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Serba Dinamik to seek more funds

- CEO says it plans to raise additional capital within a year for M&As
- Company has already earmarked RM300 mil for expansion
- It is set to announce tie-ups with overseas O&G vendors



by Khairul Khalid

Serba Dinamik Holdings Bhd

TRADES/SERVICES

KEY BOARD MEMBERS AND MANAGEMENT

Datuk Mohd Abdul Jabr Abdullah (group MD)/group CEO
 Datuk Awang Daud Awang Putera (deputy CEO)

MAJOR SHAREHOLDERS

Datuk Mohd Abdul Karim Abdullah
 26.2%
 Abdul Kadier Sahib
 20.7%

MARKET CAP (July 6)

RM2.69b
 Share price (July 6)
 RM2.02
 52-week high (May 23)
 RM2.30
 52-week low (Feb 8)
 RM1.51

FINANCIAL RESULTS (Q1 ended March 31, 2017)

Revenue
 RM612.42m
 Net profit
 RM78.32m

One-year price chart



NEWLY-LISTED Serba Dinamik Holdings Bhd, which is embarking on a merger and acquisition (M&A) trail, is close to securing a deal, and a major announcement could be imminent judging from the company's previous statements.

With a string of M&A activities and an order book worth RM4 bil, there are concerns these may put a strain on the company's financials.

However, CEO Datuk Mohd Abdul Karim tells *FocusM* the engineering services company will be looking at raising more funds to facilitate these M&A deals.

"We are looking to raise funds within a year to help with the acquisition exercises," says Karim, although he does not specify how much or how the company intends to raise the extra funds. The company said previously it has allocated RM400 mil for these M&As.

The company has a cash and cash equivalent of RM464.37 mil as of March 31 versus RM487.35 mil as of Dec 31, 2016. Total borrowings were lower at RM575.09 mil compared with RM639.66 mil.

Karim says the company is targeting M&A deals with vendors to high technology companies still as multinationals General Electric and Siemens to enhance its offerings and services.

The company is an engineering services provider to the oil & gas and power-generation sectors, with operations in domestic and overseas markets.

In May, it was reported that Serba Dinamik was in talks with several parties from Europe, the US and Middle East to finalise M&A deals, although at press time, no deal has not been announced.

The key rationale for these deals is that by manufacturing its own parts, Serba Dinamik would significantly reduce operational costs.

The company is also hoping that these M&As will expand its capabilities and position it as an integrated player in the industry.

From the RM407.1 mil raised in its initial public offering (IPO) last February, Serba Dinamik earmarked RM300 mil (76.9%) to be used for the expansion of business and operational facilities, with the funds to be used within 12 to 36 months of the IPO.

The company's first strategic acquisition post-listing was in the domestic market, buying a 40% stake in Konsortium Amanic Joint Venture (KAJV) for RM34 mil.

Through this acquisition, Serba Dinamik was granted an engineering, procurement, construction and commissioning (EPC) contract worth RM289.7 mil as well as a 40% share of KAJV's profits generated from a RM1.3 bil contract awarded by Terengganu to KAJV in April last year.

KAJV's work scope under the Kuala Terengganu Utara Water Supply Scheme, among others, involves designing and building a 120 million litres per day (MLD) and 28 MLD membrane water treatment plant, servicing tanks and raw water and clean water pipe installation.

Overseas business a major contributor

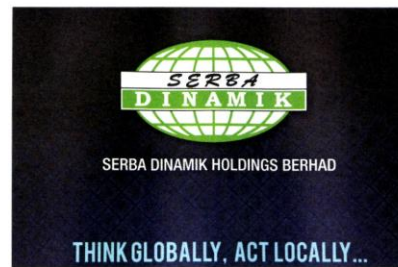
Currently, Serba Dinamik's international business makes up the bulk of its revenue at 65%, and domestic projects the rest. Projects in the Middle East alone account for more than half of its total revenue.

The company's main growth drivers are its core activities in operations and maintenance (O&M) and EPC, driven by its expansion into international markets. Based on its past track record, around 80% of its contracts are renewed.

Serba Dinamik's O&M business is driven by its maintenance, repair and overhaul (MRO) works for rotating equipment, as well as inspection, repair and maintenance (IRM) services for static equipment.

It has a RM100-bil tender book for the next three years, which will comprise an estimated 70% in EPC contracts and 30% in EPC&O jobs.

According to a Public Investment Bank report, in the long run, Serba Dinamik will see contributions from its asset ownership business model, a compressed natural gas (CNG) plant for RM3.8 mil in Muaro Jambi, Indonesia, O&M of three small hydro-power plants in Kota Marudu, Sabah and the EPC works in Terengganu.



It also has a potential EPC in Bahrain for an integrated solid waste management and water desalination plant.

The expansion of its operational facilities in Malaysia and the UAE, development of an industrial park in Sarawak, and further M&A opportunities coupled with more power plant projects will add to its revenue stream.

"With 23 years of track record, Serba Dinamik is a leading MRO player, geographically well-diversified but with particular strength in the Middle East," Public IB says in a report.

"Its long-term contracts range from three to 22 years, supporting the group's recurring income characteristics.

"It is ranked third among oil-and-gas service and equipment (OGSE) companies in Malaysia in providing MRO of rotating equipment to the O&G industry."

Serba Dinamik's Middle East projects are still key to the company's fortunes. AllianceDBS Research forecasts the company's revenue operating profit to grow at a three-year compound annual growth rate (CAGR) of 24-25% in the financial years 2016-2019 (FY16-FY19).

"Although overall margins are expected to be weaker in FY17, we expect to see progressive improvement in the group's operating margins in FY18-FY19 due to increasing contribution by Middle East contracts with higher margins," says AllianceDBS.

Good position to win more projects

In the domestic market, AllianceDBS believes that Serba Dinamik is in a good position to win more contracts in Sarawak as more O&C, power generation, and infrastructure investments pour into the state in the coming years.

The company is planning to develop a centralised utility facility (CUF) in Bintulu, Sarawak while in Johor, it wants to build a new fabrication facility to cater for EPC works and IRM services for Petronas' Refinery and Petrochemical Integrated Development (Rapid) project and other future projects in the Pengerang Integrated Petroleum Complex (PIPC).

Serba Dinamik is also partnering the Jeddah, Saudi Arabia-based Islamic Development Bank (IDB) to win its maiden contract in Africa, targeted by Q4FY17. The group had appointed IDB as its adviser

in exploring the African market. The company expects Africa to start contributing from Q4FY18 and the amount to be 15-20% of revenue in FY18.

The O&M services segment was the company's largest contributor in FY16, accounting for 80.93% of revenue. This was followed by the EPC segment with RM232.6 mil or 10.73% of revenue.

Revenue in Malaysia came mainly from the provision of O&M services for maintenance contracts secured from Petronas Carigali Sdn Bhd, other oil majors and petrochemical companies within the Petronas group of companies as well as the company's EPC contract for the works of small hydro power plants in Kota Marudu, Sabah, with One River Power Sdn Bhd.

The Petronas group continued to be the largest contributor to Serba Dinamik's domestic revenue, with RM337.6 mil, derived from the provision of maintenance services for existing contracts.

Petronas vendor

The company's other major contributors included Sarawak Shell Bhd and One River Power Sdn Bhd, which accounted for RM67.2 mil and RM64.7 mil, respectively, in FY16.

Serba Dinamik was founded in 1993 by Abdul Karim as a rotating equipment service provider. It became a Petronas-licensed company that same year and was appointed a Petronas Vendor Development Programme company in 1997.

Its first international venture was in Qatar, where it acted as a subcontractor to General Electric Oil & Gas at the LNG plant at Ras Laffan in Doha. It subsequently moved to other countries in the Middle East (Saudi Arabia, Oman, Bahrain and the UAE).

The company's shares came under selling pressure early last month following a diplomatic clash between Qatar and three Arab allies.

However, Karim had reassured that the company's operations in Qatar remained active as it was not impacted by the rift.

In fact, he says, Serba Dinamik is gearing up for opportunities to provide support to gas producers in Qatar, following the pullout of contractors from the Arab allies.

Serba Dinamik's O&M services in Qatar contributed 16% to the company's total revenue in FY16. [FocusM](#)



Founder Karim has a 26.2% stake in Serba Dinamik