

Wah Seong Corporation Berhad

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

Maintain NEUTRAL

Improved Earnings Visibility

Revised Target Price: RM1.40

(Previously RM1.13)

KEY INVESTMENT HIGHLIGHTS

- **Wah Seong's 4QFY19 core earnings of RM35.6m came in above expectations**
- **The dip in 4QFY19 revenue was expected attributable to the completion of a major pipe coating project in early 3QFY19**
- **Current orderbook at RM929.6m, mainly for Oil & Gas segment at 62% of total orderbook**
- **New contract wins in the pipeline**
- **FY20F earnings revised upward by +24.8%**
- **Maintain NEUTRAL with a revised TP of RM1.40 per share**

WSC's 4QFY19 core earnings exceed expectations. Wah Seong Corporation Berhad's (WSC) 4QFY19 reported net profit came in at -RM30.6m. However, after stripping out the one-off impairments on: (i) plant and machineries; (ii) assets on joint-venture and; (iii) receivables on their plantation business sale, WSC's core earnings came in at RM35.6m. This brings its FY19 cumulative earnings to RM90.4m which was above our and consensus' full-year earnings estimates at >100% respectively. As guided by the management previously, revenue recognition was lower by -33.4%yoy due to the completion of its Nordstream2 (NS2) project. However, core earnings surged by +>100%yoy after excluding the one-off impairments recognized during the quarter. Meanwhile on a quarterly sequential basis, revenue declined by -33.4% whilst earnings grew by +>100% respectively.

Oil and Gas. The segment's revenue and earnings declined by -62.8%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 had significantly reduced when comparing against previous quarter.

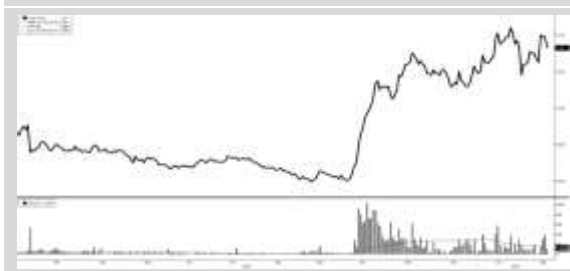
Renewable Energy. Segment revenue grew by +12.6%yoy during the quarter which was attributable to significant improvement in the process equipment fabrication business. Additionally, there were higher number of projects secured and executed during the quarter. However, earnings dipped by -35.1%yoy due to losses incurred from its boiler business.

Industrial Trading & Services. The segment's revenue declined by -10.6%yoy during the quarter due to lower revenue recognized from the building materials business arising from the general slowdown in the construction sector. Meanwhile, earnings dipped by -46.8% due to impairment recognized on its receivables despite the better performance from its HDPE pipe business.

RETURN STATISTICS

Price @ 18th February 2019 (RM)	1.33
Expected share price return (%)	+5.6
Expected dividend yield (%)	+3.8
Expected total return (%)	+9.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.21	1.53
3 months	10.83	6.79
12 months	53.76	69.32

KEY STATISTICS

FBM KLCI	1,537.08
Syariah compliant	Yes
Issue shares (m)	770.46
Estimated free float (%)	27.57
Market Capitalisation (RM'm)	1,024.74
52-wk price range	0.59 – 1.46
Beta vs FBM KLCI (x)	1.54
Monthly velocity (%)	11.02
Monthly volatility (%)	27.82
3-mth average daily volume (m)	1.69
3-mth average daily value (RM'm)	2.17
Top Shareholders (%)	
Wah Seong Malaya Trading Co	32.99
Tan Kim Yeow Sdn Bhd	6.98
Midvest Asia Sdn Bhd	5.65


Analyst(s)

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Orderbook amounts to RM929.6m as of December 2019. WSC's orderbook as at end-December 2019 amounts to RM929.6m whilst its tenderbook amounts to RM5.0b. The oil and gas segment remains the major contributor to both WSC's orderbook and tenderbook at 62% and 90% respectively. That said, WSC is yet to include other big projects such as the Marlim 2 in their orderbook. 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. Management disclosed 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 is due to be awarded by end-March 2020. We understand that the Management is positive on securing some of the jobs which is expected to contribute positively to its topline in FY20. It is also noted that most of it will be international jobs.

Earnings impact. Due to the better-than-anticipated earnings and improved earnings visibility going forward, we are raising our FY20F earnings estimate by +24.8% to RM100.5m (from RM80.5m previously) as we raise our orderbook assumption for FY20F. We have also introduced our FY21F numbers in this report.

Maintain NEUTRAL with a revised TP of RM1.40. Post earnings revision, we are maintaining our **NEUTRAL** recommendation on WSC with a revised target price of **RM1.40** (from RM1.13 previously). Our TP is premised on a revised PER20 of 10.8x pegged to EPS20 of 13.0sen. 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	2,857.0	3,065.0	3,370.0
Gross profit	335.9	308.1	514.3	551.7	606.6
Profit from operations	164.3	64.0	174.8	159.7	174.0
PBT	107.1	5.6	139.6	169.2	186.2
PAT	59.9	13.6	111.6	137.1	152.7
PATANCI	64.8	24.1	100.5	123.4	137.4
Core PATANCI	64.8	90.3	100.5	123.4	137.4
EPS (sen)	8.4	3.1	13.0	15.9	17.7
DPS (sen)	0.0	4.0	5.0	6.0	7.0
PER (x)	15.9	11.4	10.2	8.3	7.5
Dividend yield (%)	0.0	3.0	3.8	4.5	5.3

Source: Company, MIDFR

WAH SEONG CORPORATION BERHAD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	706.4	644.5	429.3	(33.4)	(39.2)	2,961.1	2,514.9	(15.1)
Cost of sales	(628.1)	(577.8)	(354.6)	(38.6)	(43.5)	(2,625.3)	(2,206.9)	(15.9)
Gross profit	78.3	66.7	74.7	11.9	(4.6)	335.9	308.1	(8.3)
Other operating income	13.4	7.3	15.9	118.3	18.6	57.7	36.5	(36.7)
Selling and distribution expenses	(6.4)	(9.6)	(8.5)	(12.1)	32.9	(27.3)	(32.4)	18.6
Administrative and general expenses	(63.1)	(42.8)	(116.5)	172.3	84.4	(202.0)	(247.3)	22.4
Other gains/(losses) - net	0.9	0.1	(1.0)	(891.0)	(208.2)	0.0	(0.9)	(2,136.4)
Finance costs	(10.2)	(11.3)	(15.2)	34.4	49.0	(38.9)	(54.7)	40.3
Share of results of associates and JV	(7.9)	6.1	(13.4)	(319.2)	69.3	(18.3)	(3.8)	(79.4)
Profit before tax	5.0	16.6	(63.8)	(484.8)	(1,372.8)	107.1	5.6	(94.8)
Taxation	(16.0)	(2.9)	30.6	(1,150.4)	(292.0)	(47.2)	8.1	(117.1)
Profit after tax	(10.9)	13.7	(33.2)	(342.9)	203.6	59.9	13.7	(77.2)
Non-controlling interests	(1.0)	(1.6)	(2.6)	61.5	172.2	(4.9)	(10.6)	114.2
PATANCI	(10.0)	15.3	(30.6)	(300.1)	206.6	64.8	24.2	(62.6)
Exceptional Items (EI)	-	-	(66.2)	nm	nm	-	(66.2)	nm
PATANCI Ex-EI	(10.0)	15.3	35.6	132.9	(456.9)	64.8	90.4	39.6
Basic EPS (sen)	(1.3)	2.0	(4.0)	(300.1)	206.7	8.4	3.1	(62.5)
				+ / (-) ppts				+ / (-) ppts
PBT margin (%)	0.7	2.6	-14.9	-17.4	-15.6	3.6	0.2	(3.4)
PAT margin (%)	-1.4	2.4	-7.1	-9.5	-5.7	2.0	0.5	(1.5)
Tax rate (%)	318.0	17.6	48.0	30.4	-270.1	44.1	(145.5)	(189.6)
Segmental								
<i>Revenue</i>								
Oil and Gas	453.0	360.8	168.7	(53.2)	(62.8)	1,978.5	1,486.3	(24.9)
Renewable Energy	100.0	111.7	112.6	0.8	12.6	335.8	399.6	19.0
ITS	111.0	113.6	99.2	(12.6)	(10.6)	481.7	426.1	(11.5)
Others	42.4	58.5	48.7	(16.7)	14.9	165.1	203.0	22.9
Total	706.4	644.5	429.3	(33.4)	(39.2)	2,961.1	2,514.9	(15.1)
<i>Profit Before Tax</i>								
Oil and Gas	6.9	17.2	(57.7)	(435.0)	(931.2)	132.0	10.9	(91.7)
Renewable Energy	7.3	5.4	4.8	(11.5)	(35.1)	30.7	25.5	(17.0)
ITS	(2.9)	2.1	(4.3)	(301.2)	46.8	7.1	(2.1)	(129.4)
Plantation	3.0	0.2	8.2	5,050.9	170.6	1.3	9.0	605.3
Others	-	-	-	nm	nm	-	-	nm
Total	14.4	24.9	(49.1)	(297.0)	(441.6)	171.1	43.4	(74.6)

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.