

PP14767/09/2012(030761)

Wah Seong Corporation Bhd

“Murky Outlook”

Results Review

- Actual vs. expectations.** Wah Seong Corporation Bhd (WSC) 6M15 net profit of RM38 million (-38% y-o-y) came in below ours and consensus estimates respectively, accounting 33% and 35% of ours and consensus full year net profit forecast, no thanks to weaker earnings contribution from oil and gas (-62% y-o-y), renewable energy (-19% y-o-y) and industrial trading and services segment (-60% y-o-y) respectively. Overall, the group’s EBIT margin in 6M15 was slightly lower at 5% compared to 6M14 margin of 11%. We expect lack of new contract wins will be a torn-in-the-flesh for the group throughout FY15.
- Dividend.** Declared first interim dividend of 2.0sen/share in 6M15, equivalent to a dividend payout ratio of 41%, higher than 6M14 payout of 32%, translating into a dividend yield of 2%.
- Top line vs bottom line.** WSC 6M15 revenue and EBIT declined to RM984 million (-13% y-o-y) and RM46 million (-61% y-o-y) respectively due to lower contribution from all business segments. Oil and gas segment posted weaker revenue and EBIT of RM510 million (-16% y-o-y) and RM36 million (-62% y-o-y) respectively in tandem with lower level of activities during 6M15 period hampered by challenging market condition as a result of weakening in oil prices. Similarly, renewable energy segment also recorded lower revenue and EBIT of RM163 million (-3% y-o-y) and RM24 million (-19% y-o-y) respectively impacted by tighter margin in process equipment, turbine and boiler sectors. Meanwhile, the group’s industrial trading and services segment registered revenue and EBIT of RM284 million (-5% y-o-y) and RM2 million (-60% y-o-y) hammered by the delay in new project execution from its pipe manufacturing business.

Tuesday, September 01, 2015

HOLD (TP: RM1.15)

Current Price (RM)	RM1.25
New Target Price (RM)	RM1.15
Previous Target Price (RM)	RM1.38
Previous Recommend.	HOLD
Upside To Target Price	-8%
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)	771
Market Cap (RM mn)	940
YTD Chg In Share Price	1%
Beta (x)	0.96
52-week Hi/Lo (RM)	1.98 1.17
3M Average Volume (shrs)	0.24mn
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 RM1.1 billion as at the end of June 2015 comprising: i) RM500 million (47%) for oil and gas segment, ii) RM313 million (30%) for renewable energy segment and 3) RM239 million (23%) for industrial trading and services segment. Note that WSC is currently tendering about RM5.0 billion worth of projects with estimated 95% (RM4.8 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 RM105 million (-17% y-o-y) and RM121 million (+15% 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 value WSC at RM1.15 based on 7x PER (1- SD below 3-years average PER of 29x) pegged to FY16 EPS of 16sen and the stock is a **HOLD**. 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	1.72	19	20	13.2	12.3	1.1	1.0	10	1	2.95	Buy
Wah Seong	Dec	1.25	14	15	9.5	8.8	0.9	0.9	13	4	1.15	Hold
Bumi Armada	Dec	0.86	7	10	15.3	11.1	1.0	0.9	4	1	1.06	Buy
Dialog Group	Jun	1.57	5	5	31.4	29.9	4.5	4.5	15	1	1.60	Hold
Alam Maritim	Dec	0.43	5	6	9.3	7.9	0.5	0.5	7	NA	0.56	Hold
MMHE	Dec	1.01	8	8	14.3	15.0	0.7	0.7	5	NA	1.20	Hold
PetDag	Dec	21.16	74	81	28.9	26.1	3.4	3.4	12	2	19.71	Hold
Dayang	Dec	1.57	21	24	9.7	8.7	1.8	1.4	22	3	1.80	Buy
UMW-OG	Dec	1.00	9	11	16.2	12.4	0.9	0.8	7	1	0.90	Hold
Perisai	Dec	0.29	3	6	15.6	7.1	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.52	8	13	18.6	11.6	1.7	1.4	12	1	NR	NR
TH Heavy	Dec	0.16	(1)	2	NA	10.5	0.5	0.4	(26)	NA	NR	NR
Petra Energy	Dec	0.99	12	15	8.7	7.1	0.6	0.6	7	2	NR	NR
Deleum	Dec	1.08	16	18	8.0	7.5	1.7	1.4	23	6	NR	NR
Uzma	Dec	1.71	20	24	12.5	10.4	2.3	1.9	18	2	NR	NR
KNM	Dec	0.48	7	7	8.8	7.8	0.5	0.4	3	NA	NR	NR
Average					14.7	12.1	1.4	1.3	8	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	1,912	2,081
EBITDA	158	144	295	253	266
EBIT	102	85	219	174	189
Finance cost	(21)	(19)	(21)	(23)	(24)
Share of JCE	(1)	(3)	0	0	0
Associates	3	1	1	10	10
PBT	82	64	198	160	175
Net profit	52	32	126	105	121
EPS (sen)	7	4	16	13	16
EBITDA margin	8%	8%	12%	13%	13%
EBIT margin	5%	5%	9%	9%	9%
PBT margin	4%	4%	8%	8%	8%
Net profit margin	3%	2%	5%	5%	6%
PER (x)	24.1	39.4	7.4	9.3	8.0
P/BV (x)	1.4	1.5	1.0	0.9	0.9
Dividend (sen)	7	5	6	5	5
Dividend yield	4%	3%	5%	4%	4%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

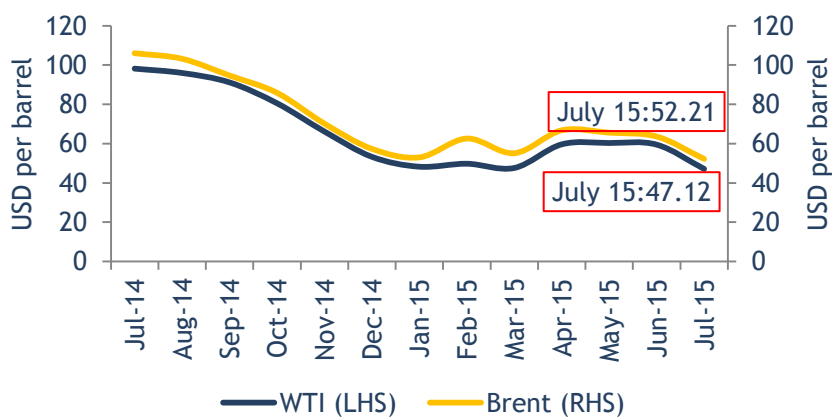
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	652	523	461	-12%	-29%	1,135	984	-13%
EBIT	82	29	14	-51%	-83%	119	46	-61%
Finance cost	(5)	(6)	(5)	-15%	-2%	(10)	(11)	9%
Associates/JCE	(0)	(0.7)	7.3	NM	NM	(3)	6.5	NM
PBT	77	22	16	-26%	-79%	107	39	-64%
Taxation	(23)	(12)	(6)	-52%	-75%	(32)	(18)	-43%
Net profit	40	26	11	-57%	-72%	61	38	-38%
EPS (sen)	5	3	1	-57%	-72%	8	5	-38%
EBIT margin	13%	5%	3%			11%	5%	
PBT margin	12%	4%	4%			9%	4%	
Net profit margin	6%	5%	2%			5%	4%	
Effective tax rate	30%	55%	35%			30%	46%	

Source: Bursa Malaysia, M&A Securities

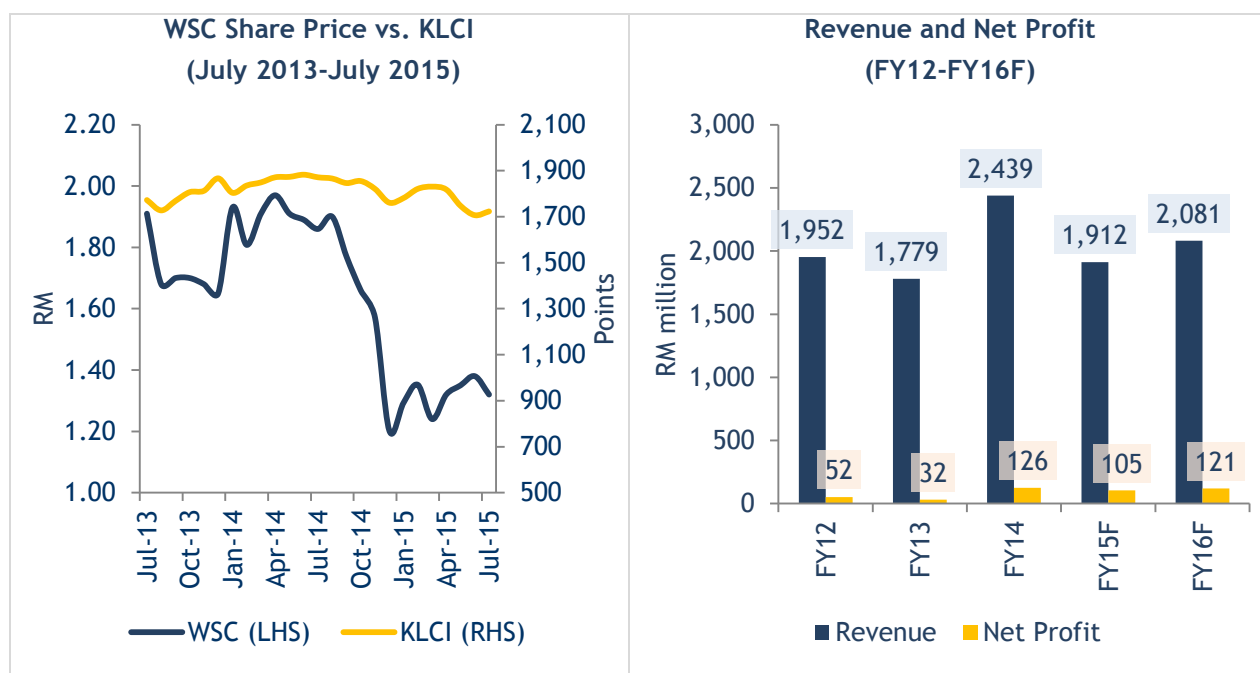
Table 4: Segmental Analysis

YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
<u>Revenue</u>								
Oil and Gas	380	268	242	-10%	-36%	603	510	-16%
Renewable Energy	85	86	76	-11%	-10%	168	162	-3%
Industrial Trading and Services	157	159	125	-22%	-20%	300	284	-5%
Others	31	10	18	84%	-41%	64	28	-55%
<u>Segment Profits</u>								
Oil and Gas	69	25	11	-57%	-85%	94	36	-62.1%
Renewable Energy	15	12	12	3%	-16%	30	24	-19%
Industrial Trading and Services	3	5	(2)	-151%	-171%	6	2	-60%
Others	(1)	(4)	(0)	NM	NM	(2)	(5)	NM

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(July 2014-July 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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