

Wah Seong Corporation Berhad

(5142 | WSC MK) Energy | Energy Infrastructure, Equipment & Services

Challenging times ahead

KEY INVESTMENT HIGHLIGHTS

- **Wah Seong's reported a loss of -RM44.4m in 1QFY20**
- **Slower project execution and completion of major pipe coating project in 3QFY19 pulled down earnings**
- **Current orderbook at RM900m, mainly for Oil & Gas segment at 59% of total orderbook**
- **New contract awards delay to limit earnings growth**
- **FY20-21F earnings revised downwards to RM47.6m and RM79.7m respectively**
- **Maintain NEUTRAL with a revised TP of RM0.66 per share**

WSC's 1QFY20 core earnings below expectations. Wah Seong Corporation Berhad's (WSC) reported a net loss of -RM44.4m in 1QFY20 which was below our and consensus' full-year earnings estimates respectively. As guided by the management previously, revenue recognition was lower by -52.2%yoy primarily due to: (i) the completion of its Nordstream2 (NS2) project back in 3QFY19; (ii) slower execution of projects in-hand due to novel coronavirus (Covid19) pandemic and; (iii) deferment of several anticipated contract awards to later part of the year. Consequently, earnings dipped by >100%yoy due to the abovementioned reasons. Meanwhile on a quarterly basis, revenue declined by -23.9%qoq whilst earnings dipped by >100%qoq respectively following the slower project execution during the quarter due the implementation of movement control order (MCO) in March 2020.

Oil and Gas. The segment's revenue and earnings declined by -73.6%yoy and ->100%yoy during the quarter. This was due to the segment successfully completing a major pipe coating project in early 3QFY19 that has been on-going since late 2016. As a result, revenue contribution from the project has significantly reduced when comparing against previous quarter. Furthermore, the deferment of several contract awards during the quarter and impairment recognised by a joint venture has led the segment to post its first segmental loss since 2016.

Renewable Energy. Segment revenue and profit contracted by -10.0%yoy and -76.2%yoy during the quarter primarily attributable to lower revenue recognition by the boiler and Agro-Industries which has offset the substantial increase in revenue and activities in the process equipment businesses. Additionally, the implementation of MCO in March 2020 and the Lunar New Year celebration have also exacerbated the lower revenue.

Industrial Trading & Services. The segment's revenue was lower by -32.3%yoy during the quarter due to lower revenue recognized from the building materials business arising from the general slowdown in the construction sector. However, earnings surged by >100% due to unrealised forex gain on forward contracts from its hedging.

Maintain NEUTRAL

Revised Target Price: RM0.66
(Previously RM1.40)

RETURN STATISTICS

Price @ 20th May 2020 (RM)	0.70
Expected share price return (%)	-5.1
Expected dividend yield (%)	+5.7
Expected total return (%)	+0.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	11.0	6.6
3 months	23.6	-48.5
12 months	-8.6	1.9

KEY STATISTICS


FBM KLCI	1435.12
Syariah compliant	Yes
Issue shares (m)	769.40
Estimated free float (%)	30.74
Market Capitalisation (RM'm)	507.18
52-wk price range	RM0.46 - RM1.45
Beta vs FBM KLCI (x)	1.78
Monthly velocity (%)	0.00
Monthly volatility (%)	27.82
3-mth average daily volume (m)	3.34
3-mth average daily value (RM'm)	2.35
Top Shareholders (%)	
Wah Seong Malaya Trading Co	32.48
Tan Kim Yeow Sdn Bhd	6.98
Midvest Asia Sdn Bhd	6.4

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Orderbook amounts to RM900.0m as of March 2020. WSC's orderbook as at end-March 2020 amounts to RM900.0m whilst its tenderbook amounts to RM4.5b. The oil and gas segment remain the major contributor to both WSC's orderbook and tenderbook at 59% and 90% respectively. We understand that the orderbook have yet to include its recent contract win from Ichthys which will add another +RM60.0m to the orderbook. The burn rate for the orderbook currently stands at RM300-400m per quarter. Moving forward, we understand that the Management anticipates that the orderbook for engineering and fabrication to make up the bulk of its orderbook instead of pipe coating with a ratio of 60:40.

Going forward. Recall that, Management shared that it is expecting to secure some Engineering and Construction orders to the tune of RM600m in the next couple of months. Additionally, WSC is also eyeing pipe coating contracts in Australia which was initially due to be awarded by end-March 2020. However, we understand that many of the contract awards were postponed recently due to the Covid19 pandemic and these contract awards are expected to be hand out by end-2020 or early 2021 which we opine will affect Wah Seong's profitability in FY20 as orderbook replenishments will be impacted.

Earnings impact. All things considered, we are reducing our FY20-21F earnings estimates to RM47.6m and RM79.7m respectively as we factor in the deferment in contract awards as well as lower revenue recognition from existing projects due to the implementation of movement control order (MCO) by the Malaysian government which will affect progress of projects in-hand. That said, we expect this to gradually improve from 3QFY20 onwards.

Maintain NEUTRAL with a revised TP of RM0.66. Post earnings revision, we are maintaining our **NEUTRAL** recommendation on WSC with a revised target price of **RM0.66** (from RM1.40 previously). Our TP is premised on a revised PER20 of 10.8x pegged to EPS20 of 6.2sen. Key downside risks include: (i) concentration risk on O&G jobs; (ii) delays in key local projects and; (iii) orderbook replenishment risk. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	2,961.1	2,514.9	2,107.0	2,315.0	2,870.0
Gross profit	335.9	308.1	379.3	416.7	516.6
Profit from operations	164.3	64.0	104.8	103.2	137.3
PBT	107.1	5.6	66.1	109.3	146.9
PAT	59.9	13.6	52.8	88.6	120.4
PATANCI	64.8	24.1	47.6	79.7	108.4
Core PATANCI	64.8	90.3	47.6	79.7	108.4
EPS (sen)	8.4	11.7	6.2	10.3	14.0
DPS (sen)	0.0	4.0	4.0	5.0	6.0
PER (x)	8.3	6.0	11.4	6.8	5.0
Dividend yield (%)	0.0	5.7	5.7	7.1	8.6

Source: Company, MIDFR

WAH SEONG CORPORATION BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	683.8	429.3	326.7	(23.9)	(52.2)
Cost of sales	(600.2)	(354.6)	(303.2)	(14.5)	(49.5)
Gross profit	83.5	74.7	23.6	(68.4)	(71.8)
Other operating income	11.4	15.9	26.8	68.3	136.3
Selling and distribution expenses	(7.2)	(8.5)	(8.5)	0.5	17.8
Administrative and general expenses	(48.8)	(116.5)	(63.7)	(45.3)	30.5
Other gains/(losses) - net	(0.1)	(1.0)	0.3	(128.7)	(330.8)
Finance costs	(12.4)	(15.2)	(12.3)	(18.6)	(0.8)
Share of results of associates and JV	(0.0)	(13.4)	(9.4)	(30.1)	37,392.0
Profit before tax	26.3	(63.8)	(43.3)	(32.2)	(264.7)
Taxation	(10.3)	30.6	(2.9)	(109.6)	(71.3)
Profit after tax	16.0	(33.2)	(46.2)	39.2	(388.8)
Non-controlling interests	(4.3)	(2.6)	(1.8)	(31.9)	(58.6)
PATANCI	20.3	(30.6)	(44.4)	45.2	(319.0)
Exceptional Items (EI)	-	(66.2)	-	(100.0)	nm
PATANCI Ex-EI	20.3	35.6	(44.4)	(224.8)	(319.0)
Basic EPS (sen)	2.6	(4.0)	(5.8)	45.2	(319.0)
				<i>+ / (-) ppts</i>	
PBT margin (%)	3.8	-14.9	-13.2	1.6	-17.1
PAT margin (%)	3.0	-7.1	-13.6	-6.5	-16.6
Tax rate (%)	39.1	48.0	-6.8	-54.8	-45.9
Segmental					
<i>Revenue</i>					
Oil and Gas	440.3	168.7	116.4	(31.0)	(73.6)
Renewable Energy	84.7	112.6	76.3	(32.3)	(10.0)
ITS	117.0	99.2	79.2	(20.2)	(32.3)
Others	41.7	48.7	54.8	12.6	31.4
Total	683.8	429.3	326.7	(23.9)	(52.2)
<i>Profit Before Tax</i>					
Oil and Gas	24.2	(57.7)	(32.6)	(43.6)	(234.4)
Renewable Energy	7.6	4.8	1.8	(62.1)	(76.2)
ITS	0.4	(4.3)	1.1	(124.6)	190.2
Plantation	-	-	-	nm	nm
Others	0.6	8.2	(2.4)	(129.3)	(487.3)
Total	32.8	(49.1)	(32.1)	(34.6)	(197.8)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.