

Wah Seong Bhd (SELL ↔, EPS ↑)

EARNINGS EVALUATION

INDUSTRY: NEUTRAL

July 12, 2016

Price Target: RM0.58 (↑)

Share Price: RM0.70

Nord Stream 2 Project Win

News

- It is announced that WASEONG has secured contract for the provision of concrete weight coating and storing of more than 200,000 pipes for Nord Stream 2 Project by Nord Stream 2 AG. The contract for this award is subject to final negotiations and will be signed in the coming weeks. WSC will announce the project value once the final negotiations are completed and contract is signed.
- The award involves concrete weight coating and storing of approximately 2,400 km of pipes. The project is expected to commence in September 2016 and be completed by third quarter of 2019.

Financial Impact

- Financial impact is difficult to ascertain at this juncture as the contract value is not disclosed for the time being.
- However, if we refer to its previous pipe coating Polarled project in Norway, the contract was worth RM605m involving 520km of pipes, 4x smaller than the Nord Stream 2 project.
- Therefore, we opine that the contract value of the recent new win would be significantly larger than the Polarled project.

Pros/Cons

- Contract win is a big positive given it will help to boost the group's orderbook significantly giving better visibility on its future earnings.
- The latest tenderbook is about RM5bn 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 plan oil trees to mature.
- Political risk, Congo Oil Palm Plantation which is still in the early stage.
- Pipe coating contract margin risk.

Forecasts

- We increase our FY17 core net profit forecast by 38.9% to account for significantly higher orderbook replenishment in the wake of the recent big job win.

Rating

Sell(↔)

- 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

- As a result of earnings upgrade, our TP is increased to **RM0.58** from RM0.49 previously based on unchanged 9x FY17 PER. While recent big win is a positive, margin compression is still a concern and its JVs focused on O&G asset business would still be a drag.

Lim Sin Kiat

LimSK@hlib.hongleong.com.my

(603) 2176 2656

| | |
|-----------------------------|---------|
| KLCI | 1,653.9 |
| Expected share price return | -17.1% |
| Expected dividend return | 0.0% |
| Expected total return | -17.1% |

Share price



Information

| | |
|-------------------------|--------|
| Bloomberg Ticker | WSC MK |
| Bursa Code | 5142 |
| Market cap (RMm) | 541 |
| 3-mth avg volume ('000) | 853 |
| SC Shariah-compliant | Yes |

| Price Performance | 1M | 3M | 12M |
|-------------------|------|------|-------|
| Absolute % | -2.1 | -7.3 | -48.1 |
| Relative % | -2.8 | -3.9 | -46.2 |

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 | 1,783 |
| EBITDA | 295 | 65 | 130 | 181 |
| PATAMI | 126 | 34 | 13 | 50 |
| EPS | 16.2 | 4.3 | 1.7 | 6.4 |
| P/E (x) | 4.3 | 16.1 | 40.5 | 10.9 |
| NTA | 1.66 | 1.65 | 1.66 | 1.73 |
| P/BV (x) | 0.42 | 0.42 | 0.42 | 0.41 |
| ROA (%) | 5.0 | 1.3 | 0.6 | 2.1 |
| ROE (%) | 10.9 | 2.9 | 1.1 | 4.1 |
| HLIB | | | | |

Figure #1 Peers Comparison

| Company | Mkt Cap (RM m) | Price (RM) | Recommendation | Target Price | Upside (%) | P/E (x) | |
|--------------|-------------------|------------|----------------|--------------|------------|---------|--------|
| | | | | | | 2016 | 2017 |
| SK Petro | 8,389 | 1.40 | Hold | 1.35 | (3.6) | 50.0 | 25.5 |
| Bumi Armada | 4,282 | 0.73 | Buy | 0.85 | 16.4 | 21.5 | 10.5 |
| MMHE | 1,760 | 1.10 | Sell | 0.94 | (14.5) | 22.4 | 18.1 |
| UMW O&G | 1,989 | 0.92 | Sell | 0.69 | (25.0) | (7.1) | (23.0) |
| Dayang | 912 | 1.04 | Sell | 0.84 | (19.2) | (14.9) | 84.0 |
| Wah Seong | 541 | 0.70 | Sell | 0.58 | (17.1) | 41.2 | 9.1 |
| Perisai | 275 | 0.23 | Hold | 0.23 | - | 13.2 | 9.4 |
| Scomi Energy | 468 | 0.20 | Hold | 0.19 | N.A. | 10.0 | 7.3 |
| KNM | 853 | 0.40 | Hold | 0.49 | 22.5 | 10.0 | 8.2 |
| Uzma | 535 | 1.84 | Hold | 1.72 | (6.5) | 12.9 | 10.0 |
| PetDag | 23,446 | 23.60 | Hold | 23.28 | (1.4) | 26.2 | 25.9 |
| Bloomberg | | | | | | | |

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 | 1,783 |
| Operating cost | -1,635 | -2,143 | -1,775 | -1,484 | -1,601 |
| EBITDA | 145 | 295 | 65 | 130 | 181 |
| Depreciation & Amort | (59) | (77) | - | (69) | (77) |
| Net Interest | (19) | (21) | (25) | (26) | (29) |
| Associates | 5 | 1 | - | (17) | (17) |
| Jointly controlled entities | (2) | - | 19 | 19 | 19 |
| Exceptionals | - | - | - | - | 1 |
| PBT | 64 | 198 | 36 | 21 | 78 |
| Taxation | (32) | (51) | (48) | (5) | (19) |
| Minority Interest | 0 | (22) | 21 | (3) | (9) |
| Exceptionals | (8) | | | | |
| Core PATAMI | 41 | 126 | 34 | 13 | 50 |
| Basic shares (m) | 775 | 775 | 775 | 775 | 776 |
| Basic EPS (sen) | 5.2 | 16.2 | 4.3 | 1.7 | 6.4 |

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 | 144 |
| Working capital | 502 | 674 | 349 | 415 | 490 |
| Receivables | 531 | 736 | 555 | 487 | 538 |
| Payables | -310 | -429 | -503 | -343 | -343 |
| Inventory | 280 | 367 | 297 | 270 | 295 |
| Net cash / debt | -339 | -390 | -137 | -275 | -436 |
| Cash | 345 | 294 | 547 | 410 | 250 |
| ST debt | 465 | 465 | 465 | 465 | 466 |
| LT debt | 220 | 220 | 220 | 220 | 220 |
| Shareholders' funds | 1,028 | 1,154 | 1,163 | 1,177 | 1,227 |
| Share capital | 387 | 387 | 387 | 387 | 387 |
| Reserves | 641 | 767 | 776 | 789 | 839 |
| Minorities | 113 | 134 | 113 | 113 | 113 |
| Other liabilities | 88 | 88 | 88 | 75 | 25 |

Summary Earnings Table

| | | | | | |
|----------------|-------|-------|-------|-------|-------|
| Revenue | 1,779 | 2,439 | 1,840 | 1,614 | 1,783 |
| EBITDA | 145 | 295 | 65 | 130 | 181 |
| PATAMI | 41 | 126 | 34 | 13 | 50 |
| P/E (x) | 13.4 | 4.3 | 16.1 | 40.5 | 10.9 |
| BV / share | 1.47 | 1.66 | 1.65 | 1.66 | 1.73 |
| P/BV (x) | 0.48 | 0.42 | 0.42 | 0.42 | 0.41 |
| ROA (%) | 1.8 | 5.0 | 1.3 | 0.6 | 2.1 |
| ROE (%) | 4.0 | 10.9 | 2.9 | 1.1 | 4.1 |

Cashflow

| FYE 31 Dec (RM m) | 2013A | 2014A | 2015A | 2016E | 2017E |
|---------------------------|------------|-------------|------------|--------------|--------------|
| Pre-tax profit | 64 | 198 | 36 | 21 | 78 |
| Net interest received | (19) | (21) | (25) | (26) | (29) |
| Working capital changes | 8 | (194) | 345 | (57) | (81) |
| Taxation | (32) | (51) | (48) | (5) | (19) |
| Others | 90 | 97 | 25 | 10 | (31) |
| Operating cashflow | 111 | 29 | 333 | -57 | -81 |
| Capex & acquisitions | -80 | -80 | -80 | -80 | -80 |
| Free cashflow | 31 | -51 | 253 | -137 | -161 |
| Other inv cashflow | 0 | 0 | 0 | 0 | 1 |
| Net borrowings | 0 | 0 | 0 | 0 | 1 |
| Share/convt 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 | (137) | (156) |

Valuation ratios

| | | | | | |
|---------------------------|------|------|------|-------|-------|
| Net DPS (sen) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| FCF / share (sen) | 4.1 | -6.6 | 32.6 | -17.7 | -20.8 |
| FCF yield (%) | 5.8 | -9.4 | 46.6 | -25.3 | -29.7 |
| Market capitalization (m) | 542 | 542 | 542 | 542 | 542 |
| Net cash (m) | -339 | -390 | -137 | -275 | -436 |
| Enterprise value | 882 | 933 | 680 | 817 | 978 |
| EV/ EBITDA (x) | 3.7 | 10.4 | 4.7 | 2.8 | 15.1 |

Growth margins ratios

| | | | | | |
|--------------------|------|------|------|------|------|
| Growth (%) | | | | | |
| Sales Growth | -9% | 37% | -25% | -12% | 10% |
| Operating expenses | -12% | 31% | -17% | -16% | 8% |
| EBITDA Growth | 62% | 104% | -78% | 101% | 39% |
| PBT Growth | -22% | 209% | -82% | -41% | 271% |
| PATMI | -32% | 209% | -73% | -60% | 271% |
| Basic EPS Growth | -32% | 209% | -73% | -60% | 271% |

Margins (%)

| | | | | | |
|---------------|-----|------|-----|-----|------|
| EBITDA Margin | 8.1 | 12.1 | 3.5 | 8.1 | 10.2 |
| PBT Margin | 3.6 | 8.1 | 1.9 | 1.3 | 4.4 |
| PATMI | 2.3 | 5.1 | 1.8 | 0.8 | 2.8 |

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 12 July 2016, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 12 July 2016, the analyst, Lim Sin Kiat who prepared this report, has interest in the following securities covered in this report:

(a) -.

Equity rating definitions

| | |
|---------------------|--|
| 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. |
| SELL | Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months. |
| NOT RATED | No research coverage, and report is intended purely for informational purposes. |

Industry rating definitions

| | |
|--------------------|--|
| OVERWEIGHT | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months. |
| NEUTRAL | The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months. |
| UNDERWEIGHT | The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months. |

Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880