

01 March 2016 | 4Q15 Results Review

Wah Seong Corporation Berhad

Orderbook under stress

Maintain NEUTRAL

Revised Target Price (TP): RM0.85
(previously RM1.13)

INVESTMENT HIGHLIGHTS

- Wah Seong Corp's (WSC) reported 4Q15 earnings sank into the red at -RM31.3m
- Excluding impairments on assets and tax adjustments, 4Q15 normalised earnings would be RM11.3m
- Normalised FY15 earnings exceeded ours and consensus full year earnings estimates
- However, maintain NEUTRAL with a revised TP of RM0.85 on lower multiple in view the tough industry prospect

Earnings marred by impairments. WSC's 4Q15 reported earnings sank into the red at RM-31.3m. The company's full year FY15 reported earnings registered RM9.5m. However, excluding one-off impairments (-RM25.3m) and one-off tax adjustments from tax law changes in Singapore (-RM17.3m), WSC's FY15 normalised earnings would have been RM52.1m, exceeding full year forecasts, accounting for 108% and 130% of our and consensus earnings estimates respectively.

Impairments on assets. Management guided that the impairments were made on its oil and gas rental fleets – its compressors where its asset value had declined due to the lack of overall job opportunities.

Oil & gas. Segment revenue and pre-tax profit dropped -36.3%yoy and -80.6%yoy to RM881.2m and RM36.5m respectively, while profit margin contracted to 4.1%. The company attributed the dismal results to poor activity levels, lack of executable projects in light of the weak crude oil price and impairment charges. Excluding impairments of -RM30.3m, FY15 segment PBT would have been RM87.7m.

Renewable energy. Despite segment revenue inching up marginally by +7.7%yoy to RM368.7m, segment profit slumped by -10.2%yoy to RM55.7m due to significantly tighter margins for process equipments, boilers and turbines.

Industrial trading and services. The segment was negatively hit by both project execution delays in the pipe manufacturing business and impairments on inventories. Both segment revenue and profit declined by -10.1%yoy and -62.9%yoy to RM534.3m and RM2.5m respectively.

Orderbook. WSC's current orderbook stood at RM0.894b (from RM0.974b as at September 2015) as at December 2015. Of which, RM483m of the orderbook comprises jobs from the oil and gas segment, RM259m from the renewable energy segment and RM152m from the industrial trading and services segment.

RETURN STATS

Price (29 February 2016)	RM0.80
Target Price	RM0.85
Expected Share Price Return	+6.3%
Expected Dividend Yield	+3.7%
Expected Total Return	+10.0%

STOCK INFO

KLCI	1,654.75
Bursa / Bloomberg	5142 / WSC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	773.5
Par Value (RM)	0.50
Market cap. (RM'm)	618.2
Price over NA	0.55x
52-wk price Range	RM0.795 – RM1.45
Beta (against KLCI)	0.95
3-mth Avg Daily Vol	0.42m
3-mth Avg Daily Value	RM0.40m
Major Shareholders (%)	
Wah Seong (M) Trading	32.89
Chan Cheu Leong	7.84
EPF	6.64
Midwest Asia S/B	5.24
Tan Kim Yeow	5.07

Impact on earnings. We are maintaining our earnings estimates at this juncture.

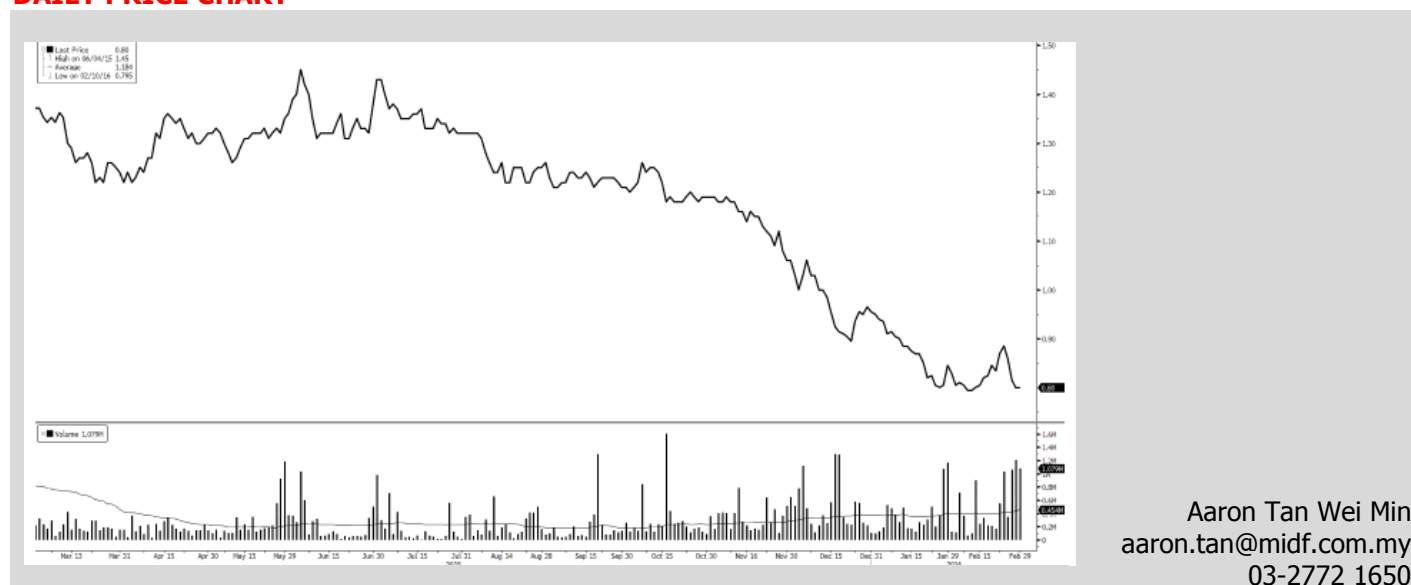
Maintain NEUTRAL. We are maintaining our **NEUTRAL** stance on WSC with a revised TP of **RM0.85 per share**. Our TP is based on a revised PER16 of 9x (previously 12x) pegged to EPS16 of 9.4sen. The lower forward multiple is reflective of our anticipation that new order replenishment to be under pressure and job executions to come under stress. 

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM m)	1,779.40	2,438.60	1,839.50	1,976.00	1,967.70
EBIT (RM m)	83.3	219.4	41.8	136.7	126.4
Pretax Profit (RM m)	64.3	198.5	35.7	108.7	98.4
Net Profit (RM m)	32.3	125.6	9.5	72.7	65.8
EPS (sen)	4.2	16.3	1.2	9.4	8.5
EPS growth (%)	-38.8	287.1	-92.5	669.6	-9.5
PER(x)	19	4.9	65.6	8.5	9.4
Net Dividend (sen)	4	5	3	3	2
Net Dividend Yield (%)	5	6.3	3.8	3.7	2.5

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

4Q15 Results Summary

FYE DEC (RM m)	Quarterly Results			Cumulative			Comments
	4Q15	QoQ (%)	YoY (%)	FY14	FY15	YoY (%)	
Revenue	448.1	9.9	-37.0	2438.6	1839.5	-24.6	
COGS	-389.9	15.0	-28.6	-1953.0	-1576.8	-19.3	
Gross Profit	58.2	-14.9	-64.9	485.7	262.7	-45.9	
Other Operating Income	13.4	-82.0	-29.7	45.7	141.5	209.7	
Selling & Dist Expenses	-13.0	13.0	65.2	-32.9	-41.8	27.1	
Admin & Gen Expenses	-71.8	-39.5	-36.3	-276.6	-324.6	17.4	
Other Gains	-1.2	-247.3	-48.9	-3.2	4.0	-227.7	
Finance Costs	-7.1	0.8	25.2	-20.9	-25.1	20.1	
JCE	4.5	-42.8	861.7	0.7	19.0	nm	
PBT	-17.0	-220.2	-130.1	198.5	35.7	-82.0	
Tax	-17.7	47.4	8.7	-51.4	-47.6	-7.4	
MI	-34.7	4285.8	-705.7	21.5	-21.3	nm	
PATAMI	-31.3	-1159.5	-190.5	125.6	9.5	-92.5	
Segmental:							
<i>Revenue</i>							
- Oil & Gas	185.7	0.0	-57.0	1384.1	881.2	-36.3	Projects being deferred by clients
- Renewable Energy	118.4	34.1	22.8	342.5	368.7	7.7	Higher sales
- Ind, Trading & Services	131.4	10.3	-13.2	594.4	534.3	-10.1	Slowdown in pipe manufacturing businesses
- Other	12.6	-12.0	-60.4	117.7	55.3	-53.0	
Total (including eliminations)	448.1	9.9	-37.0	2438.6	1839.5	-24.6	
<i>PBT</i>							
- Oil & Gas	-38.6	-218.8	-167.0	187.5	36.5	-80.6	
- Renewable Energy	17.1	18.8	-10.6	62.1	55.7	-10.2	Declining profit margin
- Ind, Trading & Services	2.2	-209.5	1606.3	6.6	2.5	-62.9	
- Other	-22.9	231.2	35.7	-37.8	-45.8	21.0	
Total (including eliminations)	-3.9	-112.6	-108.2	218.3	48.8	-77.6	

Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.