

Serba Dinamik Holdings

Contract for Data Centre in UAE

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SERBADK has been awarded a contract for the engineering and construction of a data centre in Abu Dhabi, UAE, worth USD350m (~RM1,469m), expected to be completed within 4 years. Overall, we are positive on the win, being a fruition of the company's efforts in expanding its ICT segment, with the contract also bearing low job execution and delivery risks. Post-award, the group's order-book stands at RM18.5b, of which 10% is derived from its ICT segment. **Maintain OUTPERFORM, with TP of RM2.70.**

Data centre project in UAE. SERBADK announced that it had accepted a letter of award from Future Digital Data Systems L.L.C to undertake the engineering and construction of a data centre in Abu Dhabi, UAE. The project forms part of the client's initiative to develop a series of data centres across the MENA region, addressing the growing needs for such technologies e.g. cloud, AI, machine learning, and big data analytics. The contract is valued at USD350m (or ~RM1,469m), with an effective date of 1 September 2020, and is expected to be completed within 4 years.

Further strengthening of its ICT segment. We are positive on the contract award, being a fruition of the group's effort in expanding its ICT segment. To-date, the group's order-book stands at RM18.5b, of which 10% is derived from its ICT segment. As a comparison, the ICT segment had only contributed <5% of its order-book during the start of the year. The expansion of the group's ICT segment also provides the group an additional source of revenue away from oil and gas, especially when the sector is currently in the midst of an extended down-cycle.

Meanwhile, we also do not see major risks in the contract's job execution and delivery. Most of the works required seem to be fairly low in complexity (e.g. civil works, building works, and mechanical, electrical and plumbing works) and should fall comfortably within SERBADK's expertise.

Overall, this marks as the company's fourth contract announcement YTD, bringing YTD wins to ~RM10.9b. We expect the contract to fetch gross margin of roughly 15-20%, 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 for now, with the YTD wins still broadly within our FY20E order-book replenishment assumption of RM10b, while also pending the release of the group's 2QFY20 results later this month.

We continue to like SERBADK given its superb record of earnings growth delivery, and for 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 : RM1.71
Target Price : RM2.70 ↔

Share Price Performance



KLCI 1,588.57
YTD KLCI chg 0.0%
YTD stock price chg -22.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SDH MK Equity
Market Cap (RM m) 5,765.4
Shares Outstanding 3,371.6
52-week range (H) 2.52
52-week range (L) 1.02
3-mth avg daily vol: 16,636,900
Free Float 47%
Beta 1.6

Major Shareholders

Abdullah Mohd Abdul 25.8%
Sahib Abdul Kadier 17.6%
Employees Provident Fund 9.4%

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)	11.6	10.6	9.4
Price/BV (x)	2.4	1.8	1.5
Net Gearing (x)	0.8	0.8	0.6
Div Yield (%)	2.6	2.8	3.2

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Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	2722.3	3283.2	4528.6	5207.9	5989.1
Operating Profit	394.1	473.3	692.6	781.2	898.4
Interest Exp	(33.9)	(49.6)	(182.8)	(206.3)	(250.3)
PBT	358.1	437.6	544.8	604.9	678.0
Taxation	(41.3)	(44.8)	(46.8)	(60.5)	(67.8)
Minority Interest	3.3	(1.4)	(1.3)	0.0	0.0
Net Profit	308.1	391.5	496.6	544.4	610.2
Core Net Profit	308.1	391.5	496.6	544.4	610.2

Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	646.9	1,273.1	1,928.7	2,728.7	3,528.7
Int. Assets	3.8	6.4	13.2	13.2	13.2
Inv. in associate.	44.1	305.9	391.8	391.8	391.8
Other LT assets	3.1	1.0	5.3	5.3	5.3
Inventories	581.1	848.3	919.6	1,057.5	1,057.5
Receivables	854.9	957.3	1,265.2	1,454.9	1,454.9
Other CA	83.5	218.0	523.8	523.8	523.8
Cash	293.2	760.8	1,306.6	1,750.5	2,543.8
Total Assets	2,510.7	4,370.8	6,354.2	7,925.8	9,519.1
Payables	369.3	426.5	426.5	490.5	490.5
ST Borrowings	604.9	604.0	404.7	415.1	495.1
Other ST Liabil.	47.4	54.0	89.7	89.7	89.7
LT Borrowings	84.7	1,107.5	2,946.7	3,736.3	4,456.3
Other LT Liabil.	13.3	86.5	46.7	46.7	46.7
Minorities Int.	4.4	4.1	7.2	7.2	7.2
Net Assets	1,386.7	2,088.2	2,432.7	3,140.4	3,933.7
Share Capital	929.2	1,334.3	1,344.3	1,344.3	1,344.3
Reserves	457.5	753.8	1,088.4	1,796.1	2,589.4
Equity	1,386.7	2,088.2	2,432.7	3,140.4	3,933.7

Cashflow Statement

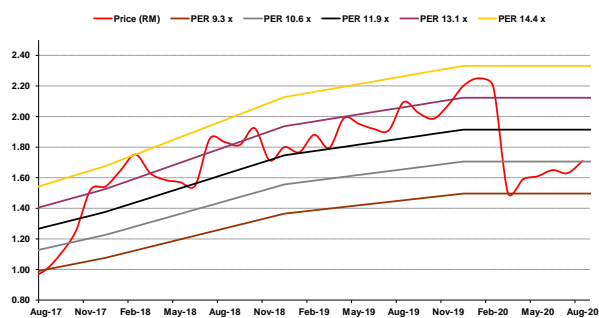
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	88.8	83.2	212.6	514.4	580.2
Investing CF	(255.2)	(858.6)	(890.8)	(800.0)	(800.0)
Financing CF	281.2	1,242.7	1,311.6	729.6	1,013.1

Source: Kenanga Research

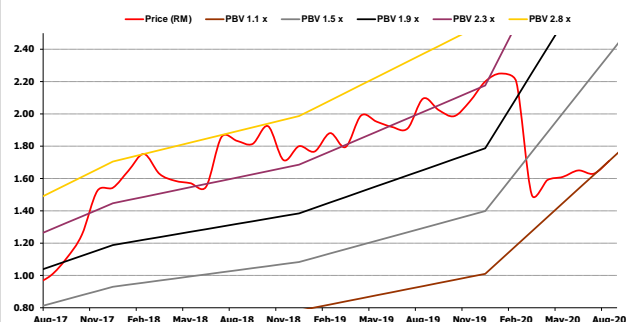
Financial Data & Ratios

FY Dec	2017A	2018A	2019A	2020E	2021E
Growth (%)					
Revenue	25.5	20.6	37.9	15.0	15.0
Op. Profit	30.1	20.1	46.3	12.8	15.0
PBT	33.6	22.2	24.5	11.0	12.1
Net Profit	25.2	27.1	26.9	9.6	12.1
Profitability (%)					
Operating Margin	14.5	14.4	15.3	15.0	15.0
PBT Margin	13.2	13.3	12.0	11.6	11.3
Net Margin	11.3	11.9	11.0	10.5	10.2
Effective Tax Rate	11.5	10.2	8.6	10.0	10.0
ROA	12.3	9.0	7.8	6.9	6.4
ROE	22.2	18.7	20.4	17.3	15.5
DuPont Analysis					
Net Margin (%)	11.3	11.9	11.0	10.5	10.2
Assets T/O (x)	1.1	0.8	0.7	0.7	0.6
Lev. Factor (x)	1.8	2.1	2.6	2.5	2.4
ROE (%)	22.2	18.7	20.4	17.3	15.5
Leverage					
Debt/Asset (x)	0.3	0.4	0.5	0.5	0.5
Debt/Equity (x)	0.50	0.8	1.4	1.3	1.3
Net (Cash)/Debt	396.4	950.7	2044.8	2400.9	2407.6
Net Debt/Eq. (x)	0.3	0.5	0.8	0.8	0.6
Valuations					
EPS (sen)	9.1	11.6	14.7	16.1	18.1
PS (sen)	2.7	3.5	4.5	4.8	5.4
BVPS (RM)	0.4	0.6	0.7	0.9	1.2
PER (x)	18.7	14.7	11.6	10.6	9.4
Div Yield (%)	1.6	2.0	2.6	2.8	3.2
P/BV (x)	4.2	2.8	2.4	1.8	1.5

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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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	0.225	1,324.3	N	12/2020	1.4%	4.8%	10.3%	12.5%	4.7	4.2	3.8	0.4	0.4	9.2%	0.0%	0.300	OP
DAYANG ENTERPRISE HLDGS BHD	1.13	1,308.3	Y	12/2020	-25.9%	7.7%	-38.7%	9.5%	5.6	9.1	8.3	0.8	0.8	8.8%	0.0%	1.30	MP
DIALOG GROUP BHD	3.71	20,918.1	Y	06/2020	17.7%	6.1%	4.5%	9.7%	39.0	37.4	34.1	5.5	5.2	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.375	600.0	Y	12/2020	3.2%	28.4%	-289.5%	-113.0%	N.A.	N.A.	N.A.	0.3	0.3	-2.8%	0.0%	0.390	MP
MISC BHD	7.84	34,995.8	Y	12/2020	3.4%	10.7%	33.2%	-9.7%	21.7	16.3	18.1	1.0	1.0	6.1%	3.8%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.365	273.8	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	8.3	15.8	8.8	0.5	0.4	2.8%	2.7%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	5.92	47,360.0	Y	12/2020	-16.5%	10.4%	-33.1%	36.2%	16.8	25.1	18.5	1.6	1.5	6.2%	2.0%	5.75	MP
PETRONAS DAGANGAN BHD	20.30	20,167.1	Y	12/2020	-16.7%	12.2%	-42.7%	68.5%	24.6	42.9	25.5	3.4	3.3	7.8%	1.9%	17.95	UP
SAPURA ENERGY BHD	0.100	1,597.9	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	1.71	5,765.4	Y	12/2020	15.0%	15.0%	9.6%	12.1%	11.6	10.6	9.4	2.4	1.8	19.5%	3.2%	2.70	OP
UZMA BHD	0.600	192.0	Y	06/2020	14.6%	2.3%	186.6%	10.1%	19.8	6.9	6.3	0.4	0.4	5.6%	0.0%	0.670	MP
VELESTO ENERGY BHD	0.150	1,232.3	Y	12/2020	-9.9%	0.0%	-19.4%	24.4%	38.5	47.8	38.4	0.4	0.4	0.9%	0.0%	0.140	UP
WAH SEONG CORP BHD	0.480	371.7	Y	12/2020	-56.3%	45.5%	-	-	5.3	N.A.	N.A.	0.4	0.4	-7.2%	0.0%	0.510	UP
YINSON HOLDINGS BHD	6.20	6,610.4	Y	01/2021	-26.7%	-1.1%	76.5%	5.3%	30.8	17.5	16.6	4.1	3.6	22.0%	1.0%	7.10	OP
Simple Average					-10.7%	15.0%	-34.1%	-18.0%	18.9	21.2	17.1	1.5	1.4	6.4%	1.1%		

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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