

Wah Seong Bhd (HOLD ↔, EPS ↔)
NEWSBREAK
INDUSTRY: NEUTRAL
March 24, 2016
Price Target: RM0.79 (↔)
Share Price: RM0.76
Filling up the void
News

- WASEONG's JV pipe coating business unit, Bayou Wasco Insulation, LLC ("Bayou Wasco"), has been awarded a sub-contract valued at approximately US\$74.0m for the provision of insulation coating protection for deep water, offshore insulation project in the Gulf of Mexico.
- Bayou Wasco is a joint venture between Wasco Coatings UK Ltd. ("Wasco UK"), the Company's indirect wholly-owned subsidiary and a subsidiary of Aegion Corporation ("Aegion"). Wasco UK holds 49% equity interest in Bayou Wasco.
- The sub-contract work involves the provision of insulation coating protection for the deepwater portion of an undersea pipeline which is the core business of the WSC Group. The risks are the normal operational risks associated with provision of pipe coating and insulation services.

Financial Impact

- This contract win will increase O&G orderbook from RM894m to circa RM1bn. Earnings impact would be felt in 3Q16 with contract tenure of circa 12 months.
- The relatively large contract win, in our opinion, represents a replenishment to sustain its O&G revenue base post the expiry of its major Polarled coating work worth RM611.3m in 2015 for Statoil.

Pros/Cons

- Contract win is a positive given it will help to sustain O&G revenue by another year, reducing earnings downside risk amid slow O&G industry activity.
- The latest tenderbook is about RM6.7bn 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 oil palm trees to mature.
- Political risk, Congo Oil Palm Plantation which is still in the early stage.
- Pipe coating contract margin risk.

Forecasts

- Unchanged.

Rating
Hold (↔)

- 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

- Given the challenging market outlook coupled with weakening results, we maintain Hold with unchanged TP of RM0.79 based on unchanged 9x FY16 P/E.

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KLCI	1,724.6
Expected share price return	5.3%
Expected dividend return	0.0%
Expected total return	5.3%

Share price

Information

Bloomberg Ticker	WSC MK
Bursa Code	5142
Market cap (RMm)	580
3-mth avg volume ('000)	621
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute %	-15.3	-19.8	-38.5
Relative %	-17.6	-22.6	-36.0

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	1,443
EBITDA	295	65	187	182
PATAMI	126	34	68	68
EPS	16.2	4.3	8.8	8.8
P/E (x)	4.7	17.5	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
Div yield (%)	0.0	0.0	0.0	0.0

HLIB

Figure #1 Peers Comparison

Company	Mkt Cap (RM m)	Price (RM)	Recommendation	Target Price	Upside (%)	P/E (x)	
						2015	2016
SK Petro	11,984	2.00	Sell	1.64	(18.0)	11.8	14.9
Bumi Armada	4,693	0.80	Hold	0.85	6.3	15.4	12.7
MMHE	1,696	1.06	Hold	0.94	(11.3)	37.9	21.6
UMW O&G	1,989	0.92	Sell	0.69	(25.3)	(15.3)	(23.0)
Dayang	1,114	1.27	Hold	1.37	7.9	10.6	9.3
Wah Seong	580	0.75	Hold	0.79	5.3	17.0	8.5
Perisai	312	0.26	Sell	0.23	(10.6)	1.3	0.9
Scomi Energy	515	0.22	Hold	0.21	(5.5)	11.6	7.6
KNM	1,024	0.48	Buy	0.67	40.1	10.0	7.9
Uzma	518	1.78	Hold	1.63	(8.4)	9.8	8.0
PetDag	23,962	24.12	Hold	23.28	(3.5)	30.2	26.8

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)	14.5	4.7	17.5	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/conv t 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	42.9	-31.3	74.1
Market capitalization (m)	589	589	589	589	589
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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(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.
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NOT RATED	No research coverage, and report is intended purely for informational purposes.

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