Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

1Q17: Results in line, with dividend upside

Serba Dinamik (Serba) 1Q17 core net profit came in at RM78.3m, in line with our expectations, constituting 27% of our full year forecast. While revenue fell 16.3% qoq, gross profit (GP) margin was relatively stable at 17.6%. Serba declared a maiden dividend of 2.2sen, on track to achieving our 25% payout of 5.5sen in 2017E. Post-IPO gearing stood at 0.1x. With results in line with our estimates, we maintain our earnings forecast, BUY rating and unchanged TP of RM2.40.

Sequential decline did not came as surprise

Serba recorded a 1Q17 revenue of RM612.4m which fell 16.3% qoq mainly due to the O&M segment which declined 12.3% qoq on the back of lower maintenance activities particularly from the Middle East. This does not come as a surprise as Q4 has always been the group's strongest and busiest quarter driven by the robust activities from Middle East, which generally make up more than 50% of Serba's revenue. EPCC segment fell 42.7% to RM56.5m, on a higher base of RM98.5m in 4Q16 which is mainly contributed by Kota Marudu power plants project. Gross profit margin fell 0.3ppts qoq to 17.6%. Associate contribution saw a small RM0.4m loss which is pre-operation administrative expenses related to the Kota Madura project incurred at associate level. This is expected to continue for the remaining quarters before project commence in 2018.

Strong backlog continue to underpin future growth

Current outstanding O&M and EPCC order book stands at RM4bn and RM800m as at end-1Q17. In our view, Serba remains a strong candidate to win upcoming plant maintenance works. Based on our channel check, there are close to US$30bn of new projects scheduled to be roll out in 2017 which consists of a combination of petrochemical plants and refineries mainly surrounding the Middle East region. We view this positively in the long run as demand for maintenance services should remain robust, which could benefit Serba due to its strong footing in the region. Also, Serba has submitted RM1.4bn worth of Pengerang jobs. Total tenderbook stands at RM10bn, out of which 70% are O&M and remaining 30% are EPCC related.

Maintain BUY with unchanged target price

Our earnings forecasts for 2017-19E remain unchanged. We maintain our BUY call with the same 12-month TP of RM2.40, based on 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)	18.3	11.4	9.7	8.5	7.4
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)	18.1	11.4	9.7	8.5	7.4
Net DPS (sen)	-	-	5.5	7.4	8.6
Dividend Yield (%)	-	-	2.6	3.5	4.1
EV/EBITDA (x)	14.6	7.1	7.1	6.3	5.3
Chg in EPS (%)			-	-	-
Affin/Consensus (%)			1.1	1.0	1.0

Source: Company, Affin Hwang estimates

Results Note

Serba Dinamik

SDH MK
Sector: Oil & Gas

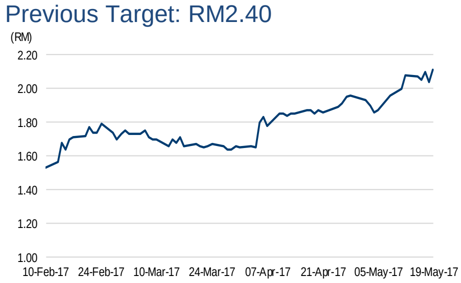
RM2.11 @ 18 May 2017

BUY (maintain)

Upside: +13.2%

Price Target: RM2.40

Previous Target: RM2.40



Price Performance

	1M	3M	12M
Absolute	14.1%	23.4%	N.A
Rel to KLCI	12.2%	19.2%	N.A

Stock Data

Issued shares (m)	1,335.0
Mkt cap (RMm)/(US$m)	2816.9/651.8
Avg daily vol - 6mth (m)	N.A
52-wk range (RM)	1.51-2.13
Est free float	59.6%
BV per share (RM)	0.76
P/BV (x)	2.77
Net cash/(debt) (RMm)	(58.2)
ROE (2017E)	26.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Dato Karim	26.2%
Dato Awang Daud	14.2%
State Financial Secretary Sarawak	4.5%

Source: Affin Hwang, Bloomberg

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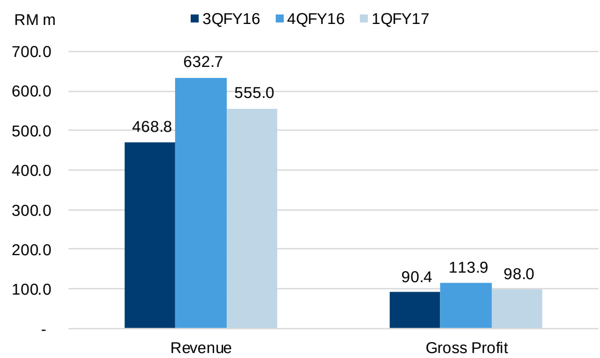
Fig 1: Results comparison

FYE 31 Dec (RM m)	3Q16	4Q16	1Q17	*qoq % chg*	Comment
Revenue	511.5	731.8	612.4	*(16.3)*	1Q17 revenue declined by 16.3% qoq due to lower O&M and EPCC segments which fell 12.3% and 42.7%, respectively. This does not come as a surprise as maintenance activities from Middle East is strongest in 4Q. EPCC contribution in 1Q17 is driven mainly from Kota Marudu project.
Op costs	(446.4)	(606.7)	(506.8)	*(16.5)*	
EBITDA	65.1	125.1	105.6	*(15.6)*	
EBITDA margin (%)	*12.7*	*17.1*	*17.2*	*0.1ppt*	EBITDA margin was flat qoq despite fall in revenue.
Depn and amort	(12.0)	(12.1)	(15.7)	*28.9*	
EBIT	53.1	113.0	90.0	*(20.4)*	
EBIT margin (%)	10.4	15.4	14.7	*-0.8ppt*	
Int expense	(4.8)	(10.5)	(8.4)	*(19.7)*	
Int and other inc	0.1	1.4	0.1	*(92.7)*	
Associates	0.0	0.0	(0.4)	*n.m*	Associate line recognised a small loss in 1Q17 relating to administrative expenses for Kota Marudu project.
EI	0.0	0.0	0.0	*n.m*	
Pretax profit	**48.4**	**103.9**	**81.2**	***21.9***	
Core pretax	**48.4**	**103.9**	**81.2**	***(21.9)***	
Tax	(2.6)	(7.2)	(3.9)	*(46.2)*	
Tax rate (%)	5.4	6.9	4.8	*-2.2ppts*	
MI	0.0	(0.2)	1.0	*n.m*	
Net profit	**45.8**	**96.5**	**78.3**	***(18.8)***	
EPS (sen)	3.4	7.2	5.9	*(18.8)*	
Core net profit	**45.8**	**96.5**	**78.3**	***(18.8)***	In line with our expectations with dividend declared of 2.2sen.

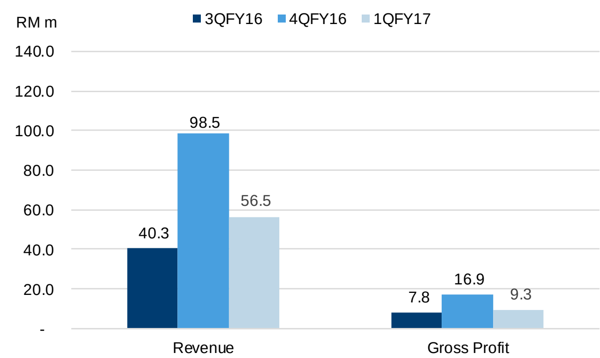
Source: Affin Hwang, company

Fig 2: O&M revenue and GP trend



Source: Company

Fig 3: EPCC revenue and GP trend



Source: Company

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

This report is printed and published by:
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