

30 September 2021

Serba Dinamik Holdings

Another Results Disappointment

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SERBADK posted its worst ever quarterly results, with earnings of merely RM15m. Notably, the group's short-term borrowings have also ballooned up to RM1.7b during the quarter. With its operating cash flows still in the negative, coupled with the downgraded credit ratings amidst lack of funding access for a needed refinancing, we believe the group may be facing real borrowings risks. Meanwhile, we are still awaiting updates on the special independent review report by EY, as well as its fully audited accounts. Given all the uncertainties, the stock remains **UNDER REVIEW**.

FY21 below expectations. SERBADK posted 18-month FY21 core net profit of RM760m (company had previously changed its financial year-end from December 2020 to June 2021). This is below expectations, coming in at only 85% of our full year earnings forecasts – dragged by poorer revenue, especially from its O&M segment, coupled with gross margins deterioration and higher administrative expenses. No dividends were announced, as expected.

Worst ever quarterly results. SERBADK posted its worst ever quarterly results, with 6QFY21 core net profit of merely RM15m – representing 87%/90% QoQ/YoY deterioration. The stark drop in earnings was mainly attributable to: (i) poorer revenues, especially from its O&M and ICT segments, (ii) margins deterioration in its O&M and EPCC segments, and (iii) higher administrative expenses.

Possible balance sheet and corporate governance risks. Notably, the group's short-term borrowings have ballooned up to RM1.7b (as compared to RM401m as at end-FY19), with its net-gearing currently at 0.9x. With its operating cash flows still in the negative, we believe the group is now facing real borrowings risks. The group's credit rating had faced widespread downgrades earlier – citing the group's difficulties to access fundings necessary for refinancing. Meanwhile, we are still awaiting further updates on the group's special independent review report by EY, as well as its fully audited accounts, to put some certainty over the status of the group's corporate governance.

UNDER REVIEW. Amidst uncertainties with the veracity of its accounts and going concern status, the counter remains **UNDER REVIEW** until the situation is fully resolved.

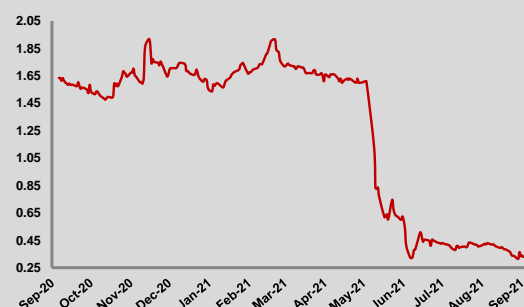
As a reference, current trough valuations within the local oil and gas universe are at approximately 0.2-0.3x PBV (e.g., SCOMI, SAPNRG, REACH). Should we apply this distressed valuation onto SERBADK, we would arrive to a **hypothetical fair value of RM0.24-0.35** (based on FY22E numbers).

Post results, we slashed FY22E earnings by 26%, accounting for weaker job flows and margins, while simultaneously introducing new FY23E figures. Given the group's current need for capital preservation, we are not expecting the group to pay out any dividends moving forward (as compared to a pay-out ratio of ~33% in prior years).

UNDER REVIEW

Price: **RM0.335**
Target Price: **UNDER REVIEW**

Share Price Performance



KLCI 1,547.65
YTD KLCI chg -4.9%
YTD stock price chg -81.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SDH MK Equity
Market Cap (RM m)	1,242.7
Shares Outstanding	3,709.6
52-week range (H)	2.09
52-week range (L)	0.31
3-mth avg daily vol:	191,368,500
Free Float	57%
Beta	1.6

Major Shareholders

Abdullah Mohd Abdul Karim	21.0%
Sahib Abdul Kadier	16.3%
Amanah Saham Nasional	6.2%

Summary Earnings Table

FY June (RM m)	2021A*	2022E	2023E
Revenue	8606.2	5887.2	6475.9
EBIT	1172.3	765.3	841.9
PBT	848.4	526.6	559.2
Net Profit (NP)	766.9	474.0	503.3
Core Net Profit	766.9	474.0	503.3
Consensus (CNP)		N.A.	N.A.
Earnings Revision (%)		-26.1	NEW
Core EPS (sen)	20.7	12.8	13.6
CNP growth (%)	54.4	-38.2	6.2
DPS (sen)	5.5	0.0	0.0
BV/Share (RM)	1.0	1.2	1.3
Core PER (x)	1.6	2.6	2.5
Price/BV (x)	0.3	0.3	0.3
Net Gearing (x)	0.9	0.6	0.7
Dividend Yield (%)	16.3	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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Income Statement

	6Q FY21	5Q FY21	Q-o-Q	2Q FY21	Y-o-Y	18M FY21
Y/E : June (RM m)						
Revenue	1,207.8	1,384.3	-12.7%	1,437.9	-16.0%	8,606.2
Cost of sales/services	(1,071.8)	(1,148.8)	-6.7%	(1,181.2)	-9.3%	(7,180.8)
Gross profit	136.1	235.5	-42.2%	256.7	-47.0%	1,425.4
Other operating income	1.7	1.4	23.4%	3.5	-52.5%	22.6
Admin expenses	(63.7)	(49.2)	29.5%	(28.7)	122.2%	(275.7)
Operating profit	74.1	187.7	-60.5%	231.6	-68.0%	1,172.3
Finance income	0.8	0.8	-3.6%	2.9	-73.0%	36.4
Finance costs	(50.2)	(56.2)	-10.7%	(60.4)	-16.8%	(332.8)
Associates	(9.8)	(5.0)	95.2%	(7.6)	29.1%	(27.4)
Profit before tax	14.8	127.3	-88.4%	166.5	-91.1%	848.4
Tax expense	(1.0)	(14.7)	-93.0%	(18.6)	-94.4%	1.6
Non-controlling interest	1.1	0.8	43.1%	0.0	6617.6%	1.1
Net profit	14.9	113.3	-86.8%	147.9	-89.9%	760.0
Core net profit	14.9	113.3	-86.8%	147.9	-89.9%	760.0
Gross margin	11.3%	17.0%		17.9%		16.6%
Operating margin	6.1%	13.6%		16.1%		13.6%
PBT margin	1.2%	9.2%		11.6%		9.9%
Net margin	1.2%	8.2%		10.3%		8.8%
Core net margin	1.2%	8.2%		10.3%		8.8%
Effective tax rate	7.0%	11.6%		11.2%		-0.2%

Source: Company

Note: Cumulative-YoY comparison is not available due to FY21 consisting of 18 months as the company had changed its financial year-end from December 2020 to June 2021.

Segment Breakdown

	6Q FY21	5Q FY21	Q-o-Q	2Q FY21	Y-o-Y	18M FY21
Y/E : June (RM m)						
<u>O&M</u>						
Revenue	1,094.7	1,252.5	-12.6%	1,195.9	-8.5%	7,390.8
Operating Profit	124.3	214.6	-42.1%	219.3	-43.3%	1,238.3
Operating Margins	11.4%	17.1%		18.3%		16.8%
<u>EPCC</u>						
Revenue	100.4	99.3	1.1%	148.1	-32.2%	790.6
Operating Profit	9.1	14.2	-36.0%	22.2	-59.0%	110.9
Operating Margins	9.1%	14.3%		15.0%		14.0%
<u>ICT</u>						
Revenue	11.8	30.8	-61.6%	93.8	-87.4%	418.6
Operating Profit	2.2	6.0	-63.0%	15.2	-85.5%	73.3
Operating Margins	18.7%	19.3%		16.2%		17.5%
<u>E&T</u>						
Revenue	0.9	1.6	-41.1%	0.0	3285.7%	6.1
Operating Profit	0.4	0.8	-44.4%	0.0	2550.0%	2.9
Operating Margins	44.7%	47.4%		57.1%		46.9%

Source: Company

Note: Cumulative-YoY comparison is not available due to FY21 consisting of 18 months as the company had changed its financial year-end from December 2020 to June 2021.

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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	0.455	2,687.7	N	12/2021	4.3%	0.0%	8.0%	1.3%	5.6	5.2	5.1	0.8	0.7	15.1%	0.0%	0.530	OP
DAYANG ENTERPRISE HLDGS BHD	0.955	1,105.7	Y	12/2021	-14.5%	20.0%	-18.9%	50.9%	16.5	20.4	13.5	0.7	0.7	3.3%	0.0%	1.20	OP
DIALOG GROUP BHD	2.50	14,106.0	Y	06/2022	-38.1%	28.1%	-7.9%	15.4%	23.4	25.4	22.1	3.4	3.1	12.8%	1.2%	3.50	OP
MISC BHD	6.95	31,023.0	Y	12/2021	20.3%	7.3%	0.2%	1.0%	14.4	14.3	14.2	1.0	0.9	6.6%	4.7%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	8.72	69,760.0	Y	12/2021	48.1%	-8.1%	211.0%	-28.4%	36.4	11.7	16.3	2.3	2.1	18.7%	4.3%	8.55	MP
PETRONAS DAGANGAN BHD	19.40	19,273.0	Y	12/2021	10.2%	10.2%	113.3%	18.9%	67.6	31.7	26.7	3.4	3.4	10.8%	3.2%	18.90	MP
SAPURA ENERGY BHD	0.120	1,917.5	Y	01/2022	16.3%	10.6%	-160.7%	-161.6%	N.A.	N.A.	N.A.	0.2	0.2	-2.1%	0.0%	0.210	OP
SERBA DINAMIK HOLDINGS	0.335	1,242.7	Y	06/2021	-31.6%	10.0%	-38.2%	6.2%	1.6	2.6	2.5	0.3	0.3	11.5%	0.0%	UR	UR
UZMA BHD	0.600	192.0	Y	06/2022	15.2%	15.0%	27.6%	27.4%	8.8	6.9	5.4	0.4	0.4	6.0%	0.0%	0.750	OP
VELESTO ENERGY BHD	0.145	1,191.3	Y	12/2021	-38.2%	33.9%	-304.1%	-118.9%	N.A.	N.A.	N.A.	0.5	0.5	-3.8%	0.0%	0.130	UP
WAH SEONG CORP BHD	0.680	526.5	Y	12/2021	-14.8%	41.7%	-	300.0%	N.A.	N.A.	29.3	0.7	0.8	-0.6%	0.0%	0.650	MP
YINSON HOLDINGS BHD	5.27	5,612.0	Y	01/2022	-6.6%	-15.5%	-20.3%	-18.1%	9.0	11.3	13.8	3.1	2.5	24.7%	1.1%	6.00	OP
Simple Average					-2.5%	12.8%	-24.8%	7.8%	20.4	14.4	14.9	1.4	1.3	8.6%	1.2%		

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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