Share Price Performance



KLCI	1,591.35
YTD KLCI chg	-5.9%
YTD stock price chg	13.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	6,314.6
Shares Outstanding	1,468.5
52-week range (H)	4.56
52-week range (L)	3.55
3-mth avg daily vol:	3,237,630
Free Float	28%
Beta	1.1

### Major Shareholders

Abdullah Abdul Karim	23.8%
Sahib Abdul Kadir	19.0%
Putera Awang Daud	9.5%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Revenue	3283.2	4043.9	4620.7
EBIT	473.3	563.1	647.2
PBT	434.1	490.8	556.1
<b>Net Profit (NP)</b>	<b>387.9</b>	<b>454.5</b>	<b>515.0</b>
<b>Core Net Profit</b>	<b>387.9</b>	<b>454.5</b>	<b>515.0</b>
Consensus (CNP)		467.8	551.9
Earnings Revision (%)		-	-
Core EPS (sen)	26.4	31.0	35.1
CNP growth (%)	25.9	17.2	13.3
DPS (sen)	8.0	9.3	10.5
BV/Share (RM)	1.4	1.6	1.9
Core PER (x)	16.3	13.9	12.3
Price/BV (x)	3.0	2.6	2.3
Net Gearing (x)	0.5	0.4	0.3
Dividend Yield (%)	1.9	2.2	2.4



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Income Statement								
	3Q FY19	2Q FY19	Q-o-Q	3Q FY18	Y-o-Y	9M FY19	9M FY18	Y-o-Y
<b>Y/E : Dec (RM'mil)</b>								
Revenue	1,045.1	1,138.6	-8.2%	770.2	35.7%	3,168.1	2,305.2	37.4%
Cost of sales/services	(865.1)	(941.1)	-8.1%	(638.2)	35.6%	(2,612.1)	(1,903.1)	37.3%
<b>Gross profit</b>	<b>180.0</b>	<b>197.6</b>	<b>-8.9%</b>	<b>132.1</b>	<b>36.3%</b>	<b>555.9</b>	<b>402.0</b>	<b>38.3%</b>
Other operating income	2.8	0.8	241.4%	2.1	29.2%	6.1	5.7	7.2%
Admin expenses	(27.2)	(29.8)	-8.7%	(22.2)	22.6%	(92.4)	(77.0)	20.0%
<b>EBIT</b>	<b>155.5</b>	<b>168.5</b>	<b>-7.7%</b>	<b>112.0</b>	<b>38.9%</b>	<b>469.6</b>	<b>330.7</b>	<b>42.0%</b>
Finance income	4.0	10.3	-61.1%	0.9	345.4%	15.9	3.0	422.0%
Finance costs	(30.8)	(37.5)	-18.0%	(19.0)	62.1%	(94.3)	(38.3)	146.5%
Associates	8.7	2.6	235.4%	3.2	168.3%	14.6	7.3	99.8%
<b>Profit before tax</b>	<b>137.4</b>	<b>143.8</b>	<b>-4.5%</b>	<b>97.1</b>	<b>41.5%</b>	<b>405.7</b>	<b>302.8</b>	<b>34.0%</b>
Tax expense	(23.2)	(12.7)	82.7%	(14.7)	57.7%	(48.0)	(23.8)	101.2%
Non-controlling interest	(1.0)	(0.7)	46.8%	0.8	-227.9%	(2.0)	(0.3)	478.4%
<b>Net profit</b>	<b>113.2</b>	<b>130.4</b>	<b>-13.2%</b>	<b>83.2</b>	<b>36.0%</b>	<b>355.8</b>	<b>278.6</b>	<b>27.7%</b>
<b>Core net profit</b>	<b>113.2</b>	<b>130.4</b>	<b>-13.2%</b>	<b>83.2</b>	<b>36.0%</b>	<b>355.8</b>	<b>278.6</b>	<b>27.7%</b>
Gross margin	17.2%	17.4%		17.1%		17.5%	17.4%	
EBIT margin	14.9%	14.8%		14.5%		14.8%	14.3%	
PBT margin	13.1%	12.6%		12.6%		12.8%	13.1%	
Net margin	10.8%	11.5%		10.8%		11.2%	12.1%	
Core net margin	10.8%	11.5%		10.8%		11.2%	12.1%	
Effective tax rate	16.9%	8.8%		15.1%		11.8%	7.9%	

Source: Company

Segment Breakdown								
	3Q FY19	2Q FY19	Q-o-Q	3Q FY18	Y-o-Y	9M FY19	9M FY18	Y-o-Y
<b>Y/E : Dec (RM'mil)</b>								
<b><u>O&amp;M</u></b>								
Revenue	925.8	951.7	-2.7%	698.1	32.6%	2,736.2	2,055.2	33.1%
Operating Profit	161.6	168.7	-4.2%	120.2	34.4%	488.2	361.0	35.2%
Operating Margins	17.5%	17.7%		17.2%		17.8%	17.6%	
<b><u>EPCC</u></b>								
Revenue	106.7	147.2	-27.5%	69.2	54.3%	365.1	243.1	50.2%
Operating Profit	16.2	22.0	-26.3%	11.2	45.4%	55.5	39.1	41.9%
Operating Margins	15.2%	15.0%		16.1%		15.2%	16.1%	
<b><u>Others</u></b>								
Revenue	12.6	39.8	-68.3%	2.9	332.1%	66.8	6.9	870.5%
Operating Profit	2.2	6.8	-68.3%	0.7	218.6%	12.3	1.9	545.4%
Operating Margins	17.1%	17.1%		23.2%		18.4%	27.7%	

Source: Company

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## 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 BHD	0.490	2,879.5	N	12/2019	-15.9%	0.0%	34.4%	2.3%	12.7	9.5	9.3	0.9	0.9	9.0%	0.0%	0.530	MP
DAYANG ENTERPRISE HLDGS BHD	1.93	1,953.7	Y	12/2019	0.3%	31.9%	4.6%	6.0%	13.6	13.0	12.3	2.0	1.7	14.2%	0.0%	2.35	OP
DIALOG GROUP BHD	3.40	19,170.2	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.8	34.2	31.2	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.890	1,424.0	Y	12/2019	-10.1%	43.0%	-	121.1%	N.A.	N.A.	62.7	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.31	37,093.7	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	28.1	21.6	20.5	1.0	1.1	4.9%	3.6%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.500	375.0	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	7.08	56,640.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.4	16.3	14.2	1.9	1.8	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	23.90	23,743.6	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.4	25.1	23.3	4.0	3.8	15.6%	2.8%	22.75	MP
SAPURA ENERGY BHD	0.285	4,542.7	Y	01/2020	5.9%	20.7%	-	236.1%	N.A.	N.A.	55.8	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.30	6,314.6	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.5	14.0	12.4	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.915	292.8	Y	06/2020	21.4%	2.2%	240.2%	8.8%	30.2	8.9	8.2	0.6	0.6	6.7%	0.0%	1.05	MP
VELESTO ENERGY BHD	0.380	3,121.9	Y	12/2019	5.3%	17.2%	119.7%	298.0%	N.A.	205.4	51.6	1.1	1.1	0.5%	0.0%	0.400	OP
WAH SEONG CORP BHD	1.24	955.4	Y	12/2019	-13.9%	22.7%	-6.2%	26.9%	15.2	16.2	12.7	1.0	0.9	5.3%	0.0%	1.30	MP
YINSON HOLDINGS BHD	6.65	7,174.1	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.3	33.3	19.9	4.2	3.8	11.9%	0.9%	7.75	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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