

03 September 2018 | 2QFY18 Results Review

Wah Seong Corporation Berhad

Strong contribution from O&G segment

INVESTMENT HIGHLIGHTS

- **Wah Seong Corp's 2QFY18 reported earnings of RM21.0m**
- **Earnings supported by strong revenue from O&G segment**
- **Current orderbook at RM1.9b**
- **82% of orderbook from O&G segment**
- **Maintain NEUTRAL with a revised TP of RM1.30**

Strong earnings supported by strong revenue. Wah Seong's 2QFY18 reported earnings grew by +135.3%yoy to RM21.0m. The strong earnings year-over-year is mainly due to the strong revenue recognition from its ongoing projects, where 84% were from the O&G segment. 6MFY18 normalised earnings of RM41m (excluding gains on disposal of assets) however, came in below our and consensus expectations, accounting for 36% of full year earnings estimates respectively.


Oil & Gas. Segment revenue and earnings expanded by +131%yoy and +146.8%yoy respectively largely attributable to the continued execution of Nord Stream 2 project.

Renewable energy. Segment revenue and earnings both recorded an increase by +24.8% and +6.6%yoy respectively mainly due to higher revenue and higher profit margins registered by the boiler and steam turbine businesses.

Industrial Trading & Services. Segment revenue improved marginally by +3.3%yoy whilst segment increase by >100%yoy due to improved performance in the construction equipment and HDPE pipe manufacturing businesses.

Current orderbook at RM1.93b. The company's current orderbook is at RM1.93b, where RM1.58b consisting of O&G projects, RM289.5m for renewable energy and RM57.9m for Industrial trading and services.

Impact on earnings. Given the uncertainty over large project pipelines locally and also the margin compression for current jobs at hand, we are revising our earnings forecasts for FY18 and FY19 downwards by -9.7% and -9.2% respectively.

Maintain NEUTRAL. We are maintaining our **NEUTRAL** stance on Wah Seong with a revised target price of **RM1.30** per share. Our TP is premised on PER19 of 9x pegged to EPS19 of 14.4sen. Key downside risks include: (i) concentration risk on O&G jobs; (ii) delays in key local projects and; (iii) orderbook replenishment risk. 

Maintain NEUTRAL
Revised Target Price (TP): RM1.30

RETURN STATS	
Price (30 th August 2018)	RM1.22
Target Price	RM1.30
Expected Share Price Return	+6.6%
Expected Dividend Yield	+2.1%
Expected Total Return	+8.7%

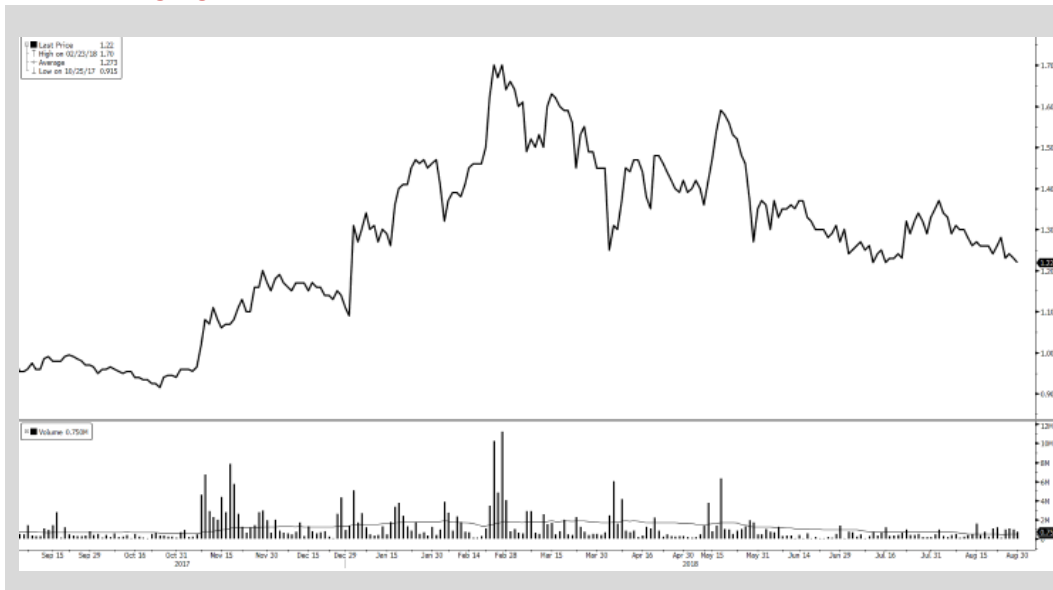
STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	5142 / WSC MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	772.15
Market cap. (RM'm)	942.02
Price over NA	0.99x
52-wk price Range	RM0.91 – RM1.71
Beta (against KLCI)	1.42
3-mth Avg Daily Vol	0.52m
3-mth Avg Daily Value	RM0.67m
Major Shareholders (%)	
Wah Seong (M) Trading	32.92
Tan Kim Yeow Sdn Bhd	6.96
Midwest Asia Sdn Bhd	5.25
LTAT	4.79

INVESTMENT STATISTICS

FYE Dec (RMm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	1,839.5	1,276.6	2,492.1	2,543.2	2,606.6
Gross profit	262.7	158.2	309.7	450.1	469.2
Profit from operations	41.8	(149.9)	159.5	164.9	175.5
PBT	35.7	(225.9)	122.6	137.4	149.2
PAT	(11.9)	(234.6)	114.6	109.9	119.3
PATANCI	9.5	(228.3)	113.0	104.4	111.0
EPS (sen)	1.2	(29.5)	14.6	13.5	14.4
DPS (sen)	3.0	1.0	1.6	2.0	2.6
PER (x)	100.0	(4.1)	8.3	9.0	8.5
Dividend yield (%)	2.5	0.8	1.3	1.6	2.1

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

2QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative Results		
	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	6MFY17	6MFY18	YoY (%)
Revenue	446.1	792.8	760.0	(4.1)	70.4	762.8	1,552.8	103.6
Cost of sales	(361.3)	(708.7)	(674.6)	(4.8)	86.7	(633.7)	(1,383.3)	118.3
Gross Profit	84.8	84.1	85.4	1.5	0.7	129.1	169.5	31.3
Other operating income	6.5	27.7	(0.5)	(102.0)	(108.3)	23.4	27.1	16.1
Selling and distribution expenses	(7.2)	(6.5)	(7.6)	16.5	6.4	(14.3)	(14.2)	(0.6)
Admin and general expenses	(62.2)	(61.9)	(31.3)	(49.4)	(49.7)	(108.3)	(93.1)	(14.0)
Other losses - net	0.5	0.0	(1.3)	nm	nm	(0.2)	(1.3)	496.3
Finance costs	(10.7)	(9.8)	(9.5)	(2.6)	(10.9)	(20.4)	(19.3)	(5.4)
Share of results of associates and JV	1.7	2.2	(6.3)	(384.2)	(467.4)	8.7	(4.1)	(147.1)
Profit before tax	13.5	35.9	28.8	(19.9)	114.0	18.0	64.7	258.7
Tax expense	(3.9)	(11.9)	(6.3)	(47.4)	61.5	(5.2)	(18.2)	250.2
Profit after tax	9.6	24.0	22.5	(6.1)	135.3	12.8	46.5	262.1
Non-controlling interests	2.6	(5.3)	1.5	(127.6)	(44.5)	(3.6)	(3.8)	6.9
PATANCI	6.9	29.2	21.0	(28.0)	203.3	16.4	50.3	206.5
Basic EPS (sen)	0.9	3.8	2.7	(28.0)	202.2	2.1	6.5	4.4
PBT margin (%)	3.0	4.5	3.8	(0.7)	0.8	2.4	4.2	1.8
PAT margin (%)	2.1	3.0	3.0	(0.1)	0.8	1.7	3.0	1.3
Tax rate (%)	28.9	33.3	21.8	(11.4)	(7.1)	28.9	28.2	(0.7)
Segmental								
<i>Revenue</i>								
Oil and Gas	232.2	538.8	536.3	(0.5)	131.0	355.7	1,075.1	202.3
Renewable Energy	59.7	69.6	74.5	7.1	24.8	120.5	144.1	19.6
ITS	105.8	150.1	109.3	(27.2)	3.3	231.4	259.4	12.1
Others	48.4	34.3	39.9	16.3	(17.6)	55.2	74.2	34.4
<i>Profit Before Tax</i>								
Oil and Gas	12.9	32.6	31.8	(2.6)	146.8	18.2	64.4	253.7
Renewable Energy	7.6	4.1	8.1	98.3	6.6	13.9	12.1	(12.9)
ITS	(0.6)	6.2	2.8	(55.3)	nm	(0.5)	8.9	nm
Others	0.5	2.0	(6.2)	nm	nm	1.2	(4.2)	nm

Source: MIDFR, Company

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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.