



WAH SEONG CORPORATION BERHAD

Outperform

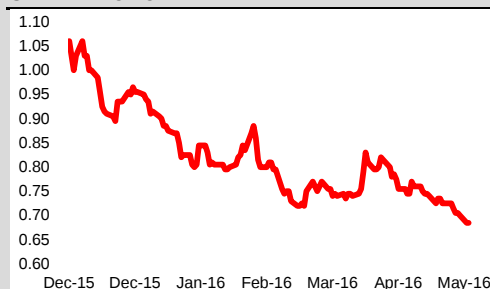
DESCRIPTION

Pipe-coating specialist for onshore and offshore within the oil and gas industry in Malaysia and overseas.

12-Month Target Price RM0.940
Current Price RM0.685
Expected Return +36.9%

Market Main
Sector Oil & Gas
Bursa Code 5142
Bloomberg Ticker WSC MK
Shariah-compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 0.69-1.45
3-Month Average Vol ('000) 981.8

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-10.8	-11.3	-34.3
Relative Returns	-6.9	-13.1	-33.7

KEY STOCK DATA

Market Capitalisation (RM m) 529.4
No. of Shares (m) 772.8

MAJOR SHAREHOLDERS

	%
Wah Seong (M) Trading Co	32.9
Chan Cheu Leong	7.8
Employees Provident Fund	5.9

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More Excitement Going Forward

Wah Seong's 1QFY16 performance continues to be affected by current market conditions plaguing the O&G sector thus seeing further deferment of capex activities. Revenue registered RM340.9m (-34.8% YoY, -23.9% QoQ), with earnings at RM2.4m (-91.1% YoY, ->100.0% QoQ). We are however upgrading our recommendation on Wah Seong to **Outperform**, with a rolled over TP of RM0.94 pegged to 8x PE and FY17F EPS of 11.7sen. We concede that the Group has limited downside risks, despite experiencing a lack of contract replenishment, has effectively improved its operational performance with a higher GP margin of 14.5% (+7% YoY) amidst this challenging period. We maintain that Wah Seong's performance has been affected by the oil price sentiment and not due to its execution capabilities, and is poised for better prospects 4QFY16 onwards with the expected contributions from its recently awarded pipe-coating work for the USD39.5m Johan Sverdrup Export Pipeline Project (JoSEPP) by Statoil ASA Norway and c.USD74.0m JV contract for the insulation coating protection for deep water, offshore insulation project in the Gulf of Mexico. We anticipate that awarding of new contracts could still be slow, but the Group is the leading contender in the pipe-coating space when the O&G market begins to see its recovery.

§ **Declining orderbook.** Wah Seong's current orderbook stands at RM715m (Dec 2015: RM894m), comprising of 52% O&G contracts, 31% renewable energy (RE) and 17% industrial trading and services (ITS). The Group has an RM5.0bn tenderbook constituting RM4.0bn of O&G projects, predominantly from international scopes. We understand that these tenders are c.90% pipe-coating jobs for shallow waters. We are positive on the outlook of Wah Seong considering its standing as one of the 2 leading pipe coaters globally and who are often strong contenders for any award thus having a higher chance of securing more contracts 2HFY16. Due to the uncertain oil price landscape, it is difficult to determine the timeline of new awards going forward however and thus could continue to hinder the Group's activities in the medium term.

§ **Updates.** Wah Seong's JV plant setup in India and Canada is targeted to complete towards end-2QFY16. Following this, the Canadian operations are assumed to have immediate sizeable contracts with its prominent partner. In the meantime, the Group continues to identify various options to divest its plantations division. The slowdown of activity coupled with dilution of stake to 48% would see smaller losses from this division going forward.

§ **Upgrade to Outperform.** We have rolled over our TP to RM0.94 pegged to 8x PE and FY17F EPS of 11.7sen. The stock is undervalued at current levels, trading at fwd-PE of 5.8x for FY17F and with limited downside should see some positive reflections in its price levels. Going forward the Group has also identified job tenders in various regions such as North America, Latin America, Europe and Africa.

KEY FORECAST TABLE

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F	CAGR
Revenue	2,438.6	1,839.5	1,674.1	1,713.7	1,747.7	-0.9%
Gross Profit	218.7	41.8	129.1	132.1	134.6	11.5%
PBT	198.5	35.7	128.7	134.7	161.7	20.3%
PATAMI	125.6	52.1	86.8	90.8	109.1	29.5%
EPS (Sen)	16.2	6.7	11.2	11.7	14.1	29.5%
P/E (x)	4.2	10.2	6.1	5.8	4.9	
DPS (Sen)	5.0	2.0	2.0	2.0	2.0	
Dividend Yield (%)	7.3	2.9	2.9	2.9	2.9	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec</u> <u>(RM m)</u>	<u>1Q16</u>	<u>1Q15</u>	<u>4Q15</u>	<u>QoQ</u> <u>Chg</u> <u>(%)</u>	<u>YoY</u> <u>Chg</u> <u>(%)</u>	<u>YTD 16</u>	<u>YTD 15</u>	<u>YoY</u> <u>Chg</u> <u>(%)</u>	<u>Comments</u>
Revenue	340.9	522.8	448.1	-23.9%	-34.8%	340.9	522.8	-34.8%	Lower revenue primarily due to current market conditions affecting the O&G sector resulting in further deferment of capex activities by oil majors. Revenue for RE and ITS also reduced from the softer market in Malaysia. Decrease in revenue and projects with different margins.
Cost of sales	-291.4	-451.8	-389.9	-25.3%	-35.5%	-291.4	-451.8	-35.5%	
Gross profit	49.5	71.0	58.2	-14.8%	-30.3%	49.5	71.0	-30.3%	
Other income	45.6	44.3	13.4	241.3%	3.1%	45.6	44.3	3.1%	Driven by accrual made for Socotherm arbitration award and recognition for allowance for doubtful debts, as well as savings from rightsizing activities undertaken by the Group.
Other expenses	-76.5	-88.0	-84.8	-9.7%	-13.0%	-76.5	-88.0	-13.0%	
Operating profit	14.2	28.8	-14.5	->100.0%	-50.7%	14.2	28.8	-50.7%	
Finance costs	-6.7	-5.9	-7.1	-5.9%	12.9%	-6.7	-5.9	12.9%	Lower in the same trend as revenue.
Share of results of associated companies	-5.2	-0.7	4.5	->100.0%	>100.0%	-5.2	-0.7	>100.0%	
PBT	2.4	22.2	-17.0	->100.0%	-89.4%	2.4	22.2	-89.4%	
Tax	-4.5	-12.1	-17.7	-74.3%	-62.6%	-4.5	-12.1	-62.6%	
Minorities	4.5	16.4	3.4	33.5%	-72.3%	4.5	16.4	-72.3%	
PATAMI	2.4	26.4	-31.3	->100.0%	-91.1%	2.4	26.4	-91.1%	
EPS (sen)	0.3	3.4	-4.0	->100.0%	-90.9%	0.3	3.4	-90.9%	
GP Margin	14.5%	13.6%	13.0%	12.0%	7.0%	0.1	0.1	7.0%	
PBT Margin	0.7%	4.2%	-3.8%	->100.0%	-83.7%	0.0	0.0	-83.7%	
NP Margin	0.7%	5.1%	-7.0%	->100.0%	-86.3%	0.0	0.1	-86.3%	
Segmental Revenue									
Revenue	340.9	522.8	448.1	-23.9%	-34.8%	340.9	522.8	-34.8%	
Oil & Gas	137.4	268.1	185.7	-26.0%	-48.8%	137.4	268.1	-48.8%	
Renewable Energy	80.0	85.7	118.4	-32.4%	-6.6%	80.0	85.7	-6.6%	
Industrial Trading & Services	116.4	159.1	131.4	-11.4%	-26.9%	116.4	159.1	-26.9%	
Plantation	0.0	0.0	0.0	0%	0.0%	0.0	0.0	0.0%	
Others	7.1	10.0	12.6	-43.3%	-28.6%	7.1	10.0	-28.6%	

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F
Revenue	2,438.6	1,839.5	1,674.1	1,713.7	1,747.7
Gross Profit	218.7	41.8	129.1	132.1	134.6
Other Income	45.7	141.5	128.7	131.8	134.4
Selling & Distribution Expenses	-32.9	-41.8	-25.1	-25.7	-26.2
Administration Expenses	-276.6	-324.6	-217.6	-222.8	-227.2
Pre-tax Profit	198.5	35.7	128.7	134.7	161.7
Income Tax	-51.4	-47.6	-33.3	-34.9	-41.9
Effective Tax Rate (%)	25.9	133.2	25.9	25.9	25.9
Minorities	-21.5	21.3	-8.6	-9.0	-10.8
PATAMI	125.6	52.1	86.8	90.8	109.1
Growth					
Revenue	37%	-25%	-9%	2%	2%
Gross Profit	78%	-46%	-9%	2%	2%
PATAMI	288%	-59%	67%	5%	20%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F
Property, plant and equipment	773.7	802.3	854.5	898.9	935.5
Inventories	204.5	247.4	225.2	230.5	235.0
Trade receivables	750.9	629.9	573.3	586.8	598.4
Cash and bank balances	149.5	159.9	223.2	249.2	284.5
Total Assets	2,901.3	2,999.2	3,025.5	3,114.9	3,202.9
ST Borrowings	879.5	906.5	906.5	906.5	906.5
LT Borrowings	136.3	315.9	315.9	315.9	315.9
Trade payables	519.8	463.1	421.5	431.5	440.0
Minority Interests	193.3	103.5	111.0	118.9	128.6
Total Liabilities	1,633.0	1,773.8	1,728.5	1,738.8	1,749.2
Total Equity	1,268.3	1,225.4	1,297.0	1,376.0	1,453.8
Total Equity and Liabilities	2,901.3	2,999.2	3,025.5	3,114.9	3,202.9

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2014A	2015A	2016F	2017F	2018F
Book Value Per Share	1.4	1.4	1.5	1.6	1.7
NTA Per Share	1.4	1.4	1.5	1.6	1.7
EPS (Sen)	16.2	6.7	11.2	11.7	14.1
DPS (Sen)	5.0	2.0	2.0	2.0	2.0
Payout Ratio (%)	32.7	434.0	47.3	45.2	37.6
ROA (%)	4.3	0.3	2.9	2.9	3.4
ROE (%)	11.7	0.8	7.3	7.2	8.2

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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