

Outthink. Outperform.

Potential integrated plant in Bahrain

Serba Dinamik (Serba) announced that it has set up a consortium with a local partner (EAG Capital Sdn Bhd) and entered into a memorandum of understanding (MOU) with Malaysia-Bahrain Business Council & Bahrain Malaysia Business Council (MBCC/BMBC Malaysia) to conduct a feasibility study for an integrated solid waste management and water desalination plant in Bahrain. We are keeping our earnings forecasts unchanged at this juncture as the feasibility study is still being conducted to assess the viability of the project. Besides that, all parties are still in discussion to finalise the shareholding structure and iron out the fine details of this partnership. We maintain our BUY call and TP of RM2.40.

Background

Subject to the Bahrain's government approval upon the completion of the feasibility study, the plant's main aim is to produce green energy in Bahrain which will eliminate landfill usage and to also increase the availability of potable water by utilising natural resources. This plant will be on a build-operate-transfer (BOT) basis.

Assessing financial impact

We gather that the discussion on the shareholding structure is still ongoing while the feasibility study will be performed over the next 1 year. We understand that the initial EPCC work scope for this plant can be segregated into 3 components – waste treatment, water desalination and sewerage. Serba may likely be in charge of both the waste treatment and desalination portions. Based on our estimate, the value of these 2 portions could add up to RM2–2.5bn over 4 years. This could translate into a full-year revenue contribution of RM500–630m per annum from FY19 onwards for its EPCC segment. Assuming 8–10% net profit margin would result in an additional RM45–55m to Serba's FY19 net profit. Nevertheless, we maintain our earnings forecasts at this juncture as the project is still pending feasibility study approval.

Mirroring business model of Konsortium Amanie (KA) project

As understand from management, the project capex of BHD320m (RM3.2bn) will be raised at the consortium level via a combination of internally generated funds and/or bank borrowings. Assuming the project will be funded via 80% debt and 20% equity and Serba holds a 40% equity stake (similar to KA), Serba equity stake works out to be RM256m. All in, Serba will derive 3 incomes: 1) EPCC revenue, 2) share of profit from equity stake, 3) and potentially income from plant maintenance.

Maintain BUY and TP of RM2.40

We maintain our BUY call and 12-month TP of RM2.40, based on an unchanged 11x on FY17E EPS. Key risks include: 1) unforeseen delays in the client maintenance schedule, and 2) margin deterioration.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	1,402.9	2,168.3	2,598.1	2,984.2	3,412.9
EBITDA (RMm)	211.4	352.8	427.0	477.3	547.2
Pretax profit (RMm)	157.0	267.9	314.4	358.8	413.5
Net profit (RMm)	154.1	246.1	291.3	331.1	381.9
EPS (sen)	11.5	18.4	21.8	24.8	28.6
PER (x)	16.5	10.3	8.7	7.7	6.6
Core net profit (RMm)	155.5	246.1	291.3	331.1	381.9
Core EPS (sen)	11.6	18.4	21.8	24.8	28.6
Core EPS growth (%)	143.8	58.3	18.4	13.7	15.4
Core PER (x)	16.3	10.3	8.7	7.7	6.6
Net DPS (sen)	-	-	5.5	7.4	8.6
Dividend Yield (%)	-	-	2.9	3.9	4.5
EV/EBITDA (x)	13.3	6.4	6.4	5.7	4.8
Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)	-	-	1.1	1.1	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Company Update

Serba Dinamik

SDH MK
Sector: Oil and Gas

RM1.90 @ 3 May 2017

BUY (maintain)

Upside: +26.3%

Price Target: RM2.40

Previous Target: RM2.40



Price Performance

	1M	3M	12M
Absolute	14.5%	N.A	N.A
Rel to KLCI	12.8%	N.A	N.A

Stock Data

Issued shares (m)	1,335.0
Mkt cap (RMm)/(US\$m)	2536/587
Avg daily vol - 6mth (m)	N.A
52-wk range (RM)	1.51-1.98
Est free float	59.6%
BV per share (RM)	0.57
P/BV (x)	3.31
Net cash/ (debt) (RMm) (4Q16)	(452.3)
ROE (2017E)	26.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Dato Karim	26.1%
Dato Awang Daud	13.2%
State Financial Secretary Sarawak	4.5%

Source: Affin Hwang, Bloomberg

Tan Jianyuan
(603) 2146 7538
Jianyuan.tan@affinhwang.com

Serba Dinamik – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RM m)	2015	2016	2017E	2018E	2019E
Revenue	1,403	2,168	2,598	2,984	3,413
Operating expenses	-1,192	-1,816	-2,171	-2,507	-2,866
EBITDA	211	353	427	477	547
Depreciation	-28	-50	-69	-80	-94
EBIT	183	303	358	397	454
Net int income/(expense)	-25	-35	-43	-38	-40
Exceptional gains/(losses)	-1	0	0	0	0
Associates' contribution	0	0	0	0	0
Pretax profit	157	268	314	359	413
Tax	-3	-22	-22	-25	-29
Minority interest	0	0	-1	-3	-3
Net profit	154	246	291	331	382
Core net profit	155	246	291	331	382

Balance Sheet Statement

FYE 31 Dec (RM m)	2015	2016	2017E	2018E	2019E
Fixed assets	349	490	621	691	747
Other long term assets	17	17	17	17	17
Total non-current assets	366	507	638	708	764
Cash and equivalents	225	240	684	773	898
Stocks	230	486	527	609	696
Debtors	431	741	783	899	1,029
Other current assets	7	12	12	12	12
Total current assets	893	1,480	2,006	2,294	2,635
Creditors	239	501	469	541	619
Short term borrowings	441	623	687	737	787
Other current liabilities	1	14	14	14	14
Total current liabilities	681	1,139	1,169	1,292	1,420
Long term borrowings	32	16	16	16	16
Other long term liabilities	69	15	15	15	15
Total long term liab.	102	31	31	31	31
Shareholders' Funds	468	809	1,435	1,667	1,934
Minority Interest	7	8	9	12	14

Cash Flow Statement

FYE 31 Dec (RM m)	2015	2016*	2017E	2018E	2019E
Pretax Profit	160	167	314	359	413
Depreciation & amortisation	28	33	69	80	94
Working capital changes	-57	-176	-115	-125	-139
Cash tax paid	4	0	-22	-25	-29
Others	24	33	-4	-13	-14
C/F from operation	159	56	243	276	325
Capex	-235	-110	-200	-150	-150
Others	-37	34	4	13	14
C/F from investing	-272	-75	-196	-137	-136
Debt raised/(repaid)	240	82	63	50	50
Dividends paid	-1	0	-73	-99	-115
Others	-28	-19	407	0	0
C/F from financing	212	63	398	-49	-65
Net change in cash flow	98	44	444	89	125
Free Cash Flow	-77	-53	43	126	175

* Reported cash flow figures are effective from 25 May 16 - 31 Dec 16 due to change in new reporting entity to Serba Dinamik Holdings (previously Serba Dinamik Group)

Source: Company, Affin Hwang forecasts

Key Financial Ratios and Margins

FYE 31 Dec (RM m)	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	85.6	54.6	19.8	14.9	14.4
EBITDA (%)	110.0	66.9	21.0	11.8	14.7
Core net profit (%)	143.8	58.3	18.4	13.7	15.4
Profitability					
EBITDA margin (%)	15.1	16.3	16.4	16.0	16.0
PBT margin (%)	11.2	12.4	12.1	12.0	12.1
Net profit margin (%)	11.0	11.4	11.2	11.1	11.2
Effective tax rate (%)	1.9	8.3	7.0	7.0	7.0
ROA (%)	16.2	15.2	12.6	11.7	11.9
Core ROE (%)	41.7	38.5	26.0	21.4	21.2
ROCE (%)	25.8	25.3	19.9	17.4	17.6
Dividend payout ratio (%)	0.0	0.0	25.0	30.0	30.0
Liquidity					
Current ratio (x)	1.3	1.3	1.7	1.8	1.9
Op. cash flow (RM m)	159	56	243	276	325
Free cashflow (RM m)	-77	-53	43	126	175
FCF/share (sen)	-5.8	-4.0	3.2	9.4	13.1
Asset management					
Debtors turnover (days)	112.1	124.8	110.0	110.0	110.0
Stock turnover (days)	70.4	97.8	88.6	88.6	88.7
Creditors turnover (days)	73.2	100.7	78.8	78.8	78.8
Capital structure					
Net gearing (%)	53%	49%	1%	-1%	-5%
Interest cover (x)	8.4	12.4	9.9	12.5	13.7

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com