

09 December 2020

Serba Dinamik Holdings

10% Private Placement

By Steven Chan / steven.chan@kenanga.com.my

SERBADK has proposed a 10% private placement (subject to EGM). Based on an illustrative price of RM1.53, the placement is expected to raise RM515.35m, to be used for debts repayment, capex and working capital. This is the group's second private placement in the year (first was in May and oversubscribed 1.5x). We are neutral on this, seeing this necessary to fund upcoming ventures while maintaining its net gearing level. Maintain OP with lowered TP of RM2.50.

10% private placement. SERBADK had proposed to undertake a private placement of 10% of the existing total number of issued shares, at a later-determined price. The private placement would require the approval of: (i) shareholders via an EGM, and (ii) Bursa Securities. Barring any unforeseen circumstances and subject to all required approvals being obtained, the proposed private placement is expected to be completed by 1QFY21.

Utilisation of proceeds. Based on an illustrative price of RM1.53 per placement share (20% discount from yesterday's close), the private placement is expected to raise gross proceeds of RM515.35m. Of the funds raised, (i) RM100m will be used for partial repayment of bank borrowings, (ii) RM100m for capex for the Teluk Ramunia yard, (iii) RM303.46m for working capital, mainly for the EPCC of its Abu Dhabi Innovation Hub and Data Center projects, and (iv) RM11.89m for related expenses.

Reduced borrowings and interest expenses. The planned RM100m borrowing repayment represents ~2.6% of the group's total borrowings, and is expected to result in interest savings of RM4.27m per annum (based on assumed interest rate of 4.27%). However, its net-gearing level will remain mostly intact at 0.9x as currently.

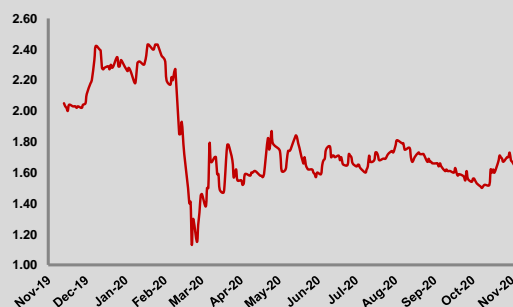
Prospects of the Teluk Ramunia Yard. Acquisition of the Teluk Ramunia Yard was completed in September 2020 at a price of RM320m. Via the yard, SERBADK is seeking to venture into upstream oil and gas activities, enabling the group to provide services such as decommissioning works, offshore transportation and installation, integrated hook-up and commissioning, top side maintenance etc. This puts them in direct competition against other upstream contractors e.g. DAYANG, SAPNRG and MHB (refer to our initial report on the acquisition dated 15 June 2020). The RM100m capex raised via the private placement will be used for the revival of the yard, restoring its operational capacity of 50k tonnes. This includes the construction of building facilities and purchase of heavy machinery.

Working capital to be used for Abu Dhabi projects. Of the RM303.46m working capital raised from the private placement: (i) 55% is expected to go into the Abu Dhabi Innovation Hub project, (ii) 35% for the Abu Dhabi Data Centre project, and (iii) remainder 10% for general working capital. The Abu Dhabi Innovation Hub and Data Centre projects (awarded back in April 2020 and August 2020, respectively – refer to our reports dated 16 April 2020 and 7 August 2020 for further details) carry contract values of RM7.7b and RM1.5b, respectively. Combined, these two projects constitute roughly half of the group's RM18.5b order-book. Needless to say these projects are massive undertakings for the group, and thus, would necessitate a high working capital requirement.

OUTPERFORM ↔

Price : RM1.91
Target Price : RM2.50 ↓

Share Price Performance



KLCI	1,631.70
YTD KLCI chg	2.7%
YTD stock price chg	-13.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	6,442.0
Shares Outstanding	3,372.8
52-week range (H)	2.52
52-week range (L)	1.02
3-mth avg daily vol:	10,907,430
Free Float	46%
Beta	1.4

Major Shareholders

Abdullah Mohd Abdul	26.9%
Sahib Abdul Kadier	17.6%
Employees Provident Fund	9.6%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Revenue	4528.6	5207.9	6041.2
EBIT	692.6	781.2	906.2
Profit Before Tax	544.8	604.9	685.8
Net Profit	496.6	544.4	617.3
Core Net Profit	496.6	544.4	617.3
Consensus (CNP)		582.3	668.3
Earnings Revision (%)		-	-
Core EPS (sen)	13.4	14.7	16.7
Core NP growth (%)	26.9	9.6	13.4
DPS (sen)	4.5	4.4	5.0
BV/Share (RM)	0.7	0.8	1.1
PER (x)	14.2	13.0	11.5
Price/BV (x)	2.9	2.3	1.8
Net Gearing (x)	0.8	0.8	0.6
Div Yield (%)	2.3	2.3	2.6

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Will the private placement lead to an overhang? This represents the second private placement for the group within the year. The first private placement (also for 10%, completed in May 2020) managed to raise gross proceeds of RM456.7m, and was oversubscribed by ~1.5x in just one day after the official initial announcement on 23 April 2020 (*refer our report dated 24 April 2020*). This was despite being in the peak of the oil price slump, as well as lockdowns measures, back in April-May 2020. With sentiment returning to the sector, coinciding with the recovery of oil prices, we see it likely for this round's placement to be also well subscribed.

Will there be further equity fund raising? With all of its major upcoming ventures (e.g. Teluk Ramunia yard, Abu Dhabi projects) being adequately funded, and its net-gearing currently below the 1.0x threshold, we see it less likely for the group to embark on another fund raising exercise at least for the next few months.

Maintain OUTPERFORM. Our TP is lowered to RM2.50 (from RM2.75), after factoring in the enlarged share base arising from the private placement, based on unchanged valuation of 15x PER on FY21E EPS.

Overall, we are neutral on the private placement, seeing it as a necessary step for the group to meet upcoming capital requirements to fund its ventures, while at the same time maintaining its net-gearing levels below the 1.0x threshold. Nonetheless, we expect the placement to be well subscribed, and should not significantly erode the group's ROE. We continue to like SERBADK given its superb track record of earnings growth delivery.

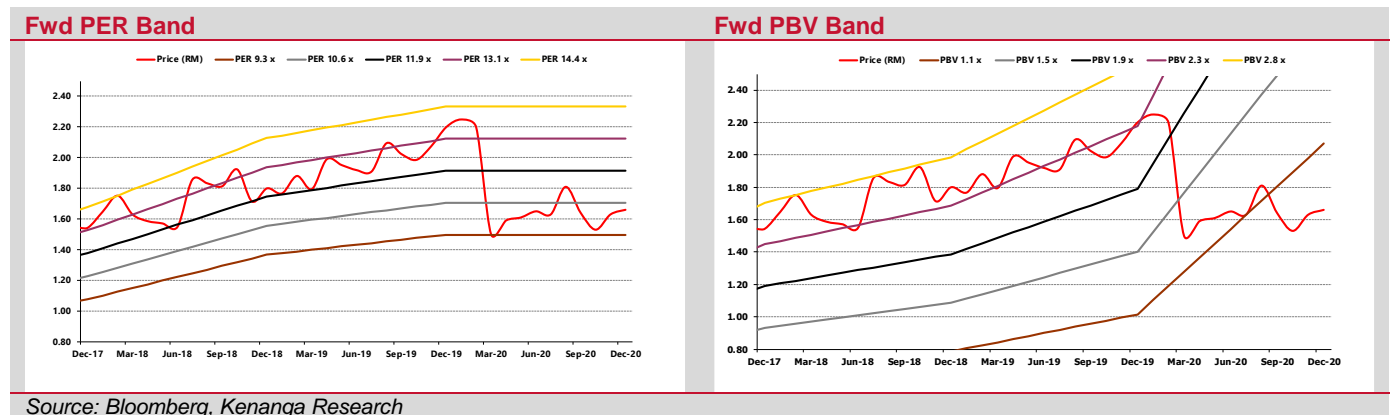
Risks to our call include: (i) lower-than-expected order book replenishment, (ii) weaker-than-expected margins, (iii) geopolitical unrest in the Middle-East affecting oil and gas-related activities, and (iv) undersubscription of its private placement.

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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	6041.2	Growth (%)					
Operating Profit	394.1	473.3	692.6	781.2	906.2	Revenue	25.5	20.6	37.9	15.0	16.0
Interest Exp	(33.9)	(49.6)	(182.8)	(206.3)	(250.3)	Op. Profit	30.1	20.1	46.3	12.8	16.0
PBT	358.1	437.6	544.8	604.9	685.8	PBT	33.6	22.2	24.5	11.0	13.4
Taxation	(41.3)	(44.8)	(46.8)	(60.5)	(68.6)	Net Profit	25.2	27.1	26.9	9.6	13.4
Minority Interest	3.3	(1.4)	(1.3)	0.0	0.0	Profitability (%)					
Net Profit	308.1	391.5	496.6	544.4	617.3	Operating Margin	14.5	14.4	15.3	15.0	15.0
Core Net Profit	308.1	391.5	496.6	544.4	617.3	PBT Margin	13.2	13.3	12.0	11.6	11.4
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	6.5
Int. Assets	3.8	6.4	13.2	13.2	13.2	ROE	22.2	18.7	20.4	17.3	15.7
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	15.7
Cash	293.2	760.8	1,306.6	1,750.5	2,553.0	Leverage					
Total Assets	2,510.7	4,370.8	6,354.2	7,925.8	9,528.3	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	2398.4
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)	8.3	10.6	13.4	14.7	16.7
Minorities Int.	4.4	4.1	7.2	7.2	7.2	DPS (sen)	2.7	3.5	4.5	4.4	5.0
Net Assets	1,386.7	2,088.2	2,432.7	3,140.4	3,942.9	BVPS (RM)	0.4	0.6	0.7	0.8	1.1
Share Capital	929.2	1,334.3	1,344.3	1,344.3	1,344.3	PER (x)	23.0	18.1	14.2	13.0	11.5
Reserves	457.5	753.8	1,088.4	1,796.1	2,598.5	Div Yield (%)	1.4	1.8	2.3	2.3	2.6
Equity	1,386.7	2,088.2	2,432.7	3,140.4	3,942.9	P/BV (x)	5.1	3.4	2.9	2.3	1.8
Cashflow Statement											
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E						
Operating CF	88.8	83.2	212.6	514.4	587.3						
Investing CF	(255.2)	(858.6)	(890.8)	(800.0)	(800.0)						
Financing CF	281.2	1,242.7	1,311.6	729.6	1,015.2						

Source: 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	0.350	2,060.1	N	12/2020	13.0%	4.3%	40.3%	10.3%	7.3	5.2	4.7	0.6	0.6	11.5%	0.0%	0.210	UP
DAYANG ENTERPRISE HLDGS BHD	1.20	1,389.3	Y	12/2020	-31.2%	23.2%	-71.2%	48.9%	5.9	20.5	13.8	0.9	0.8	4.2%	0.0%	1.20	OP
DIALOG GROUP BHD	3.60	20,310.0	Y	06/2021	29.4%	11.7%	7.8%	8.2%	33.7	31.3	28.9	4.9	4.4	14.9%	1.0%	4.35	OP
MALAYSIA MARINE AND HEAVY EN	0.470	752.0	Y	12/2020	-1.8%	29.8%	-371.3%	-144.8%	N.A.	N.A.	N.A.	0.3	0.3	-4.0%	0.0%	0.380	OP
MISC BHD	7.14	31,871.1	Y	12/2020	-4.1%	13.5%	24.0%	0.9%	19.8	16.0	15.8	0.9	0.9	5.6%	4.2%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.405	302.5	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	9.2	17.5	9.8	0.5	0.5	2.8%	2.5%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	7.60	60,800.0	Y	12/2020	-16.4%	10.4%	-47.7%	61.6%	21.0	40.1	24.8	2.0	2.0	5.0%	1.3%	6.45	MP
PETRONAS DAGANGAN BHD	20.66	20,524.8	Y	12/2020	-41.6%	32.0%	-60.1%	86.6%	25.0	62.6	33.5	3.4	3.4	5.5%	1.3%	16.00	UP
SAPURA ENERGY BHD	0.130	2,077.3	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.2	0.2	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.91	6,442.0	Y	12/2020	15.0%	16.0%	9.6%	13.4%	14.3	13.0	11.5	2.9	2.3	19.5%	2.9%	2.50	OP
UZMA BHD	0.575	184.0	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	68.1	7.2	6.0	0.4	0.4	5.5%	0.0%	0.640	OP
VELESTO ENERGY BHD	0.150	1,232.3	Y	12/2020	-15.8%	6.9%	-133.1%	-215.1%	38.5	N.A.	N.A.	0.4	0.4	-0.4%	0.0%	0.130	MP
WAH SEONG CORP BHD	0.720	557.5	Y	12/2020	-52.3%	58.3%	-185.3%	-73.7%	7.9	N.A.	35.3	0.6	0.8	-7.1%	0.0%	0.430	MP
YINSON HOLDINGS BHD	5.79	6,166.8	Y	01/2021	44.8%	4.9%	121.4%	4.1%	28.8	13.0	12.5	3.9	3.1	26.4%	1.0%	5.50	OP
Simple Average					-8.6%	20.0%	1.9%	-24.4%	23.3	22.6	17.9	1.6	1.4	6.3%	1.0%		

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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

