

01 March 2021

# Serba Dinamik Holdings

## Another Record Quarter in 4QFY20

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SERBADK posted yet another record quarterly performance in 4QFY20, surpassing our forecasts, driven by higher activity levels especially in O&M and EPCC. The group has an unblemished track record of earnings delivery, and we believe this will continue, backed by its strong order-book of RM18.7b. Maintain **OUTPERFORM** with TP of RM2.80. Currently trading at <10x PER despite its strong earnings prospects, we believe that the stock is easily a bargain **BUY**. SERBADK is also one of our **TOP PICKS** for the oil and gas sector.

**Exceeded expectations.** SERBADK posted an outstanding FY20 net profit of RM631.7m. As we predicted previously, the results blew past expectations (refer to our results preview report dated 2 Feb 2021), coming in at 116% and 110% of our and consensus forecasts, respectively. Additionally, the group also announced an interim dividend of 1.6 sen per share, bringing full year dividends to 5.45 sen, also above expectations.

**Yet another record quarter.** FY20 saw an earnings jump of 27% YoY, driven by higher activity levels across all segments. Particularly, the group saw more revenue from Malaysia and the Middle East regions. Similarly, for the individual quarter of 4QFY20, earnings grew an impressive 37% QoQ, mainly driven by higher activities, especially in EPCC and O&M.

**Strong earnings growth to continue.** With the group's order-book currently at a strong RM18.7b, we believe successful job execution and delivery is crucial for the group to continue its unblemished earnings delivery track record. The group has also put in place ventures into fabrication for the oil and gas sector, as well as expansions of its ICT segment, to continue fuelling growth over the longer term.

**Maintain OUTPERFORM**, with higher TP of RM2.80 (from RM2.50 previously). Post results, we raised our FY21E earnings by 13%, while introducing new FY22E numbers. As a result, our TP is also raised to RM2.80, pegged to unchanged valuations of 15x PER on FY21E EPS.

**We believe that current price level serves as a bargain entry point**, and easily inspire an **OUTPERFORM** call, with **the stock currently trading at <10x PER** despite its strong earnings prospect. All things considered, we believe the stock is highly due for a rebound.

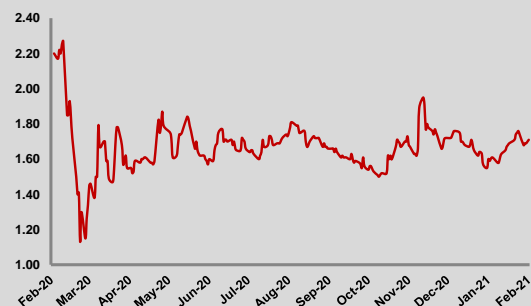
**SERBADK is one of our TOP PICK for the oil and gas sector.**

**Risks to our call include:** (i) lower-than-expected order-book replenishment, (ii) weaker-than-expected margins, (iii) jobs execution risks.

# OUTPERFORM ↔

Price: **RM1.71**  
Target Price: **RM2.80** ↑

### Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	-2.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	6,343.5
Shares Outstanding	3,709.6
52-week range (H)	2.29
52-week range (L)	1.02
3-mth avg daily vol:	19,847,540
Free Float	49%
Beta	1.4

### Major Shareholders

Abdullah Mohd Abdul Karim	26.1%
Sahib Abdul Kadier	16.0%
Employees Provident Fund	9.0%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	6014.1	6735.8	7544.1
EBIT	910.5	1010.4	1131.6
PBT	706.3	771.9	849.2
<b>Net Profit (NP)</b>	<b>631.7</b>	<b>694.7</b>	<b>764.3</b>
<b>Core Net Profit</b>	<b>631.7</b>	<b>694.7</b>	<b>764.3</b>
Consensus (CNP)		657.8	752.1
Earnings Revision (%)		+12.6	NEW
Core EPS (sen)	17.1	18.8	20.6
CNP growth (%)	27.2	10.0	10.0
DPS (sen)	5.5	5.6	6.2
BV/Share (RM)	0.9	1.1	1.4
Core PER (x)	10.0	9.1	8.3
Price/BV (x)	1.9	1.5	1.2
Net Gearing (x)	0.9	0.5	0.4
Dividend Yield (%)	3.2	3.3	3.6

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Income Statement								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY20	FY20		FY19		FY20	FY19	
<b>Y/E : Dec (RM m)</b>								
Revenue	1,815.6	1,481.9	22.5%	1,360.5	33.4%	6,014.1	4,528.6	32.8%
Cost of sales/services	(1,507.9)	(1,221.2)	23.5%	(1,105.6)	36.4%	(4,960.2)	(3,717.8)	33.4%
<b>Gross profit</b>	<b>307.8</b>	<b>260.7</b>	<b>18.1%</b>	<b>254.9</b>	<b>20.7%</b>	<b>1,053.9</b>	<b>810.8</b>	<b>30.0%</b>
Other operating income	12.4	1.8	586.6%	2.3	439.1%	19.5	8.4	132.9%
Administrative expenses	(59.5)	(43.0)	38.4%	(35.8)	66.4%	(162.8)	(128.2)	27.0%
<b>Operating profit</b>	<b>260.7</b>	<b>219.5</b>	<b>18.8%</b>	<b>221.4</b>	<b>17.7%</b>	<b>910.5</b>	<b>691.0</b>	<b>31.8%</b>
Finance income	26.2	2.0	1238.9%	5.6	364.2%	34.8	21.5	61.7%
Finance costs	(58.4)	(53.9)	8.3%	(108.4)	-46.1%	(226.4)	(202.8)	11.7%
Associates	(1.1)	(2.7)	-58.2%	20.5	-105.4%	(12.6)	35.0	-135.9%
<b>Profit before tax</b>	<b>227.3</b>	<b>164.8</b>	<b>37.9%</b>	<b>139.1</b>	<b>63.4%</b>	<b>706.3</b>	<b>544.8</b>	<b>29.6%</b>
Tax expense	(25.2)	(16.3)	54.5%	1.1	-2331.9%	(74.2)	(46.8)	58.5%
Non-controlling interest	0.0	(0.5)	-108.8%	0.6	-92.8%	(0.3)	(1.3)	-74.4%
<b>Net profit</b>	<b>202.1</b>	<b>148.0</b>	<b>36.6%</b>	<b>140.9</b>	<b>43.5%</b>	<b>631.7</b>	<b>496.6</b>	<b>27.2%</b>
<b>Core net profit</b>	<b>202.1</b>	<b>148.0</b>	<b>36.6%</b>	<b>140.9</b>	<b>43.5%</b>	<b>631.7</b>	<b>496.6</b>	<b>27.2%</b>
Gross margin	17.0%	17.6%		18.7%		17.5%	17.9%	
Operating margin	14.4%	14.8%		16.3%		15.1%	15.3%	
PBT margin	12.5%	11.1%		10.2%		11.7%	12.0%	
Net margin	11.1%	10.0%		10.4%		10.5%	11.0%	
Core net margin	11.1%	10.0%		10.4%		10.5%	11.0%	
Effective tax rate	11.1%	9.9%		-0.8%		10.5%	8.6%	

Source: Company

Segment Breakdown								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY20	FY20		FY19		FY20	FY19	
<b>Y/E : Dec (RM m)</b>								
<b>O&amp;M</b>								
Revenue	1,497.1	1,241.0	20.6%	1,159.1	29.2%	5,043.6	3,895.2	29.5%
Operating Profit	255.3	222.4	14.8%	222.8	14.6%	899.4	710.9	26.5%
Operating Margins	17.1%	17.9%		19.2%		17.8%	18.3%	
<b>EPCC</b>								
Revenue	203.0	99.0	105.1%	143.9	41.1%	590.9	509.0	16.1%
Operating Profit	29.0	14.6	98.7%	22.3	30.1%	87.6	77.8	12.6%
Operating Margins	14.3%	14.8%		15.5%		14.8%	15.3%	
<b>ICT</b>								
Revenue	113.0	141.3	-20.0%	56.6	99.7%	376.0	122.8	206.3%
Operating Profit	22.3	23.4	-4.5%	9.3	139.3%	65.1	21.2	206.8%
Operating Margins	19.8%	16.5%		16.5%		17.3%	17.3%	
<b>E&amp;T</b>								
Revenue	2.5	0.6	336.0%	0.9	168.3%	3.6	1.6	122.8%
Operating Profit	1.2	0.3	310.1%	0.5	133.1%	1.7	0.9	90.1%
Operating Margins	46.2%	49.1%		53.2%		47.3%	55.5%	

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	0.395	2,324.9	N	12/2021	4.3%	0.0%	-6.4%	7.1%	4.9	5.2	4.9	0.7	0.6	13.2%	0.0%	0.490	OP
DAYANG ENTERPRISE HLDGS BHD	1.51	1,748.2	Y	12/2021	13.6%	16.1%	42.9%	60.5%	26.1	18.3	11.4	1.1	1.1	6.0%	0.0%	1.45	MP
DIALOG GROUP BHD	3.23	18,224.2	Y	06/2021	-33.7%	26.3%	1.8%	11.5%	30.3	29.7	26.7	4.4	4.0	14.1%	0.9%	4.35	OP
MISC BHD	6.78	30,264.2	Y	12/2021	20.3%	7.3%	0.2%	1.0%	14.0	14.0	13.9	0.9	0.9	6.6%	4.9%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	7.43	59,440.0	Y	12/2021	9.3%	10.3%	30.8%	16.4%	31.0	23.7	20.3	2.0	1.9	8.1%	2.1%	7.50	MP
PETRONAS DAGANGAN BHD	20.00	19,869.1	Y	12/2021	10.2%	10.2%	58.9%	48.3%	69.7	43.9	29.6	3.5	3.5	8.0%	2.3%	17.60	UP
SAPURA ENERGY BHD	0.145	2,317.0	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.3	0.3	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.71	6,343.5	Y	12/2021	12.0%	12.0%	10.0%	10.0%	10.0	9.1	8.3	1.9	1.5	18.7%	3.3%	2.80	OP
UZMA BHD	0.735	235.2	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	87.1	9.2	7.6	0.5	0.5	5.5%	0.0%	0.830	OP
VELESTO ENERGY BHD	0.165	1,355.6	Y	12/2020	-15.8%	6.9%	-133.1%	-215.1%	42.4	N.A.	N.A.	0.5	0.5	-0.4%	0.0%	0.130	MP
WAH SEONG CORP BHD	0.715	553.6	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	24.6	8.1	0.8	0.8	3.1%	0.0%	0.720	MP
YINSON HOLDINGS BHD	5.32	5,667.4	Y	01/2021	92.4%	-0.4%	206.8%	-15.1%	26.4	8.6	10.1	3.6	2.6	34.8%	1.1%	6.95	OP
<b>Simple Average</b>					<b>10.8%</b>	<b>9.6%</b>	<b>74.4%</b>	<b>-7.8%</b>	<b>34.2</b>	<b>18.6</b>	<b>14.1</b>	<b>1.7</b>	<b>1.5</b>	<b>9.7%</b>	<b>1.2%</b>		

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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