

PP14767/09/2012(030761)

Wah Seong Corporation Bhd

“Gloomy Outlook”

Results Review

- Actual vs. expectations.** Wah Seong Corporation Bhd (WSC) 9M15 net profit of RM41 million (-55% y-o-y) came in below ours and consensus estimates respectively, accounting 39% and 46% of ours and consensus full year net profit forecast, no thanks to weaker earnings contribution from oil and gas (-54% y-o-y), renewable energy (-10% y-o-y) and industrial trading/services segment (-95% y-o-y). Overall, the group’s EBIT margin in 9M15 was noticeably lower at 4% compared to 9M14 margin of 9%. We expect lack of new contract wins will be a torn-in-the-flesh for the group throughout FY15.
- Dividend.** No dividend was declared during the quarter.
- Top line vs bottom line.** WSC’s 9M15 revenue and EBIT declined to RM1.4 billion (-19% y-o-y) and RM56 million (-64% y-o-y) respectively due to the lower contribution from oil and gas and industrial trading/service segment. Oil and gas segment posted weaker revenue and EBIT of RM696 million (-27% y-o-y) and RM59 million (-54% y-o-y) respectively in tandem with lower level of activities during 9M15 period hampered by challenging market conditions as a result of weakening in oil prices. Similarly, the group’s industrial trading/ services segment registered revenue and EBIT of RM403 million (-9% y-o-y) and RM0.3 million (-95% y-o-y) hammered by the delay in new project execution from its pipe manufacturing business and slowdown in building material business post-GST. Meanwhile, despite recording higher revenue in 9M15 (+2% y-o-y), renewable energy segment still belted weaker EBIT of RM39 million (-10% y-o-y) impacted by tighter margin in process equipment and boiler sectors.

Monday, November 30, 2015

SELL (TP: RM0.94)

Current Price (RM)	RM1.08
New Target Price (RM)	RM0.94
Previous Target Price (RM)	RM1.15
Previous Recommend.	HOLD
Upside To Target Price	-13%
Dividend Yield (FY16)	4%

Stock Code

Bloomberg	WSC MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	774
Market Cap (RM mn)	897
YTD Chg In Share Price	-4%
Beta (x)	0.84
52-week Hi/Lo (RM)	1.62 1.14
3M Average Volume (shrs)	0.38mn
Estimated Free Float	29%

Major Shareholders

Wah Seong (M)	33%
EPF	7%

Market Access

- Latest development.** WSC recently announced that its subsidiaries, PPI Industries Sdn Bhd and Petro-Pipe (Sabah) Sdn Bhd, have been awarded a sub-contract from Penta-Ocean Construction Co., Ltd worth RM189 million for the supply and delivery of coated steel pipe piles for the Pengerang Deepwater Petroleum Terminal Project (PDPT) in Johor. The sub-contract involves the manufacturing and delivery of coated steel pipe piles and expected to be completed by the 3Q2016. WSC also announced that its direct wholly-owned subsidiary, Wasco Energy Ltd (WEL) has entered into a Shareholders Agreement (SA) with Welspun Corp Ltd. (Welspun) to establish a new JV company for the purpose of combining their capabilities and expertise in commencing and carrying out the business of concrete weight coating of pipes in India. WSC will hold 49% stake in the new JV company with the remaining stake to be held by Welspun.
- Outlook.** WSC's latest orderbook stood at RM974 million as at the end of September 2015 comprising: i) RM460 million (47%) for oil and gas segment, ii) RM312 million (32%) for renewable energy segment and iii) RM202 million (21%) for industrial trading/services segment. Note that WSC is currently tendering about RM4.3 billion worth of projects with estimated 75% (RM3.2 billion) belonging to the oil and gas division.
- Change to forecast.** We have done some housekeeping exercise and came out with new FY15 and FY16 earnings forecast of RM69 million (-45% y-o-y) and RM97 million (+41% y-o-y) respectively. We expect the group to face a challenging period in FY15 due to the softening in oil prices which may results in the delay in contract awards but FY16 earnings are expected to stabilize as we factor in a higher contribution from all business divisions added with the projected firming of oil price movement.
- Valuation & recommendation.** We re-value WSC at RM0.94 based on 7x PER (1- SD below 3-years average PER of 29x) pegged to FY16 EPS of 13sen and the stock is a **SELL in tandem with the group and sector's challenging outlook.** Re-rating catalysts may come from i) stronger-than-expected orderbook replenishment and ii) faster-than-expected recovery in oil price

Results Review - Wah Seong Corporation Bhd

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	2.25	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.08	12	13	9.9	8.9	0.8	0.8	10	3	0.94	Sell
Bumi Armada	Dec	1.10	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.62	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.07	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	25.00	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.47	18	21	9.6	8.2	1.6	1.4	18	2	1.71	Buy
UMW-OG	Dec	1.23	4	6	33.6	19.2	0.8	0.8	5	1	0.83	Sell
Perisai	Dec	0.31	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	NA	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.19	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.47	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.17	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.17	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.53	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	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	1,757	1,926
EBITDA	158	144	295	204	231
EBIT	102	85	219	125	155
Finance cost	(21)	(19)	(21)	(23)	(24)
Share of JCE	(1)	(3)	0	0	0
Associates	3	1	1	9	10
PBT	82	64	198	110	140
Net profit	52	32	126	69	97
EPS (sen)	7	4	16	9	13
EBITDA margin	8%	8%	12%	12%	12%
EBIT margin	5%	5%	9%	7%	8%
PBT margin	4%	4%	8%	6%	7%
Net profit margin	3%	2%	5%	4%	5%
PER (x)	24.1	39.4	7.4	12.2	8.6
P/BV (x)	1.4	1.5	1.0	0.8	0.8
Dividend (sen)	7	5	6	3	4
Dividend yield	4%	3%	5%	3%	4%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

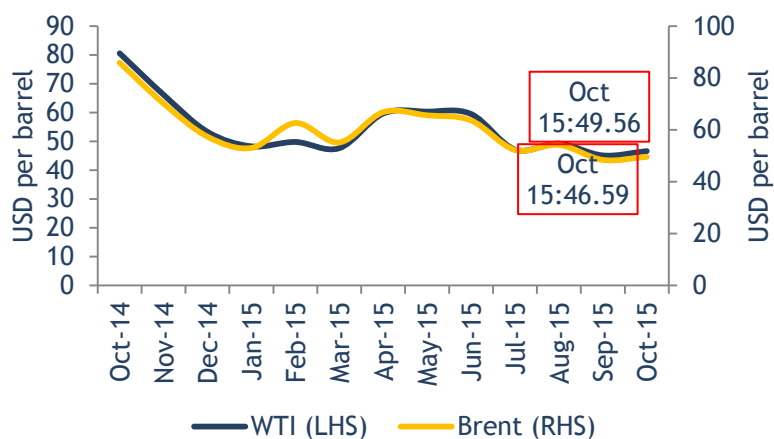
YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	592	461	408	-12%	-31%	1,722	1,391	-19%
EBIT	38	14	13	-6%	-65%	157	56	-64%
Finance cost	(5)	(5)	(7)	40%	37%	(15)	(18)	18%
Associates/JCE	3	7	8	NM	NM	0.2	15	NM
PBT	35	16	14	-13%	-60%	142	53	-63%
Taxation	(4)	(6)	(12)	108%	233%	(35)	(30)	-15%
Net profit	30	11	3	-74%	-90%	91	41	-55%
EPS (sen)	4	1	0.4	-74%	-90%	12	5	-55%
EBIT margin	6%	3%	3%			9%	4%	
PBT margin	6%	4%	3%			8%	4%	
Net profit margin	5%	2%	1%			5%	3%	
Effective tax rate	10%	35%	84%			25%	57%	

Source: Bursa Malaysia, M&A Securities

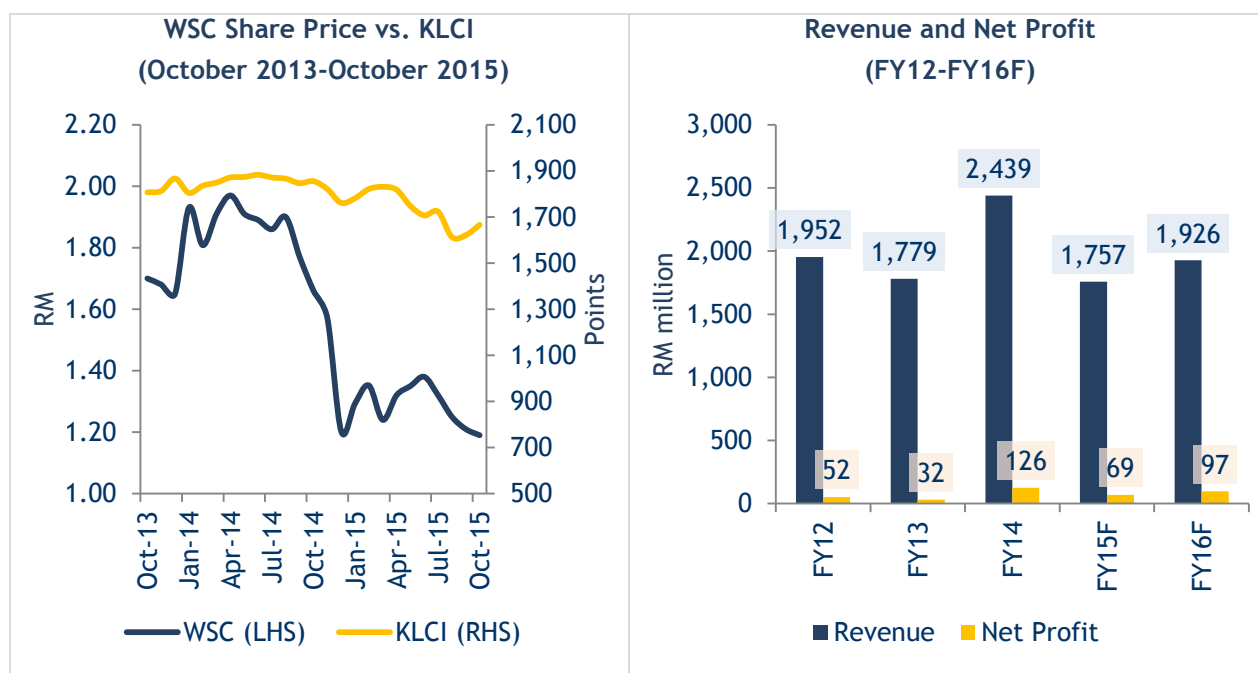
Table 4: Segmental Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
<u>Revenue</u>								
Oil and Gas	349	242	186	-23%	-47%	952	696	-27%
Renewable Energy	78	76	88	16%	13%	246	250	2%
Industrial Trading and Services	143	125	119	-4%	-17%	443	403	-9%
Others	22	18	14	-22%	-36%	86	43	-50%
<u>Segment Profits</u>								
Oil and Gas	36	11	24	122%	-34%	130	59	-54.2%
Renewable Energy	13	12	14	16%	14%	43	39	-10%
Industrial Trading and Services	1	(2)	(2)	-15%	-332%	7	0.3	-95%
Others	(7)	(0)	(17)	NM	NM	(9)	(22)	NM

Source: Bursa Malaysia, M&A Securities

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

Source: Bloomberg



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ 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 $\geq -10\%$ 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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M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my