

01 December 2021

## Serba Dinamik Holdings

### First Ever Quarterly Loss

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SERBADK's 1QFY22 results completely missed expectations, posting its first ever quarterly loss. With the group's outlook and corporate governance status remaining uncertain, and coupled with the stock still being under suspension since 22 Oct 2021, we CEASE COVERAGE on the counter for the time being.

1QFY22 results completely missed expectations. SERBADK reported 1QFY22 core net loss of RM42m – completely missing expectations against our full-year profit forecast of RM474m and consensus of RM359m, due to slow job flows and margins deterioration in both its core segments of operation and maintenance (O&M), and engineering, procurement construction and commissioning (EPCC). No dividends were announced, as expected.

**First ever quarterly loss.** QoQ, 1QFY22 plunged into losses, from a profit of RM15m, mostly dragged by poorer job flows and margins deterioration, especially for its O&M segment. Similarly, on a YoY-basis, 1QFY22 plunged into losses from a profit of RM148m, due to poorer job flows and margins deterioration in O&M and EPCC.

**Status of corporate governance still in question.** With the company currently in litigation against its former auditors KPMG, its appointed special independent review Ernst & Young, as well as Bursa Malaysia, we believe questions revolving around the group's corporate governance could still persist. We also believe conclusive outcomes from its special independent review report and its audited annual report are the most resolute way of putting these uncertainties to rest. However, last week, the group had also announced that it is unable to finalise its audited financial statements in a timely manner before the due date of 30 Nov 2021, with Bursa also rejecting its second extension of time application. Additionally, any failures to meet debt repayment obligations, especially its coupon payments for its USD300m sukuk, reportedly due May next year, will put the group's balance sheet into further risk.

**CEASE COVERAGE.** Given the counter's uncertain outlook, and coupled with the stock being under suspension since 22 Oct 2021, we are ceasing our coverage on the stock for the time being. Should outlook turn more positive, we are open to revisiting our call on the stock.

Post results, we cut our FY22E/FY23E CNP by 68%/62% after factoring in weaker job flows and poorer margins assumption.

## CEASE COVERAGE

Price: RM0.350  
Target Price: CEASE COVERAGE

### Share Price Performance



KLCI	1,513.98
YTD KLCI chg	-7.0%
YTD stock price chg	-80.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	1,298.4
Shares Outstanding	3,709.6
52-week range (H)	2.09
52-week range (L)	0.30
3-mth avg daily vol:	53,226,910
Free Float	56%
Beta	1.7

### Major Shareholders

Abdullah Mohd Abdul	21.2%
Sahib Abdul Kadier	16.3%
Amanah Saham Nasional	6.2%

### Summary Earnings Table

FY Dec (RM m)	2021A*	2022E	2023E
Revenue	8606.2	4075.8	4483.3
EBIT	1172.3	407.6	493.2
PBT	848.4	168.9	210.5
<b>Net Profit (NP)</b>	<b>766.9</b>	<b>152.0</b>	<b>189.4</b>
<b>Core Net Profit</b>	<b>766.9</b>	<b>152.0</b>	<b>189.4</b>
Consensus (CNP)		358.8	199.0
Earnings Revision (%)		-67.9	-62.4
Core EPS (sen)	20.7	4.1	5.1
CNP growth (%)	54.4	-80.2	24.6
DPS (sen)	5.5	0.0	0.0
BV/Share (RM)	1.0	1.1	1.1
Core PER (x)	1.7	8.5	6.9
Price/BV (x)	0.3	0.3	0.3
Net Gearing (x)	0.9	0.5	0.7
Dividend Yield (%)	15.6	0.0	0.0

\*Note: FY2021A consists of 18 months, as the company had changed its financial year end to June 2021, from December 2020.

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<b>Income Statement</b>								
	<b>1Q</b>	<b>6Q</b>	<b>Q-o-Q</b>	<b>3Q</b>	<b>Y-o-Y</b>	<b>3M</b>	<b>3M</b>	<b>Y-o-Y</b>
	<b>FY22</b>	<b>FY21</b>		<b>FY21</b>		<b>FY22</b>	<b>3QCY20</b>	
<b>Y/E : June (RM'mil)</b>								
Revenue	799.3	1,207.8	-33.8%	1,481.9	-46.1%	799.3	1,481.9	-46.1%
Cost of sales/services	(730.4)	(1,071.8)	-31.8%	(1,221.2)	-40.2%	(730.4)	(1,221.2)	-40.2%
<b>Gross profit</b>	<b>68.9</b>	<b>136.1</b>	<b>-49.3%</b>	<b>260.7</b>	<b>-73.6%</b>	<b>68.9</b>	<b>260.7</b>	<b>-73.6%</b>
Other income	0.5	1.7	-68.6%	1.8	-70.8%	0.5	1.8	-70.8%
Admin expenses	(46.2)	(63.7)	-27.5%	(43.0)	7.3%	(46.2)	(43.0)	7.3%
<b>Operating profit</b>	<b>23.3</b>	<b>74.1</b>	<b>-68.5%</b>	<b>219.5</b>	<b>-89.4%</b>	<b>23.3</b>	<b>219.5</b>	<b>-89.4%</b>
Finance income	0.8	0.8	8.0%	2.0	-57.1%	0.8	2.0	-57.1%
Finance costs	(59.2)	(50.2)	17.9%	(53.9)	9.7%	(59.2)	(53.9)	9.7%
Associates	(4.0)	(9.8)	-59.6%	(2.7)	49.3%	(4.0)	(2.7)	49.3%
<b>Profit before tax</b>	<b>(39.0)</b>	<b>14.8</b>	<b>-363.4%</b>	<b>164.8</b>	<b>-123.7%</b>	<b>(39.0)</b>	<b>164.8</b>	<b>-123.7%</b>
Tax expense	(3.2)	(1.0)	212.9%	(16.3)	-80.2%	(3.2)	(16.3)	-80.2%
Non-controlling interest	0.1	1.1	-87.8%	(0.5)	-126.6%	0.1	(0.5)	-126.6%
<b>Net profit</b>	<b>(42.1)</b>	<b>14.9</b>	<b>-382.3%</b>	<b>148.0</b>	<b>-128.5%</b>	<b>(42.1)</b>	<b>148.0</b>	<b>-128.5%</b>
<b>Core net profit</b>	<b>(42.1)</b>	<b>14.9</b>	<b>-382.3%</b>	<b>148.0</b>	<b>-128.5%</b>	<b>(42.1)</b>	<b>148.0</b>	<b>-128.5%</b>
Gross margin	8.6%	11.3%		17.6%		8.6%	17.6%	
Operating margin	2.9%	6.1%		14.8%		2.9%	14.8%	
PBT margin	-4.9%	1.2%		11.1%		-4.9%	11.1%	
Net margin	-5.3%	1.2%		10.0%		-5.3%	10.0%	
Core net margin	-5.3%	1.2%		10.0%		-5.3%	10.0%	
Effective tax rate	-8.3%	7.0%		9.9%		-8.3%	9.9%	

Source: Company

Note: As the company had previously changed its financial year-end to June 2021, from December 2020, we have used 3QFY21 (i.e. the quarter ended September 2020, a.k.a. 3QCY20) as our YoY comparison against 1QFY22.

<b>Segment Breakdown</b>								
	<b>1Q</b>	<b>6Q</b>	<b>Q-o-Q</b>	<b>3Q</b>	<b>Y-o-Y</b>	<b>3M</b>	<b>3M</b>	<b>Y-o-Y</b>
	<b>FY22</b>	<b>FY21</b>		<b>FY21</b>		<b>FY22</b>	<b>3QCY20</b>	
<b>Y/E : June (RM m)</b>								
<b><u>O&amp;M</u></b>								
Revenue	742.9	1,094.7	-32.1%	1,241.0	-40.1%	742.9	1,241.0	-40.1%
Operating Profit	63.5	124.3	-49.0%	222.4	-71.5%	63.5	222.4	-71.5%
Operating Margins	8.5%	11.4%		17.9%		8.5%	17.9%	
<b><u>EPCC</u></b>								
Revenue	52.3	100.4	-47.9%	99.0	-47.1%	52.3	99.0	-47.1%
Operating Profit	4.3	9.1	-52.5%	14.6	-70.4%	4.3	14.6	-70.4%
Operating Margins	8.3%	9.1%		14.8%		8.3%	14.8%	
<b><u>ICT</u></b>								
Revenue	1.8	11.8	-85.0%	141.3	-98.7%	1.8	141.3	-98.7%
Operating Profit	0.3	2.2	-84.3%	23.4	-98.5%	0.3	23.4	-98.5%
Operating Margins	19.6%	18.7%		16.5%		19.6%	16.5%	
<b><u>E&amp;T</u></b>								
Revenue	2.4	0.9	148.9%	0.6	304.1%	2.4	0.6	304.1%
Operating Profit	0.8	0.4	87.5%	0.3	177.0%	0.8	0.3	177.0%
Operating Margins	33.7%	44.7%		49.1%		33.7%	49.1%	

Source: Company

Note: As the company had previously changed its financial year-end to June 2021, from December 2020, we have used 3QFY21 (i.e. the quarter ended September 2020, a.k.a. 3QCY20) as our YoY comparison against 1QFY22.

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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	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	0.440	2,599.1	N	12/2021	4.7%	-0.4%	35.9%	-13.2%	5.4	4.0	4.6	0.8	0.7	18.6%	0.0%	0.570	OP
DAYANG ENTERPRISE HLDGS BHD	0.790	914.6	Y	12/2021	-14.5%	12.0%	-98.5%	4844.4%	13.7	931.6	18.8	0.6	0.6	0.1%	1.9%	1.00	MP
DIALOG GROUP BHD	2.56	14,445.0	Y	06/2022	-38.1%	28.1%	-7.9%	15.4%	24.0	26.1	22.6	3.5	3.2	12.8%	1.2%	3.50	OP
MISC BHD	6.65	29,683.9	Y	12/2021	7.8%	14.2%	-10.0%	1.4%	13.7	15.3	15.1	0.9	0.8	5.7%	5.0%	8.05	OP
PETRONAS CHEMICALS GROUP BHD	8.50	68,000.0	Y	12/2021	48.1%	-8.1%	247.1%	-34.4%	35.4	10.2	15.6	2.2	2.0	20.7%	4.9%	8.75	MP
PETRONAS DAGANGAN BHD	19.90	19,769.7	Y	12/2021	10.2%	10.2%	91.6%	32.4%	69.4	36.2	27.3	3.5	3.5	9.7%	3.1%	18.90	MP
SAPURA ENERGY BHD	0.085	1,358.2	Y	01/2022	11.9%	-40.6%	-879.6%	-118.9%	N.A.	N.A.	N.A.	0.2	0.2	-30.4%	0.0%	0.070	UP
SERBA DINAMIK HOLDINGS	0.350	1,298.4	Y	06/2022	-52.6%	10.0%	-80.2%	24.6%	1.7	8.5	6.9	0.3	0.3	3.8%	0.0%	CEASE	CEASE
UZMA BHD	0.440	154.9	Y	06/2022	15.2%	10.0%	4.6%	11.9%	6.5	6.2	5.5	0.3	0.3	4.9%	0.0%	0.670	OP
VELESTO ENERGY BHD	0.130	1,068.0	Y	12/2021	-44.1%	15.0%	-548.7%	-139.0%	N.A.	N.A.	N.A.	0.5	0.5	-8.6%	0.0%	0.100	UP
WAH SEONG CORP BHD	0.695	538.1	Y	12/2021	-14.8%	41.7%	-132.8%	-20.6%	N.A.	N.A.	37.7	0.8	0.8	-2.6%	0.0%	0.630	UP
YINSON HOLDINGS BHD	5.68	6,049.0	N	01/2022	-6.6%	-15.5%	-20.3%	-18.1%	9.7	12.2	14.9	3.4	2.7	24.7%	1.1%	7.35	OP
<b>Simple Average</b>					<b>-6.1%</b>	<b>6.4%</b>	<b>-116.6%</b>	<b>382.2%</b>	<b>20.0</b>	<b>116.7</b>	<b>16.9</b>	<b>1.4</b>	<b>1.3</b>	<b>5.0%</b>	<b>1.4%</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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