

**HLIB Research**

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**Jeremie Yap**
[jeremieyh@hlib.hongleong.com.my](mailto:jeremieyh@hlib.hongleong.com.my)

(603) 2083 1729

**BUY** (Maintain)

**Target Price: RM1.25**
**Previously: RM0.96**
**Current Price: RM0.98**

Capital upside 27.6%

Dividend yield 0.0%

Expected total return 27.6%

**Sector coverage:** O&G

**Company description:** Wah Seong provides pipe-coating services, manufactures spiral welded steel pipes, distributes building materials, installs metal roofing, produces plastic extrusion structural materials, assembles plastic doors and window frames, and provides industrial engineering services.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	-1.0	12.0	55.6
Relative	-1.6	8.7	61.0

**Stock information**

Bloomberg ticker	WSC MK
Bursa code	5142
Issued shares (m)	774
Market capitalisation (RM m)	759
3-mth average volume ('000)	1,696
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★

**Major shareholders**

Wah Seong (M) Trading Co	32.5%
Tan Kim Yeow	7.0%
Midvest Asia	5.4%

**Earnings summary**

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	68.8	74.4	80.8
EPS - core (sen)	8.9	9.6	10.5
P/E (x)	11.0	10.2	9.4

# Wasco

## Earnings in line, won two new contracts

Wasco reported 2Q23 core PATAMI of RM24.1m (+83% QoQ, +81% YoY) which brought 1H23 core earnings to RM37.2m (+106% YoY). We deem 1H23 results to be within expectations at 50% and 47% of ours and consensus full-year estimates respectively. Also, we highlight that the group has secured two new job wins: (i) >200km pipe coating services for the Rosmari-Marjoram gas offshore pipeline which starts Sep 2023 till Jun 2024; and (ii) >160km pipe coating services for the Shell Crux gas field which will commence in Oct 2023 and is expected to complete by Aug 2024. We maintain our BUY call on Wasco with a higher TP of RM1.25 – based on 12x rolled-over FY24f EPS (from 10x FY23f previously), which is still at a slight discount to the 14x multiple that we typically ascribe to the local OGSE providers.

**Within expectations.** Wasco reported 2Q23 core PATAMI of RM24.1m (+83% QoQ, +81% YoY) bringing 1H23 core earnings to RM37.2m (+106% YoY) which was predominantly adjusted for: (i) -RM2.5m reversal of impairment loss on receivables; (ii) -RM10.0m reversal of impairment on amount owing from associate; (iii) +RM7.9m impairment loss on amount owing from JV; (iv) +RM2.5m allowance on slow moving and obsolete inventories; (v) +RM0.4m write-off on inventories; (vi) +RM0.6m write-off on PPE; and (vii) +RM8.2m gain on disposal of assets held for sale. We deem the 1H23 results to be within expectations at 50% and 47% of ours and consensus full-year estimates respectively.

**Dividend.** None as expected.

**QoQ.** Core net profit rose 83% QoQ as we believe that the group has started to recognise revenues from the RM558m Agogo FPSO project in 2Q23, leading to a whopping increase in its Renewable segment's EBIT by 75%. We also highlight that Wasco has guided for a slight delay in the completion of the EACOP project (till early 2025 now) – which was a request from the client and hence, the group will not incur any penalty payments in regard to this development.

**YoY/YTD.** Core net profit increased 81%/106% YoY/YTD which we believe is due to similar reasons mentioned in the QoQ paragraph. The strong performance in its Renewable segment was partially offset by a -82%/-53% decline in EBIT from its Energy Solutions division and we believe that this is due to the accounting recognition of lower-margin products throughout the quarter for its EACOP project.

**Outlook.** Current order book stands at all-time high of RM3.59n as at end-2Q23 (Energy Solutions: 89%; Renewable Energy: 10%; ITS: 1%). We are convinced that FY23-24f will be strong bumper years for Wasco from: (i) the EACOP line pipe thermal insulation job win worth about RM1.1bn, which was the group's single largest job win since Nord Stream 2 back in 2016; and (ii) RM558m for the EPC of the Agogo FPSO for Yinson. Also, we highlight that the group has secured two new job wins: (i) >200km pipe coating services for the Rosmari-Marjoram gas offshore pipeline which starts Sep 2023 till Jun 2024; and (ii) >160km pipe coating services for the Shell Crux gas field which will commence in Oct 2023 and is expected to complete by Aug 2024. Furthermore, we highlight that there is approximately 4,100km pipeline for carbon capture and storage pipeline projects planned for 2023-2027 with total estimated value for pipe coating of >USD1bn. We believe that Wasco will be riding on these robust tender values and we are expecting the group to win some of these jobs in 2H23/1H24.

**Forecast.** Despite the new job wins, our forecast is unchanged to be on the conservative side.

**Maintain BUY, higher TP of RM1.25.** We maintain our BUY call on Wasco with a higher TP of RM1.25 (from RM0.96 previously) – based on 12x rolled-over FY24f EPS (from 10x FY23f previously), which is still at a slight discount to the 14x multiple that we typically ascribe to the local OGSE providers.

**Figure #1 Results Review**

FYE Dec (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
<b>Revenue</b>	<b>737.1</b>	<b>639.7</b>	<b>677.1</b>	<b>6%</b>	<b>-8%</b>	<b>1195.9</b>	<b>1316.8</b>	<b>10%</b>
<i>Energy Solutions</i>	510.3	372.7	416.4	12%	-18%	776.6	789.1	2%
<i>Renewable</i>	117.2	109.7	123.2	12%	5%	207.2	232.8	12%
<i>Industrial Trading</i>	75.3	113.2	90.1	-20%	20%	156.6	203.3	30%
<i>Others</i>	34.2	44.1	47.5	8%	39%	55.5	91.6	65%
COGS	-596.4	-537.4	-587.7	9%	-1%	-992.6	-1125.0	13%
<b>Gross profit</b>	<b>140.7</b>	<b>102.3</b>	<b>89.5</b>	<b>-13%</b>	<b>-36%</b>	<b>203.3</b>	<b>191.8</b>	<b>-6%</b>
Other income	28.5	18.7	19.8	6%	-30%	42.4	38.6	-9%
Selling and distribution costs	-59.1	-49.2	-8.8	-82%	-85%	-96.2	-57.9	-40%
Admin expenses	-9.8	-7.7	-53.2	594%	445%	-18.1	-60.9	237%
Other gains/losses	-0.4	1.1	0.2	-82%	NM	30.7	65.5	113%
<b>EBIT</b>	<b>99.8</b>	<b>65.3</b>	<b>47.5</b>	<b>-27%</b>	<b>-52%</b>	<b>91.1</b>	<b>32.8</b>	<b>-64%</b>
<i>Energy Solutions</i>	80.6	29.5	14.7	-50%	-82%	94.3	44.2	-53%
<i>Renewable</i>	13.3	11.5	20.1	75%	51%	22.2	31.6	42%
<i>Industrial Trading</i>	5.9	10.2	1.7	-83%	-71%	10.4	11.9	15%
<i>Others</i>	-2.2	7.8	3.9	-50%	NM	-3.0	11.7	NM
Finance costs	-8.8	-14.7	-15.2	3%	73%	-8.8	-15.2	73%
JVs & Associates	-4.8	-2.2	3.6	NM	NM	-16.1	1.5	NM
<b>PBT</b>	<b>85.5</b>	<b>50.0</b>	<b>38.8</b>	<b>-22%</b>	<b>-55%</b>	<b>94.9</b>	<b>88.8</b>	<b>-6%</b>
Tax	-31.2	-12.8	-13.7	7%	-56%	-34.4	-26.5	-23%
<b>PAT</b>	<b>54.3</b>	<b>37.2</b>	<b>25.2</b>	<b>-32%</b>	<b>-54%</b>	<b>60.4</b>	<b>62.4</b>	<b>3%</b>
MI	-36.9	-15.5	-1.2	-93%	-97%	-38.1	-16.6	-56%
<b>Reported PATMI</b>	<b>17.4</b>	<b>21.8</b>	<b>24.0</b>	<b>10%</b>	<b>38%</b>	<b>22.4</b>	<b>45.8</b>	<b>105%</b>
Exceptional items	4.1	8.6	0.0	NM	NM	4.3	8.5	100%
<b>Core Profit</b>	<b>13.3</b>	<b>13.2</b>	<b>24.1</b>	<b>83%</b>	<b>81%</b>	<b>18.1</b>	<b>37.2</b>	<b>106%</b>
<b>Core EPS</b>	<b>1.7</b>	<b>1.7</b>	<b>3.1</b>	<b>83%</b>	<b>81%</b>	<b>2.3</b>	<b>4.8</b>	<b>106%</b>
<b>Profit Margin (%)</b>								
EBIT	13.5%	10.2%	7.0%			7.6%	2.5%	
PBT	11.6%	7.8%	5.7%			7.9%	6.7%	
PAT	7.4%	5.8%	3.7%			5.1%	4.7%	
Core PATMI	1.8%	2.1%	3.6%			1.5%	2.8%	

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## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	136.1	275.9	111.8	98.2	93.9
Receivables	340.8	558.3	659.1	672.7	687.0
Inventories	178.0	223.4	42.2	18.4	(6.5)
PPE	697.7	473.3	689.3	693.4	696.1
Others	879.0	1,182.5	734.6	737.1	739.8
<b>Assets</b>	<b>2,231.4</b>	<b>2,713.5</b>	<b>2,236.9</b>	<b>2,219.8</b>	<b>2,210.3</b>
Payables	363.4	29.2	391.6	390.2	388.9
Debt	754.4	790.0	578.1	478.1	378.1
Others	475.5	1,215.4	392.0	393.0	394.0
<b>Liabilities</b>	<b>1,593.3</b>	<b>2,034.5</b>	<b>1,361.6</b>	<b>1,261.2</b>	<b>1,160.9</b>
Shareholder's equity	588.5	580.0	823.1	903.9	991.2
Minority interest	49.7	98.9	52.1	53.6	55.3
<b>Equity</b>	<b>638.2</b>	<b>678.9</b>	<b>875.2</b>	<b>957.5</b>	<b>1,046.5</b>

### Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	(100.3)	82.0	100.0	108.7	117.4
D&A	38.2	70.6	72.5	72.9	73.2
Working capital	268.9	(57.0)	(134.7)	7.2	7.6
Taxation	(17.9)	(21.4)	(24.3)	(26.4)	(28.5)
Others	31.2	86.8	-	-	-
<b>CFO</b>	<b>220.1</b>	<b>161.0</b>	<b>13.6</b>	<b>162.4</b>	<b>169.7</b>
Capex	(96.1)	(108.9)	(78.0)	(77.0)	(76.0)
Others	35.9	38.2	-	-	-
<b>CFI</b>	<b>(60.2)</b>	<b>(70.7)</b>	<b>(78.0)</b>	<b>(77.0)</b>	<b>(76.0)</b>
Changes in debt	(183.5)	1.6	(100.0)	(100.0)	(100.0)
Shares issued	-	-	-	1.0	2.0
Dividends	-	-	-	-	-
Others	24.2	(5.7)	-	-	-
<b>CFF</b>	<b>(159.3)</b>	<b>(4.1)</b>	<b>(100.0)</b>	<b>(99.0)</b>	<b>(98.0)</b>
<b>Net cash flow</b>	<b>0.7</b>	<b>86.1</b>	<b>(164.4)</b>	<b>(13.6)</b>	<b>(4.3)</b>
Forex	1.9	1.2	-	-	-
Others	82.1	29.6	-	-	-
Beginning cash	215.5	218.2	305.5	111.8	98.2
Ending cash	218.2	305.5	111.8	98.2	93.9

### Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,429.3	2,686.5	2,183.0	2,228.0	2,275.4
EBITDA	65.2	229.9	204.6	207.8	211.0
EBIT	27.0	159.3	132.2	134.9	137.8
Finance cost	(36.1)	(45.4)	(43.0)	(38.1)	(33.3)
Associates & JV	(73.7)	(23.0)	6.0	7.0	8.0
Profit before tax	(100.3)	82.0	100.0	108.7	117.4
Tax	(11.6)	(38.9)	(24.3)	(26.4)	(28.5)
Net profit	(111.9)	43.1	75.8	82.3	88.9
Minority interest	0.2	49.4	(1.4)	(1.5)	(1.7)
<b>Core PATMI</b>	<b>(96.9)</b>	<b>68.8</b>	<b>74.4</b>	<b>80.8</b>	<b>87.3</b>
Exceptionals	10.6	75.1	-	-	-
Reported PATMI	(107.5)	(6.3)	74.4	80.8	87.3
Consensus core PATMI			80.0	93.9	100.1
HLIB/ Consensus			93%	86%	87%

### Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	(12.5)	8.9	9.6	10.5	11.3
P/E (x)	NM	11.0	10.2	9.4	8.7
EV/EBITDA (x)	21.1	2.2	2.3	1.8	1.3
DPS (sen)	-	-	-	-	-
Dividend yield	-	-	-	-	-
BVPS (RM)	0.8	0.8	1.1	1.2	1.3
P/B (x)	1.3	1.3	0.9	0.8	0.8
EBITDA margin (%)	4.6	8.6	9.4	9.3	9.3
EBIT margin (%)	1.9	5.9	6.1	6.1	6.1
PBT margin (%)	(7.0)	3.1	4.6	4.9	5.2
Net margin (%)	(6.8)	2.6	3.4	3.6	3.8
ROE (%)	(16.5)	11.9	9.0	8.9	8.8
ROA (%)	(4.3)	2.5	3.3	3.6	3.9
Net gearing (%)	105.1	88.6	56.6	42.0	28.7

### Assumptions

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
<b>Growth (%)</b>					
Sales Growth		88.0	(18.7)	2.1	2.1
EBITDA Growth		252.7	(11.0)	1.6	1.5
EBIT Growth		489.8	(17.1)	2.1	2.2
PBT Growth		(181.7)	22.0	8.6	8.1
Core PATMI Growth		(171.0)	8.1	8.6	8.1

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## Published & printed by:

### Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

## Stock rating definitions

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +15% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating definitions

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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