

Wah Seong Bhd (HOLD ↑, EPS ↓)

EARNINGS EVALUATION

INDUSTRY: NEUTRAL

March 1, 2016

Price Target: RM0.79 (↓)

Share Price: RM0.80

Murky waters

Results	<ul style="list-style-type: none"> Below Expectations: 4QFY15 core PATAMI came in at RM17.7m, bringing FY15 to RM32.3m, making up 92% and 81% of HLIB and consensus full year estimates, respectively.
Deviations	<ul style="list-style-type: none"> This is mainly due to lower than expected contribution from O&G segment while its plantation business continued to record losses.
Highlights	<ul style="list-style-type: none"> 4QFY15 revenue slumped 73.2% YoY due to significantly slower O&G division due to project deferments, weaker industrial trading & services division arising from project delay of pipe manufacturing business and slowdown in building material post GST implementation. This is being partially offset by stronger performance from its renewable energy segment on the back of higher process equipment sales Plantation segment remained a loss-making division for the group with RM20.3m loss recorded for FY15. It is not expected to breakeven until after 2018 as it goes through a gestation period for the palm oil trees to mature. Company orderbook has dwindled slightly to RM894m from RM974m with 54% consisting of O&G contracts, 29% renewable energy and the remaining industrial trading & services. Orderbook replenishment remains a main concern for the company with O&G project awards expected to slow down significantly in the medium term. The latest tenderbook stands at 6.7b with majority of projects tendered in on the O&G segment. We believe chances of securing major O&G contract in the near terms are slim given the anticipated slowdown in contract awards. We also understand that around 92% of its borrowing is in US dollar but naturally hedged as its revenue is also denominated in US dollar. Potential exercise to spin off non O&G asset to unlock value might not materialize in the near term given the current subdued market sentiment.
Risks	<ul style="list-style-type: none"> Political risk, Congo Oil Palm Plantation. Execution risk.
Forecasts	<ul style="list-style-type: none"> FY16 core net profit reduced by 11.7% after accounting for lower O&G revenue with slower work orders. FY17 core net profit forecast of RM74m is introduced on weaker O&G orderbook replenishments.
Rating	<p>Hold (↑)</p> <ul style="list-style-type: none"> Positives – <ul style="list-style-type: none"> ➢ Strong balance sheet and acquisition record. Negatives – <ul style="list-style-type: none"> ➢ Acquisition fuelled growth - volatile in downturns. ➢ Capex burden developing Congo oil palm.
Valuation	<ul style="list-style-type: none"> Notwithstanding the challenging market outlook coupled with weakening results, we upgrade the stock to HOLD from SELL due to the recent share price retracement. TP is reduced to RM0.79 from RM0.89 based on unchanged 9x FY16 P/E post earnings downgrade.

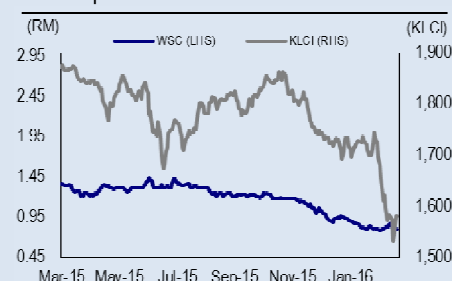
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KLCI	1,654.8
Expected share price return	-1.3%
Expected dividend return	4.4%
Expected total return	3.1%

Share price



Information

Bloomberg Ticker	WSC MK
Bursa Code	5142
Market cap (RMm)	835
3-mth avg volume ('000)	269
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	-5.3	-24.5	-40.8
Relative %	-4.6	-23.3	-34.9

Major shareholders (%)

WAH SEONG TRADING	32.7
KWAP	5.0
EPF	5.0
MIDVEST ASIA SND BHD	4.9

Summary Earnings Table

FYE Dec (RM m)	2013	2014	2015E	2016E
Revenue	2,439	1,840	1,614	1,443
EBITDA	295	65	187	182
PATAMI	126	34	68	68
EPS	16.2	4.3	8.8	8.8
P/E (x)	4.9	18.4	9.1	9.1
NTA	1.66	1.65	1.73	1.82
P/BV (x)	0.48	0.49	0.46	0.44
ROA (%)	5.0	1.3	2.9	2.9
ROE (%)	10.9	2.9	5.5	5.2
Yield (%)	7.1	5.0	5.0	6.3

HLIB

Figure #1 Quarter results comparison

FYE Dec (RM m)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	Comments
Revenue	711.5	407.6	1,839.5	-11.6	-31.2	YoY/QoQ: Fell due to lower contribution from O&G and industrial trading.
GOGS	-545.8	-339.2	-1,576.8	-14.3	-31.6	
Gross profit	165.7	68.4	262.7	4.9	-29.2	Inline with revenue fall.
Other income	19.0	74.4	141.5	687.9	813.1	
Selling and distribution costs	-7.8	-11.5	-41.8	18.5	22.6	
Admin Expenses	-112.8	-118.8	-324.6	121.5	114.0	Driven by accruals made for the Socotherm arbitration, recognition of allowance of doubtful debts and forex losses.
Other gains/loses	-2.3	0.8	4.0	-72.0	-137.4	
EBIT	61.8	13.3	41.8	-6.5	-64.8	Filtered down from above.
Finance costs	-5.7	-7.0	-25.1	39.6	36.9	
JVs & Associates	0.5	7.9	19.0	9.3	188.5	Contributions from Petra Energy and Alam.
PBT	56.6	14.2	35.7	-13.7	-59.8	
Tax	-16.3	-12.0	-47.6	107.9	235.2	
PAT	40.3	2.2	-11.9	-79.7	-93.2	
MI	5.7	-0.8	-3.4	8.4	-158.9	
PATMI	34.6	3.0	-8.5	-74.0	-90.3	
Exceptional items	0.0	12.0	-26.1	NA	NA	Forex loss of RM4.2m and impairment of RM30.3m
Core Profit	34.6	-9.0	17.7	-179.5	-129.8	
Basic EPS	4.5	-1.2	2.3	-179.5	-129.8	
Profit Margin (%)						
Operating	8.7	3.3	2.3			
PBT	7.9	3.5	1.9			
PAT	5.7	0.5	-0.6			
PATMI	4.9	0.7	-0.5			

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY14	FY15	YoY (%)	Comments
Revenue	2,438.6	3,231.0	32.5	Due to lower activities in the O&G amid project deferment and industrial segment due to slow down in building material business post GST.
GOGS	-1,953.0	-2,763.7	41.5	
Gross profit	485.7	467.3	-3.8	
Other income	45.7	269.5	490.1	
Selling and distribution costs	-32.9	-70.7	114.8	
Admin Expenses	-276.6	-577.3	108.8	
Other gains/loses	-3.2	9.3	-393.2	
EBIT	218.7	98.0	-55.2	Filtered down from above.
Finance costs	-20.9	-43.1	106.3	
JVs & Associates	0.7	33.5	5,000.2	Contributions from Petra Energy and Alam.
PBT	198.5	88.4	-55.5	
Tax	-51.4	-77.5	50.8	
PAT	147.1	11.0	-92.6	
MI	21.5	-21.3	-199.0	
PATMI	125.6	32.3	-74.3	
Exceptional items	0.0	-1.3	N.A.	
Core Profit	125.6	33.6	-73.2	
Basic EPS	16.2	4.3	-73.3	

HLIB

Figure #3 HLIB & Consensus Estimates

FYE Dec (RM m)	FY16E			FY17E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	1614	1847	-12.6	1443	1901	-24.1
Core Earnings	68	69	-0.9	68	81	-15.8

Bloomberg, HLIB

Figure #4 Peers Comparison

Company	Mkt Cap (RM m)	Price (RM)	Recommendation	Target Price	Upside (%)	P/E (x)	
						2015	2016
SK Petro	11,385	1.90	Sell	1.64	(13.7)	11.2	14.2
Bumi Armada	5,661	0.97	Buy	1.15	18.7	12.9	9.7
MMHE	1,616	1.01	Hold	0.94	(6.9)	36.1	20.6
UMW O&G	2,076	0.96	Sell	0.69	(28.5)	(16.0)	(24.0)
Dayang	1,131	1.29	Hold	1.37	6.2	10.8	9.4
Wah Seong	618	0.80	Hold	1.78	122.5	18.2	9.1
Perisai	312	0.26	Sell	0.23	(10.6)	1.3	0.9
Scomi Energy	480	0.21	Hold	0.21	1.5	10.8	7.1
KNM	981	0.46	Buy	0.67	46.1	9.6	7.5
Uzma	492	1.69	Hold	1.63	(3.6)	9.3	7.6
PetDag	24,538	24.70	Hold	23.28	(5.7)	30.9	27.4

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	1,443
Operating cost	-1,635	-2,143	-1,775	-1,427	-1,260
EBITDA	145	295	65	187	182
Depreciation & Amort	(59)	(77)	-	(69)	(77)
Net Interest	(19)	(21)	(25)	(27)	(18)
Associates	5	1	-	13	-
Jointly controlled entities	(2)	-	19	19	19
Exceptionals	-	-	-	-	1
PBT	64	198	36	107	107
Taxation	(32)	(51)	(48)	(26)	(26)
Minority Interest	0	(22)	21	(13)	(13)
Exceptionals	(8)				
Core PATAMI	41	126	34	68	68
Basic shares (m)	775	775	775	775	776
Basic EPS (sen)	5.2	16.2	4.3	8.8	8.8

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	82
Working capital	502	674	349	471	(13)
Receivables	531	736	555	487	1
Payables	-310	-429	-503	-284	-254
Inventory	280	367	297	268	241
Net cash / debt	-339	-390	-137	-331	128
Cash	345	294	547	353	814
ST debt	465	465	465	465	466
LT debt	220	220	220	220	220
Shareholders' funds	1,028	1,154	1,163	1,231	1,299
Share capital	387	387	387	387	387
Reserves	641	767	776	844	912
Minorities	113	134	113	113	113
Other liabilities	88	88	88	20	-48

Summary Earnings Table

Revenue	1,779	2,439	1,840	1,614	1,443
EBITDA	145	295	65	187	182
PATAMI	41	126	34	68	68
P/E (x)	15.3	4.9	18.4	9.1	9.1
BV / share	1.47	1.66	1.65	1.73	1.82
P/BV (x)	0.54	0.48	0.49	0.46	0.44
ROA (%)	1.8	5.0	1.3	2.9	2.9
ROE (%)	4.0	10.9	2.9	5.5	5.2

Cashflow

FYE 31 Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Pre-tax profit	64	198	36	107	107
Net interest received	(19)	(21)	(25)	(27)	(18)
Working capital changes	8	(194)	345	(114)	540
Taxation	(32)	(51)	(48)	(26)	(26)
Others	90	97	25	(54)	(63)
Operating cashflow	111	29	333	-114	540
Capex & acquisitions	-80	-80	-80	-80	-80
Free cashflow	31	-51	253	-194	460
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	(194)	465

Valuation ratios

Net DPS (sen)	4.00	5.67	4.00	4.00	5.00
FCF / share (sen)	4.1	-6.6	32.6	-25.0	59.2
FCF yield (%)	5.1	-8.2	40.8	-31.3	74.1
Market capitalization (m)	620	620	620	620	620
Net cash (m)	-339	-390	-137	-331	128
Enterprise value	959	1,010	757	951	491
EV/ EBITDA (x)	4.0	11.3	5.2	3.2	7.6

Growth margins ratios

Growth (%)					
Sales Growth	-9%	37%	-25%	-12%	-11%
Operating expenses	-12%	31%	-17%	-20%	-12%
EBITDA Growth	62%	104%	-78%	188%	-2%
PBT Growth	-22%	209%	-82%	198%	0%
PATMI	-32%	209%	-73%	102%	0%
Basic EPS Growth	-32%	209%	-73%	102%	0%

Margins (%)					
EBITDA Margin	8.1	12.1	3.5	11.6	12.6
PBT Margin	3.6	8.1	1.9	6.6	7.4
PATMI	2.3	5.1	1.8	4.2	4.7

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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.
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HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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