

PP14767/09/2012(030761)

Tuesday, March 01, 2016

## Wah Seong Corporation Bhd

## “Melancholy Outlook”

## Results Review

- Actual vs. expectations.** Wah Seong Corporation Bhd (WSC) FY15 core net profit of RM23 million (-83% y-o-y), excluding exceptional item, came in below ours and consensus estimates respectively, accounting 61% and 58% of ours and consensus full year net profit forecast, no thanks to weaker earnings contribution from oil and gas (-81% y-o-y), renewable energy (-10% y-o-y) and industrial trading/services segment (-63% y-o-y). Overall, the group's EBIT margin in FY15 was noticeably lower at 2% compared to FY14 margin of 9%. We expect lack of new contract wins will be a torn-in-the-flesh for the group throughout FY16.
- Dividend.** Declared a final dividend of 1.00sen/share for the quarter, bringing total dividend to 3.00sen/share for FY15, translating into a net yield of 3.8%.
- Top line vs bottom line.** WSC's FY15 revenue and EBIT declined to RM1.8 billion (-25% y-o-y) and RM42 million (-81% y-o-y) respectively due to lower contribution from oil and gas and industrial trading/service segment. Oil and gas segment posted weaker revenue and EBIT of RM881 million (-37% y-o-y) and RM36 million (-81% y-o-y) respectively in tandem with lower level of activities during FY15 period hampered by challenging market conditions as a result of weakening in oil prices. Similarly, the group's industrial trading/services segment registered revenue and EBIT of RM534 million (-10% y-o-y) and RM2 million (-63% y-o-y) hammered by the delay in new project execution from its pipe manufacturing business and slowdown in building material business post-GST. Meanwhile, despite recording higher revenue in FY15 (+8% y-o-y), renewable energy segment still belted weaker EBIT of RM56 million (-10% y-o-y) impacted by tighter margin in process equipment and boiler sectors.

HOLD (TP: RM0.80)

Current Price (RM)	RM0.80
New Target Price (RM)	RM0.80
Previous Target Price (RM)	RM0.93
Previous Recommend.	SELL
Upside To Target Price	0%
Dividend Yield (FY17)	4%

## Stock Code

Bloomberg WSC MK

## Stock &amp; Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	773
Market Cap (RM mn)	626
YTD Chg In Share Price	-15%
Beta (x)	0.95
52-week Hi/Lo (RM)	1.45   0.79
3M Average Volume (shrs)	0.44mn
Estimated Free Float	24%

## Major Shareholders

Wah Seong (M)	33%
Cheu Leong Chan	8%
EPF	7%

- Latest development.** WSC has secured a new contract from Statoil ASA Norway worth USD39.5 million (RM167 million) for the total scope of coating work for the Johan Sverdrup Export Pipeline Project (JoSEPP) including anti corrosion coating, internal flow coating and concrete weight coating. The project is expected to commence in 4Q2016 and be completed by mid-2017.
- Outlook.** WSC's latest orderbook stood at RM894 million as at the end of December 2015 comprising: i) RM483 million (54%) for oil and gas segment, ii) RM258 million (29%) for renewable energy segment and iii) RM153 million (17%) for industrial trading/services segment. Note that WSC is currently tendering about RM5.0 billion worth of projects with estimated 80% (RM4.0 billion) belonging to the oil and gas division.
- Change to forecast.** We have done some housekeeping exercise and came out with new FY16 and FY17 earnings forecast of RM56 million (+143% y-o-y) and RM75 million (+34% y-o-y) respectively. We expect the group to face a challenging period in FY16 due to the softening in oil prices which may results in the delay in contract awards but FY17 earnings are expected to stabilize as we factor in a higher contribution from all business divisions added with the projected firming of oil price movement.
- Valuation & recommendation.** We re-value WSC at RM0.80 based on 8x PER (45% discount to average 3-years low PER of 14x) pegged to FY17 EPS of 10sen and the stock is a **HOLD** in tandem with the group and sector's challenging outlook. Re-rating catalysts may come from i) stronger-than-expected orderbook replenishment and ii) faster-than-expected recovery in oil price.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
SapuraKencana	Jan	1.90	18	19	10.7	10.1	0.9	0.8	5	2	2.32	Buy
Wah Seong	Dec	0.80	10	12	9.5	8.0	0.7	0.7	7	4	0.80	Hold
Bumi Armada	Dec	0.97	7	10	15.2	10.2	0.9	0.8	(3)	2	1.24	Buy
Dialog Group	Jun	1.57	6	7	26.6	23.5	3.6	3.3	15	1	1.60	Hold
MMHE	Dec	1.01	7	8	13.7	12.7	0.6	0.6	3	NA	0.96	Hold
PetDag	Dec	24.70	93	98	26.5	24.9	4.4	4.5	14	2	23.58	Hold
Dayang	Dec	1.29	15	21	9.3	6.6	1.1	0.8	20	3	1.26	Hold
UMW-OG	Dec	0.96	2	5	48.6	23.8	0.7	0.7	3	NA	0.90	Sell
Perisai	Dec	0.26	2	4	13.3	0.8	0.3	0.3	2	NA	NR	NR
Perdana Petroleum	Dec	NA	8	10	20.0	NA	NA	NA	(3)	NA	NR	NR
TH Heavy	Dec	0.15	NA	NA	NA	NA	NA	NA	(23)	NA	NR	NR
Petra Energy	Dec	1.22	18	19	7.1	6.6	0.8	0.7	8	2	NR	NR
Deleum	Dec	1.06	13	14	8.6	7.7	1.3	1.2	19	6	NR	NR
Uzma	Dec	1.69	21	26	9.7	7.5	1.2	0.8	1	NA	NR	NR
KNM	Dec	0.46	6	8	9.4	6.5	0.4	NA	2	NA	NR	NR
<b>Average</b>					<b>16.3</b>	<b>11.4</b>	<b>1.3</b>	<b>1.3</b>	<b>5</b>	<b>3</b>		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,779	2,439	1,840	1,751	1,847
EBITDA	144	295	130	177	200
EBIT	85	219	42	100	125
Finance cost	(19)	(21)	(25)	(24)	(22)
Share of JCE	(3)	0	0	0	0
Associates	1	1	19	9	9
PBT	64	198	36	84	113
Net profit	32	126	10	56	75
EPS (sen)	4	16	1	7	10
EBITDA margin	8%	12%	7%	10%	11%
EBIT margin	5%	9%	2%	6%	7%
PBT margin	4%	8%	2%	5%	6%
Net profit margin	2%	5%	1%	3%	4%
PER (x)	39.4	7.4	65.1	11.1	8.2
P/BV (x)	1.5	1.0	0.6	0.6	0.6
Dividend (sen)	5	6	3	3	3
Dividend yield	3%	5%	4%	3%	4%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
Revenue	712	408	448	10%	-37%	2,439	1,840	-25%
EBIT	62	13	(14)	NM	NM	219	42	-81%
Finance cost	(6)	(7)	(7)	1%	25%	(21)	(25)	20%
Associates/JCE	0.5	8	5	-43%	866%	0.7	19	2614%
PBT	57	14	(17)	NM	NM	199	36	-82%
Taxation	(16)	(12)	(18)	47%	9%	(51)	(48)	-7%
Net profit	35	3	(31)	NM	NM	126	10	-92%
EPS (sen)	4	0.4	(4)	NM	NM	16	1	-92%
EBIT margin	9%	3%	-3%			9%	2%	
PBT margin	8%	3%	-4%			8%	2%	
Net profit margin	5%	1%	-7%			5%	1%	
Effective tax rate	29%	84%	-104%			26%	133%	

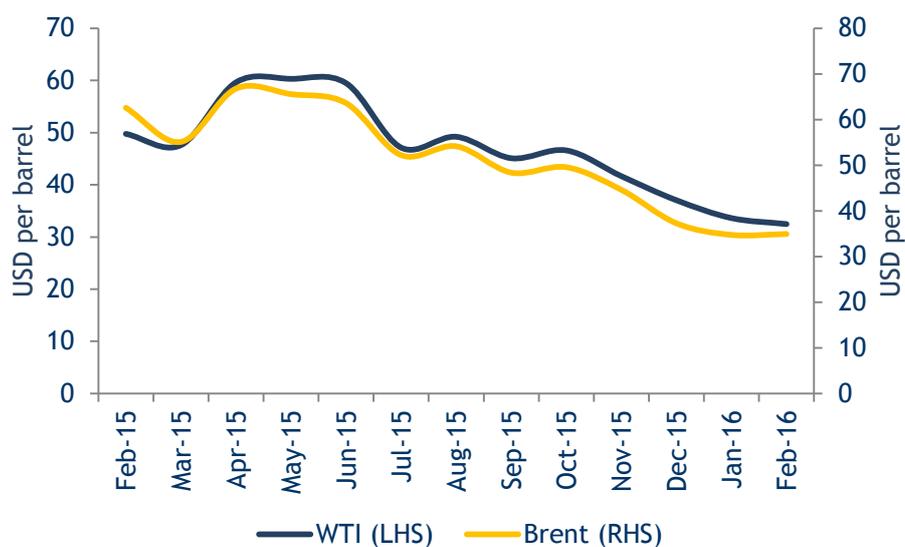
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

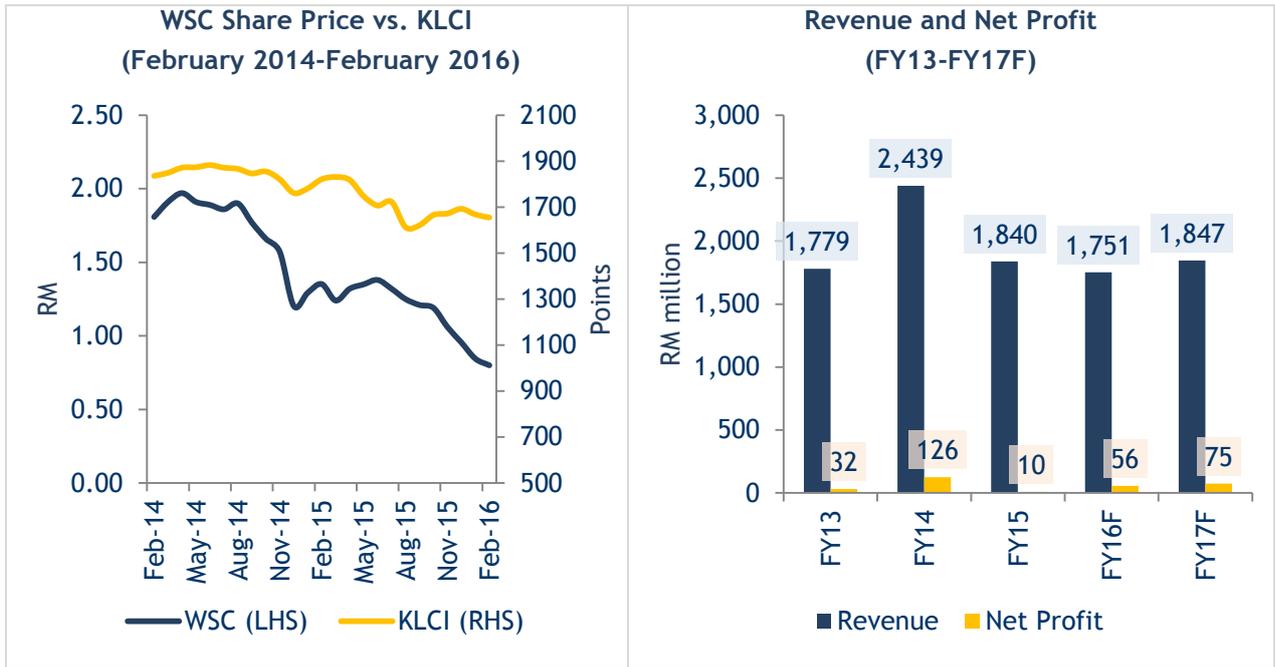
YE: Dec (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
<b>Revenue</b>								
Oil and Gas	442	186	186	0%	-58%	1,394	881	-37%
Renewable Energy	96	88	118	34%	23%	343	369	8%
Industrial Trading and Services	152	119	131	10%	-14%	595	534	-10%
Others	32	14	13	-12%	-60%	118	55	-53%
<b>Segment Profits</b>								
Oil and Gas	58	24	(23)	-197%	-140%	187	36	-80.6%
Renewable Energy	19	14	17	17%	-12%	62	56	-10%
Industrial Trading and Services	0	(2)	2	-209%	1855%	7	2	-63%
Others	(9)	(17)	(7)	NM	NM	(18)	(29)	NM

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price  
(February 2015-February 2016)



Source: Bloomberg



Source: Bloomberg, M&A Securities

## M&A Securities

### STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

### SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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