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Tuesday, May 26, 2015

Market Access

Wah Seong Corporation Bhd

"Concern on Orderbook Visibility"

HOLD (TP: RM1.38)

Current Price (RM)	RM1.31
New Target Price (RM)	**RM1.38**
Previous Target Price (RM)	RM1.65
Previous Recommend.	HOLD
Upside To Target Price	**5%**
Dividend Yield (FY16)	**4%**

Stock Code

Bloomberg	WSC MK

Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	771
Market Cap (RM mn)	1,033
YTD Chg In Share Price	11%
Beta (x)	1.11
52-week Hi/Lo (RM)	1.99 | 1.17
3M Average Volume (shrs)	0.19mn
Estimated Free Float	38%

Major Shareholders

Wah Seong (M)	33%
EPF	6%

Results Review

- **Actual vs. expectations.** Wah Seong Corporation Bhd (WSC) 1Q15 net profit of RM26 million (+28% y-o-y) came in line with ours and consensus estimates respectively, accounting 22% and 23% of ours and consensus full year net profit forecast, thanks to earnings contribution from Statoil's Polarled pipe coating project. However, lack of new contract wins due to the cautious outlook on soft oil prices and also the completion of major contract (Polarled) in 1H2015 have been the torn-in-the-flesh for the group.

- **Dividend.** No dividend was declared during the quarter.

- **Top line.** 1Q15 revenue surged to RM523 million (+8% y-o-y) underpinned by higher contribution from oil and gas segment which jumped to RM268 million (+20% y-o-y) due to higher execution of pipe coating projects for Statoil's Polarled project in Norway worth RM627 million, estimated to be completed by 1H2015. Furthermore, renewable energy segment recorded a mild revenue of RM86 million (+3% y-o-y) in 1Q15 while industrial trading/service segment posted a strong revenue of RM159 million (+11% y-o-y) driven by the higher project execution in the pipe manufacturing business aided with the sturdy performance in building material trading business.

- **Bottom line**. WSC posted an EBIT of RM29 million in 1Q15 (-23% y-o-y) impacted by lower contribution from renewable energy segment (-22% y-o-y) due to the lower margin registered by process equipment and boiler sector. The EBIT contribution from oil and gas segment remained flat at RM25 million (-0.2% y-o-y) impacted by lack of major contract wins during the period. Overall, the group's EBIT margin in 1Q15 was slightly lower at 4% compared to 1Q14 margin of 6%.

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- **Outlook.** WSC's latest orderbook stood at RM1.2 billion as at the end of March 2015 comprising: i) RM709 million (59%) for oil and gas segment, ii) RM293 million (24%) for renewable energy segment and 3) RM197 million (17%) for industrial trading and services segment. Moreover, WSC is currently tendering about RM5.0 billion worth of projects with estimated 95% (RM4.8 billion) belonging to the oil and gas division. We assume WSC to grab at least RM1.5 billion worth of jobs based on a fair success rate factor of 30%. Nonetheless, there is an upside risk to this in view of the current soft oil prices where contract value may get trimmed.

- **Change to forecast.** We maintain our FY15 and FY16 earnings projection as 1Q15 results were in line with our projection. Nonetheless, FY16 earnings are projected to increase by 2% y-o-y driven by i) strong tenderbook of RM5.0 billion and ii) booming contributions from its 26.9%-owned, Petra Energy and 49%-owned, Alam-PE.

- **Valuation & recommendation.** We value WSC at RM1.38 based on 9x PER (1- SD below 3-years average PER of 29x) pegged to FY16 EPS of 15sen and the stock is a **HOLD.** Re-rating catalyst may come from i) stronger-than-expected orderbook replenishment and ii) faster-than-expected recovery in oil price

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.57	20	21	13.7	12.7	1.2	1.1	13	1	3.22	Buy
Wah Seong	Dec	1.31	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.24	8	10	15.7	11.7	1.0	1.0	4	2	1.28	Hold
Dialog Group	Jun	1.65	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.63	7	7	9.5	9.4	0.7	0.7	9	NA	0.56	Sell
MMHE	Dec	1.24	8	8	15.1	15.4	0.7	0.7	8	NA	1.33	Hold
PetDag	Dec	19.20	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.40	24	28	10.8	9.3	2.4	2.1	22	3	2.64	Hold
UMW-OG	Dec	2.01	15	17	14.8	13.3	1.4	1.2	8	0.5	2.21	Hold
Perisai	Dec	0.46	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.51	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.26	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.40	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.56	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.34	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.58	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	1,952	1,779	2,439	2,076	2,097
EBIT	102	87	219	208	210
Finance costs	(21)	(19)	(21)	(42)	(42)
Associates/JCE	2	(2.0)	0.7	9	10
PBT	83	64	199	175	178
Net profit	53	32	126	116	118
EPS	7	4	16	15	15
PBT margin	4%	4%	8%	8%	8%
Net profit margin	3%	2%	5%	6%	6%
PER (x)	24.1	44.5	8.4	8.7	8.5
P/BV (x)	1.3	1.5	1.0	0.8	0.8
DPS (sen)	5	5	6	5	5
Dividend yield	3%	3%	4%	4%	4%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	483	712	523	-27%	8%	483	523	8%
EBIT	37	62	29	-54%	-23%	37	29	-23%
Finance cost	(5)	(6)	(6)	4%	18%	(5)	(6)	18%
Associates/JCE	(3)	0.5	(0.7)	NM	NM	(3)	(0.7)	NM
PBT	30	57	22	-61%	-26%	30	22	-26%
Taxation	(9)	(16)	(12)	-26%	39%	(9)	(12)	39%
Net profit	21	35	26	-24%	28%	21	26	28%
EPS (sen)	3	4	3	-24%	28%	3	3	28%
EBIT margin	8%	9%	5%			8%	5%	
PBT margin	6%	8%	4%			6%	4%	
Net profit margin	4%	5%	5%			4%	5%	
Effective tax rate	29%	29%	55%			29%	55%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue								
Oil and Gas	223	432	268	-38%	20%	223	268	20%
Renewable Energy	83	96	86	-11%	3%	83	86	3%
Industrial Trading and Services	144	151	159	5%	11%	144	159	11%
Others	32	32	10	-69%	-69%	32	10	-69%
Segment Profits								
Oil and Gas	25	58	25	-57%	0%	25	25	0%
Renewable Energy	15	19	12	-37%	-22%	15	12	-22%
Industrial Trading and Services	2	0	5	4073%	94%	2	5	94%
Others	(1)	(9)	(4)	NM	NM	(1)	(4)	NM

Source: Bursa Malaysia, M&A Securities

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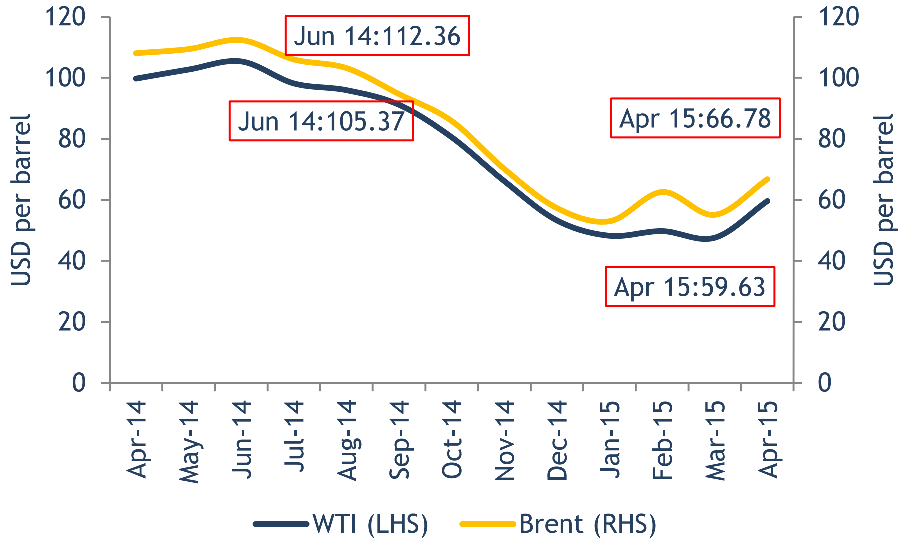
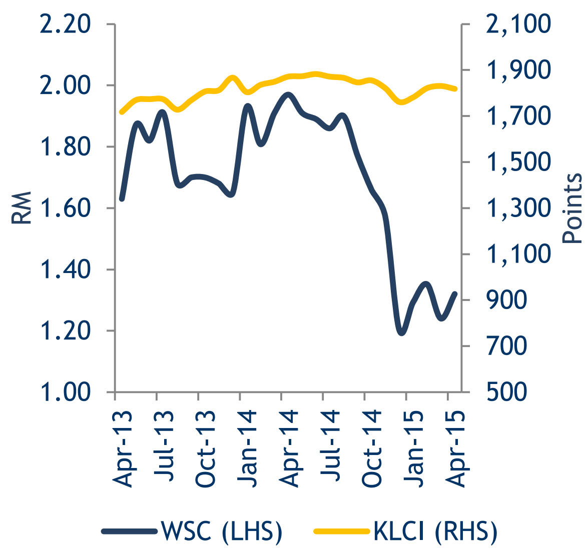
WTI vs. Brent Crude Oil Price
(April 2014-April 2015)

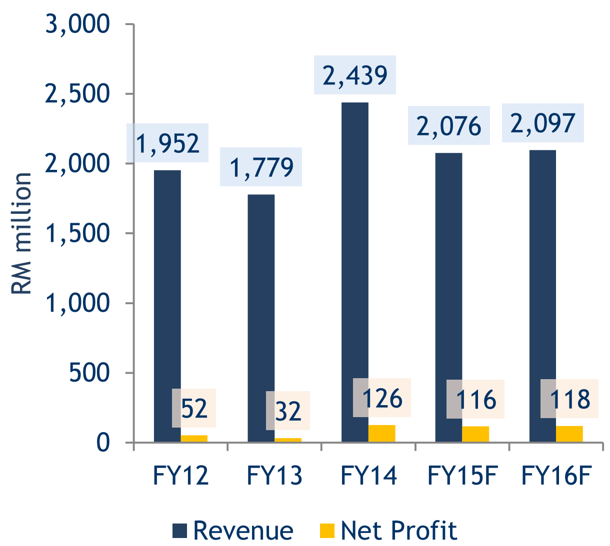


Source: Bloomberg

WSC Share Price vs. KLCI
(April 2013-April 2015)



Revenue and Net Profit
(FY12-FY16F)



Source: Bloomberg, M&A Securities

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STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD	*Share price is expected to be between -10% and +10% over the next 12 months.*
SELL	*Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT	*The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL	*The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT	*The sector is expected to underperform the FBM KLCI over the next 12 months.*

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