

Wah Seong Bhd (SELL ↔, EPS ↑)

EARNINGS EVALUATION

INDUSTRY: NEUTRAL

July 12, 2016

Price Target: RM0.58 (↑)

Share Price: RM0.70

Nord Stream 2 Project Win

News

- It is announced that WASEONG has secured contract for the provision of concrete weight coating and storing of more than 200,000 pipes for Nord Stream 2 Project by Nord Stream 2 AG. The contract for this award is subject to final negotiations and will be signed in the coming weeks. WSC will announce the project value once the final negotiations are completed and contract is signed.
- The award involves concrete weight coating and storing of approximately 2,400 km of pipes. The project is expected to commence in September 2016 and be completed by third quarter of 2019.

Financial Impact

- Financial impact is difficult to ascertain at this juncture as the contract value is not disclosed for the time being.
- However, if we refer to its previous pipe coating Polarled project in Norway, the contract was worth RM605m involving 520km of pipes, 4x smaller than the Nord Stream 2 project.
- Therefore, we opine that the contract value of the recent new win would be significantly larger than the Polarled project.

Pros/Cons

- Contract win is a big positive given it will help to boost the group's orderbook significantly giving better visibility on its future earnings.
- The latest tenderbook is about RM5bn largely concentrated on O&G jobs. In view of the low oil price and spending cut by E&P player, we remain cautious on the orderbook replenishment rate. On the other hand, profit margins would be weaker for its O&G pipe coating division amid cost rebasing by its clients to weather the downturn.

Risks

- Plantation business in Congo remains a drag to its earnings and is not expected to breakeven until 2018 as it is still going through gestation period for its young plan oil trees to mature.
- Political risk, Congo Oil Palm Plantation which is still in the early stage.
- Pipe coating contract margin risk.

Forecasts

- We increase our FY17 core net profit forecast by 38.9% to account for significantly higher orderbook replenishment in the wake of the recent big job win.

Rating

Sell(↔)

- Positives –
 - Relatively resilient pipe coating demand which is still essential form oilfield maintenance despite low oil prices.
- Negatives –
 - Acquisition fuelled growth - volatile in downturns.
 - Capex burden developing Congo oil palm.

Valuation

- As a result of earnings upgrade, our TP is increased to **RM0.58** from RM0.49 previously based on unchanged 9x FY17 PER. While recent big win is a positive, margin compression is still a concern and its JVs focused on O&G asset business would still be a drag.

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KLCI	1,653.9
Expected share price return	-17.1%
Expected dividend return	0.0%
Expected total return	-17.1%

Share price



Information

Bloomberg Ticker	WSC MK
Bursa Code	5142
Market cap (RMm)	541
3-mth avg volume ('000)	853
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	-2.1	-7.3	-48.1
Relative %	-2.8	-3.9	-46.2

Major shareholders (%)

WAH SEONG TRADING	32.9
CHEU LEONG CHAN	7.8
EPF	6.3
MIDVEST ASIA SND BHD	5.2

Summary Earnings Table

FYE Dec (RM m)	2014	2015	2016E	2017E
Revenue	2,439	1,840	1,614	1,783
EBITDA	295	65	130	181
PATAMI	126	34	13	50
EPS	16.2	4.3	1.7	6.4
P/E (x)	4.3	16.1	40.5	10.9
NTA	1.66	1.65	1.66	1.73
P/BV (x)	0.42	0.42	0.42	0.41
ROA (%)	5.0	1.3	0.6	2.1
ROE (%)	10.9	2.9	1.1	4.1
HLIB				

Figure #1 Peers Comparison

Company	Mkt Cap (RM m)	Price (RM)	Recommendation	Target Price	Upside (%)	P/E (x)	
						2016	2017
SK Petro	8,389	1.40	Hold	1.35	(3.6)	50.0	25.5
Bumi Armada	4,282	0.73	Buy	0.85	16.4	21.5	10.5
MMHE	1,760	1.10	Sell	0.94	(14.5)	22.4	18.1
UMW O&G	1,989	0.92	Sell	0.69	(25.0)	(7.1)	(23.0)
Dayang	912	1.04	Sell	0.84	(19.2)	(14.9)	84.0
Wah Seong	541	0.70	Sell	0.58	(17.1)	41.2	9.1
Perisai	275	0.23	Hold	0.23	-	13.2	9.4
Scomi Energy	468	0.20	Hold	0.19	N.A.	10.0	7.3
KNM	853	0.40	Hold	0.49	22.5	10.0	8.2
Uzma	535	1.84	Hold	1.72	(6.5)	12.9	10.0
PetDag	23,446	23.60	Hold	23.28	(1.4)	26.2	25.9
Bloomberg							

Financial Projections for Wah Seong Corporation Bhd

Income statement

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	1,779	2,439	1,840	1,614	1,783
Operating cost	-1,635	-2,143	-1,775	-1,484	-1,601
EBITDA	145	295	65	130	181
Depreciation & Amort	(59)	(77)	-	(69)	(77)
Net Interest	(19)	(21)	(25)	(26)	(29)
Associates	5	1	-	(17)	(17)
Jointly controlled entities	(2)	-	19	19	19
Exceptionals	-	-	-	-	1
PBT	64	198	36	21	78
Taxation	(32)	(51)	(48)	(5)	(19)
Minority Interest	0	(22)	21	(3)	(9)
Exceptionals	(8)				
Core PATAMI	41	126	34	13	50
Basic shares (m)	775	775	775	775	776
Basic EPS (sen)	5.2	16.2	4.3	1.7	6.4

Balance sheet

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed assets	507	510	590	670	750
Other long-term assets	416	416	416	416	416
Other short-term assets	144	166	146	138	144
Working capital	502	674	349	415	490
Receivables	531	736	555	487	538
Payables	-310	-429	-503	-343	-343
Inventory	280	367	297	270	295
Net cash / debt	-339	-390	-137	-275	-436
Cash	345	294	547	410	250
ST debt	465	465	465	465	466
LT debt	220	220	220	220	220
Shareholders' funds	1,028	1,154	1,163	1,177	1,227
Share capital	387	387	387	387	387
Reserves	641	767	776	789	839
Minorities	113	134	113	113	113
Other liabilities	88	88	88	75	25

Summary Earnings Table

Revenue	1,779	2,439	1,840	1,614	1,783
EBITDA	145	295	65	130	181
PATAMI	41	126	34	13	50
P/E (x)	13.4	4.3	16.1	40.5	10.9
BV / share	1.47	1.66	1.65	1.66	1.73
P/BV (x)	0.48	0.42	0.42	0.42	0.41
ROA (%)	1.8	5.0	1.3	0.6	2.1
ROE (%)	4.0	10.9	2.9	1.1	4.1

Cashflow

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Pre-tax profit	64	198	36	21	78
Net interest received	(19)	(21)	(25)	(26)	(29)
Working capital changes	8	(194)	345	(57)	(81)
Taxation	(32)	(51)	(48)	(5)	(19)
Others	90	97	25	10	(31)
Operating cashflow	111	29	333	-57	-81
Capex & acquisitions	-80	-80	-80	-80	-80
Free cashflow	31	-51	253	-137	-161
Other inv cashflow	0	0	0	0	1
Net borrowings	0	0	0	0	1
Share/convt bond issue	0	0	0	0	1
Dividends paid	0	0	0	0	1
Other fin cashflow	0	0	0	0	1
Net cashflow	31	(51)	253	(137)	(156)

Valuation ratios

Net DPS (sen)	0.00	0.00	0.00	0.00	0.00
FCF / share (sen)	4.1	-6.6	32.6	-17.7	-20.8
FCF yield (%)	5.8	-9.4	46.6	-25.3	-29.7
Market capitalization (m)	542	542	542	542	542
Net cash (m)	-339	-390	-137	-275	-436
Enterprise value	882	933	680	817	978
EV/ EBITDA (x)	3.7	10.4	4.7	2.8	15.1

Growth margins ratios

Growth (%)					
Sales Growth	-9%	37%	-25%	-12%	10%
Operating expenses	-12%	31%	-17%	-16%	8%
EBITDA Growth	62%	104%	-78%	101%	39%
PBT Growth	-22%	209%	-82%	-41%	271%
PATMI	-32%	209%	-73%	-60%	271%
Basic EPS Growth	-32%	209%	-73%	-60%	271%

Margins (%)					
EBITDA Margin	8.1	12.1	3.5	8.1	10.2
PBT Margin	3.6	8.1	1.9	1.3	4.4
PATMI	2.3	5.1	1.8	0.8	2.8

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(a) -.

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(a) -.

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.

Published & Printed by
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