

Wah Seong Corporation

Orderbook Replenishing

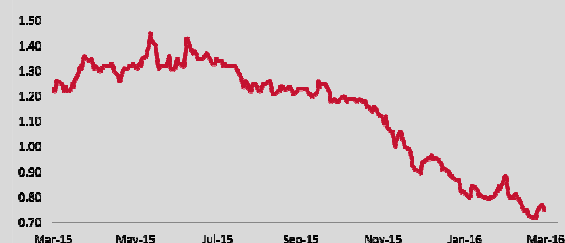
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- News**
- Yesterday, WASEONG announced that its 49%-owned joint-venture pipe coating business unit namely Bayou Wasco Insulation, LLC has been awarded a sub-contract to provide insulation coating protection for deep water, offshore insulation project in the Gulf of Mexico.
 - The contract is worth c.USD74.0m (equivalent to RM296.0m) and we gather that it should commence in 3Q16 for the next 12 months.
- Comments**
- We are pleased to see WASEONG able to secure new contact in this depressed business environment. This helps to boost its orderbook by another 17% from the depleting orderbook of RM894m as of end-2015.
 - Furthermore, it is a deepwater insulation coating job whereby the demand for such pipe coating services is much smaller due to massive capex cut on deepwater projects by oil majors.
 - We anticipate the margin for the insulation coating job to be higher than the usual anti-corrosion coating as well as weight coating job, which could go as low as less than 5% under the current environment. Assuming a 10% net margin, the project will contribute RM14.8m to the bottomline.
 - The contract win is still deemed within our orderbook replenishment as we have factored in RM400m each for FY16 and FY17.
- Outlook**
- This contract win helps to replenish its depleting orderbook but contributions will only kick in earliest by 3Q16. Hence, we believe 1H16 will be weaker unless WASEONG is able to secure more jobs, which commence in 2Q16.
 - Going forward, pipe coating will continue to be its main earning driver. Contributions from both the recent JV with Evraz and Weslun to penetrate the Indian and North American markets are anticipated to kick in earliest by 3Q16.
 - However, we believe that margins will remain weak owing to lack of insulation coating jobs, which typically fetch higher margins as a result of the slowdown in deepwater development projects.
- Forecast**
- We maintain our forecasts as it is within our RM400m orderbook assumption for FY16-FY17.
- Rating** **Maintain UNDERPERFORM**
- Valuation**
- Our TP is maintained at RM0.73 peg to CY16 PBV of RM0.45x to factor weaker earnings outlook.
 - The assigned target PBV is also consistent with its -2.0SD below to its 5-year average Fwd PBV.
- Risks to Our Call**
- (i) Securing more contracts than expected, and (ii) higher-than-expected margins.

UNDERPERFORM ↔

Price: **RM0.75**
Target Price: **RM0.73** ↔

Share Price Performance



| | |
|---------------------|---------|
| KLCI | 1724.55 |
| YTD KLCI chg | 1.9% |
| YTD stock price chg | -21.5% |

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | WSC MK Equity |
| Market Cap (RM m) | 579.6 |
| Issued shares | 772.8 |
| 52-week range (H) | 1.45 |
| 52-week range (L) | 0.72 |
| 3-mth avg daily vol: | 621,090 |
| Free Float | 53% |
| Beta | 1.0 |

Major Shareholders

| | |
|----------------------|-------|
| WAH SEONG (M) TRADIN | 32.9% |
| CHEU LEONG CHAN | 7.8% |
| EMPLOYEES PROVIDENT | 6.3% |

Summary Earnings Table

| FY Dec (RM'm) | 2015A | 2016E | 2017E |
|------------------------|-------------|-------------|-------------|
| Turnover | 1,839.5 | 1,618.4 | 1,836.8 |
| EBIT | 41.8 | 56.7 | 80.5 |
| PBT | 38.3 | 56.7 | 80.6 |
| Net Profit (NP) | 9.5 | 21.2 | 39.2 |
| Core Net Profit | 22.9 | 21.2 | 39.2 |
| Consensus (NP) | - | 60.2 | 72.2 |
| Earnings Revision (%) | - | - | - |
| Core EPS (sen) | 3.0 | 2.8 | 5.1 |
| Core EPS growth (%) | -83.9 | -7.2 | 84.6 |
| NDPS (sen) | 3.0 | 2.0 | 2.0 |
| NTA/Share (RM) | 1.5 | 1.5 | 1.5 |
| BV/Share (RM) | 1.6 | 1.6 | 1.6 |
| Core PER | 25.2 | 29.0 | 15.7 |
| Price/NTA (x) | 0.5 | 0.5 | 0.5 |
| Gearing (x) | 0.9 | 1.0 | 0.9 |
| Dividend Yield (%) | 4.0 | 2.7 | 2.7 |

Malaysian Oil & Gas Sector Comparisons

| Company | Price (RM) | Market Cap (RM m) | PER(x) | | | Est. Div. Yld. (%) | His. ROE (%) | His. P/BV (x) | NP Growth (%) | | Target Price (RM) | Rating |
|-------------------------|------------|-------------------|-------------|-------------|-------------|--------------------|--------------|---------------|---------------|--------|-------------------|--------|
| | | | CY14 | CY15 | CY16 | | | | CY15 | CY16 | | |
| ALAM | 0.36 | 332.8 | 5.8 | -12.2 | 60.8 | 0.0 | 6.9 | 0.4 | -147.7 | -120.0 | 0.29 | UP |
| ARMADA | 0.80 | 4,693.0 | 12.8 | 17.2 | 16.8 | 0.1 | 5.5 | 0.7 | -25.7 | 2.0 | 0.80 | UP |
| COASTAL | 1.67 | 886.0 | 4.6 | 4.5 | 6.7 | 2.3 | 13.3 | 0.6 | 2.2 | -32.2 | 1.76 | MP |
| DAYANG | 1.27 | 1,113.5 | 6.2 | 9.5 | 8.9 | 0.0 | 18.5 | 1.2 | -34.7 | 7.2 | 1.43 | MP |
| DIALOG | 1.60 | 8,346.5 | 41.1 | 29.6 | 28.1 | 1.4 | 11.5 | 4.7 | 38.8 | 5.4 | 1.65 | MP |
| GASMSIA | 2.46 | 3,158.6 | 18.3 | 24.7 | 21.1 | 2.9 | 16.5 | 3.1 | -26.0 | 17.3 | 2.68 | OP |
| MHB | 1.06 | 1,696.0 | 17.4 | 20.4 | 20.2 | 0.0 | 3.7 | 0.6 | -14.9 | 0.8 | 1.00 | MP |
| PANTECH | 0.59 | 360.9 | 7.9 | 8.3 | 7.9 | 5.3 | 9.8 | 0.8 | -5.0 | 5.4 | 0.53 | MP |
| PCHEM | 6.71 | 53,680.0 | 19.7 | 19.3 | 15.5 | 3.2 | 12.0 | 2.4 | 2.1 | 24.7 | 7.50 | OP |
| PERISAI | 0.26 | 311.7 | 31.1 | 39.5 | 26.6 | 0.0 | 0.8 | 0.2 | -21.0 | 48.1 | 0.29 | MP |
| PETDAG | 24.12 | 23,962.1 | 47.7 | 30.3 | 27.9 | 2.7 | 10.6 | 5.0 | 57.4 | 8.7 | 24.20 | UP |
| PETGAS | 21.88 | 43,294.7 | 23.5 | 24.3 | 23.7 | 3.0 | 17.1 | 4.0 | -3.4 | 2.5 | 21.99 | UP |
| SKPETRO | 2.00 | 11,984.3 | 9.9 | 11.6 | 11.8 | 0.7 | 10.2 | 1.0 | -14.6 | -1.5 | 2.38 | OP |
| UZMA | 1.78 | 517.9 | 12.8 | 13.2 | 9.2 | 0.0 | 16.0 | 2.0 | -3.2 | 43.9 | 1.71 | MP |
| WASEONG | 0.75 | 579.6 | 4.6 | 25.4 | 27.3 | 2.7 | 11.7 | 0.5 | -81.8 | -7.2 | 0.73 | UP |
| YINSON | 2.75 | 3,005.0 | 22.4 | 18.6 | 21.1 | 0.0 | 9.8 | 2.2 | 20.4 | -11.5 | 4.04 | OP |
| Simple Average | | | 17.9 | 17.8 | 20.9 | | | | | | | |
| Weighted Average | | | 24.9 | 22.2 | 20.3 | | | | | | | |

Source: Kenanga Research

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24 March 2016

Income Statement

| FY Dec (RM'm) | 2013 | 2014 | 2015 | 2016E | 2017E |
|------------------------|-------------|--------------|-------------|-------------|-------------|
| Revenue | 1,779.4 | 2,438.6 | 1,839.5 | 1,618.4 | 1,836.8 |
| EBITDA | 144.8 | 293.2 | 123.6 | 143.7 | 172.3 |
| Depreciation | -59.4 | -74.5 | -81.8 | -87.0 | -91.9 |
| Operating Profit | 85.4 | 218.7 | 41.8 | 56.7 | 80.5 |
| Other Income | -19.0 | -20.9 | -18.0 | -18.0 | -18.5 |
| Interest Exp | -2.1 | 7.6 | 14.5 | 11.4 | 11.4 |
| Associate | 0.0 | -6.9 | 0.0 | 6.6 | 7.3 |
| Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT | 64.3 | 198.5 | 38.3 | 56.7 | 80.6 |
| Taxation | -32.0 | -51.4 | -47.6 | -14.2 | -20.1 |
| Minority Interest | 0.0 | -21.5 | 21.3 | -21.3 | -21.3 |
| Net Profit | 32.3 | 125.6 | 9.5 | 21.2 | 39.2 |
| Core Net Profit | 32.3 | 142.1 | 22.9 | 21.2 | 39.2 |

Balance Sheet

| FY Dec (RM'm) | 2013 | 2014 | 2015 | 2016E | 2017E |
|---------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed Assets | 926.8 | 970.2 | 802.3 | 1,132.9 | 1,192.0 |
| Intangible Assets | 116.6 | 129.0 | 150.3 | 150.3 | 150.3 |
| Other FA | 204.8 | 365.5 | 649.8 | 649.8 | 649.8 |
| Inventories | 205.2 | 219.6 | 247.4 | 226.6 | 257.2 |
| Receivables | 603.2 | 884.7 | 629.9 | 404.6 | 367.4 |
| Other CA | 238.3 | 182.7 | 359.5 | 359.5 | 359.5 |
| Cash | 204.3 | 149.5 | 159.9 | 24.2 | 78.2 |
| Total Assets | 2,499.2 | 2,901.3 | 2,999.2 | 2,948.0 | 3,054.4 |
| Payables | 402.9 | 571.2 | 463.1 | 404.6 | 459.2 |
| ST Borrowings | 562.8 | 879.5 | 906.5 | 906.5 | 1,006.5 |
| Other ST Liability | 182.1 | 32.0 | 59.9 | 59.9 | 59.9 |
| LT Borrowings | 182.1 | 136.3 | 315.9 | 315.9 | 251.0 |
| Other LT Liability | 13.5 | 14.0 | 28.3 | 28.3 | 28.3 |
| Minorities Int. | 172.3 | 193.3 | 103.5 | 129.5 | 146.9 |
| Net Assets | 983.5 | 1,075.0 | 1,121.9 | 1,103.3 | 1,102.5 |
| Share Capital | 387.4 | 387.4 | 387.4 | 387.4 | 387.4 |
| Reserves | 596.1 | 687.5 | 734.5 | 715.8 | 715.1 |
| Equity | 983.5 | 1,075.0 | 1,121.9 | 1,103.3 | 1,102.5 |

Cashflow Statement

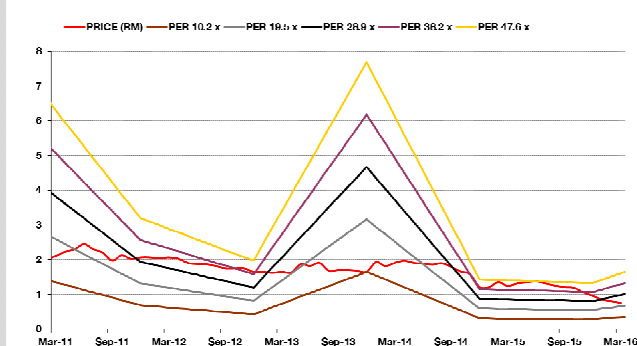
| FY Dec (RM'm) | 2013 | 2014 | 2015 | 2016E | 2017E |
|----------------|---------|---------|---------|---------|--------|
| Operating CF | (50.1) | 40.6 | 266.5 | 402.3 | 214.1 |
| Investing CF | (292.0) | (271.6) | (271.6) | (417.6) | (91.9) |
| Financing CF | 52.7 | 91.3 | 91.3 | (35.2) | (61.2) |
| Change In Cash | 41.1 | (139.7) | 86.2 | (50.5) | 61.1 |
| Free CF | (342.1) | (231.0) | (5.2) | (15.3) | 122.2 |

Financial Data & Ratios

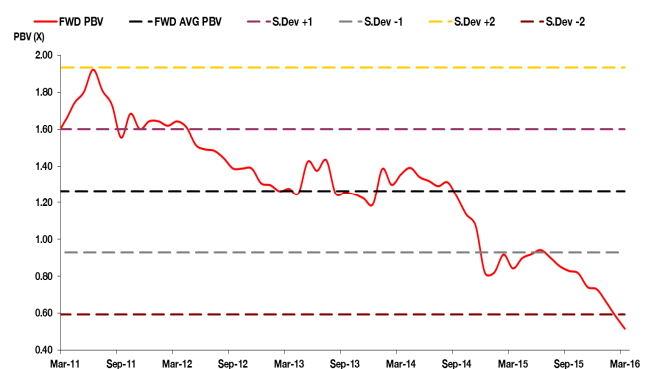
| FY Dec (RM'm) | 2013 | 2014 | 2015 | 2016E | 2017E |
|--------------------------|-------|-------|---------|---------|---------|
| Growth | | | | | |
| Turnover (%) | -8.8 | 37.0 | -24.6 | -12.0 | 13.5 |
| EBITDA (%) | -8.6 | 102.5 | -57.9 | 16.3 | 19.9 |
| EBIT (%) | -16.5 | 156.1 | -80.9 | 35.6 | 42.0 |
| PBT (%) | -22.0 | 208.6 | -82.0 | 58.7 | 42.2 |
| Core Net Profit (%) | -38.5 | 339.7 | -83.9 | -7.2 | 84.6 |
| Profitability (%) | | | | | |
| EBITDA Margin | 8.1 | 12.0 | 6.7 | 8.9 | 9.4 |
| Operating Margin | 4.8 | 9.0 | 2.3 | 3.5 | 4.4 |
| PBT Margin | 3.6 | 8.1 | 2.1 | 3.5 | 4.4 |
| Core Net Margin | 1.8 | 5.8 | 1.2 | 1.3 | 2.1 |
| Effective Tax Rate | -49.8 | -25.9 | -124.3 | -25.0 | -25.0 |
| ROA | 1.4 | 4.7 | 0.3 | 0.7 | 1.3 |
| ROE | 2.8 | 11.2 | 1.9 | 1.7 | 3.1 |
| DuPont Analysis | | | | | |
| Net Margin (%) | 1.8 | 5.8 | 1.2 | 1.3 | 2.1 |
| Assets Turnover (x) | 0.7 | 0.8 | 0.6 | 0.5 | 0.6 |
| Leverage Factor (x) | 2.2 | 2.3 | 2.4 | 2.4 | 2.4 |
| ROE (%) | 2.8 | 11.2 | 1.9 | 1.7 | 3.1 |
| Leverage | | | | | |
| Debt/Asset (x) | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Debt/Equity (x) | 0.8 | 0.9 | 1.1 | 1.1 | 1.1 |
| Net (Cash)/Debt | 540.6 | 866.3 | 1,062.5 | 1,198.2 | 1,179.3 |
| Net Debt/Equity (x) | 0.5 | 0.7 | 0.9 | 1.0 | 0.9 |
| Valuations | | | | | |
| EPS (sen) | 4.2 | 18.5 | 3.0 | 2.8 | 5.1 |
| NDPS (sen) | 4.0 | 5.0 | 3.0 | 2.0 | 2.0 |
| NTA/share (RM) | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 |
| BV/share (RM) | 1.5 | 1.7 | 1.6 | 1.6 | 1.6 |
| PER (x) | 17.9 | 4.1 | 25.2 | 29.0 | 15.7 |
| Net Div. Yield (%) | 6.7 | 6.7 | 8.0 | 9.3 | 9.3 |
| P/NTA (x) | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| P/BV (x) | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 |

Source: Kenanga Research

Forward PER



Forward PBV



Source: Bloomberg, Kenanga Research

24 March 2016

Stock Ratings are defined as follows:

Stock Recommendations

| | |
|----------------|---|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%). |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%. |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate). |

Sector Recommendations***

| | |
|-------------|--|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%). |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%. |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate). |

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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