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## Treading lightly in Middle East

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"A lot of offers — some in Malaysia, some outside — are being put forward to us and there are quite a number of attractive ones," he says, but adds that he does not expect to close any M&A deal "in the next six months".

For the second quarter ended June 30, 2017 (2QFY2017), Serba Dinamik reported RM649.7 million in revenue, more than triple the turnover in 2QFY2016 of RM151.95 million. Net profit surged from RM13.66 million to RM83.16 million.

Its O&M division contributed 82.9% of second-quarter revenue, primarily from Malaysia, Qatar and Bahrain, while EPCC made up 17% of group quarterly revenue.

For the full financial year, the energy services group is expected to clock up RM2.56 billion in revenue and RM291 million in net profit, according to the median estimate from six analysts compiled by Bloomberg.

In comparison, the group posted RM2.17 billion in revenue and RM245 million in net profit in FY2016, according to its 2016 annual report.

All six analysts rate the counter as "buy" with target prices of between RM2.75 and RM3.10 per share. Since debuting on Bursa Malaysia on Feb 8, the stock has risen 79% to close at RM2.66 last Thursday — giving it a market capitalisation of RM3.47 billion — compared with its initial public offering price of RM1.50 per share.

Notably, pension fund Kumpulan Wang Persaraan Dipendahkan or KWAP surfaced as a substantial shareholder in Serba Dinamik in September with 5.09% equity interest. Up to Oct 19, KWAP had increased its stake to 7.95%.

Group founder Mohd Abdul Karim is the largest single shareholder

with 25.27%. Other substantial shareholders are non-executive director Abdul Kahier Sahib (20.77%), executive director Datuk Awang Daud Awang Putera (11.71%) and the Employees Provident Fund (6.34%).

The geographical diversification push may further reduce the group's exposure to the Middle East, a key region that accounted for over half of Serba Dinamik's revenue last year.

While it had been operating in the region for over 15 years, the recurring geopolitical headwinds is a factor in the group's decision to explore other markets as a mitigation effort, it had said previously.

The latest tensions between Qatar — which is expected to account for 12% of group revenue in FY2017 — and its neighbours Saudi Arabia, Egypt, the United Arab Emirates and Bahrain have put the energy services group on a cautious footing, says Mohd Abdul Karim.

To recap, Qatar's neighbours had separately announced that they were cutting diplomatic ties with it beginning early June over accusations that it is supporting terrorism. Now into its fifth month, the diplomatic crisis has yet to be resolved.

While its operations in Qatar are not affected, Serba Dinamik is treading lightly to preserve relationships in the region. Apart from Qatar, it is also present in the UAE, Saudi Arabia, Oman, Bahrain and Kuwait.

"Whatever contracts that we have at the moment, we will fulfil our contractual obligations. But in terms of new opportunities in Qatar, unless there is a strong request for our participation, we will consider how it will affect our relationships in other countries where we also have contracts," says Mohd Abdul Karim.

That said, Serba Dinamik had not been forced to make that choice thus far, he adds.

# Serba Dinamik eyes Central Asia to build recurring income

BY KHAIRIE HISYAM ALIMAN

Serba Dinamik Holdings Bhd is pushing to expand its footprint in Central Asia as it seeks to increase asset ownership and build a recurring income base that would provide some sustainability to its long-term earnings prospects.

Group managing director and CEO Datuk Dr Mohd Abdul Karim Abdullah says the energy services group sees good opportunities in developing countries in the region — particularly Kazakhstan, Turkmenistan and Uzbekistan.

"We have put [roughly 10] proposals in these three countries. If you combine all the proposals, it is easily worth about US\$5 billion [in project value]," says Mohd Abdul Karim.

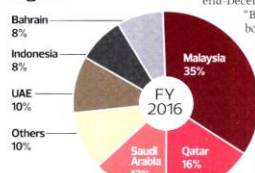
That said, the managing director does not expect all the proposals to succeed. The group's historical success rate with such proposals in general is roughly 50%, he adds.

For any successful proposal, Serba Dinamik is tentatively eyeing between 20% and 30% in terms of equity participation, depending on how negotiations go, he says. From the three countries, Uzbekistan and Kazakhstan would be new



Mohd Abdul Karim is targeting to increase the contribution from recurring income to annual revenue to 40% in five years, from 3% at present

### Serba Dinamik revenue contribution by region



Its order book currently stands at RM5.2 billion and Mohd Abdul Karim does not preclude the possibility of surpassing RM3 billion in total job wins this year by end-December.

"But a lot of (that order book) is just service, repair and maintenance works and the contracts will last for three to four years in tenure. But if we go on an asset ownership approach, the recurring revenue (from such projects) will last much longer, around 10 to 15 years or longer," says Mohd Abdul Karim.

At the moment, that recurring income base is "quite small, something like 3%, I would say," he adds.

According to him, the target over the next five years is to increase that proportion to 40% of revenue over the next five years.

When asked about potential mergers and acquisitions to expedite the process, Mohd Abdul Karim says the group's M&A team is also actively looking for opportunities but declined to go into specifics.

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markets for the group, which is already present in Turkmenistan.

The proposals are based on an asset-ownership strategy similar to the group's strategy in Africa, a market that Serba Dinamik had only broken into earlier this month.

In a previous interview in June, the managing director told *The Edge* that he expects Africa to contribute between 15% and 20% of full-year revenue for the financial year ending Dec 31, 2018 (FY2018).

Its maiden project in the con-

continent announced on Oct 9, a joint venture with Junaco (T) Ltd to build and operate a chlorine skid-mounted chlor-alkali plant in Tanzania,

will see the group take a 25% equity stake and participate in the engineering, procurement, construction and commissioning (EPCC) works worth about RM295.26 million.

In addition, Serba Dinamik will also be appointed as the operations and maintenance (O&M) contractor of the 45-tonnes-a-day plant upon its completion for 10 years,

with a possible five-year extension.

Mohd Abdul Karim is looking for more such projects for the steady, long-term income flow, partly to boost the sustainability of its earnings. In addition, investors had also expressed a desire to see the group have more tangible asset ownership and a bigger recurring income base, he adds.

Overall, the group has added RM2.5 billion to its order book year to date, surpassing its replenishment target of RM1.5 billion.