



WAH SEONG CORPORATION BERHAD

Outperform

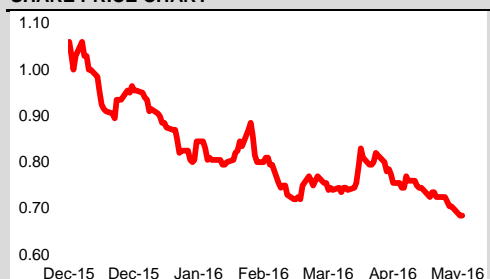
DESCRIPTION

Pipe-coating specialist for onshore and offshore within the oil and gas industry in Malaysia and overseas.

12-Month Target Price RM0.94
Current Price RM0.71
Expected Return +32.1%

Market Main
Sector Oil & Gas
Bursa Code 5142
Bloomberg Ticker WSC MK
Shariah-compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 0.64-1.38
3-Month Average Vol ('000) 838.6

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-2.9	-8.8	-25.2
Relative Returns	-2.1	-1.8	-22.8

KEY STOCK DATA

Market Capitalisation (RM m) 544.8
No. of Shares (m) 772.8

MAJOR SHAREHOLDERS

	%
Wah Seong (M) Trading Co	32.9
Chan Cheu Leong	7.8
Employees Provident Fund	5.9

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Poised For Long-term Earnings Visibility

Wah Seong's pipe-coating business, Wasco Coatings Europe B.V., an indirectly wholly-owned subsidiary of Wah Seong incorporated in the Netherlands, bagged an award from Nord Stream 2 AG. The job is for the provision of concrete weight coating and storing of more than 200,000 pipes for the Nord Stream 2 Project. No contract value has been announced at this juncture as the contract is still subject to final negotiations and only to be signed in the coming weeks. Pipe deliveries to concrete weight coating facilities are planned to start in September 2016, with the coating process to start at the beginning of 2017. Our **Outperform** recommendation on Wah Seong continues to be reaffirmed, with a TP of RM0.94 pegged to 8x PE and FY17F EPS of 11.7sen. Considering the main concern for the Group is the current lack of contract replenishments, this new award for the duration of approximately 3 years would provide longer term earnings visibility to the Group, thus further limiting its downside risks. We maintain that Wah Seong's performance has been affected by the oil price sentiment and not due to its execution capabilities, and is poised for better prospects 4QFY16 onwards. The Group continues to be the leading contender in the pipe-coating space when the O&G market begins to see its recovery.

§ **The award** involves concrete weight coating and storing of about 2,400 km of pipes. The plans for the pipelines are two parallel 48-inch lines, roughly 1,200km, each with 27.5billion cubic metres of natural gas annual capacity. The pipelines will start from the south-west of St Petersburg, a Russian port city on the Baltic Sea and end at the German coast of Greifswald. The duration of the project is expected to commence September 2016 to the third quarter of 2019.

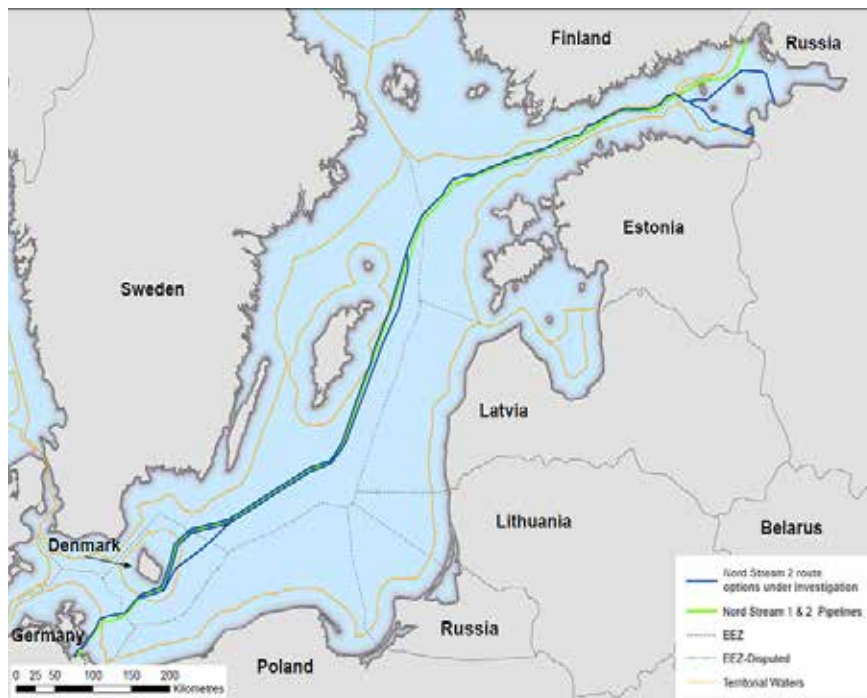
Due to the contract being in the final negotiation stages, we have yet to account for its contributions to the Group. The earnings profile, we assume, would be bell-shaped with the bulk of works to be done in 2017 and 2018. Based on the Nord Stream 2 project's total capital expenditure of c.EUR8.0bn, we believe the portion earmarked for Wah Seong should be relatively sizeable as well. The Group's pipe-coating contract with Statoil for the 482km-long Polarled gas pipeline in Norway was already valued at RM611.3m, and this current Nord Stream 2 Project is an estimated 1200km per pipeline.

§ **The Nord Stream 2 Project** is a direct connection between the world's largest gas reserves in Russia and the gas transmission system of the European Union (EU). The new Nord Stream 2 pipeline will deliver gas from North Russia to the German coast near Greifswald. We understand that the Nord Stream 2 Project is to complement the existing gas transportation routes: the pipelines through Ukraine, the Yamal-Europe and Nord Stream 1 pipelines and the pipelines planned through the Black Sea are all complementary supply routes to the EU which serve the long-term energy security of the continent.

§ **Nord Stream 2 shareholding parties** is planned to be an international consortium of 6 major companies PJSC Gazprom (50%), the German companies Uniper SE (10%) and BASF SE/Wintershall Holding GmbH (10%), the Anglo-Dutch Royal Dutch Shell plc (10%), the Austrian OMV AG (10%) and the French Engie S.A (10%).

§ **The operations.** Amidst finalisation of the contract and plans, we understand that the pipe-coating activities could be carried out in 2 plants to be located in Europe. We are expecting a similar setup to that of Wah Seong's Statoil job, whereby mobile plants could be used. The Group's capex has sufficiently accounted for this project.

Figure 1: Map of Nord Stream 2 Project



Source: Nord Stream 2

§ **Reaffirmed Outperform.** Our TP of RM0.94 is pegged to 8x PE and FY17F EPS of 11.7sen. The stock remains attractive at current levels, trading at fwd-PE of 6.1x for FY17F and 5.0x for FY18F coupled with this new contract as a growth lever to boost its earnings should see positive reflections in its price levels going forward.

KEY FORECAST TABLE

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F	CAGR
Revenue	2,438.6	1,839.5	1,674.1	1,713.7	1,747.7	-0.9%
Gross Profit	218.7	41.8	129.1	132.1	134.6	11.5%
PBT	198.5	35.7	128.7	134.7	161.7	20.3%
PATAMI	125.6	52.1	86.8	90.8	109.1	29.5%
EPS (Sen)	16.2	6.7	11.2	11.7	14.1	29.5%
P/E (x)	4.4	10.6	6.3	6.1	5.0	
DPS (Sen)	5.0	2.0	2.0	2.0	2.0	
Dividend Yield (%)	7.0	2.8	2.8	2.8	2.8	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F
Revenue	2,438.6	1,839.5	1,674.1	1,713.7	1,747.7
Gross Profit	218.7	41.8	129.1	132.1	134.6
Other Income	45.7	141.5	128.7	131.8	134.4
Selling & Distribution Expenses	-32.9	-41.8	-25.1	-25.7	-26.2
Administration Expenses	-276.6	-324.6	-217.6	-222.8	-227.2
Pre-tax Profit	198.5	35.7	128.7	134.7	161.7
Income Tax	-51.4	-47.6	-33.3	-34.9	-41.9
Effective Tax Rate (%)	25.9	133.2	25.9	25.9	25.9
Minorities	-21.5	21.3	-8.6	-9.0	-10.8
PATAMI	125.6	52.1	86.8	90.8	109.1
Growth					
Revenue	37%	-25%	-9%	2%	2%
Gross Profit	78%	-46%	-9%	2%	2%
PATAMI	288%	-59%	67%	5%	20%

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F
Property, plant and equipment	773.7	802.3	854.5	898.9	935.5
Inventories	204.5	247.4	225.2	230.5	235.0
Trade receivables	750.9	629.9	573.3	586.8	598.4
Cash and bank balances	149.5	159.9	223.2	249.2	284.5
Total Assets	2,901.3	2,999.2	3,025.5	3,114.9	3,202.9
ST Borrowings	879.5	906.5	906.5	906.5	906.5
LT Borrowings	136.3	315.9	315.9	315.9	315.9
Trade payables	519.8	463.1	421.5	431.5	440.0
Minority Interests	193.3	103.5	111.0	118.9	128.6
Total Liabilities	1,633.0	1,773.8	1,728.5	1,738.8	1,749.2
Total Equity	1,268.3	1,225.4	1,297.0	1,376.0	1,453.8
Total Equity and Liabilities	2,901.3	2,999.2	3,025.5	3,114.9	3,202.9

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2014A	2015A	2016F	2017F	2018F
Book Value Per Share	1.4	1.4	1.5	1.6	1.7
NTA Per Share	1.4	1.4	1.5	1.6	1.7
EPS (Sen)	16.2	6.7	11.2	11.7	14.1
DPS (Sen)	5.0	2.0	2.0	2.0	2.0
Payout Ratio (%)	32.7	434.0	47.3	45.2	37.6
ROA (%)	4.3	0.3	2.9	2.9	3.4
ROE (%)	11.7	0.8	7.3	7.2	8.2

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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Published and printed by:

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