

Wah Seong Corporation

Below Expectations

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Period	4Q15/FY15
Actual vs. Expectations	- FY15 results came below 27% and 48% of our in-house and consensus estimates with a core net profit of RM22.9m. - The negative variance was largely due to weaker-than-expected revenue from the oil and gas division and higher-than-expected operating expenses amid weak crude oil prices environment.
Dividends	A NDPS of 1.0 sen was declared, bringing its total NDPS in FY15 to 3.0 sen, which was higher than our estimates of 2.0 sen but lower than the NDPS of 5.0 sen in FY14.
Key Results Highlights	- WASEONG managed to record a CNP of RM3.8m from a net loss of RM9.0m in the preceding quarter due to stronger contribution from Renewable Energy and Industrial Trading & Services divisions but was offset by weaker performance from the Oil & Gas division. - YoY, the core net loss slumped 91.7% from RM45.2m in 4Q14 as a result of slowdown in the Oil & Gas division. Recall that last year, WASEONG was busy with its pipe-coating job from Statoil which was completed early of the year. - Similarly, FY15 core net profit plunged 83.9% from RM142.1m mainly due to the same reasons mentioned above. The situation was offset by the narrowing loss to RM17.0m from RM20.3m in the plantation segment.
Outlook	- As at 4Q15, its orderbook fell to RM894.0m from RM974.0m in the previous quarter owing to lower contract replenishment from the oil and gas division. - Going forward, pipe coating business will continue to be its main earning driver. Contributions from both the recent JV with Evraz and Weslpun to penetrate the Indian and North American markets are anticipated to kick in earliest by 3Q16. - However, we believe that margins will remain weak owing to lack of insulation coating jobs, which typically fetch higher margins as a result of slowdown in deepwater development projects.
Change to Forecasts	- We cut our earnings forecast by 75.9% for FY16 to RM21.2m after factoring slower revenue recognition and lower orderbook replenishment from oil and gas division. - FY17E earnings of RM39.2m is introduced assuming an orderbook replenishment of RM400m from the Oil & Gas division.
Rating	Maintain UNDERPERFORM
Valuation	- Our TP is lowered to RM0.73 from RM0.80 after cutting FY16E earnings and pegging to lower CY16 PBV of RM0.45x from 0.5x to factor weaker earnings outlook. - The assigned target PBV is also consistent with its - 2.0SD below to its 5-year average Fwd PBV.
Risks to Our Call	(i) Securing more contracts than expected, and (ii) higher-than-expected margin.

UNDERPERFORM ↔

Price: RM0.80
Target Price: RM0.73 ↓

Share Price Performance



KLCI	1,654.75
YTD KLCI chg	-2.2%
YTD stock price chg	-16.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK Equity
Market Cap (RM m)	618.2
Issued shares	772.8
52-week range (H)	1.45
52-week range (L)	0.79
3-mth avg daily vol:	438,257
Free Float	53%
Beta	1.0

Major Shareholders

WAH SEONG (M) TRADIN	32.9%
CHEU LEONG CHAN	7.8%
EMPLOYEES PROVIDENT	6.6%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,839.5	1,618.4	1,836.8
EBIT	41.8	56.7	80.5
PBT	38.3	56.7	80.6
Net Profit (NP)	9.5	21.2	39.2
Core Net Profit	22.9	21.2	39.2
Consensus (NP)	-	67.5	80.6
Earnings Revision(%)	-	-75.9	NEW
Core EPS (sen)	3.0	2.8	5.1
Core EPS growth (%)	-83.9	-7.2	84.6
NDPS (sen)	3.0	2.0	2.0
NTA/Share (RM)	1.5	1.5	1.5
BV/Share (RM)	1.6	1.6	1.6
Core PER	26.9	29.0	15.7
Price/NTA (x)	0.5	0.5	0.5
Gearing (x)	0.9	1.0	0.9
Dividend Yield (%)	3.8	2.5	2.5

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Income Statement

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FYE Dec (RM m)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
Turnover	448.1	407.6	9.9	711.5	-37.0	1,839.5	2,438.6	-24.6
EBIT	-14.5	13.3	-209.1	61.8	-123.4	41.8	218.7	-80.9
Interest expense	-7.1	-7.0	0.8	-5.7	25.2	-25.1	-20.9	20.1
Associates	4.5	7.9	-42.8	0.5	861.7	19.0	0.7	2,796.0
Exceptional items	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Pretax profit	-17.0	14.2	-220.2	56.6	-130.1	35.7	198.5	-82.0
Taxation	-17.7	-12.0	47.4	-16.3	8.7	-47.6	-51.4	-7.4
Minority interest	3.4	0.8	330.6	-5.7	-159.5	21.3	-21.5	-199.0
Net profit	-31.3	3.0	-1,159.5	34.6	-190.5	9.5	125.6	-92.5
Core net profit	3.8	-9.0	-141.6	45.2	-91.7	22.9	142.1	-83.9
EPS (sen)	-4.1	-1.2	246.2	5.9	-169.2	3.0	18.5	-83.9
DPS (sen)	0.0	0.0	N/A	2.5	-100.0	3.0	5.0	-40.0
NTA/share	1.3	1.3		1.2	5.0	1.2	1.2	
EBIT margin	-3.2	3.3		8.7		2.3	9.0	
Pretax margin	-3.8	3.5		7.9		1.9	8.1	
Net margin	0.8	-2.2		6.4		1.2	5.8	
Effective tax rate	-103.9	84.7		28.8		133.2	25.9	

Source: Company

Segment Breakdown

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FYE Dec (RM m)	FY15	FY15	Chg	FY14	Chg	FY15	FY14	Chg
Segment revenue:								
Oil & Gas	185.7	185.8	0.0	432.1	-57.0	881.2	1,384.1	-36.3
Renewable Energy	118.4	88.3	34.1	96.4	22.8	368.7	342.5	7.7
Industrial Trading & Services	131.4	119.2	10.3	151.3	-13.2	534.3	594.4	-10.1
Others	12.6	14.3	-12.0	31.8	-60.4	55.3	117.7	-53.0
Group revenue	448.1	407.6	9.9	711.5	-37.0	1,839.5	2,438.6	-24.6
Segment result:								
Oil & Gas	-22.9	23.7	-196.6	57.6	-139.8	36.5	181.9	-80.0
Renewable Energy	16.9	14.5	16.7	19.1	-11.6	55.7	62.0	-10.1
Industrial Trading & Services	2.2	-2.0	-209.4	0.1	1,620.5	2.5	6.6	-62.9
Others	-6.9	-17.1	-59.5	-8.9	-21.8	-28.8	-18.8	53.1
Plantation	-2.6	-3.5	-26.5	-8.0	-68.1	-17.0	-20.3	-16.1
Group	-13.4	15.6	-185.6	60.0	-122.3	48.8	211.4	-76.9
Segmental margin:								
Oil & Gas	-12.3	12.8		13.3		4.1	13.1	
Renewable Energy	14.3	16.4		19.8		15.1	18.1	
Industrial Trading & Services	1.7	-1.7		0.1		0.5	1.1	
Group EBIT margin	-3.0	3.8		8.4		2.7	8.7	

Source: Company

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Malaysian Oil & Gas Sector Comparisons

Company	Price (RM)	Market Cap (RM'm)	PER(x)			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target Price (RM)	Rating
			CY14	CY15	CY16				CY15	CY16		
ALAM	0.36	332.8	5.8	-12.2	60.8	0.0	6.9	0.4	-147.7	-120.0	0.29	UP
ARMADA	0.97	5,660.9	15.4	20.7	17.0	0.1	5.5	0.8	-25.7	21.6	1.17	OP
BARAKAH	0.78	639.0	8.3	7.9	7.1	0.0	22.0	1.8	4.6	11.2	0.94	MP
COASTAL	1.67	886.1	4.6	4.5	6.7	2.3	13.3	0.6	2.2	-32.2	1.76	MP
DAYANG	1.29	1,131.1	6.3	9.7	9.0	0.0	18.5	1.2	-34.7	7.2	1.43	MP
DIALOG	1.57	8,171.8	40.3	29.0	27.5	1.5	11.5	4.6	38.8	5.4	1.65	MP
GASMSIA	2.36	3,030.2	17.6	23.7	20.2	3.1	16.5	3.0	-26.0	17.3	2.68	OP
MHB	1.01	1,616.0	16.6	19.4	19.3	0.0	3.7	0.6	-14.9	0.8	1.00	MP
PANTECH	0.59	360.9	7.9	8.3	7.9	5.3	9.8	0.8	-5.0	5.4	0.53	MP
PCHEM	6.75	54,000.0	19.8	19.4	15.6	3.2	12.0	2.4	2.1	24.7	7.50	OP
PERISAI	0.26	311.7	31.1	39.5	26.6	0.0	0.8	0.2	-21.0	48.1	0.29	MP
PETDAG	24.70	24,538.3	48.9	31.1	28.6	2.6	10.6	5.2	57.4	8.7	24.20	UP
PETGAS	22.04	43,611.3	23.7	24.5	23.9	2.9	17.1	4.0	-3.4	2.5	21.99	UP
SKPETRO	1.90	11,385.1	9.4	11.0	11.2	0.7	10.2	1.0	-14.6	-1.5	2.38	OP
UZMA	1.69	491.7	12.1	12.5	8.7	0.0	16.0	1.9	-3.2	43.9	1.71	MP
WASEONG	0.80	618.2	4.9	27.0	29.2	2.5	11.7	0.6	-81.8	-7.2	0.73	UP
YINSON	2.82	3,081.5	23.0	19.1	21.6	0.0	9.8	2.2	20.4	-11.5	4.04	OP
Simple Average			17.4	17.4	20.1							
Weighted Average			25.1	22.4	20.4							

Source: Kenanga Research

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Income Statement

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Revenue	1,779.4	2,438.6	1,839.5	1,618.4	1,836.8
EBITDA	144.8	293.2	123.6	143.7	172.3
Depreciation	-59.4	-74.5	-81.8	-87.0	-91.9
Operating Profit	85.4	218.7	41.8	56.7	80.5
Other Income	-19.0	-20.9	-18.0	-18.0	-18.5
Interest Exp	-2.1	7.6	14.5	11.4	11.4
Associate	0.0	-6.9	0.0	6.6	7.3
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT	64.3	198.5	38.3	56.7	80.6
Taxation	-32.0	-51.4	-47.6	-14.2	-20.1
Minority Interest	0.0	-21.5	21.3	-21.3	-21.3
Net Profit	32.3	125.6	9.5	21.2	39.2
Core Net Profit	32.3	142.1	22.9	21.2	39.2

Balance Sheet

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Fixed Assets	926.8	970.2	802.3	1,132.9	1,192.0
Intangible Assets	116.6	129.0	150.3	150.3	150.3
Other FA	204.8	365.5	649.8	649.8	649.8
Inventories	205.2	219.6	247.4	226.6	257.2
Receivables	603.2	884.7	629.9	404.6	367.4
Other CA	238.3	182.7	359.5	359.5	359.5
Cash	204.3	149.5	159.9	24.2	78.2
Total Assets	2,499.2	2,901.3	2,999.2	2,948.0	3,054.4
Payables	402.9	571.2	463.1	404.6	459.2
ST Borrowings	562.8	879.5	906.5	906.5	1,006.5
Other ST Liability	182.1	32.0	59.9	59.9	59.9
LT Borrowings	182.1	136.3	315.9	315.9	251.0
Other LT Liability	13.5	14.0	28.3	28.3	28.3
Minorities Int.	172.3	193.3	103.5	129.5	146.9
Net Assets	983.5	1,075.0	1,121.9	1,103.3	1,102.5
Share Capital	387.4	387.4	387.4	387.4	387.4
Reserves	596.1	687.5	734.5	715.8	715.1
Equity	983.5	1,075.0	1,121.9	1,103.3	1,102.5

Cashflow Statement

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Operating CF	(50.1)	40.6	266.5	402.3	214.1
Investing CF	(292.0)	(271.6)	(271.6)	(417.6)	(91.9)
Financing CF	52.7	91.3	91.3	(35.2)	(61.2)
Change In Cash	41.1	(139.7)	86.2	(50.5)	61.1
Free CF	(342.1)	(231.0)	(5.2)	(15.3)	122.2

Source: Kenanga Research

Financial Data & Ratios

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Growth					
Turnover (%)	-8.8	37.0	-24.6	-12.0	13.5
EBITDA (%)	-8.6	102.5	-57.9	16.3	19.9
EBIT (%)	-16.5	156.1	-80.9	35.6	42.0
PBT (%)	-22.0	208.6	-82.0	58.7	42.2
Core Net Profit (%)	-38.5	339.7	-83.9	-7.2	84.6

Profitability (%)

EBITDA Margin	8.1	12.0	6.7	8.9	9.4
Operating Margin	4.8	9.0	2.3	3.5	4.4
PBT Margin	3.6	8.1	2.1	3.5	4.4
Core Net Margin	1.8	5.8	1.2	1.3	2.1
Effective Tax Rate	-49.8	-25.9	-124.3	-25.0	-25.0
ROA	1.4	4.7	0.3	0.7	1.3
ROE	2.8	11.2	1.9	1.7	3.1

DuPont Analysis

Net Margin (%)	1.8	5.8	1.2	1.3	2.1
Assets Turnover (x)	0.7	0.8	0.6	0.5	0.6
Leverage Factor (x)	2.2	2.3	2.4	2.4	2.4
ROE (%)	2.8	11.2	1.9	1.7	3.1

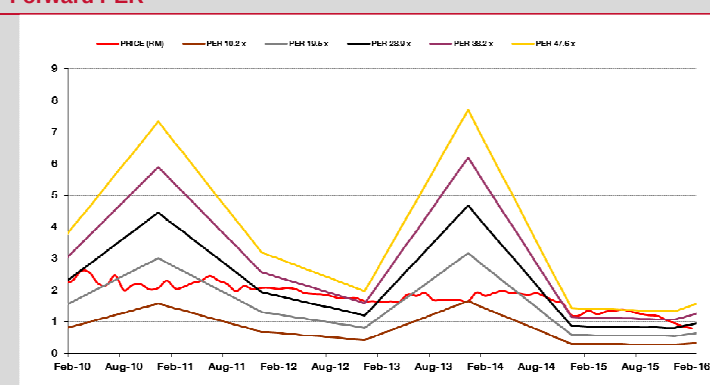
Leverage

Debt/Asset (x)	0.2	0.3	0.3	0.3	0.3
Debt/Equity (x)	0.8	0.9	1.1	1.1	1.1
Net (Cash)/Debt	540.6	866.3	1,062.5	1,198.2	1,179.3
Net Debt/Equity (x)	0.5	0.7	0.9	1.0	0.9

Valuations

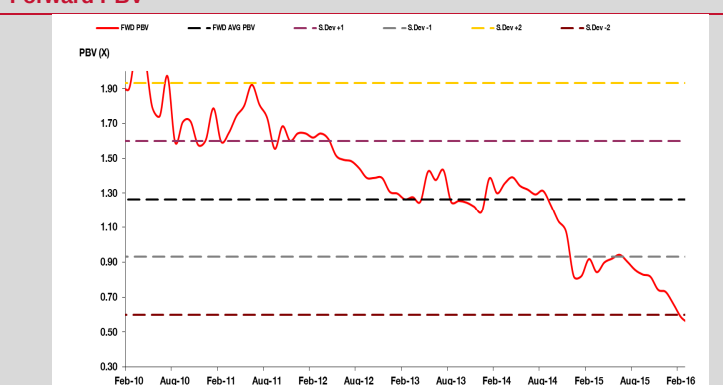
EPS (sen)	4.2	18.5	3.0	2.8	5.1
NDPS (sen)	4.0	5.0	3.0	2.0	2.0
NTA/share (RM)	1.4	1.6	1.5	1.5	1.5
BV/share (RM)	1.5	1.7	1.6	1.6	1.6
PER (x)	19.0	4.3	26.9	29.0	15.7
Net Div. Yield (%)	6.3	6.3	7.5	8.8	8.8
P/NTA (x)	0.6	0.5	0.5	0.5	0.5
P/BV (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	0.3	1.0	3.9	4.3	3.5

Forward PER



Source: Bloomberg, Kenanga Research

Forward PBV



01 March 2016

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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