



WAH SEONG CORPORATION BERHAD

Neutral

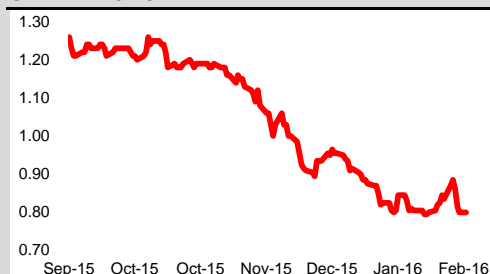
DESCRIPTION

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

12-Month Target Price	RM0.90
Previous Target Price	RM1.06
Current Price	RM0.80
Expected Return	12.1%

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

SHARE PRICE CHART



52 Week Range (RM)	0.79-1.45
3-Month Average Vol ('000)	438.3

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-0.6	-28.8	-34.4
Relative Returns	-4.6	-23.7	-37.6

KEY STOCK DATA

Market Capitalisation (RM m)	618.2
No. of Shares (m)	772.8

MAJOR SHAREHOLDERS

	%
Wah Seong (M) Trading Co	32.9
Chan Cheu Leong	7.8
Employees Provident Fund	6.6

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Oil Price Drag

Wah Seong's full year FY15 revenue recorded RM1.8bn (-24.6% YoY), affected by current market conditions plaguing the O&G sector thus seeing a lack of projects available. This lack of projects is largely from deferring capex activities. Net profit fell to RM9.5m (-92.5% YoY). Stripping off the impairment on plant & equipment (compressors) of RM25.3m and tax adjustments of RM17.3m, the Group's core net profit for FY15 is RM52.1m (-58.5% YoY) exceeding our estimates. We retain our **Neutral** recommendation on Wah Seong, but with a lowered TP of RM0.90 pegged to 8x PE (previous 10x) and FY16F EPS of 11.2sen despite the better core results. Our concern is on its shrinking orderbook and difficulty in contract replenishment amidst this challenging period. We maintain that Wah Seong's performance has been affected by the oil price sentiment and not due to its execution capabilities, we therefore believe the gradual recovery of oil prices will increase market activities would see the Group being a beneficiary.

§ **Shrinking orderbook.** Wah Seong's current orderbook stands at RM894m (RM974m – September 2015), comprising of 54% O&G contracts, 29% renewable energy and 17% industrial trading and services. The Group has a RM6.7bn tenderbook constituting RM5.7bn of O&G projects, however the timeline of the awards going forward cannot be determined and would likely be delayed hence a continued drag on performance could be expected for the year.

§ **Contract replenishment** for FY15 includes a c.USD39.5m (c.RM167.2m) contract for the full scope of coating work for the Johan Sverdrup Export Pipeline Project (JoSEPP) by Statoil ASA Norway. Going forward the Group has identified job tenders in various regions such as North America, Latin America, Europe and Africa.

§ **Neutral. We have** lowered our TP to RM0.99 pegged to 8x PE (previous 10x) and FY16F EPS of 11.2sen despite the better core results. Our revision in PE multiple is determined by the contract replenishment risks.

KEY FORECAST TABLE

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F	CAGR
Revenue	2,438.6	1,839.5	1,674.5	1,714.1	1,748.1	-0.9%
Gross Operating Profit	218.7	41.8	129.1	132.1	134.6	11.5%
Pre-tax Profit	198.5	35.7	128.8	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)	4.9	11.9	7.1	6.8	5.7	
DPS (Sen)	5.0	2.0	2.0	2.0	2.0	
Dividend Yield (%)	6.3	2.5	2.5	2.5	2.5	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec</u> <u>(RM m)</u>	<u>4Q15</u>	<u>4Q14</u>	<u>3Q15</u>	<u>QoQ</u> <u>Chg</u> <u>(%)</u>	<u>YoY</u> <u>Chg</u> <u>(%)</u>	<u>YTD 15</u>	<u>YTD 14</u>	<u>YoY</u> <u>Chg</u> <u>(%)</u>	<u>Comments</u>
Revenue	448.1	711.5	407.6	9.9%	-37.0%	1,839.5	2,438.6	-24.6%	Lower revenue primarily due to current market conditions affecting the O&G sector has resulted in a lack of projects available to the segment. Decrease in revenue and proejcts with different margins.
Cost of sales	-389.9	-545.8	-339.2	15.0%	-28.6%	-1,576.8	-1,953.0	-19.3%	
Gross profit	58.2	165.7	68.4	-14.9%	-64.9%	262.7	485.7	-45.9%	
Other income	13.4	19.0	74.4	-82.0%	-29.7%	141.5	45.7	209.7%	
Other expenses	-84.8	-120.6	-130.3	-34.9%	-29.7%	-362.4	-312.6	15.9%	Driven by accrual made for Socotherm arbitration award, recognition for allowance for doubtful debts/inventories and impairment losses on plant & equipment.
Operating profit	-14.5	61.8	13.3	-209.1%	-123.4%	41.8	218.7	-80.9%	
Finance costs	-7.1	-5.7	-7.0	0.8%	25.2%	-36.8	-20.9	76.1%	
Share of results of associated companies	4.5	0.5	7.9	-42.8%	861.7%	0.0	7.6	-100.0%	
Pre-tax profit	-17.0	56.6	14.2	-220.2%	-130.1%	35.7	198.5	-82.0%	Decrease from higher admin & general expenses, and product mix contribution.
Tax	-17.7	-16.3	-12.0	47.4%	8.7%	-47.6	-51.4	-7.4%	
PATAMI	-66.0	74.9	5.1	-1389.9%	-188.1%	9.5	125.6	-92.5%	
EPS (sen)	-4.0	4.5	0.4	-1163.2%	-190.2%	671.7%	1620.4%	-58.5%	
Gross Margin	13.0%	23.3%	16.8%	-22.6%	-44.3%	14.3%	19.9%	-28.3%	
Pre-tax Margin	-3.8%	7.9%	3.5%	-209.3%	-147.8%	1.9%	8.1%	-76.2%	
Net Margin	-14.7%	10.5%	1.3%	-1273.2%	-240.0%	0.5%	5.1%	-90.0%	
Segmental Revenue									
Revenue	407.6	592.5	461.0	-11.6%	-31.2%	1,839.5	2,438.6	-24.6%	
Oil & Gas	185.8	348.8	241.6	-23.1%	-46.7%	881.2	1,384.1	-36.3%	
Renewable Energy	88.3	78.4	76.3	15.7%	12.6%	368.7	342.5	7.7%	
Industrial Trading & Services	119.2	143.0	124.6	-4.4%	-16.6%	534.3	594.4	-10.1%	
Plantation	0.0	0.0	0.0	0%	0.0%	0.0	0.0	0.0%	
Others	14.3	22.3	18.4	-22.2%	-35.8%	55.3	117.7	-53.0%	

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RMm)	2014A	2015A	2016F	2017F	2018F
Revenue	2,438.6	1,839.5	1,674.5	1,714.1	1,748.1
Gross Operating Profit	218.7	41.8	129.1	132.1	134.6
Other Income	45.7	141.5	128.8	131.8	134.4
Selling & Distribution Expenses	-32.9	-41.8	-25.1	-25.7	-26.2
Administration Expenses	-276.6	-324.6	-217.7	-222.8	-227.2
Pre-tax Profit	198.5	35.7	128.8	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	892.7	940.1	979.7
Inventories	204.5	247.4	150.3	153.9	156.9
Trade receivables	750.9	629.9	515.6	527.8	538.3
Cash and bank balances	149.5	159.9	410.4	419.4	429.8
Total Assets	2,901.3	2,999.2	3,118.5	3,190.6	3,254.0
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	382.0	391.1	398.8
Minority Interests	193.3	103.5	111.0	118.9	128.6
Total Liabilities	1,633.0	1,773.8	1,821.4	1,814.5	1,800.2
Total Equity	1,268.3	1,225.4	1,297.0	1,376.1	1,453.8
Total Equity and Liabilities	2,901.3	2,999.2	3,118.5	3,190.6	3,254.0

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	47.2	45.2	37.6
ROA (%)	4.3	0.3	2.8	2.8	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:**PUBLIC INVESTMENT BANK BERHAD (20027-W)**

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