

Serba Dinamik Holdings Berhad

TP: RM0.28 (-30.8%)

Weaker Results on Slower Activities due to MCO

Last Traded: RM0.41

SELL (ESG: ★★★)

Kylie Chan Sze Zan

Tel: +603-2167 9601

kyliechan@ta.com.my

www.taonline.com.my

Review

- Serba Dinamik (Serba)'s 15MFY20 core net profit of RM735mn (YTD: n.a.), was within our expectations but above consensus', - accounting for 87%/93% of full-year estimates respectively. However, we note that consensus' estimates have not been fully adjusted to reflect Serba's change in financial year end (FYE). Following the change in FYE to 30 Jun (previous: 31 Dec), there are no comparable figures for 15MFY19.
- If we compare to the period of Oct-Dec 2020, bottomline contracted by 43% QoQ. This is due to seasonality, as the latter period typically has higher level of activities. In particular, revenue from Malaysia dipped by 41% QoQ due to implementation of Movement Control Order (MCO) in several states. This resulted in slower works in Serba's key market. Moreover, bottomline weakness was exacerbated by higher finance costs.
- If we compare to the period of Jan-Mar 2020, profits contracted by 19% YoY. This was in spite of higher sales, mainly emanating from Middle East. Earnings was further dragged by higher finance costs, lower associate contribution, and higher effective tax rate.

Impact

- Maintain earnings estimates.

Outlook

- The Group will likely enter into a capital intensive phase in the upcoming months. This is on the back of significant projects, including: (1) USD1.8bn EPC contract for Block 7 IT-focused innovation hub (total built-up area: 455k sq m) in Abu Dhabi, UAE, and (2) USD350mn EPC contract for Future Digital Data Systems LLC's data centre at Abu Dhabi.
- Moreover, in Mar-21, the Group acquired a 49% stake in Block 7. This project is currently at the conceptual master planning design stage and awaiting authority approvals. The Group's 49% ownership in this massive 4-year project translates to capital outlay of at least RM3.7bn. The urgency to raise capital is exacerbated by the need to refinance RMI.7bn of debt maturities before May-22.
- Post-audit findings, Serba has implemented various measures in attempt of restoring confidence. Firstly, the proposal to remove KPMG as auditors was withdrawn. Secondly, Serba agreed in-principle to appoint Ernst & Young (EY) to conduct a review on KPMG's findings. Thirdly, the Group appointed 3 new independent directors (existing: 5), namely Datuk Mohamed Ilyas Pakeer Mohamed (subsequently appointed as Chairman), Masleena Zaid (subsequently resigned), and Johan Mohamed Ishak. Lastly, Serba filed a civil suit against KPMG, which led to its resignation.
- To-date, six independent directors that were previously on the Board before KPMG's audit findings surfaced, have resigned. This includes five

Share Information

Bloomberg Code	SDH MK
Stock Code	5279
Listing	Main Market
Share Cap (mn)	3,709.6
Market Cap (RMmn)	2,355.6
52-wk Hi/Lo (RM)	2.09/0.41
12-mth Avg Daily Vol ('000 shrs)	41.602
Estimated Free Float (%)	34.3
Beta	1.7

Major Shareholders (%)

Mohd Abdul Karim	- 27.1
Abdul Kadier Sahib	- 16.3
EPF	- 8.6

Forecast Revision

	FY20	FY21
Forecast Revision (%)	0.0	0.0
Core Net Profit (RMmn)	842.7	670.0
Consensus	783.9	739.3
TA's / Consensus (%)	107	91
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY20	FY21
Net Debt / Equity (x)	1.0	0.8
ROA (%)	8.9	6.7
ROE (%)	21.7	15.4
NTA/Share (RM)	1.1	1.3
Price/NTA (x)	0.4	0.3

Scorecard

	% of FY	
vs TA	87	Within
vs Consensus	93	Above

Share Performance (%)

Price Change	SDH	FBM KLCI
1 mth	(74.5)	(1.1)
3 mth	(76.4)	(2.4)
6 mth	(76.2)	(5.0)
12 mth	(73.9)	4.7

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

independent non-executive directors (INEDs) and previous chairman, Datuk Mohamed Nor Abu Bakar. Meanwhile, the 5 INEDs that resigned comprise Rozilawati Basir, Sharifah Irina Syed Ahmad Radzi, Tengku Datuk Seri Hasmuddin Tengku Othman, Hasman Yusri Yusoff and Masleena Zaid. In a nutshell, the reason cited for their resignations (except for Masleena) was due to disagreement over management's decision to commence legal action against KPMG.

- We believe that attention should now focus on the release of audited FY20 financial statements and annual report (AR). This would be published by a new auditor to be appointed by Serba. The AR, coupled with the new auditor's review of KPMG's findings, would shed more light on Serba's financials. However, given the rushed appointment of a new auditor, it is possible that Serba might be unable to meet the deadline (31-Oct) for AR publication.
- Additionally, we understand that at this juncture, in spite of KPMG's resignation, Bursa Malaysia requires that the independent review must still proceed. The scope of the review must specifically address, to the satisfaction of the exchange, the issues raised by KPMG. As such, we eagerly await the results of this review (potentially by EY) to provide more clarity and facts.
- Meanwhile, Serba's integrity will continue to be questioned by the authorities (i.e. Securities Commission and Bursa Malaysia), as well as its financiers, clients, investors and stakeholders. As such, negative speculation and controversy will continue to weigh on stock sentiment. We believe investors will not completely rule out the possibility of accounting and operational irregularities on Serba's part.

Valuation

- To recap, based on KPMG's audit findings, dubious balance sheet items comprise: (1) receivables: RM652mn from 11 customers and USD24mn from a Bahrain customer/supplier, and (2) inventory: RM569mn of materials-on-site from the aforementioned 11 customers. In addition, unverified sales amount includes RM2.32bn from the 11 customers, and USD101mn from Bahrain customer. Lastly, KPMG was unable to ascertain the validity of Serba's IT contracts, including its recognition of revenue.
- After taking to account the above findings, we arrive at adjusted FY22 book value of RM0.72 (without adjustments: RM1.30). As conservative measure, we exclude all unverified sales and balance sheet items highlighted by KPMG above. This is in spite of management's guidance that it has secured cash proceeds of up to 72% and 90% of sales. Additionally, we exclude revenues from Serba's outstanding IT contracts.
- On account of potential book value impairments, and restatement of outstanding IT contracts, we revise our valuation to 0.4x FY21 Adjusted P/B (previous: 0.9x FY21 P/B). We widen our target P/B discount to 60% to reflect the possibility of additional actual findings by new auditors. As a result, our target price (TP) for Serba is reduced to RM0.28 (previous: RM1.00). Maintain Sell.

Quarterly Results Analysis

FYE Dec (RM mn)	5QFY20	Oct-Dec 2020	% QoQ	Jan-Mar 2020	% YoY	15MFY20	15MFY19	% YTD
Revenue	1,384.3	1,815.6	(23.8)	1,278.7	8.3	7,398.3	n.a.	n.a.
Core EBIT	184.8	247.8	(25.4)	199.9	(7.6)	1,084.6	n.a.	n.a.
Net Finance Cost	(55.4)	(32.2)	71.9	(50.0)	10.8	(247.0)	n.a.	n.a.
Associate & JV	(5.0)	(1.1)	>100	(1.2)	>100	(12.6)	n.a.	n.a.
EI	2.9	12.8	(77.2)	(1.1)	>-100	8.6	n.a.	n.a.
Pretax	127.3	227.3	(44.0)	147.7	(13.8)	833.6	n.a.	n.a.
Taxation	(14.7)	(25.2)	(41.6)	(14.1)	4.6	(89.0)	n.a.	n.a.
MI	(0.8)	(0.0)	>100	0.1	>-100	(1.3)	n.a.	n.a.
Net Profit	111.7	202.1	(44.7)	133.7	(16.5)	743.3	n.a.	n.a.
Core Net Profit	108.8	189.2	(42.5)	134.8	(19.3)	734.8	n.a.	n.a.
Core EPS (sen)	3.0	5.1	(41.8)	4.4	(32.4)	21.4	n.a.	n.a.
DPS (sen)	0.0	1.6	nm	1.2	nm	5.5	n.a.	n.a.
EBIT margin (%)	13.3	13.6		15.6		14.7	n.a.	
Pretax margin (%)	9.2	12.5		11.5		11.3	n.a.	
Core net margin (%)	7.9	10.4		10.5		9.9	n.a.	
Tax rate (%)	11.6	11.1		9.5		10.7	n.a.	

Segmental Results Analysis

FYE Dec (RM mn)	5QFY20	Oct-Dec 2020	% QoQ	Jan-Mar 2020	% YoY	15MFY20	15MFY19	% YTD
Revenue								
O&M	1,252.5	1,497.1	(16.3)	1,109.6	12.9	6,296.1	n.a.	n.a.
EPCC	99.3	203.0	(51.1)	140.7	(29.4)	690.2	n.a.	n.a.
ICT	30.8	113.0	(72.8)	27.9	10.2	406.8	n.a.	n.a.
ECT	1.6	2.5	(36.8)	0.4	>100	5.2	n.a.	n.a.
Total	1,384.3	1,815.6	(23.8)	1,278.7	8.3	7,398.3	n.a.	n.a.
Operating Profit								
O&M	214.6	255.2	(15.9)	202.5	6.0	1,114.0	n.a.	n.a.
EPCC	14.2	29.0	(51.1)	21.7	(34.7)	101.8	n.a.	n.a.
ICT	6.0	22.3	(73.3)	4.3	39.1	71.1	n.a.	n.a.
ECT	0.8	1.2	(35.2)	0.2	>100	2.5	n.a.	n.a.
Total	234.7	306.6	(23.4)	228.5	2.7	1,289.3	n.a.	n.a.
Operating Margin								
O&M	17.1%	17.0%		18.2%		17.7%	n.a.	
EPCC	14.3%	14.3%		15.5%		14.8%	n.a.	
ICT	19.3%	19.8%		15.3%		17.5%	n.a.	
ECT	47%	46%		51%		47%	n.a.	

Earnings Summary

FYE Jun* (RM mn)	2019*	2020*	2020E**	2021F	2022F
Revenue	4,528.6	6,014.1	9,029.0	7,300.0	7,286.0
EBITDA	834.2	1,112.7	1,426.0	1,339.3	1,462.5
EBITDA margin (%)	18.4	18.5	15.8	18.3	20.1
Pretax Profit	544.8	706.3	973.9	761.7	796.1
Core Net Profit	495.5	617.8	842.7	670.0	700.2
Core EPS [^] (sen)	14.8	18.3	25.0	19.9	20.8
Core EPS growth~ (%)	27.1	23.7	(9.1)	19.3	4.5
Core PER (x)	2.8	2.2	1.6	2.1	2.0
DPS [^] (sen)	3.6	5.5	7.0	6.0	6.0
Dividend Yield (%)	8.7	13.3	17.1	14.6	14.6

* FYE Dec

** 18 Months

[^] Adjusted for bonus issue & share split

~ Pro-rated for FY21-22

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★	★★★
Remark	Efforts to safeguard environment are above average.	Human resource management and societal contributions are more than adequate.	Recent audit matters raised by KPMG cast doubt on financial integrity and corporate governance.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Monday, June 28, 2021, the analyst, Angeline Chin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my