PUBLIC INVESTMENT BANK

PublicInvest Research ***Company Update*** **Tuesday, September 19, 2023**

KDN PP17686/03/2013(032117)

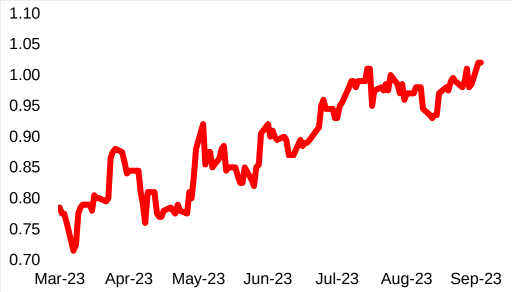
WASCO BERHAD ***Neutral***

DESCRIPTION

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

Target Price	RM1.00
Current Price	RM1.02
Upside	-2.0%
Market	Main
Sector	Oil & Gas
Bursa Code	5142
Bloomberg Ticker	WSC MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.50 – 1.04
3-Month Average Vol ('000)	1,812.6

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	5.2	12.7	26.7
Relative Returns	4.3	5.5	22.7

KEY STOCK DATA

Market Capitalisation (RM m)	789.8
No. of Shares (m)	774.3

MAJOR SHAREHOLDERS

	%
Wah Seong (M) Trading Co	33.0
Tan Kim Yeow Sdn Bhd	7.0
Midvest Asia Sdn Bhd	5.4

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Embracing Vibrant Future

We came away from a meeting with management feeling positive on its transformation plan initiated by the new Group Managing Director (GMD), Giancarlo Maccagno, after taking the helm of the company since 1st July 2023, succeeding the recently-retired GMD. The Group is undergoing an accelerated transformation plan to focus on its core business (Energy and Bioenergy) and divesting its non-core physical assets and businesses by end 2023. Despite its strong position as global leader in pipe coating, the Group plans to elevate its services to capture more opportunities in clean energy projects. The transformation plan will be instrumental in the Group maintaining its leadership while embracing future the energy landscape with more efficient capital and resource allocation. While we are positive on its plans, we keep our ***Neutral*** call and unchanged TP of RM1.00, pending materialisation on its execution.

- **To recap, 2QFY23 results** recorded core PATAMI of RM13.6m, 49.5% higher YoY, although it recorded lower revenue by 8.1% YoY due to slower project execution. On this note, the East African Crude Oil Pipeline (EACOP) has made significant progress at 30% completion, while Topside Module Yinson FPSO has progressed to about 12% completion with no change on the original timeline.

- **Well-positioned in current market dynamic.** The Group's tender book and order book currently stand at all-time highs i.e RM7.0bn and RM3.9bn respectively. The numbers are contributed by two factors: 1) resumption of backlog projects, which were rolled back due to the COVID-19 pandemic, and 2) flurry of pipe-coating orders due to Russia's invasion of Ukraine as some countries are looking for alternative gas suppliers, hence accelerating gas-related projects. Given the change in market dynamics, its order book is no longer dominated by a single project, with EACOP (30%) and Yinson Agogo (12%) being top two, and the rest relatively insignificant.

- **Increasing exposure in clean energy.** Moving forward, management foresees its Energy segment having increasing exposure to clean energy related projects such as fabrication and coating of wind blades for windfarms, substation construction for Renewable Energy (RE) projects and pipe-coating for carbon capture storage (CCS). In the case of CCS, approximately 4,100km pipeline for CCS projects are planned around the globe from 2023-2027, with accumulated value of pipe-coating contracts worth about USD1bn. Some of the CCS projects have higher likelihoods of being awarded to the Group given its local presence as the sole pipe-coater in respective CCS markets.

- **Capitalising on Batam facilities.** Backed by all-time high order book of RM3.9bn, most of its core facilities are reaching full utilisation rate and achieving economies of scale. For instance, the Group was supposed to have ceased its operation in the existing leased yard after acquiring the new Batam yard in 2022. However, it continues to lease the existing yard as new orders build up exponentially, requiring sufficient space for storage. Due to the space scarcity, the Group has imposed high storage charges to discourage its clients from keeping its inventory in the yard upon completion of work order.

  The Group also plans to upskill its Malaysian fabrication yard facilities by mobilising its experts from the Batam yard to Teluk Panglima Garang and Kuantan for knowledge transfer. This will reduce the bottleneck in the Batam yard as it is also reaching full utilisation rate. Plans are also afoot to elevate value-added service in the Malaysian yard.

- **Capturing growth in Bioenergy**. While the group is riding on the upcycle and aims to maintain leadership in the Energy segment, it also plans to capture growth in biomass power generation by supplying biomass boilers and steam turbine to industrial manufacturers such as paper mills, steel mills, palm oil mills and sugar mills. The boilers will generate power supply by feeding-in the waste from the mill operation, though at small capacities (ie. ~1-2 MW per generator). This will enable the manufacturers to claim RE certification to capture export markets in developed countries.

  Although this segment only contributes marginally to its topline for now, management is optimistic on its potential to grow significantly on the back of the government's agenda, primarily the National Energy Transition Roadmap (NETR) with targeted biomass and biogas power generation capacity of 1.4GW by 2050. Management guided that it will start reflecting the financial performance from this segment separately from the Energy segment from 3QFY23 financial result onwards.

- **Divesting non-core physical assets and business** is crucial for the Group in executing its transformation plan, enabling the Group to re-channel its capital and resources to its core businesses (Energy and Bioenergy). Some non-core physical assets such as underutilised land and offices have been identified for sale. To date, it has closed one minor physical asset transaction and expects to have another two significant physical asset transactions by end 2023.

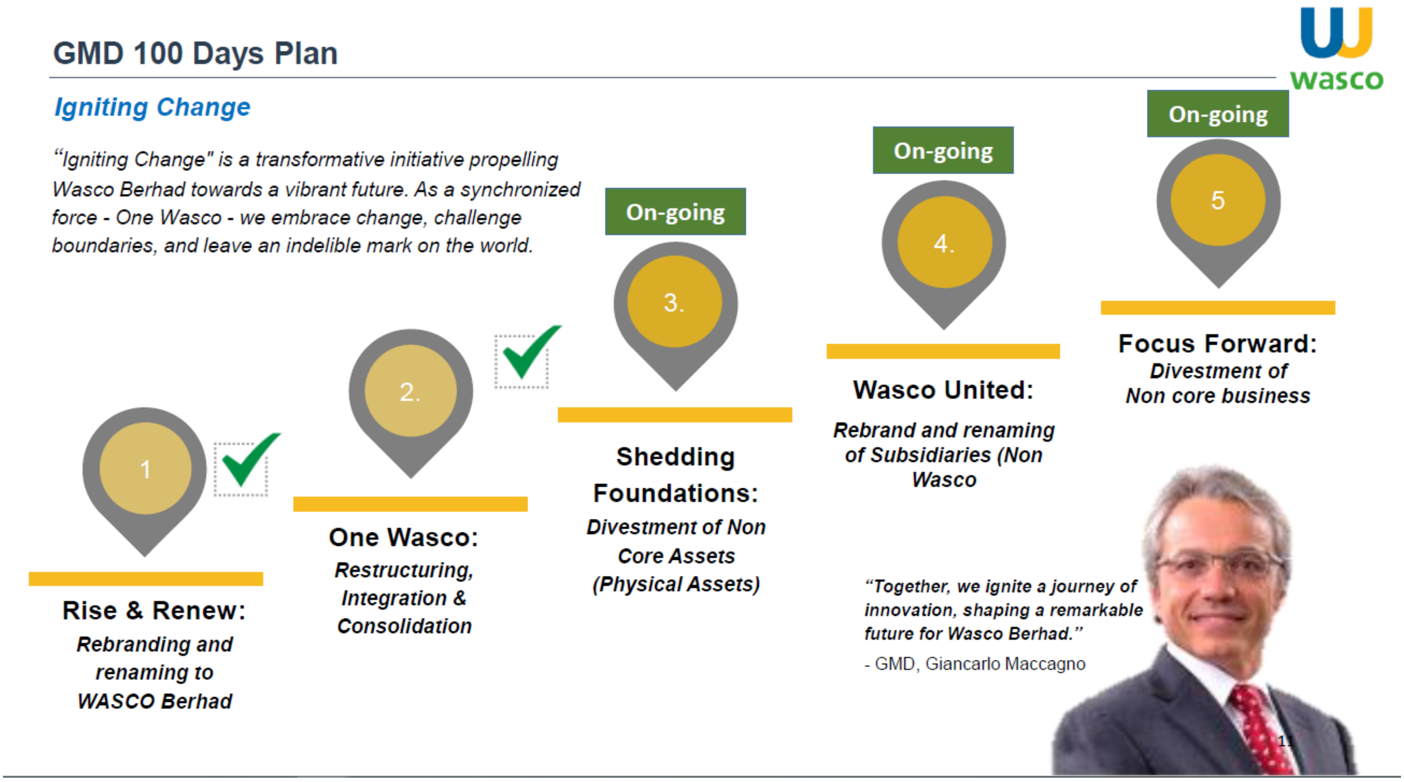
  The Group has also identified its Trading segment (mostly its legacy business) as a non-core business to be divested in the future. Although the segment contributes significantly i.e about RM320m or 12% of total revenue in FY22, it commands low margins. We reckon the divestment exercise may take longer than initial target of end 2023, though we believe it is necessary for the Group to maintain its leadership while embracing future energy landscape with more efficient capital and resource allocation.

KEY FINANCIAL SUMMARY

FYE Dec (RM m)	2021A	2022A	2023F	2024F	2025F	CAGR
Revenue	1,429.3	2,686.5	2,721.2	2,820.9	2,842.0	18.7%
Gross Profit	168.6	411.6	408.2	423.1	426.3	26.1%
PBT	-100.3	82.0	167.1	173.7	175.1	n.m
PATAMI	-107.5	-6.3	67.0	69.6	70.2	n.m
Core PATAMI	-15.9	56.8	67.0	69.6	70.2	n.m
EPS (Sen)	-13.9	-0.8	8.7	9.0	9.1	
P/E (x)	n.m	n.m	11.7	11.3	11.2	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Div. Yield (%)	0.0	0.0	0.0	0.0	0.0	

Source: Company, PublicInvest Research estimates

Exhibit 1: GMD 100 Days Plan



KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2021A	2022E	2023F	2024F	2025F
Revenue	1,429.3	2,686.5	2,721.2	2,820.9	2,842.0
Gross Profit	168.6	411.6	408.2	423.1	426.3
Other Income	63.0	59.6	54.4	56.4	56.8
Selling & Distribution Expenses	-33.6	-42.3	-40.8	-42.3	-42.6
Administration Expenses	-153.3	-199.4	-190.5	-197.5	-198.9
Pre-tax Profit	-100.3	82.0	167.1	173.7	175.1
Income Tax	-11.6	-38.9	-40.1	-41.7	-42.0
Effective Tax Rate (%)	-11.6	47.4	24.0	24.0	24.0
Minorities	4.5	-49.4	-60.0	-62.3	-62.8
PATAMI	-107.5	-6.3	67.0	69.6	70.2
Core PATAMI	-15.9	56.8	67.0	69.6	70.2
Growth					
Revenue	1%	88.0%	1.3%	3.7%	0.7%
Gross Profit	-6%	144.1%	-0.8%	3.7%	0.7%
Core PATAMI	-95%	n.m	18.0%	3.9%	0.8%

Source: Company Prospectus, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2021A	2022E	2023F	2024F	2025F
Property, plant and equipment	434.8	473.3	382.4	379.6	330.5
Inventories	178.0	223.4	372.8	386.4	389.3
Trade receivables	340.8	558.3	671.0	695.6	700.8
Cash and bank balances	136.1	275.9	239.1	233.6	378.6
Total Assets	**2,231.4**	**2,713.5**	**2,903.6**	**2,896.6**	**3,005.2**
ST Borrowings	649.2	708.1	371.9	295.3	223.8
LT Borrowings	105.2	81.9	450.2	372.6	420.9
Trade payables	363.4	533.7	570.3	591.2	595.7
Minority Interests	49.7	98.9	153.2	209.9	267.0
Total Liabilities	**1,593.3**	**2,034.5**	**2,103.3**	**1,970.0**	**1,951.3**
Total Equity	**638.2**	**678.9**	**800.2**	**926.6**	**1,053.9**
Total Equity and Liabilities	**2,231.4**	**2,713.5**	**2,903.6**	**2,896.6**	**3,005.2**

Source: Company Prospectus, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2021A	2022E	2023F	2024F	2025F
Book Value Per Share	0.8	0.8	0.8	0.9	1.0
NTA Per Share	0.8	0.8	0.8	0.9	1.0
EPS (Sen)	-13.9	-0.8	8.7	9.0	9.1
DPS (Sen)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0	1.0
ROA (%)	-4.8	-0.2	2.3	2.4	2.3
ROE (%)	-18.3	-1.1	10.4	9.7	8.9

Source: Company Prospectus, 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 12months.
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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