

## 3Q18 results in line, expecting a strong 4Q

Serba Dinamik's (Serba) 3Q18 earnings rose 22% yoy driven by a better O&M performance. EPCC segment saw a weaker quarter due to a slowdown in work on UAE's New Thunder contract. Nevertheless, EPCC activities are likely to rebound in 4QFY18, and with the Middle East maintenance activities, should help drive 4Q18 earnings. Serba declared a 1.7sen DPS, bringing the ytd payout to 5.7sen. Maintain BUY with a 12-month target price at RM4.70.

### 3Q18 profit rose 22% yoy – supported by O&M

Serba's 9M18 results came in within our and consensus estimates, comprising 70% and 71% of our and the street's full-year estimates. Seasonally, 4Q is the strongest quarter given the robust Middle East maintenance demand. 3Q18 revenue jumped 18% yoy driven by higher O&M revenue which rose 23%, notably on the Agility Energy (UAE) contract. The revenue improvement also helped lift the EBITDA margin by 0.7ppts, which should help alleviate investor concerns on margins.

### Short blip in EPCC; likely to pick up pace in 4Q18 and FY19

3Q18 posted EPCC revenue of RM69.2m, which fell 13% qoq and 17% yoy. Sequentially, the drop was due to lower recognition from the New Thunder Technical (UAE) contract. This negative impact was partly cushioned by the maiden recognition of the chlor-alkali project in Tanzania. We expect 4Q18 to post stronger qoq results, supported by higher recognition of the New Thunder work, chlor-alkali plant in Tanzania, the water treatment plant in Terengganu and Kota Marudu hydropower plant (construction of the other 2 plants will be completed in 1Q19, with project completion now at 80%).

### Top sector BUY call

We reiterate our BUY call as we continue to like the group's strong growth prospect. We believe the contract replenishment pipeline will remain robust underpinned by its commitment to grow the current 120MW asset portfolio to 200MW. This, coupled with its ability to deliver promising results, should lead to a rerating of the stock. We maintain our **BUY** rating with an unchanged 12-month target price of RM4.70, based on 14x FY19E EPS. Key risks include: 1) unforeseen delays in the client maintenance schedule, and 2) margin deterioration.

### Earnings & Valuation Summary

FYE 31 Dec	2016A	2017A	2018E	2019E	2020E
Revenue (RMm)	2,168.3	2,722.3	3,378.4	4,078.3	4,660.6
EBITDA (RMm)	352.8	451.1	574.9	730.8	837.0
Pretax profit (RMm)	267.9	346.1	427.1	526.8	586.3
Net profit (RMm)	246.1	308.1	400.5	493.3	548.6
EPS (sen)	16.8	21.0	27.3	33.6	37.4
PER (x)	23.0	18.4	14.1	11.5	10.3
Core net profit (RMm)	246.1	308.1	400.5	493.3	548.6
Core EPS (sen)	16.8	21.0	27.3	33.6	37.4
Core EPS growth (%)	58.3	96.7	30.0	23.2	11.2
Core PER (x)	23.0	18.4	14.1	11.5	10.3
Net DPS (sen)	-	6.2	8.2	10.1	11.2
Dividend Yield (%)	-	1.6	2.1	2.6	2.9
EV/EBITDA (x)	13.6	11.4	11.4	9.4	8.4
Chg in EPS (%)			-	-	-
Affin/Consensus (%)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Outthink. Outperform.

### Results Note

## Serba Dinamik

SDH MK  
Sector: Oil & Gas

RM3.85 @ 27 November 2018

### BUY (maintain)

Upside: 22%

### Price Target: RM4.70

Previous Target: RM4.70



### Price Performance

	1M	3M	12M
Absolute	-0.8%	-1.8%	28.3%
Rel to KLCI	-0.9%	5.6%	31.0%

### Stock Data

Issued shares (m)	1,468.5
Mkt cap (RMm)/(US\$m)	5,653.7/1349.5
Avg daily vol - 6mth (m)	3.4
52-wk range (RM)	2.87-4.28
Est free float	27.0%
BV per share (RM)	0.49
P/BV (x)	7.80
Net cash/(debt) (RMm)	(707.2)
ROE (2019E)	27.4%
Derivatives	Nil
Shariah Compliant	Yes

### Key Shareholders

Dato Karim	23.6%
KWAP	9.6%
EPF	6.3%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	3Q17	2Q18	3Q18	QoQ % chg	YoY % chg	9M17	9M18	YoY % chg	Comments
Revenue	653.3	804.1	770.2	(4.2)	17.9	1,915.5	2,305.2	20.3	Revenue increased 18% yoy mainly attributed to higher activities in UAE, in particular Agility Energy contract.
Op costs	(543.2)	(667.4)	(634.8)	(4.9)	16.9	(1,586.1)	(1,911.7)	20.5	
EBITDA	110.1	136.7	135.4	(1.0)	22.9	329.4	393.5	19.4	
EBITDA margin (%)	16.9	17.0	17.6	0.6ppt	0.7ppt	17.2	17.1	-0.1ppt	
Depn and amort	(17.7)	(20.8)	(23.4)	12.1	32.2	(50.6)	(62.7)	23.9	
EBIT	92.4	115.9	112.0	(3.4)	21.1	278.8	330.8	18.6	
EBIT margin (%)	14.2	14.4	14.5	0.1ppt	0.4ppt	14.6	14.3	-0.2ppt	
Int expense	(8.3)	(10.8)	(19.0)	76.1	129.7	(24.7)	(38.3)	55.5	
Int and other inc	1.0	0.9	0.9	1.6	(10.4)	2.1	3.0	47.8	
Associates and JVs	0.7	3.2	3.2	1.3	439.3	(0.9)	7.3	n.m	Profit continued to be stable qoq supported by contribution from CSE Global acquired in April.
EI	0.0	0.0	0.0	n.m	n.m	0.0	0.0	n.m	
Pretax profit	85.8	109.2	97.1	(11.0)	13.2	255.3	302.8	18.6	
Core pretax	85.8	109.2	97.1	(11.0)	13.2	255.3	302.8	18.6	Achieved 71% of our full-year forecast.
Tax	(18.8)	(5.4)	(14.7)	174.3	(21.7)	(28.1)	(23.8)	(15.2)	
Tax rate (%)	21.9	4.9	15.1	10ppt	-6.8ppt	11.0	7.9	-3.1ppt	Higher tax rate in 3Q due to deferred tax liabilities on PPE recognized.
MI	1.0	(1.1)	0.8	n.m	n.m	2.3	(0.4)	n.m	
Net profit	68.0	102.7	83.2	(19.0)	22.4	229.5	278.6	21.4	
EPS (sen)	5.1	7.0	5.7	(19.0)	11.2	17.2	19.0	10.4	
Core profit	68.0	102.7	83.2	(19.0)	22.4	229.5	278.6	21.4	In line – accounts for 70% and 71% of our and consensus forecasts.

Source: Affin Hwang, Company data

Fig 2: Segmental breakdown

FYE 31 Dec	3Q17	4Q17	1Q18	2Q18	3Q18	qoq % chg	yoy % chg	9M17	9M18	YoY % chg
Revenue (RMm)	653.3	797.4	730.8	804.1	770.2	(4.2)	17.9	1,915.4	2,305.2	20.3
O&M	567.9	671.9	634.5	722.6	698.1	(3.4)	22.9	1,661.3	2,055.2	23.7
EPCC	84.1	123.5	94.4	79.5	69.2	(13.1)	(17.7)	250.8	243.1	-3.1
Others	1.4	2.0	2.0	2.0	2.9	47.0	110.3	3.3	6.9	106.2
Pretax profit (RMm)	85.8	105.9	96.5	109.2	97.1	(11.0)	13.2	255.3	302.8	18.6
O&M	99.1	121.5	114.5	126.3	120.2	(4.8)	21.3	293.0	361.0	23.2
EPCC	13.4	20.4	15.2	12.7	11.2	(12.3)	(16.8)	42.8	39.1	-8.7
Others	0.5	0.4	0.5	0.7	0.7	(8.4)	46.1	0.9	1.9	112.9
Elimination	-27.2	-36.4	-33.7	-30.6	-35.0	14.2	28.6	-81.3	-99.2	22.0
PBT margin (%)	13.1%	13.3%	13.2%	13.6%	12.6%	-1.0%	-0.5%	13.3%	13.1%	-0.2%
O&M	17.5%	18.1%	18.0%	17.5%	17.2%	-0.3%	-0.2%	17.6%	17.6%	-0.1%
EPCC	15.9%	16.5%	16.1%	16.0%	16.1%	0.1%	0.2%	17.1%	16.1%	-1.0%

Source: Affin Hwang, Company data

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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