

01 July 2020

Serba Dinamik Holdings

Big ICT Contract Wins

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SERBADK has won 3 overseas and 7 local contracts, guesstimated to worth ~RM760m in total. Among them are two ICT contracts from Zambia, which is the largest ICT contract in the company's history. This is a huge boost for its ambition of growing the ICT business into its third core segment, besides broadening revenue drivers. The group's order-book now stands at a strong ~RM17.5b. Maintain **OUTPERFORM**, with TP of RM2.70. Still like the name given its resilient earnings growth delivery.

Series of contract wins. SERBADK announced that it has secured three overseas contracts, specifically one EPCC job from Indonesia, and two ICT contracts from Zambia, worth approximately USD126.8m combined (~RM543.5m). Additionally, the company also announced seven O&M contracts locally in Malaysia. While the local contracts do not carry specific values, as they are on a "call-out" basis, we guesstimate the local contracts to be worth ~RM220m combined. Thus, this brings total wins to an estimated sum of ~RM760m. Refer table below for detailed breakdown of contracts awarded.

Biggest ICT win for the company. We surmise that the bulk of the overseas contract sum stems from the ICT contracts in Zambia (i.e. >USD100m), thus these contracts are the largest ICT contracts in the company's history. This is a huge boost to the group's ambition of growing its ICT segment to be its third core business, complementing the two other core segments of O&M and EPCC, as well as broadening the company's revenue base. Contribution from the segment is still relatively inconsequential at the moment, but the company is targeting the segment to grow to ~RM300m revenue contribution by year-end (~5% of FY20E revenue). Additionally, this also marks the company's first contract in Zambia, as well as its second in Africa (the group has existing contracts in Tanzania). As for the local contract wins, the contracts would further solidify SERBADK's market leading position within the domestic onshore maintenance space.

Financial impact from the contracts. The contract wins represent the group's third contract win YTD, bringing YTD wins to ~RM9.4b. Post-win, its order-book currently stands at ~RM17.5b, providing ~3-4 years of revenue visibility. We expect these contracts to fetch 15-20% gross margins, in line with the company's historical average.

Maintain OUTPERFORM, with unchanged TP of RM2.70, pegged to 15x PER on FY21E EPS. No changes to our FY20-21E numbers, as the contract wins are still within our FY20E replenishment assumption of RM10b.

We continue to like SERBADK given its superb record of earnings growth delivery, and also having one of the best ROEs within the sector. With only ~40% of its order-book exposed to oil and gas, we believe it to be one of the few resilient names among its peers to better navigate through the current oil down-cycle.

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 : RM1.68
Target Price : RM2.70 ↔

Share Price Performance



KLCI 1,500.97
YTD KLCI chg -5.5%
YTD stock price chg -25.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SDH MK Equity
Market Cap (RM m) 5,563.1
Shares Outstanding 3,371.6
52-week range (H) 2.52
52-week range (L) 1.02
3-mth avg daily vol: 20,728,610
Free Float 48%
Beta 1.6

Major Shareholders

Abdullah Mohd Abdul 25.6%
Sahib Abdul Kadier 17.6%
Employees Provident Fund 9.0%

Summary Earnings Table

| FYE Dec (RM m) | 2019A | 2020E | 2021E |
|------------------------|--------------|--------------|--------------|
| Revenue | 4528.6 | 5207.9 | 5989.1 |
| EBIT | 692.6 | 781.2 | 898.4 |
| Profit Before Tax | 544.8 | 604.9 | 678.0 |
| Net Profit | 496.6 | 544.4 | 610.2 |
| Core Net Profit | 496.6 | 544.4 | 610.2 |
| Consensus (CNP) | | 568.7 | 656.8 |
| Earnings Revision (%) | | - | - |
| Core EPS (sen) | 14.7 | 16.1 | 18.1 |
| Core NP growth (%) | 26.9 | 9.6 | 12.1 |
| DPS (sen) | 4.5 | 4.8 | 5.4 |
| BV/Share (RM) | 0.7 | 0.9 | 1.2 |
| PER (x) | 11.2 | 10.2 | 9.1 |
| Price/BV (x) | 2.3 | 1.8 | 1.4 |
| Net Gearing (x) | 0.8 | 0.8 | 0.6 |
| Div Yield (%) | 2.7 | 2.9 | 3.3 |



01 July 2020

Details of Contracts Secured (Overseas)

| Contract Title | Client | Duration | Segment | Country |
|------------------------------------------------------------------------------------------------------|----------------------|-------------------------|---------|-----------|
| Procurement of DRUPS 3x1800 KVA Capacity Hitec Powerpro equipments for PT Polyrama Propindo | PT Polyrama Propindo | April 2020 – April 2025 | EPCC | Indonesia |
| Implementation of Digital Microlending Lending Platform through USSD channel for Zamtel | ZCOM Systems Ltd | July 2020 – July 2027 | ICT | Zambia |
| Implementation of Digital Health Platform for National Health Insurance Management Authority (NHIMA) | ZCOM Systems Ltd | July 2020 – July 2027 | ICT | Zambia |

Source: Bursa Malaysia

Note: The combined estimated contract value of the contracts secured above is ~USD126.8 million (equivalent to ~RM543.5m)

Details of Contracts Secured (Local)

| Contract Title | Client | Duration | Segment | Country |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------|---------|----------|
| Design, supply and delivery of Microturbine Generator (MTG) package for F28 MTG replacement project | Sarawak Shell Berhad | 16 March 2020 – 15 December 2021 | O&M | Malaysia |
| Provision of Capstone Microturbine vendor support services | Sea Hibiscus Sdn Bhd | 10 April 2020 – 9 April 2025 with an option of one (1) year extension | O&M | Malaysia |
| Provision of vendor support services and supply of parts for Capstone Microturbine Generators | Sarawak Shell Berhad | 15 April 2020 – 14 April 2025 | O&M | Malaysia |
| Provision of upgrade for unit #2 DCS | Sejingkat Power Corporation Sdn Bhd | March 2020 - March 2021 | O&M | Malaysia |
| Unit 1 & Unit 2 boiler and unfired pressure vessel inspection, servicing & Certificate of Fitness (CF) renewal | SEB Power Sdn Bhd | April 2020 - April 2021 | O&M | Malaysia |
| Provision of personal protective equipment ("PPE") and services for MDC's operations (Package B: Specialize PPE) | MDC Oil & Gas (SK 320) Ltd | 10 June 2020 – 31 May 2024 with an option of one (1) year extension | O&M | Malaysia |
| Term Contract for Mechanical rotating maintenance services | Pengerang Refining Company Sdn Bhd | June 2020 – June 2024 | O&M | Malaysia |

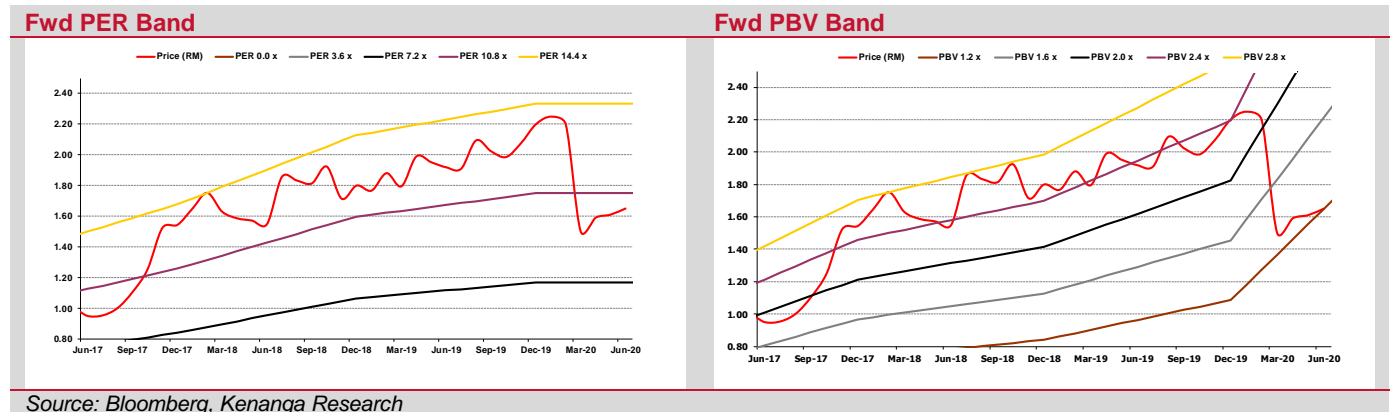
Source: Bursa Malaysia

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01 July 2020

| Income Statement | | | | | | Financial Data & Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------|-------|-------|--------|--------|--------|
| FY Dec (RM m) | 2017A | 2018A | 2019A | 2020E | 2021E | FY Dec | 2017A | 2018A | 2019A | 2020E | 2021E |
| Revenue | 2722.3 | 3283.2 | 4528.6 | 5207.9 | 5989.1 | Growth (%) | | | | | |
| Operating Profit | 394.1 | 473.3 | 692.6 | 781.2 | 898.4 | Revenue | 25.5 | 20.6 | 37.9 | 15.0 | 15.0 |
| Interest Exp | (33.9) | (49.6) | (182.8) | (206.3) | (250.3) | Op. Profit | 30.1 | 20.1 | 46.3 | 12.8 | 15.0 |
| PBT | 358.1 | 437.6 | 544.8 | 604.9 | 678.0 | PBT | 33.6 | 22.2 | 24.5 | 11.0 | 12.1 |
| Taxation | (41.3) | (44.8) | (46.8) | (60.5) | (67.8) | Net Profit | 25.2 | 27.1 | 26.9 | 9.6 | 12.1 |
| Minority Interest | 3.3 | (1.4) | (1.3) | 0.0 | 0.0 | Profitability (%) | | | | | |
| Net Profit | 308.1 | 391.5 | 496.6 | 544.4 | 610.2 | Operating Margin | 14.5 | 14.4 | 15.3 | 15.0 | 15.0 |
| Core Net Profit | 308.1 | 391.5 | 496.6 | 544.4 | 610.2 | PBT Margin | 13.2 | 13.3 | 12.0 | 11.6 | 11.3 |
| Balance Sheet | | | | | | Net Margin | 11.3 | 11.9 | 11.0 | 10.5 | 10.2 |
| FY Dec (RM m) | 2017A | 2018A | 2019A | 2020E | 2021E | Effective Tax Rate | 11.5 | 10.2 | 8.6 | 10.0 | 10.0 |
| Fixed Assets | 646.9 | 1,273.1 | 1,928.7 | 2,728.7 | 3,528.7 | ROA | 12.3 | 9.0 | 7.8 | 6.9 | 6.4 |
| Int. Assets | 3.8 | 6.4 | 13.2 | 13.2 | 13.2 | ROE | 22.2 | 18.7 | 20.4 | 17.3 | 15.5 |
| Inv. in associate. | 44.1 | 305.9 | 391.8 | 391.8 | 391.8 | DuPont Analysis | | | | | |
| Other LT assets | 3.1 | 1.0 | 5.3 | 5.3 | 5.3 | Net Margin (%) | 11.3 | 11.9 | 11.0 | 10.5 | 10.2 |
| Inventories | 581.1 | 848.3 | 919.6 | 1,057.5 | 1,057.5 | Assets T/O (x) | 1.1 | 0.8 | 0.7 | 0.7 | 0.6 |
| Receivables | 854.9 | 957.3 | 1,265.2 | 1,454.9 | 1,454.9 | Lev. Factor (x) | 1.8 | 2.1 | 2.6 | 2.5 | 2.4 |
| Other CA | 83.5 | 218.0 | 523.8 | 523.8 | 523.8 | ROE (%) | 22.2 | 18.7 | 20.4 | 17.3 | 15.5 |
| Cash | 293.2 | 760.8 | 1,306.6 | 1,750.5 | 2,543.8 | Leverage | | | | | |
| Total Assets | 2,510.7 | 4,370.8 | 6,354.2 | 7,925.8 | 9,519.1 | Debt/Asset (x) | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 |
| Payables | 369.3 | 426.5 | 426.5 | 490.5 | 490.5 | Debt/Equity (x) | 0.50 | 0.8 | 1.4 | 1.3 | 1.3 |
| ST Borrowings | 604.9 | 604.0 | 404.7 | 415.1 | 495.1 | Net (Cash)/Debt | 396.4 | 950.7 | 2044.8 | 2400.9 | 2407.6 |
| Other ST Liabil. | 47.4 | 54.0 | 89.7 | 89.7 | 89.7 | Net Debt/Eq. (x) | 0.3 | 0.5 | 0.8 | 0.8 | 0.6 |
| LT Borrowings | 84.7 | 1,107.5 | 2,946.7 | 3,736.3 | 4,456.3 | Valuations | | | | | |
| Other LT Liabil. | 13.3 | 86.5 | 46.7 | 46.7 | 46.7 | EPS (sen) | 9.1 | 11.6 | 14.7 | 16.1 | 18.1 |
| Minorities Int. | 4.4 | 4.1 | 7.2 | 7.2 | 7.2 | GDPS (sen) | 2.7 | 3.5 | 4.5 | 4.8 | 5.4 |
| Net Assets | 1,386.7 | 2,088.2 | 2,432.7 | 3,140.4 | 3,933.7 | BVPS (RM) | 0.4 | 0.6 | 0.7 | 0.9 | 1.2 |
| Share Capital | 929.2 | 1,334.3 | 1,344.3 | 1,344.3 | 1,344.3 | PER (x) | 18.1 | 14.2 | 11.2 | 10.2 | 9.1 |
| Reserves | 457.5 | 753.8 | 1,088.4 | 1,796.1 | 2,589.4 | Div Yield (%) | 1.7 | 2.1 | 2.7 | 2.9 | 3.3 |
| Equity | 1,386.7 | 2,088.2 | 2,432.7 | 3,140.4 | 3,933.7 | P/BV (x) | 4.0 | 2.7 | 2.3 | 1.8 | 1.4 |
| Cashflow Statement | | | | | | | | | | | |
| FY Dec (RM m) | 2017A | 2018A | 2019A | 2020E | 2021E | | | | | | |
| Operating CF | 88.8 | 83.2 | 212.6 | 514.4 | 580.2 | | | | | | |
| Investing CF | (255.2) | (858.6) | (890.8) | (800.0) | (800.0) | | | | | | |
| Financing CF | 281.2 | 1,242.7 | 1,311.6 | 729.6 | 1,013.1 | | | | | | |

Source: Kenanga Research



01 July 2020

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 | 0.230 | 1,353.8 | N | 12/2020 | 1.4% | 4.8% | 10.3% | 12.5% | 4.8 | 4.3 | 3.9 | 0.4 | 0.4 | 9.2% | 0.0% | 0.300 | OP |
| DAYANG ENTERPRISE HLDGS BHD | 1.26 | 1,370.0 | Y | 12/2020 | -25.9% | 7.7% | -38.7% | 9.5% | 6.2 | 10.1 | 9.3 | 0.9 | 0.9 | 8.8% | 0.0% | 1.30 | MP |
| DIALOG GROUP BHD | 3.61 | 20,354.3 | Y | 06/2020 | 17.7% | 6.1% | 4.5% | 9.7% | 38.0 | 36.4 | 33.1 | 5.4 | 5.1 | 14.4% | 1.1% | 4.15 | OP |
| MALAYSIA MARINE AND HEAVY EN | 0.400 | 640.0 | Y | 12/2020 | 3.2% | 28.4% | -72.2% | 23.2% | N.A. | 67.4 | 54.7 | 0.3 | 0.3 | 0.4% | 0.0% | 0.450 | MP |
| MISC BHD | 7.66 | 34,192.3 | Y | 12/2020 | 3.4% | 5.4% | 33.2% | -19.5% | 21.2 | 15.9 | 19.8 | 1.0 | 1.0 | 6.1% | 3.9% | 8.85 | OP |
| PANTECH GROUP HOLDINGS BHD | 0.370 | 274.8 | Y | 02/2021 | -41.9% | 57.1% | -47.6% | 79.8% | 8.4 | 16.0 | 8.9 | 0.5 | 0.5 | 2.8% | 2.7% | 0.310 | UP |
| PETRONAS CHEMICALS GROUP BHD | 6.20 | 49,600.0 | Y | 12/2020 | -16.5% | 10.4% | -33.1% | 36.2% | 17.6 | 26.3 | 19.3 | 1.7 | 1.6 | 6.2% | 1.9% | 5.75 | MP |
| PETRONAS DAGANGAN BHD | 20.60 | 20,465.2 | Y | 12/2020 | -16.7% | 12.2% | -42.7% | 68.5% | 25.0 | 43.5 | 25.8 | 3.4 | 3.4 | 7.8% | 1.8% | 17.95 | UP |
| SAPURA ENERGY BHD | 0.095 | 1,518.0 | Y | 01/2021 | -11.4% | 10.8% | -124.0% | -249.3% | N.A. | N.A. | N.A. | 0.2 | 0.2 | -3.5% | 0.0% | 0.050 | UP |
| SERBA DINAMIK HOLDINGS | 1.65 | 5,563.1 | Y | 12/2020 | 15.0% | 15.0% | 9.6% | 12.1% | 11.2 | 10.2 | 9.1 | 2.3 | 1.8 | 19.5% | 3.3% | 2.70 | OP |
| UZMA BHD | 0.590 | 188.8 | Y | 06/2020 | 14.6% | 2.3% | 186.6% | 10.1% | 19.5 | 6.8 | 6.2 | 0.4 | 0.4 | 5.6% | 0.0% | 0.670 | MP |
| VELESTO ENERGY BHD | 0.145 | 1,191.3 | Y | 12/2020 | -9.9% | 0.0% | -19.4% | 24.4% | 37.2 | 46.2 | 37.1 | 0.4 | 0.4 | 0.9% | 0.0% | 0.140 | UP |
| WAH SEONG CORP BHD | 0.500 | 387.2 | Y | 12/2020 | -56.3% | 45.5% | -203.6% | -148.5% | 5.5 | N.A. | N.A. | 0.4 | 0.4 | -7.2% | 0.0% | 0.510 | UP |
| YINSON HOLDINGS BHD | 5.90 | 6,288.0 | Y | 01/2021 | -26.7% | -1.1% | 76.5% | 5.3% | 29.3 | 16.6 | 15.8 | 3.9 | 3.4 | 22.0% | 1.0% | 7.10 | OP |
| Simple Average | | | | | -10.7% | 14.6% | -18.6% | -9.0% | 18.7 | 25.0 | 20.3 | 1.5 | 1.4 | 6.6% | 1.1% | | |

Source: Bloomberg, Kenanga Research

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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