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Serba Dinamik on path of steady growth

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TEN months since its flotation on Bursa Malaysia, Serba Dinamik Bhd is showing the kind of steady growth that its initial public offering (IPO) investors must be pleased with.

On Thursday, the stock hit RM3, which is exactly double its listing price of RM1.50 a unit.

This has led its market capitalisation to double since then to RM4bil, making it one of the larger listed engineering firms on Bursa Malaysia.

This week, Serba Dinamik, which undertakes operation and maintenance (O&M) as well as engineering, procurement, construction, and commissioning (EPCC) works for oil and gas projects, posted its nine-month net profit of RM229.5mil, which already makes up 93% of its previous full year results.

The nine-month net profit, which represents a 44.6% year-on-year growth, was also

above consensus estimates.

Serba Dinamik, which traces its roots to Sarawak with Cahya Mata Sarawak Bhd's private equity arm CMS Opus PE Sdn Bhd also being a 16.1% shareholder, has an impressive client base, with an estimated 57% of its revenue coming from the Middle East.

That turned out to be a concern this mid-year, when Saudi Arabia, Egypt, the United Arab Emirates and Bahrain decided to cut ties with Qatar over allegations that it was supporting terrorism.

However, this has not been a problem as Serba Dinamik group managing director and CEO Datuk Mohd Abdul Karim Abdullah explained then that the company's O&M services in the Middle East were not affected by the Gulf tensions.

"We are gearing up for opportunities to possibly provide our support to gas producers in Qatar, due to the vacuum of contractors from the countries pulling out of Qatar.

"The situation has not jeopardised the

logistics of selling oil to the buyers, namely, South Korea, India, Japan, and China, among other countries," he said.

As of the third quarter ended September 30, Qatar remains as Serba Dinamik's second largest contributor by country, contributing 23% of the total revenue, at RM150.91mil.

Revenue contribution from Qatar was at 16% in the full financial year 2016.

The bulk of the company's earnings is still derived from Malaysia, via O&M services, as well as its water treatment plant EPCC contract in Kuala Terengganu.

Malaysia contributed RM201.8mil or 28.9% of the total revenue during the third quarter.

Total revenue and net profit for the group's third quarter stood at RM653.32mil and RM68.03mil.

In its latest quarterly filing, Serba Dinamik says remains optimistic about its future prospects and expects that the group will continue to generate positive results for the year.

It announced last month that the group

will be establishing a chor-alkali plant in Tanzania, through a partnership with Junaco (T) Ltd. A chor-alkali plant produces chlorine and sodium hydroxide, which are commodity chemicals.

This will mark Serba Dinamik's maiden venture into Africa and the company looks to further grow the business in the region.

"It also reaffirms our plan to grow the asset ownership business model, which would lead to further enhancement of our EPCC and O&M capabilities.

"Apart from expanding our asset base, the company has also managed to secure various new contracts as well as manage to obtain renewals for some of its existing contracts in the O&M and EPCC segment.

"In order to ensure the company's continuous growth, the group plans to leverage on its core competencies of operating within both the oil and gas and power generation industries, as well as expanding into water treatment and utilities industry," said Serba

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All six analysts covering Serba Dinamik rate it a 'buy'

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Dinamik. Apart from that, Serba Dinamik announced that its wholly-owned subsidiary Top Luxury Sdn Bhd, has been awarded a contract to undertake the construction works for the Pengerang eco-Industrial Park (PeIP), pursuant to its Pengerang development plan in August this year.

The contract, valued at RM400mil, include the establishment of Malaysia's first maintenance, repair, and overhaul (MRO) and inspection, repair, and maintenance (IRM) Global Centre of Excellence.

Construction work is due to commence

by the first quarter of 2018 and will take approximately two years to complete.

According to Bloomberg data all six analysts covering Serba Dinamik have a "buy" call on the stock, with the consensus target price being RM3.28.

AllianceDBS Research and Affin Hwang Capital have the highest target price on the stock, at RM3.60.

"Our target price and earnings forecast are more bullish than consensus.

"We are confident of Serba Dinamik's performance as its O&M business caters to production activities which are more resil-

ient despite oil price volatility.

"Furthermore, as a third party O&M provider, it is able to gain market share from original equipment manufacturers (OEM) providers given its price competitiveness," said AllianceDBS Research.

According to Affin Hwang Capital, Serba Dinamik has a total outstanding orderbook at RM5bil as of end September 30, 2017, which will last the group until 2021.

Meanwhile, PublicInvest Research continues to like Serba Dinamik, supported by its core activities in O&M and EPCC, driven by its expansion into international markets

which, by its track record, has historically seen an estimated 80% of its contracts renewed.

"The group's robust RM10bil bid book for the next three years will comprise about 70% of O&M contracts and 30% of EPCC contracts. Our adjusted revenue and earnings estimate higher between 5% and 6% are to account for further contract replenishments and the newly-established chlor-alkali plant in Tanzania, further highlighting the group's plans to move towards the asset ownership business model," said PublicInvest Research.