

The Edge Malaysia – Monday, June 7, 2021 (C) – Part 1



SERBA DINAMIK in the eye of the storm

STORIES BY **JOSE BARROCK,**
M SHANMUGAM AND ADAM AZIZ

In a week, Serba Dinamik Holdings Bhd has lost more than RM3 billion, or half of its market value, resulting in many market watchers saying that the company's stellar run has come to an end.

While company officials, especially managing director and CEO Datuk Mohd Abdul Karim Abdullah (pictured), have said time and again that there is nothing untoward at Serba Dinamik, auditors KPMG's queries regarding more than RM4.54 billion worth of transactions at the company have unsettled investors. Since the disclosure of the red flags raised over these transactions, Serba Dinamik's stock has plunged more than 52%, over the week to close at 76.5 sen last Friday.

"This is KPMG you are talking about, not some small audit firm, and Serba Dinamik is a huge company. Why would KPMG risk its relationship with such a successful company?" one market watcher asks.

Others prone to believe conspiracy theories say the issues at Serba Dinamik are also linked to recent shareholder issues at Sarawak-based company Calya Mata Sarawak Bhd, and that high-level politics is involved. However, all this is pure speculation.

With all the rumours flying, Serba Dinamik's response, other than claiming that there is no issue, has been that it is looking to undertake an independent review.

Serba Dinamik, in its announcement to the local bourse, said, "The company takes the view that there is no issue with regard to the legitimacy and existence of the contracts as well as the value that will render any material impact to the financial and operational aspects of the Group for the financial year ending June 30, 2021."

Serba Dinamik and KPMG did not respond to questions sent by *The Edge*.

Serba Dinamik has performed fantastically well since its initial public offering in

KPMG's grouses
In a nutshell, KPMG took issue with Serba Dinamik's sales transactions worth RM2.32 billion, trade receivables (RM652 million) and material on-site balances (RM569 million). The transactions add up to RM3.54 billion. KPMG was also uncomfortable with certain transactions involving trade payables, in which there were issues concerning addresses of suppliers, and where the amounts owed ranged from RM60 million to RM96 million — despite the companies having paid-up capitals of only RM100,000. These transactions were pegged at RM481 million by KPMG.

Also in the spotlight is a customer and supplier in Bahrain, whose office address cannot be located, and which has US\$101 million (RM417.36 million) in sales transactions and US\$24 million (RM99.17 million) in trade receivables with Serba Dinamik.

Under scrutiny as well were trade receivables and sales transactions for information technology contracts in which the invoices of some suppliers had no company registration numbers. In some instances, there were issues with the companies' names, and with customers making

payments directly to subcontractors, after which Serba Dinamik would receive the net amount.

One customer's principal activity was also not IT-related even though the contract was for IT purposes. KPMG had in some cases been unable to determine "the appropriateness of the contracts and transactions as well as the revenue and cost recognised". However, no value was attached to these transactions.

With these issues being raised, Serba Dinamik's stock hit limit down (-30%) for the second consecutive day last Tuesday, following the lifting of trading suspension the week before, which did little to shore up investor confidence.

There have been some questionable decisions as well, making market watchers wonder who is advising Serba Dinamik. For instance, last week, a 16.17% shareholder, Datuk Abdul Kadir Sahib, who is also a non-independent non-executive director of Serba Dinamik, withdrew his request made at end-May — when the accounting issues first surfaced — to convene an EGM and remove KPMG and appoint BDO in its place.

Cards seem to be stacked against Serba Dinamik

Just last week, the company's independent directors — Hasman Yusri Yusoff, Datuk Mohamed Nor Abu Bakar, Sharifah Irina Syed Ahmad Radzi, Tengku Datuk Seri Hasmuddin Tengku Othman and Rozlawati Basir — issued a statement saying that they "share concern in regard to the current situation of the company ... We will ensure that the company's corporate governance is at the highest level and we remain independent in executing our responsibilities".

This came on the back of pension fund Kumputan Wang Persaraan (Dipertabakan), or KWAP, which has been a substantial shareholder since September 2017, selling down its stake in the company to below the 5% threshold. Prior to the sell-down, KWAP had a 5.25% stake or 195.03 million shares. Meanwhile, other substantial shareholder-

ers, including the Employees Provident Fund (EPF), which has a 10.18% stake or 377.7 million shares, and state-controlled unit trust outfit Permodalan Nasional Bhd (PNB), which via its various funds has more than 5% stake (at end-April 2020 PNB had a 5.28% stake), have also expressed their displeasure.

EPF said it sought to ensure "the highest level of transparency and corporate governance" at investee companies while PNB told news wire agency Reuters that it had "informed the Serba Dinamik board of directors of the firm's deep concern about recent developments".

Another large shareholder, State Financial Secretary Sarawak, which as at end-April 2020 had a 4.11% stake or 126 million shares, has kept mum so far.

The Minority Shareholders Watch Group (MSWG), which viewed negatively Abdul Kadir's call for an EGM to remove KPMG, in a press statement, urged "all minority shareholders to vote against the resolution to remove the auditor (KPMG)".

MSWG said, "As part of good governance, KPMG should be allowed to complete their work and report to Serba Dinamik's shareholders at the forthcoming AGM. The external auditor should be around to defend their findings and explain themselves ... There is no urgency to remove the auditor at this juncture."

According to news reports, Institutional Investors Council (IIC) also objected to Abdul Kadir's proposal to remove KPMG, deeming it KPMG's responsibility "to highlight any issues of concerns, in particular those pertaining to financial transactions and how contracts were awarded, which in Serba Dinamik's case appear to be questionable".

"Why the urgency to remove KPMG before the commencement of investigation and the results of the investigation are known?" IIC asked.

Late last week, the Securities Commission Malaysia confirmed market speculation that it was indeed investigating Serba Dinamik. It is also likely that Bursa Malaysia may be looking into the company.

Meanwhile, other than Citi Research, most of the other analysts who cover the company have downgraded Serba Dinamik. TA Securities O&G analyst Kylie Chan Size Zan, in a report after the accounting issues cropped up, wrote, "At this juncture, apprehension over Serba Dinamik's corporate governance and financial integrity weigh on sentiment ... We believe investors will not completely rule out the possibility of accounting and operational irregularities on Serba Dinamik's part."

She downgraded Serba Dinamik to a "sell" from a "hold" previously, slashing her target price to RMI1 from RMI1.70 previously.

Some announcements have not panned out

One market watcher says he was put off by Serba Dinamik being in the news ever so often and announcements being made all the time.

"There were some announcements that did not take off as expected, some of the company's plans did not pan out, but these new developments were never mentioned (by Serba Dinamik)," he says.

As an example, he says, in August 2017, Serba Dinamik sought to acquire a 30% stake in Almutisi Development Sdn Bhd for RM18.3



KENNY YAP/PTHE EDGE

MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

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million as part of a plan to develop a mixed-use residential and commercial property in Pengarang, Johor, on a 70-acre site, but the project did not materialise. The gross development value of the project was pegged at RM600 million.

According to court documents, Serba Dinamik was supposed to buy an additional 40% in Almurisi Development for RM26.23 million. However, nothing came of it.

Perhaps these issues, coupled with Serba Dinamik's shareholders constantly being in the news, have created a perception problem.

Other than a 26.93% stake in Serba Dinamik, Abdul Karim is also a 32% shareholder in fabric company KPower Bhd and a 37% shareholder in concrete product manufacturer Sarawak Consolidated Industries Bhd.

Meanwhile, non-independent non-executive director of Serba Dinamik, Datuk Awang Daud Awang Putera — who was Karim's partner but ceased to be a substantial shareholder in the company in June last year — has a 26.79% stake in Mine-tec Resources Bhd, where he is executive chairman. Awang Daud is also executive chairman at Aimflex Bhd, where he has a 29.03% stake. He ceased to be a substantial shareholder in Sealink International Bhd late last year.

While some pro-Serba Dinamik punters and bankers linked to the company say there is a lot of business envy in the industry, others say it is possible that more issues may surface at the company now that the alleged accounting problems have surfaced.

The RM7.7 billion Abu Dhabi job

Serba Dinamik's reach has been impressive — bagging jobs in Qatar, Oman, Indonesia, India, Republic of Guinea, UAE, Bahrain, Oman, Zambia, Turkmenistan, Uzbekistan, Kazakhstan, Saudi Arabia and Kuwait among others (see "Major announcements and jobs secured by Serba Dinamik" on Page 60). To put things in perspective, Serba Dinamik's order book is a whopping RM18.7 billion.

A large job in Abu Dhabi — the RM7.7 billion contract secured in April 2020 from Block 7 Investments LLC for engineering, procurement and construction of an innovation hub, academic campus, related facilities and infrastructure — has also come under the spotlight.

Questions have been raised as to who controls US-based Block 7 Investments.

Market talk has linked Abdul Karim with Block 7. However, at the time of the announcement in April 2020, Serba Dinamik had said that none of its directors or major shareholders or persons connected to it had any interest in the award.

According to news reports from the Middle East in April this year, Block 7 Investments is a joint venture (JV) between Efre Capital Holdings Ltd of Abu Dhabi and Serba Dinamik. But this could be a different Serba Dinamik from the listed entity here in Malaysia.

Efre's website says Block 7 is a JV between Liwa Investment Holding of Abu Dhabi and Serba Dinamik Holdings Ltd. Checks on Serba Dinamik's annual report indicate that it does not have any such entity within the group.

Liwa Investment Holding's vice-chairman is prominent businessman Hadeef Saleh Salem Bin Omair Al Shamsi, who, some online sources say, is linked to the royal family there.

In a WhatsApp message to *The Edge*, when asked if he controls Block 7, Abdul Karim denies it, saying there is no related-party transaction.

Hopefully, there is more clarity after the appointment of an independent outfit to assess the issues raised by external auditor KPMG. **E**