

Wah Seong (WSC MK)

FY15 results missed forecasts

Cut TP to MYR0.56 (-7%); SELL

Results came in below expectations on widening losses in 4Q15, which prompt a 6-32% cut in our FY16-17 earnings forecasts. We expect FY16 earnings to be weaker YoY amid a challenging market ahead. Depleting orders, replenishment risk and margin squeeze remain key concerns. Valuations continued to be demanding. Our revised TP is based on unchanged 10x 2017 PER.

Wider losses in 4Q15

WSC's headline net loss of MYR31m in 4Q15 comprised substantial one-off net losses of MYR21m, which came primarily from the impairment of its O&G assets (-MYR30m; compressor units). Excluding these one-offs, WSC remained loss making, with a core net loss of MYR10m (+13% QoQ). The widening QoQ loss in 4Q15 lowered its FY15 core earnings to MYR23m (-84% YoY). This accounted for just 74% of our full-year forecast.

O&G suffered, plantation continued to see red

The sub-par 4Q15 was mainly due to the lower pretax profit contribution from its O&G division. It suffered a substantial dip in its core pretax profit (-56% QoQ) on lower margins and flattish revenue, as the industry's cost cutting measures intensified due to the low oil price environment. Meanwhile, the plantation division continued to be in the red in 4Q15, for the 14th consecutive quarter. This was offset by earnings recovery at its industrial trading & services segment and higher pretax profit at its renewable energy division (+20% QoQ to MYR17m).

Challenging days ahead

We cut FY16/17 earnings forecasts by 6-32% to reflect lower margins/workflows. WSC's orderbook continued to deplete (-8% QoQ) to MYR894m as at Dec 2015. Overall, we expect the adverse condition to persist as the industry continues to embark on cost reduction initiatives. The risk-reward outlook remains challenging with limited upside ahead. Valuations remain expensive post earnings revisions.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,439	1,840	1,605	1,750	1,805
EBITDA	297	143	126	167	168
Core net profit	145	23	20	44	45
Core EPS (sen)	18.8	2.9	2.6	5.6	5.8
Core EPS growth (%)	215.9	(84.4)	(10.4)	113.9	2.3
Net DPS (sen)	5.7	3.0	0.0	0.0	0.0
Core P/E (x)	4.2	27.2	30.4	14.2	13.9
P/BV (x)	0.6	0.6	0.5	0.5	0.5
Net dividend yield (%)	7.1	3.8	0.0	0.0	0.0
ROAE (%)	14.1	2.1	1.8	3.8	3.7
ROAA (%)	5.4	0.8	0.7	1.6	1.6
EV/EBITDA (x)	6.4	12.2	11.8	8.7	8.2
Net debt/equity (%)	71.7	80.4	67.1	60.1	52.0
Consensus net profit	-	-	66	78	na
MKE vs. Consensus (%)	-	-	(69.1)	(44.0)	na

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SELL

Share Price	MYR 0.80
12m Price Target	MYR 0.56 (-30%)
Previous Price Target	MYR 0.60

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)	1.45/0.80
3m avg turnover (USDm)	0.1
Free float (%)	17.2
Issued shares (m)	779
Market capitalisation	MYR623.4M USD148M

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 (%)	(5)	(25)	(41)
Relative to index (%)	(5)	(24)	(35)

Source: FactSet

Wah Seong: Summary results

Oil & Gas Summary Results								
	Quarterly results					Cumulative results		
FY Dec (MYR m)	4Q15	4Q14	% YoY	3Q15	% QoQ	12M15	12M14	% YoY
Turnover	448.1	711.5	(37.0)	407.6	9.9	1,839.5	2,438.6	(24.6)
Gross profit	58.2	165.7	(64.9)	68.4	(14.9)	262.7	485.7	(45.9)
EBIT	6.6	75.7	(91.2)	1.3	424.1	55.1	238.5	(76.9)
Interest expense	(7.1)	(5.7)	25.2	(7.0)	0.8	(25.1)	(20.9)	20.1
Associates	4.5	0.5	NM	7.9	(42.8)	19.0	0.7	NM
Exceptional item	(21.1)	(13.9)	51.8	12.0	NM	(13.3)	(19.8)	(33.0)
Pretax profit	(17.0)	56.6	NM	14.2	NM	35.7	198.5	(82.0)
Tax	(17.7)	(16.3)	8.7	(12.0)	47.4	(47.6)	(51.4)	(7.4)
Minority interest	3.4	(5.7)	NM	0.8	330.6	21.3	(21.5)	NM
Net profit	(31.3)	34.6	NM	3.0	NM	9.5	125.6	(92.5)
Net profit Ex EI	(10.2)	48.5	NM	(9.0)	12.6	22.7	145.4	(84.4)
	4Q15	4Q14	+/-ppts	3Q15	+/-ppts	12M15	12M14	% YoY
Gross margin (%)	13.0	23.3	(10.3)	16.8	(3.8)	14.3	19.9	(5.6)
EBIT margin (%)	1.5	10.6	(9.2)	0.3	1.2	3.0	9.8	(6.8)
Tax rate (%)	(103.9)	28.8	(132.7)	84.7	(188.6)	133.2	25.9	107.4
<u>SEGMENTAL</u>	4Q15	4Q14	% YoY	3Q15	% QoQ	12M15	12M14	% YoY
Turnover	448.1	711.5	(37.0)	407.6	9.9	1,839.5	2,438.6	(24.6)
- O&G	185.7	432.1	(57.0)	185.8	(0.0)	881.2	1,384.1	(36.3)
- Renewable Energy	110.4	96.4	14.5	88.3	25.0	360.7	342.5	5.3
- Industrial Trading & Svcs	131.3	151.3	(13.2)	119.2	10.2	534.3	594.4	(10.1)
- Others	20.6	31.8	(35.2)	14.3	43.8	63.3	117.7	(46.2)
Pretax profit	(17.0)	56.6	(130.1)	14.2	NM	35.7	198.5	(82.0)
- O&G	(38.6)	51.1	NM	39.4	NM	36.5	181.9	(80.0)
- Renewable Energy	17.1	19.1	(10.6)	14.3	19.7	55.7	62.0	(10.1)
- Industrial Trading & Svcs	2.2	0.1	NM	(2.0)	NM	2.5	6.6	(62.9)
- Plantation	(2.9)	(8.0)	(64.3)	(3.2)	(10.0)	(17.0)	(20.3)	(16.1)
- Others	5.2	(5.7)	NM	(42.4)	NM	(41.9)	(31.7)	32.1
	4Q15	4Q14	+/-ppts	3Q15	+/-ppts	12M15	12M14	% YoY
Pretax margin (%)	(3.8)	7.9	(11.7)	3.5	(7.3)	1.9	8.1	(6.2)
- O&G	(20.8)	11.8	(32.6)	21.2	(42.0)	4.1	13.1	(9.0)
- Renewable Energy	15.5	19.8	(4.3)	16.2	(0.7)	15.4	18.1	(2.7)
- Industrial Trading & Svcs	1.6	0.1	1.6	(1.7)	3.3	0.5	1.1	(0.7)

Source: Company, Maybank KE

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	4.9	65.5	30.4	14.2	13.9
Core P/E (x)	4.2	27.2	30.4	14.2	13.9
P/BV (x)	0.6	0.6	0.5	0.5	0.5
P/NTA (x)	0.5	0.5	0.5	0.5	0.5
Net dividend yield (%)	7.1	3.8	0.0	0.0	0.0
FCF yield (%)	nm	13.6	25.0	8.7	11.5
EV/EBITDA (x)	6.4	12.2	11.8	8.7	8.2
EV/EBIT (x)	7.9	31.7	30.3	16.1	15.2

INCOME STATEMENT (MYR m)

Revenue	2,438.6	1,839.5	1,605.0	1,750.0	1,804.6
Gross profit	485.7	262.7	205.4	229.3	245.4
EBITDA	296.6	143.3	126.1	166.7	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	49.1	89.7	91.3
Net interest income /(exp)	(20.9)	(25.1)	(21.7)	(20.3)	(20.0)
Associates & JV	0.7	19.0	9.6	9.6	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	36.9	79.0	80.8
Income tax	(51.4)	(47.6)	(11.1)	(23.7)	(24.2)
Minorities	(21.5)	21.3	(5.5)	(11.8)	(12.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	125.6	9.5	20.4	43.5	44.5
Core net profit	145.4	22.7	20.4	43.5	44.5

BALANCE SHEET (MYR m)

Cash & Short Term Investments	245.1	320.8	226.0	216.5	275.2
Accounts receivable	750.9	629.9	494.2	538.9	555.7
Inventory	204.5	247.4	145.9	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	525.8	535.3	544.9
Other assets	304.3	236.9	236.9	236.9	236.9
Total assets	2,901.3	2,999.2	2,654.7	2,677.4	2,733.5
ST interest bearing debt	879.5	906.5	850.0	800.0	800.0
Accounts payable	519.8	463.1	342.1	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	1,415.3	1,382.7	1,382.2
Shareholders Equity	1,075.0	1,121.9	1,130.4	1,173.9	1,218.5
Minority Interest	193.3	103.5	109.0	120.8	132.8
Total shareholder equity	1,268.3	1,225.4	1,239.4	1,294.7	1,351.3
Total liabilities and equity	2,901.3	2,999.2	2,654.7	2,677.4	2,733.5

CASH FLOW (MYR m)

Pretax profit	198.5	35.7	36.9	79.0	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)	116.1	(13.7)	1.8
Cash taxes paid	(51.4)	(47.6)	(11.1)	(23.7)	(24.2)
Other operating cash flow	(0.7)	(19.0)	(9.6)	(9.6)	(9.6)
Cash flow from operations	40.6	168.0	209.4	109.1	125.9
Capex	(129.7)	(83.6)	(55.0)	(55.0)	(55.0)
Free cash flow	(89.1)	84.5	154.4	54.1	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	(94.8)	(9.4)	58.7

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	37.0	(24.6)	(12.7)	9.0	3.1
EBITDA growth	87.8	(51.7)	(12.1)	32.2	0.9
EBIT growth	142.1	(76.9)	(10.9)	82.9	1.7
Pretax growth	208.6	(82.0)	3.4	113.9	2.3
Reported net profit growth	288.5	(92.5)	115.3	113.9	2.3
Core net profit growth	219.8	(84.4)	(10.4)	113.9	2.3
Profitability ratios (%)					
EBITDA margin	12.2	7.8	7.9	9.5	9.3
EBIT margin	9.8	3.0	3.1	5.1	5.1
Pretax profit margin	8.1	1.9	2.3	4.5	4.5
Payout ratio	34.9	nm	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	5.1	0.5	1.3	2.5	2.5
Revenue/Assets (x)	0.8	0.6	0.6	0.7	0.7
Assets/Equity (x)	2.7	2.7	2.3	2.3	2.2
ROAE (%)	14.1	2.1	1.8	3.8	3.7
ROAA (%)	5.4	0.8	0.7	1.6	1.6
Liquidity & Efficiency					
Cash conversion cycle	66.6	74.5	73.1	56.1	54.6
Days receivable outstanding	92.6	135.1	126.1	106.3	109.2
Days inventory outstanding	37.8	51.6	50.6	34.5	32.9
Days payables outstanding	63.7	112.2	103.6	84.6	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	2.0
Net debt/equity (%)	71.7	80.4	67.1	60.1	52.0
Net interest cover (x)	11.4	2.2	2.3	4.4	4.6
Debt/EBITDA (x)	3.4	8.5	7.8	5.5	5.4
Capex/revenue (%)	5.3	4.5	3.4	3.1	3.0
Net debt/ (net cash)	770.7	901.6	759.0	705.0	634.1

Source: Company; Maybank

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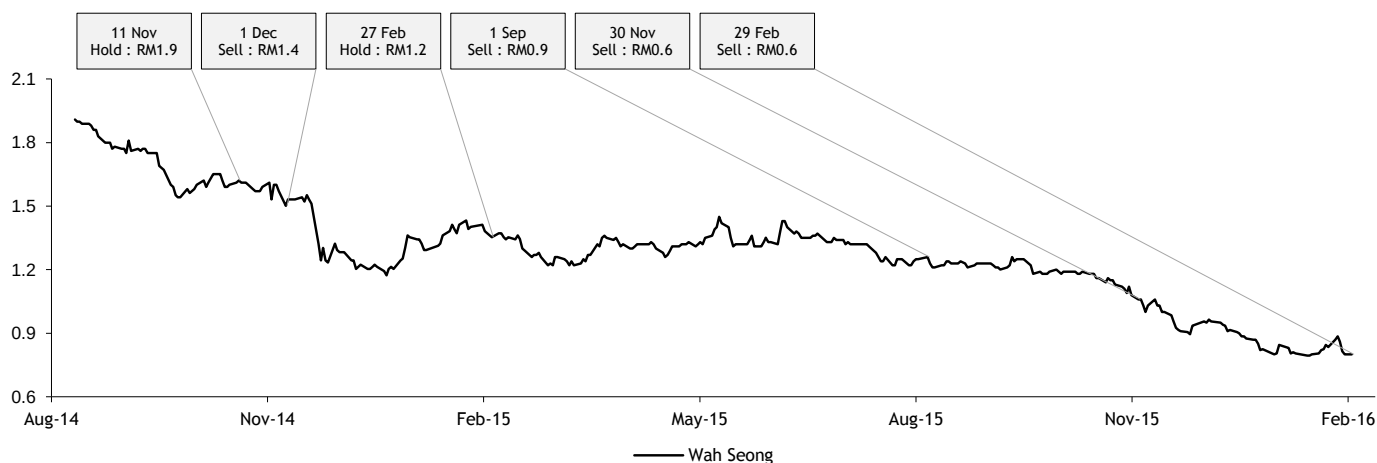
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