

31 May 2016

Wah Seong Corporation

Below Expectations

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Weaker O&G segment continued to be the main culprit for its disappointing results. WASEONG's 1Q16 came below expectations with an unexpected core net loss of RM2.3m dragged by weaker JV and associate income. Orderbook replenishment remains our biggest concern amidst sluggish operating environment despite tender book staying at RM5.0b. Retain UNDERPERFORM call with a lower TP of RM0.68 peg to 0.4x CY17 P/BV after trimming our FY16/17E forecast by 19/13%.

Below expectations. 1Q16 results came below expectations of our in-house and consensus estimates (net profit forecasts of RM21.2m and RM60.8m, respectively) with a core net loss of RM2.3m after stripping off forex gain. The negative variance due to weaker-than-expected contribution from its associate. No dividend was declared as expected.

O&G segment the main culprit. WASEONG dwindled to losses from a net profit of RM3.8m in the preceding quarter due to weaker contribution from Renewable Energy and Oil and gas divisions resulting in a 24% decline in revenue but was offset marginally by better contribution from Industrial Trading and Services segment. Note that its income from JV and associate has sunk into losses of RM5.2m vs. a positive contribution of RM4.5m in 4Q15. We believe this is mainly due to poorer performance from its associate, PENERGY (Not-rated) which experienced a slowdown in HUC work. YoY, the core net loss slumped from a net profit of RM13.5m in 1Q15 largely marred by Oil & Gas division which posted a 50% fall in revenue. Recall that WASEONG still recorded revenue in 1Q15 from its pipe-coating mega project from Statoil which was completed early of last year.

Orderbook continues to shrink. As at 1Q16, its orderbook fell to RM715.0m from RM894.0m in the previous quarter owing to lower contract replenishment from the oil and gas division. Tender stays at RM5.0b with 80% arising from oil and gas projects. Despite losses in 1Q16, we still expect its full-year earnings to stay in the black premising on stronger 2H16. Contributions from both the JV with Evraz and Weslpun to penetrate the Indian and North American markets are anticipated to kick in earliest by 3Q16 and its USD39.5m pipe coating contract for Johan Svedrup will start to contribute in 4Q16. 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.

Retain UNDERPERFORM. We cut our earnings forecast by 19/13% for FY16/17E to RM17.0/34.5m by lowering its associate and JV contribution in view of tougher challenging environment in oil and gas sector. Our TP is lowered to RM0.68 from RM0.73 pegged to lower CY17 PBV of RM0.4x from 0.45x to factor a lumpy earnings outlook. The assigned target PBV is slightly below its -2.0SD 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: RM0.69
Target Price: RM0.68 ↓

Share Price Performance



KLCI	1629.87
YTD KLCI chg	-3.7%
YTD stock price chg	-28.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK Equity
Market Cap (RM m)	529.4
Issued shares	772.8
52-week range (H)	1.45
52-week range (L)	0.69
3-mth avg daily vol:	981,783
Free Float	53%
Beta	1.0

Major Shareholders

WAH SEONG (M) TRADIN	32.9%
CHEU LEONG CHAN	7.8%
EMPLOYEES PROVIDENT	5.9%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,839.5	1,618.4	1,836.8
EBIT	41.8	40.5	71.8
PBT	35.7	32.1	66.1
Net Profit (NP)	9.5	17.0	34.5
Core Net Profit	22.9	17.0	34.5
Consensus (NP)	-	60.8	70.5
Earnings Revision(%)	-	-19.2	-12.9
Core EPS (sen)	3.0	2.2	4.5
Core EPS growth (%)	-83.9	-25.4	102.6
NDPS (sen)	3.0	0.0	0.0
NTA/Share (RM)	1.5	1.5	1.6
BV/Share (RM)	1.6	1.6	1.7
Core PER	23.1	30.9	15.3
Price/NTA (x)	0.5	0.5	0.4
Gearing (x)	0.7	0.6	0.6
Dividend Yield (%)	4.4	0.0	0.0



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Income Statement

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FYE Dec (RM m)	FY16	FY15	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	340.9	448.1	-23.9	522.8	-34.8	340.9	522.8	-34.8
EBIT	14.2	-14.5	-198.2	28.8	-50.7	14.2	28.8	-50.7
Interest expense	-6.7	-7.1	-5.9	-5.9	12.9	-6.7	-5.9	12.9
Associates	-5.2	4.5	-213.9	-0.7	598.5	-5.2	-0.7	598.5
Exceptional items	0.0	0.0	N/M	0.0	N/M	0.0	0.0	N/M
Pretax profit	2.4	-17.0	-113.8	22.2	-89.4	2.4	22.2	-89.4
Taxation	-4.5	-17.7	-74.3	-12.1	-62.6	-4.5	-12.1	-62.6
Minority interest	4.5	3.4	33.5	16.4	-72.3	4.5	16.4	-72.3
Net profit	2.4	-31.3	-107.5	26.4	-91.1	2.4	26.4	-91.1
Core net profit	-2.3	3.8	-160.8	13.5	-117.0	-2.3	13.5	-117.0
EPS (sen)	0.3	0.5	-37.3	1.8	-117.0	-0.3	1.8	-117.0
DPS (sen)	0.0	0.0	N/M	0.0	N/M	0.0	0.0	N/M
NTA/share	1.2	1.3		1.2	-1.8	1.2	1.2	
EBIT margin	4.2	-3.2		5.5		4.2	5.5	
Pretax margin	0.7	-3.8		4.2		0.7	4.2	
Net margin	-0.7	0.8		2.6		-0.7	2.6	
Effective tax rate	192.9	-103.9		54.7		192.9	54.7	

Source: Company

Segment Breakdown

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FYE Dec (RM m)	FY16	FY15	Chg	FY15	Chg	FY16	FY15	Chg
Segment revenue:								
Oil & Gas	137.4	185.7	-26.0	268.1	-48.8	137.4	268.1	-48.8
Renewable Energy	80.0	118.4	-32.4	85.7	-6.6	80.0	85.7	-6.6
Industrial Trading & Services	116.4	131.4	-11.4	159.1	-26.9	116.4	159.1	-26.9
Others	7.1	12.6	-43.3	10.0	-28.6	7.1	10.0	-28.6
Group revenue	340.9	448.1	-23.9	522.8	-34.8	340.9	522.8	-34.8
	0.0	0.0		0.0		0.0	0.0	
Segment result:								
Oil & Gas	-6.2	-22.9	-72.9	25.0	-124.9	-6.2	25.0	-124.9
Renewable Energy	8.1	16.9	-52.2	12.0	-32.7	8.1	12.0	-32.7
Industrial Trading & Services	2.9	2.2	34.6	4.6	-36.0	2.9	4.6	-36.0
Others	-4.2	-6.9	-39.4	-4.2	0.0	-4.2	-4.2	0.0
Plantation	-7.7	-2.6	202.5	-7.7	0.0	-7.7	-7.7	0.0
Group	-7.1	-13.4	-46.6	29.6	-124.1	-7.1	29.6	-124.1
Segmental margin:								
Oil & Gas	-4.5	-12.3		9.3		-4.5	9.3	
Renewable Energy	10.1	14.3		14.0		10.1	14.0	
Industrial Trading & Services	2.5	1.7		2.9		2.5	2.9	
Group EBIT margin	-2.1	-3.0		5.7		-2.1	5.7	

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	0.34	314.3	5.5	-11.5	57.5	0.0	-3.1	0.4	-147.7	-120.0	0.29	UP
ARMADA	0.68	3,989.1	10.8	14.6	14.3	1.5	3.6	0.5	-25.7	2.0	0.80	MP
COASTAL	1.54	817.1	4.3	5.9	7.7	3.4	8.6	0.5	-27.8	-22.9	1.61	MP
DAYANG	1.04	911.9	5.1	7.8	27.3	0.0	9.8	0.8	-34.7	-71.4	0.93	UP
DIALOG	1.55	8,152.3	33.7	29.9	28.8	1.5	13.1	3.9	12.5	4.0	1.62	MP
GASMSIA	2.28	2,927.5	17.0	22.9	19.5	3.8	11.9	2.8	-26.0	17.3	2.62	OP
MHB	1.14	1,824.0	18.7	21.9	21.8	0.0	3.1	0.7	-14.9	0.8	1.25	MP
PANTECH	0.56	341.9	7.5	8.8	7.8	4.1	7.5	0.7	-14.8	12.5	0.55	MP
PCHEM	6.61	52,880.0	19.4	19.0	17.3	2.9	11.8	2.2	2.1	9.7	7.31	OP
PERISAI	0.245	299.4	29.9	42.2	18.7	0.0	0.8	0.4	-29.0	125.4	0.26	MP
PETDAG	23.64	23,485.3	46.8	29.7	27.3	2.6	16.0	4.7	57.4	8.7	25.40	OP
PETGAS	21.64	42,819.8	23.2	24.1	23.5	3.0	15.6	3.7	-3.4	2.5	21.95	MP
SKPETRO	1.60	9,587.4	7.9	12.7	12.5	0.6	5.9	0.7	-37.6	1.2	1.65	MP
UZMA	1.93	561.5	13.9	14.3	11.5	0.0	11.4	1.6	-3.2	24.2	1.88	MP
WASEONG	0.69	529.4	4.2	23.2	31.1	0.0	2.0	0.5	-81.8	-25.6	0.68	UP
YINSON	2.68	2,925.7	21.8	17.9	19.3	0.6	8.7	1.6	21.7	-6.9	3.92	OP
Simple Average			16.9	17.7	21.6							
Weighted Average			24.2	22.1	21.1							

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	128.8	107.2	145.0
Depreciation	-59.4	-74.5	-87.0	-66.7	-73.1
Operating Profit	85.4	218.7	41.8	40.5	71.8
Other Income	-19.0	-20.9	-25.1	-20.8	-21.6
Interest Exp	-2.1	7.6	11.5	8.4	11.4
Associate	0.0	-6.9	7.5	4.0	4.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT	64.3	198.5	35.7	32.1	66.1
Taxation	-32.0	-51.4	-47.6	-8.0	-16.5
Minority Interest	0.0	-21.5	21.3	-7.0	-15.0
Net Profit	32.3	125.6	9.5	17.0	34.5
Core Net Profit	32.3	142.1	22.9	17.0	34.5

Balance Sheet

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Fixed Assets	926.8	970.2	802.3	886.6	964.4
Intangible Assets	116.6	129.0	150.4	150.4	150.4
Other FA	204.8	365.5	131.0	131.0	131.0
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	199.1	199.1	199.1
Cash	204.3	-151.5	320.8	229.2	281.5
Total Assets	2,499.2	2,600.3	2,481.0	2,227.6	2,351.0
Payables	402.9	571.2	463.1	404.6	459.2
ST Borrowings	562.8	879.5	906.5	700.0	800.0
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	110.5	125.5
Net Assets	983.5	774.0	603.7	608.3	627.1
Share Capital	387.4	387.4	387.4	387.4	387.4
Reserves	596.1	687.5	734.5	751.5	786.1
Equity	983.5	1,075.0	1,121.9	1,139.0	1,173.5

Cashflow Statement

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Operating CF	(50.1)	40.6	172.6	265.9	168.2
Investing CF	(292.0)	(271.6)	(106.6)	(151.0)	(151.0)
Financing CF	52.7	91.3	(16.7)	(206.5)	35.1
Change In Cash	41.1	(139.7)	49.2	(91.6)	52.2
Free CF	(342.1)	(231.0)	66.0	114.9	17.2

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	-56.1	-16.7	35.2
EBIT (%)	-16.5	156.1	-80.9	-3.1	77.4
PBT (%)	-22.0	208.6	-82.0	-10.2	106.0
Core Net Profit (%)	-38.5	339.7	-83.9	-25.4	102.6

Profitability (%)

EBITDA Margin	8.1	12.0	7.0	6.6	7.9
Operating Margin	4.8	9.0	2.3	2.5	3.9
PBT Margin	3.6	8.1	1.9	2.0	3.6
Core Net Margin	1.8	5.8	1.2	1.1	1.9
Effective Tax Rate	-49.8	-25.9	-133.2	-25.0	-25.0
ROA	1.4	4.7	0.3	0.6	1.2
ROE	2.8	11.2	1.9	1.4	2.7

DuPont Analysis

Net Margin (%)	1.8	5.8	1.2	1.1	1.9
Assets Turnover (x)	0.7	0.9	0.7	0.7	0.8
Leverage Factor (x)	2.2	2.1	2.0	1.8	1.8
ROE (%)	2.8	11.2	1.9	1.4	2.7

Leverage

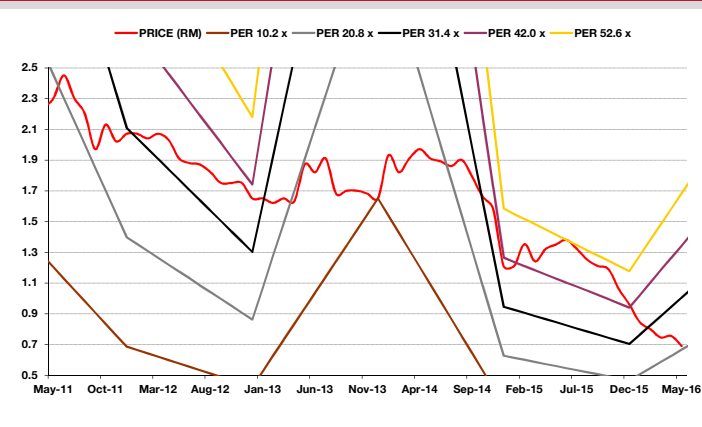
Debt/Asset (x)	0.2	0.3	0.4	0.3	0.4
Debt/Equity (x)	0.8	0.9	1.1	0.9	0.9
Net (Cash)/Debt	540.6	1,167.3	901.6	786.7	769.5
Net Debt/Equity (x)	0.5	0.9	0.7	0.6	0.6

Valuations

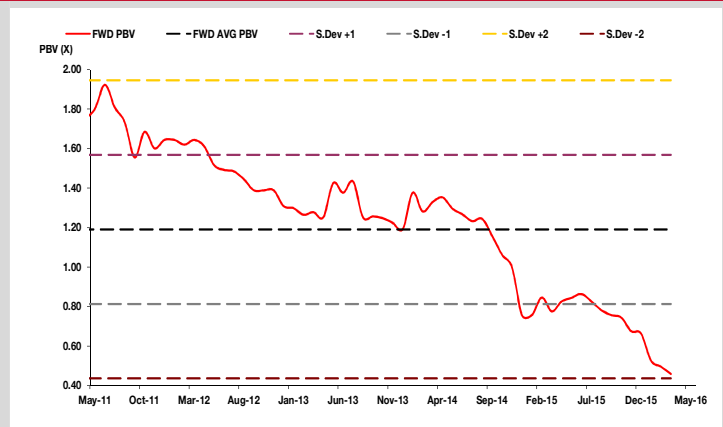
EPS (sen)	4.2	18.5	3.0	2.2	4.5
NDPS (sen)	4.0	5.0	3.0	0.0	0.0
NTA/share (RM)	1.4	1.6	1.5	1.5	1.6
BV/share (RM)	1.5	1.7	1.6	1.6	1.7
PER (x)	16.3	3.7	23.1	30.9	15.3
Net Div. Yield (%)	5.8	7.3	4.4	0.0	0.0
P/NTA (x)	0.5	0.4	0.5	0.5	0.4
P/BV (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	-0.3	2.3	3.2	2.7	1.9

Source: Kenanga Research

Forward PER



Forward PBV



Source: Bloomberg, Kenanga Research

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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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