

12 July 2016

Wah Seong Corporation

Massive New Win

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We believe the three-year Nord Stream 2 AG 2,400km pipe coating contract is a re-rating catalyst to WASEONG as it provides more earnings certainty for the future. Although the contract value has yet to be finalised, we believe the total contract value could be more than RM2.0b, which is a strong boost to existing order book of RM715m. Hence, we are doubling FY17E earnings and upgrade the stock to **OUTPERFORM** with a higher TP of RM0.86.

Concrete weight coating of 2,400km pipes. Making reference to the announcement made by Nord Stream 2 AG, WASEONG announced that its indirect wholly-owned subsidiary in Netherlands has secured a contract of concrete weight coating and storing of approximately 2,400km of pipes. The contract award is subject to final negotiations and will be signed in the coming weeks while the final contract value will be disclosed thereafter. It is expected to commence in September 2016 and completed by 3Q19.

Contract value estimated to be >RM2.0b. We are positive on the announcement as it provides three years of earnings certainty till FY19. While the contract value has yet to be firmed up, we estimate the contract size could be more than RM2.0b. Recall that WASEONG secured a 520km of pipe-coating work worth RM611m back in 2013. Therefore, on that basis, a 2,400km pipe-coating work could be worth up to RM2.8b. However, we believe the contract value may differ subject to the actual job scope and technical difficulty. Furthermore, the contract size could have shrunk given that the industry is still in a cost optimisation mode.

Re-rating catalyst. Assuming the new contract secured is worth RM2.0b which is RM666.7m per annum, it would boost order book by another 279% from the depleting amount of RM715m as of 1Q16. This is also beyond our order book replenishment assumption of RM400m each for FY16 and FY17. Hence, we believe it is a strong re-rating catalyst for the company. Assuming a gross margin of 20%, the contract will increase the gross profit by additional RM133m p.a. (which is equivalent to 50% of FY15 gross profit).

Doubling FY17E earnings. All in, we maintain our FY16E forecast as we believe the initial earnings recognition from the contract will be minimal. FY17E earnings estimate is increased by 86% factoring full-year recognition from the contract.

Upgrade to OUTPERFORM. Our TP is increased to RM0.86 from RM0.68 on higher PBV of 0.5x from 0.4x previously as this contract award provides more earnings visibility to the company in the current industry downturn. We believe our valuation is still conservative as the assigned target PBV is also consistent with its -1.5SD below to its 5-year average Fwd. PBV.

Risk to our call includes: (i) Weaker project execution than expected, (ii) smaller contract size than expected, and (iii) lower-than-expected margins.

OUTPERFORM ↑
Price: **RM0.70**
Target Price: **RM0.86** ↑

Share Price Performance



KLCI 1653.87
YTD KLCI chg -2.3%
YTD stock price chg -26.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK Equity
Market Cap (RM m)	541.0
Issued shares	772.8
52-week range (H)	1.38
52-week range (L)	0.64
3-mth avg daily vol:	838,556
Free Float	53%
Beta	1.0

Major Shareholders

WAH SEONG (M) TRADIN	32.9%
CHEU LEONG CHAN	7.8%
EMPLOYEES PROVIDENT	5.9%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,839.5	1,618.4	2,386.8
EBIT	41.8	40.5	111.5
PBT	35.7	32.1	105.8
Net Profit (NP)	9.5	17.0	64.3
Core Net Profit	22.9	17.0	64.3
Consensus (NP)	-	39.7	56.6
Earnings Revision (%)	-	-	86.4
Core EPS (sen)	2.9	2.2	8.3
Core EPS growth (%)	-83.9	-25.4	277.2
NDPS (sen)	3.0	0.0	0.0
NTA/Share (RM)	1.5	1.5	1.6
BV/Share (RM)	1.6	1.6	1.7
Core PER	23.7	31.8	8.4
Price/NTA (x)	0.5	0.5	0.4
Gearing (x)	0.7	0.6	0.6
Dividend Yield (%)	4.3	0.0	0.0

Malaysian Oil & Gas Sector Comparisons

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target Price (RM)	Rating
			CY14	CY15	CY16				CY15	CY16		
ALAM	0.34	309.7	-11.3	56.6	55.4	0.0	-3.1	0.4	-120.0	2.3	0.29	UP
ARMADA	0.73	4,282.4	15.7	23.6	9.8	1.4	3.6	0.6	-33.5	139.8	0.77	MP
COASTAL	1.52	806.5	5.9	7.6	3.8	3.5	8.6	0.5	-22.9	101.4	1.61	MP
DAYANG	1.04	911.9	7.8	27.3	11.2	0.0	9.8	0.8	-71.4	142.8	0.93	UP
DIALOG	1.53	8,053.4	29.6	28.4	24.9	1.5	13.1	3.9	4.0	14.1	1.62	MP
GASMSIA	2.38	3,055.9	23.9	20.4	20.4	3.7	11.9	2.9	17.3	0.0	2.62	OP
MHB	1.10	1,760.0	21.2	21.0	22.3	0.0	3.1	0.7	0.8	-5.7	1.25	MP
PANTECH	0.57	347.5	8.9	7.9	7.3	4.0	7.5	0.7	12.5	9.3	0.55	MP
PCHEM	6.63	53,040.0	19.1	17.4	14.8	2.9	11.8	2.2	9.7	17.6	7.31	OP
PERISAI	0.225	275.0	38.7	17.2	13.5	0.0	0.8	0.3	125.4	27.5	0.26	MP
PETDAG	23.60	23,445.5	29.7	27.3	25.1	2.6	16.0	4.7	8.7	8.7	25.40	OP
PETGAS	22.34	44,204.9	24.8	24.2	23.9	2.9	15.6	3.9	2.5	1.3	21.95	MP
SKPETRO	1.40	8,389.0	11.1	35.1	41.6	0.7	5.9	0.6	-68.4	-15.8	1.48	MP
UZMA	1.84	535.3	13.7	11.0	8.6	0.0	11.4	1.6	24.2	27.5	1.88	MP
WASEONG	0.70	541.0	23.7	31.7	8.4	0.0	2.0	0.5	-25.4	277.2	0.86	OP
YINSON	2.86	3,118.8	19.1	20.5	13.7	0.5	8.7	1.7	-6.9	50.0	3.90	OP
Simple Average			17.6	23.6	19.0							
Weighted Average			22.3	22.9	21.0							

Source: Kenanga Research

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Income Statement

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Revenue	1,779.4	2,438.6	1,839.5	1,618.4	2,386.8
EBITDA	144.8	293.2	128.8	107.2	184.7
Depreciation	-59.4	-74.5	-87.0	-66.7	-73.1
Operating Profit	85.4	218.7	41.8	40.5	111.5
Other Income	-19.0	-20.9	-25.1	-20.8	-21.6
Interest Exp	-2.1	7.6	11.5	8.4	11.4
Associate	0.0	-6.9	7.5	4.0	4.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT	64.3	198.5	35.7	32.1	105.8
Taxation	-32.0	-51.4	-47.6	-8.0	-26.4
Minority Interest	0.0	-21.5	21.3	-7.0	-15.0
Net Profit	32.3	125.6	9.5	17.0	64.3
Core Net Profit	32.3	142.1	22.9	17.0	64.3

Balance Sheet

FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Fixed Assets	926.8	970.2	802.3	886.6	964.4
Intangible Assets	116.6	129.0	150.4	150.4	150.4
Other FA	204.8	365.5	131.0	131.0	131.0
Inventories	205.2	219.6	247.4	226.6	334.2
Receivables	603.2	884.7	629.9	404.6	477.4
Other CA	238.3	182.7	199.1	199.1	199.1
Cash	204.3	-151.5	320.8	229.2	261.7
Total Assets	2,499.2	2,600.3	2,481.0	2,227.6	2,518.3
Payables	402.9	571.2	463.1	404.6	596.7
ST Borrowings	562.8	879.5	906.5	700.0	800.0
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	110.5	125.5
Net Assets	983.5	774.0	603.7	608.3	656.9
Share Capital	387.4	387.4	387.4	387.4	387.4
Reserves	596.1	687.5	734.5	751.5	815.8
Equity	983.5	1,075.0	1,121.9	1,139.0	1,203.3

Cashflow Statement

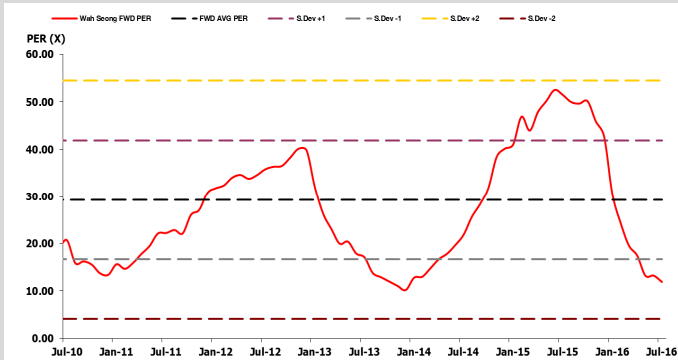
FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Operating CF	(50.1)	40.6	172.6	265.9	148.4
Investing CF	(292.0)	(271.6)	(106.6)	(151.0)	(151.0)
Financing CF	52.7	91.3	(16.7)	(206.5)	35.1
Change In Cash	41.1	(139.7)	49.2	(91.6)	32.5
Free CF	(342.1)	(231.0)	66.0	114.9	(2.6)

Financial Data & Ratios

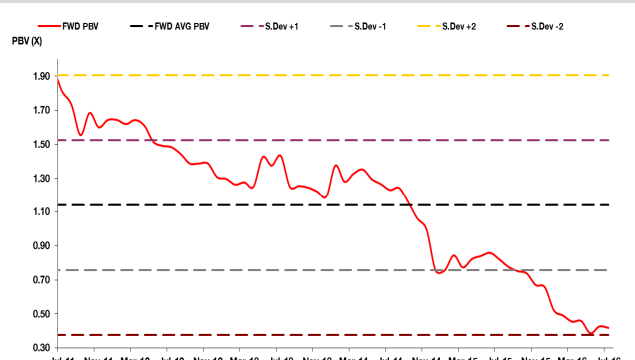
FY Dec (RM'm)	2013	2014	2015	2016E	2017E
Growth					
Turnover (%)	-8.8	37.0	-24.6	-12.0	47.5
EBITDA (%)	-8.6	102.5	-56.1	-16.7	72.2
EBIT (%)	-16.5	156.1	-80.9	-3.1	175.5
PBT (%)	-22.0	208.6	-82.0	-10.2	229.8
Core Net Profit (%)	-38.5	339.7	-83.9	-25.4	277.2
Profitability (%)					
EBITDA Margin	8.1	12.0	7.0	6.6	7.7
Operating Margin	4.8	9.0	2.3	2.5	4.7
PBT Margin	3.6	8.1	1.9	2.0	4.4
Core Net Margin	1.8	5.8	1.2	1.1	2.7
Effective Tax Rate	-49.8	-25.9	-133.2	-25.0	-25.0
ROA	1.4	4.7	0.3	0.6	2.2
ROE	2.8	11.2	1.9	1.4	4.8
DuPont Analysis					
Net Margin (%)	1.8	5.8	1.2	1.1	2.7
Assets Turnover (x)	0.7	0.9	0.7	0.7	0.9
Leverage Factor (x)	2.2	2.1	2.0	1.8	1.9
ROE (%)	2.8	11.2	1.9	1.4	4.8
Leverage					
Debt/Asset (x)	0.2	0.3	0.4	0.3	0.3
Debt/Equity (x)	0.8	0.9	1.1	0.9	0.9
Net (Cash)/Debt	540.6	1,167.3	901.6	786.7	789.3
Net Debt/Equity (x)	0.5	0.9	0.7	0.6	0.6
Valuations					
EPS (sen)	4.2	18.3	2.9	2.2	8.3
NDPS (sen)	4.0	5.0	3.0	0.0	0.0
NTA/share (RM)	1.4	1.6	1.5	1.5	1.6
BV/share (RM)	1.5	1.6	1.6	1.6	1.7
PER (x)	16.8	3.8	23.7	31.8	8.4
Net Div. Yield (%)	5.7	7.1	4.3	0.0	0.0
P/NTA (x)	0.5	0.4	0.5	0.5	0.4
P/BV (x)	0.5	0.4	0.4	0.4	0.4

Source: Kenanga Research

Forward PER



Forward PBV



Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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