

17 May 2018 | 1QFY18 Results Review

## Wah Seong Corporation Berhad

*Solid year ahead from O&G segment*

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM1.58**

### INVESTMENT HIGHLIGHTS

- **Wah Seong Corp's 1QFY18 reported earnings surged more than two-folds to RM29.2m**
- **Strong earnings supported by strong revenue from O&G segment**
- **Current orderbook at RM2.51b with more than RM400m worth of replenishment achieved in the quarter**
- **72% of orderbook from O&G segment**
- **Maintain NEUTRAL with unchanged TP of RM1.58**

**Surge in earnings supported by strong revenue.** Wah Seong's 1QFY18 reported earnings surged by more than two-folds to RM29.2m. The strong earnings are supported by strong revenue recognition from its ongoing projects, where 72% are from the O&G segment. 3MFY18 earnings kept pace with our and consensus earnings estimates, making up 25% and 26% of full year's earnings forecasts respectively.

**Oil & Gas.** Segment revenue and earnings expanded by multiple folds on a year-over-year basis largely attributable to the execution of the Nord Steam 2 project, which is now at 41% completion.

**Renewable Energy.** Although segment revenue increased by +14.4%yoy, segment revenue declined by -36.1%yoy due to margin compression from the mix of products. Low margins were recorded from process equipment, equipment fabrication and steam turbines.

**Industrial Trading & Services.** Segment revenue marked an improvement of +19.5%yoy while maintaining segment profitability as higher sales of building material, HDPE pipes, construction equipment and power generation systems are recorded in the quarter.

**Increased orderbook.** The company's current orderbook is at RM2.51b, where RM2.1b consisting O&G projects, RM290.2m consisting renewable energy projects and RM78.6m consisting industrial trading and services jobs. The company's tenderbook is currently at approximately RM5.2b, consisting mostly pipeline jobs in Australia, Europe, Africa and locally.

**MPP and TSGP pipe jobs.** There is a change in government directions indicating a review in large projects, in particular projects with large foreign participation such as the Pengerang multi-product pipeline (MPP) from Pengerang to Perlis and the trans-Sabah gas pipeline (TSGP) from Kimanis to Sandakan. As such, there is a real likelihood that the awards of these projects, despite its importance could be delayed and reviewed.

### RETURN STATS

Price (16 May 2018)	RM1.54
Target Price	RM1.58
Expected Share Price Return	+2.6%
Expected Dividend Yield	+1.4%
<b>Expected Total Return</b>	<b>+4.0%</b>

### STOCK INFO

KLCI	1,858.26
Bursa / Bloomberg	5142 / WSC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	772.8
Market cap. (RM'm)	1,190.0
Price over NA	1.67x
52-wk price Range	RM0.89 – RM1.70
Beta (against KLCI)	1.87
3-mth Avg Daily Vol	1.6m
3-mth Avg Daily Value	RM2.35m
Major Shareholders (%)	
Wah Seong (M) Trading	32.89
Tan Kim Yeow Sdn Bhd	6.96
Midwest Asia Sdn Bhd	5.25
Lembaga Tabung Angkatan Tentera	4.49

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**Impact on earnings.** No changes made to earnings estimates.

**Maintain NEUTRAL.** We maintain our **NEUTRAL** call on Wah Seong with an unchanged TP of **RM1.58** per share. Our TP is based on a EPS19 of 15.8sen pegged to an unchanged forward PER19 of 10x. Key downside risks include: (i) concentration risk on O&G jobs; (ii) delays in key local projects and; (iii) orderbook replenishment risk.

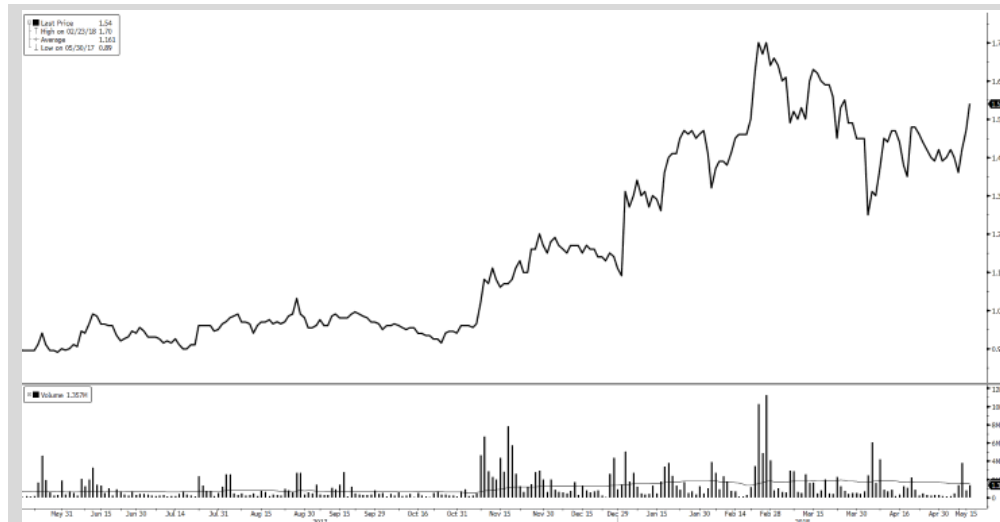


## INVESTMENT STATISTICS

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	178.9	189.8
PBT	35.7	(225.9)	122.6	152.1	164.2
PAT	(11.9)	(234.6)	114.6	121.7	131.4
PATANCI	9.5	(228.3)	113.0	115.6	122.2
EPS (sen)	1.2	(29.5)	14.6	15.0	15.8
DPS (sen)	3.0	1.0	1.6	2.2	2.8
PER (x)	124.6	(5.1)	10.4	10.2	9.6
Dividend yield (%)	2.0	0.7	1.1	1.4	1.9

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## Results summary 1QFY18

FYE Dec (RM'm)	Quarterly Results				
	1QFY17	4QFY17	1QFY18	YoY (%)	QoQ (%)
Revenue	316.8	979.2	792.8	150.3	-19.0
Cost of sales	-272.4	-886.6	-708.7	160.1	-20.1
<b>Gross profit</b>	44.3	92.7	84.1	89.7	-9.2
Other operating income	16.9	121.1	27.7	64.2	-77.1
Selling and distribution expenses	-7.1	-7.2	-6.5	-7.8	-9.6
Administrative and general expenses	-46.1	-135.4	-61.9	34.2	-54.3
Other losses - net	-0.7	0.1	0.0	-106.1	-61.3
Finance costs	-9.7	-11.6	-9.8	0.6	-16.2
Share of results of associates and JV	7.0	2.4	2.2	-68.1	-5.5
<b>Profit before tax</b>	4.6	61.9	35.9	683.0	-42.0
Taxation	-1.3	12.3	-11.9	808.5	-197.0
<b>Profit after tax</b>	3.3	74.2	24.0	632.5	-67.7
Non-controlling interests	-6.2	8.3	-5.3	-14.8	-163.7
<b>PATANCI</b>	9.5	66.0	29.2	208.8	-55.7
Basic EPS (sen)	1.2	8.5	3.8	207.3	-55.7
				+ / (-) pts	
PBT margin (%)	1.4	6.3	4.5	3.1	-1.8
PAT margin (%)	3.0	6.7	3.7	0.7	-3.0
Tax rate (%)	28.7	-19.9	33.3	4.6	53.2
<b>Segmental</b>					
<i>Revenue</i>					
Oil and Gas	123.5	710.5	538.8	336.2	-24.2
Renewable Energy	60.8	85.6	69.6	14.4	-18.7
ITS	125.6	147.5	150.1	19.5	1.8
Others	6.8	35.6	34.4	405.2	-3.3
<i>Profit Before Tax</i>					
Oil and Gas	5.3	64.0	32.6	511.8	-49.1
Renewable Energy	6.4	12.1	4.1	-36.1	-66.4
ITS	-0.1	0.4	6.2	nm	1445.0
Plantation	-1.3	-9.7	0.0	nm	nm
Others	2.0	-4.9	2.0	-1.6	-140.9

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.