Oil & Gas

Malaysia

Wah Seong (WSC MK)

1Q16 results a big miss

SELL

Share Price	MYR 0.69
12m Price Target	MYR 0.13 (-81%)
Previous Price Target	*MYR 0.56*

Cut earnings; lowered TP to MYR0.13

1Q16 results came in below our expectation, with a core net loss of MYR2m (vs. net earnings of MYR27m in 1Q15). This prompted a 78%-133% cut in FY16-17 earnings and resulted in a lower TP of MYR0.13 (-77%). Depleting orders, erosion in margins and replenishment risks are key concerns, reflecting the challenging operating outlook. Despite a 42% fall in share price over a 52-week period, risks still outweigh rewards with minimal catalyst to re-rate. Valuations are expensive. Maintain SELL.

1Q16: In the red; all divisions underperformed

WSC reported a 35% YoY fall in revenue with a core net loss of MYR2m in 1Q16, missing our and consensus' initial FY net profit estimates of MYR20m and MYR60m respectively. All divisions reported weaker YoY performance with the O&G division performing the worst; a key drag to Group earnings. It reported lower revenue (-49% YoY) with a pretax loss of MYR16m (vs. +MYR22m in 1Q15), reflecting the acute slowdown in O&G activities worldwide. Its plantation division remained loss making for the 13th consecutive quarter, albeit with a lower YoY pretax loss of MYR1m in 1Q16. The renewable energy and industrial & trading services operations reported 33% and 36% YoY fall in pretax profits.

Poor visibility ahead

Order backlog continues to deplete to MYR715m in 1Q16 (-20% QoQ). Despite the recovery in oil price, the depleting orderbook and earnings trends are expected to continue over the next 2-3 quarters. Should the oil price outlook continue to improve, any sign of WSC's operational recovery will only be seen from 2H17, in our view due to the lag effect in the rejuvenation of upstream capex plans globally.

Cut 2016-17 forecasts; 2018 EPS unchanged

The cut in our forecasts for 2016 (-133% to -MYR7m) and 2017 (-78% to MYR10m) largely reflect the challenging outlook at its O&G division. We maintain our FY18 forecasts. Our revised TP of MYR0.13 is based on an unchanged 10x 2017 PER peg.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,439	1,840	1,505	1,750	1,805
EBITDA	297	143	99	131	168
Core net profit	145	23	(7)	10	49
Core EPS (sen)	18.8	2.9	(0.9)	1.3	6.3
Core EPS growth (%)	215.9	(84.4)	nm	nm	382.8
Net DPS (sen)	5.7	3.0	0.0	0.0	0.0
Core P/E (x)	3.6	23.3	(79.9)	52.7	10.9
P/BV (x)	0.5	0.5	0.5	0.5	0.5
Net dividend yield (%)	8.3	4.4	0.0	0.0	0.0
ROAE (%)	14.1	2.1	(0.6)	0.9	4.3
ROAA (%)	5.4	0.8	(0.2)	0.4	1.8
EV/EBITDA (x)	6.4	12.2	14.1	10.7	7.9
Net debt/equity (%)	71.7	80.4	68.5	66.7	57.8
Consensus net profit	-	-	62	68	62
MKE vs. Consensus (%)	-	-	(110.7)	(85.2)	(22.0)

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Company Description

An O&G company (pipe-coating, fabrication) with renewable energy, plantation and industrial trading & services complementing it

Statistics

Shariah status	Yes
52w high/low (MYR)	1.45/0.69
3m avg turnover (USDm)	0.2
Free float (%)	17.2
Issued shares (m)	779
Market capitalisation	MYR533.7M
	USD130M

Major shareholders:

TAN FAMILY	38.0%
Wah Seong (Malaya) Trading Co. Sdn. Bhd.	32.8%
Employees Provident Fund	6.6%

Price Performance

	-1M	-3M	-12M
Absolute (%)	(9)	(14)	(49)
Relative to index (%)	(7)	(13)	(46)

Source: FactSet

Wah Seong: Summary results

	Quarterly results				
FY Dec (MYR m)	**1Q16**	**1Q15**	***% YoY***	**4Q15**	***% QoQ***
Turnover	**340.9**	**522.8**	***(34.8)***	**448.1**	***(23.9)***
Gross profit	49.5	71.0	*(30.3)*	58.2	*(14.8)*
EBIT	9.5	29.6	*(67.7)*	6.6	*43.7*
Interest expense	(6.7)	(5.9)	*12.9*	(7.1)	*(5.9)*
Associates	(5.2)	(0.7)	*598.5*	4.5	*(213.9)*
Exceptional item	4.6	(0.9)	*(644.7)*	(21.1)	*(122.0)*
Pretax profit	**2.4**	**22.1**	***(89.3)***	**(17.0)**	***(113.8)***
Tax	(4.5)	(12.1)	*(62.5)*	(17.7)	*(74.3)*
Minority interest	4.5	16.4	*(72.3)*	3.4	*33.5*
Net profit	**2.4**	**26.4**	***(91.1)***	**(31.3)**	***(107.5)***
Net profit Ex EI	**(2.3)**	**27.3**	***(108.4)***	**(10.2)**	***(77.5)***
	1Q16	**1Q15**	***+/-ppts***	**4Q15**	***+/-ppts***
Gross margin (%)	14.5	13.6	*0.9*	13.0	*1.6*
EBIT margin (%)	2.8	5.7	*(2.9)*	1.5	*1.3*
Tax rate (%)	*192.9*	*54.8*	*138.2*	*(103.9)*	*296.8*
SEGMENTAL	**1Q16**	**1Q15**	***% YoY***	**4Q15**	***% QoQ***
Turnover	**340.9**	**522.8**	***(34.8)***	**448.1**	***(23.9)***
- O&G	137.4	268.1	*(48.8)*	185.7	*(26.0)*
- Renewable Energy	80.0	85.7	*(6.6)*	110.4	*(27.5)*
- Industrial Trading & Svcs	116.4	159.1	*(26.9)*	131.3	*(11.4)*
- Others	7.1	10.0	*(28.6)*	20.6	*(65.3)*
Pretax profit	**2.4**	**22.1**	***(89.3)***	**(17.0)**	***(113.8)***
- O&G	(15.5)	21.9	*(170.8)*	(38.6)	*(59.9)*
- Renewable Energy	8.1	12.0	*(32.7)*	17.1	*(52.8)*
- Industrial Trading & Svcs	2.9	4.6	*(36.0)*	2.2	*35.7*
- Plantation	(1.2)	(7.7)	*(84.5)*	(2.9)	*(58.0)*
- Others	8.0	(8.7)	*(192.8)*	5.2	*54.5*
	1Q16	**1Q15**	***+/-ppts***	**4Q15**	***+/-ppts***
Pretax margin (%)	**0.7**	**4.2**	**(3.5)**	**(3.8)**	***4.5***
- O&G	(11.3)	8.2	(19.5)	(20.8)	9.5
- Renewable Energy	10.1	14.0	(3.9)	15.5	(5.4)
- Industrial Trading & Svcs	2.5	2.9	(0.4)	1.6	0.9

Source: Company, Maybank KE

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	4.2	56.0	(79.9)	52.7	10.9
Core P/E (x)	3.6	23.3	(79.9)	52.7	10.9
P/BV (x)	0.5	0.5	0.5	0.5	0.5
P/NTA (x)	0.4	0.4	0.4	0.4	0.4
Net dividend yield (%)	8.3	4.4	0.0	0.0	0.0
FCF yield (%)	nm	15.9	29.7	2.6	13.4
EV/EBITDA (x)	6.4	12.2	14.1	10.7	7.9
EV/EBIT (x)	7.9	31.7	63.3	26.0	14.6
INCOME STATEMENT (MYR m)					
Revenue	2,438.6	1,839.5	1,505.0	1,750.0	1,804.6
Gross profit	485.7	262.7	192.6	229.3	245.4
EBITDA	296.6	143.3	99.1	130.5	168.3
Depreciation	(77.9)	(88.3)	(77.0)	(77.0)	(77.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	238.5	55.1	22.1	53.5	91.3
Net interest income /(exp)	(20.9)	(25.1)	(21.7)	(20.3)	(20.0)
Associates & JV	0.7	19.0	(2.0)	(2.0)	9.6
Exceptionals	(19.8)	(13.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	198.5	35.7	(1.6)	31.2	80.8
Income tax	(51.4)	(47.6)	0.5	(9.4)	(24.2)
Minorities	(21.5)	21.3	(5.5)	(11.8)	(8.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	125.6	9.5	(6.6)	10.1	48.6
Core net profit	145.4	22.7	(6.6)	10.1	48.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	245.1	320.8	229.1	179.2	237.9
Accounts receivable	750.9	629.9	463.4	538.9	555.7
Inventory	204.5	247.4	136.8	145.8	138.8
Property, Plant & Equip (net)	966.6	897.7	875.7	853.7	831.7
Intangible assets	129.0	150.3	150.3	150.3	150.3
Investment in Associates & JVs	301.0	516.2	514.2	512.2	521.8
Other assets	304.3	236.9	236.9	236.9	236.9
Total assets	**2,901.3**	**2,999.2**	**2,606.4**	**2,617.0**	**2,673.1**
ST interest bearing debt	879.5	906.5	850.0	800.0	800.0
Accounts payable	519.8	463.1	320.8	373.0	384.7
LT interest bearing debt	136.3	315.9	135.0	121.5	109.4
Other liabilities	97.0	88.0	88.0	88.0	88.0
Total Liabilities	**1,633.0**	**1,773.8**	**1,394.0**	**1,382.7**	**1,382.2**
Shareholders Equity	1,075.0	1,121.9	1,103.4	1,113.5	1,162.0
Minority Interest	193.3	103.5	109.0	120.8	128.8
Total shareholder equity	**1,268.3**	**1,225.4**	**1,212.4**	**1,234.3**	**1,290.8**
Total liabilities and equity	**2,901.3**	**2,999.2**	**2,606.4**	**2,617.0**	**2,673.1**
CASH FLOW (MYR m)					
Pretax profit	198.5	35.7	(1.6)	31.2	80.8
Depreciation & amortisation	77.9	88.3	77.0	77.0	77.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(178.6)	(2.1)	134.7	(32.2)	1.8
Cash taxes paid	(51.4)	(47.6)	0.5	(9.4)	(24.2)
Other operating cash flow	(0.7)	(19.0)	2.0	2.0	(9.6)
Cash flow from operations	40.6	168.0	212.6	68.6	125.9
Capex	(129.7)	(83.6)	(55.0)	(55.0)	(55.0)
Free cash flow	(89.1)	84.5	157.6	13.6	70.9
Dividends paid	(20.2)	(22.4)	(11.9)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	186.4	206.6	(237.4)	(63.5)	(12.2)
Other invest/financing cash flow	(213.2)	(192.9)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(136.0)	75.7	(91.7)	(49.9)	58.7

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	37.0	(24.6)	(18.2)	16.3	3.1
EBITDA growth	87.8	(51.7)	(30.9)	31.8	28.9
EBIT growth	142.1	(76.9)	(59.9)	142.6	70.6
Pretax growth	208.6	(82.0)	nm	nm	158.7
Reported net profit growth	288.5	(92.5)	nm	nm	382.7
Core net profit growth	219.8	(84.4)	nm	nm	382.7
Profitability ratios (%)					
EBITDA margin	12.2	7.8	6.6	7.5	9.3
EBIT margin	9.8	3.0	1.5	3.1	5.1
Pretax profit margin	8.1	1.9	nm	1.8	4.5
Payout ratio	34.9	nm	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	5.1	0.5	nm	0.6	2.7
Revenue/Assets (x)	0.8	0.6	0.6	0.7	0.7
Assets/Equity (x)	2.7	2.7	2.4	2.4	2.3
ROAE (%)	14.1	2.1	(0.6)	0.9	4.3
ROAA (%)	5.4	0.8	(0.2)	0.4	1.8
Liquidity & Efficiency					
Cash conversion cycle	66.6	74.5	75.9	54.4	54.6
Days receivable outstanding	92.6	135.1	130.8	103.1	109.2
Days inventory outstanding	37.8	51.6	52.7	33.5	32.9
Days payables outstanding	63.7	112.2	107.5	82.1	87.5
Dividend cover (x)	2.9	0.4	nm	nm	nm
Current ratio (x)	0.9	1.0	0.8	0.9	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.9	1.9	1.9
Net debt/equity (%)	71.7	80.4	68.5	66.7	57.8
Net interest cover (x)	11.4	2.2	1.0	2.6	4.6
Debt/EBITDA (x)	3.4	8.5	9.9	7.1	5.4
Capex/revenue (%)	5.3	4.5	3.7	3.1	3.0
Net debt/ (net cash)	770.7	901.6	755.9	742.3	671.4

Source: Company; Maybank

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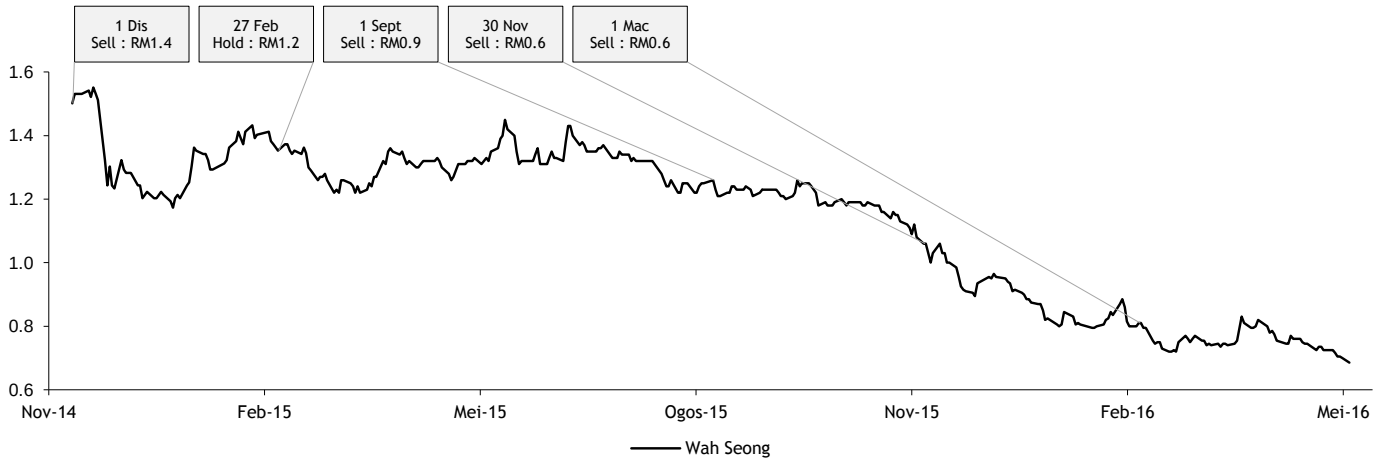
Historical recommendations and target price: Wah Seong (WSC MK)



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