

28 November 2018 | 3QFY18 Results Review

## Wah Seong Corporation Berhad

*O&G segment remains the strong contributor*

### INVESTMENT HIGHLIGHTS

- **Wah Seong Corp's 3QFY18 reported earnings of RM24.5m**
- **Earnings supported by strong revenue from O&G segment**
- **Current orderbook at RM1.59b**
- **78% of orderbook from O&G segment**
- **Maintain NEUTRAL with an unchanged TP of RM1.30**

**Strong earnings supported by strong revenue.** Wah Seong's 3QFY18 reported earnings declined by -20.5%yoy to RM24.5m. The weaker earnings year-over-year is mainly due to lower activities in Malaysian operations, where 73% are from the O&G segment. However, 9MFY18 earnings excluding minority interests of RM74.8m came in within our and consensus expectations, accounting for 72% of full year earnings estimates respectively.

**Oil & Gas.** Segment revenue contracted by -8.2%yoy whilst earnings grew marginally by +2.3%yoy respectively largely attributable to lower activities in the Malaysian operations.

**Renewable energy.** Segment revenue and earnings both recorded an increase by +23.7% and +258.9%yoy respectively mainly due to higher revenue and higher profit margins registered by the boiler and steam turbine businesses.

**Industrial Trading & Services.** Segment revenue declined by -21.4%yoy whilst earnings grew by >100%yoy respectively mainly due to lower sales of building materials. The segment profit was however contributed by higher revenue and better profit margins from the HDPE pipe manufacturing businesses.

**Current orderbook at RM1.59b.** The company's current orderbook is at RM1.59b (vs RM1.93b in 2QFY18) due to significant amount of work being executed during the quarter. Of the RM1.59b, 78% or RM1.24b consists of O&G projects.

**Current tenderbook at RM5.9b.** The company's current tenderbook is at RM5.9b, unchanged from last quarter. Management guided that a more significant award of new contracts will potentially be in 2HFY19. The company added that it has tendered for projects in Europe, Africa and Australia.

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

**Maintain NEUTRAL**  
**Unchanged Target Price (TP): RM1.30**

RETURN STATS	
Price (27 November 2018)	RM1.22
Target Price	RM1.30
Expected Share Price Return	+6.6%
Expected Dividend Yield	+2.1%
<b>Expected Total Return</b>	<b>+8.7%</b>

STOCK INFO	
KLCI	1,684.97
Bursa / Bloomberg	5142 / WSC MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	770.46
Market cap. (RM'm)	624.07
Price over NA	0.64x
52-wk price Range	RM0.81 – RM1.71
Beta (against KLCI)	1.53
3-mth Avg Daily Vol	1.07m
3-mth Avg Daily Value	RM1.10m
Major Shareholders (%)	
Wah Seong (M) Trading	32.99
Tan Kim Yeow Sdn Bhd	6.98
Midwest Asia Sdn Bhd	5.26
LTAT	4.80

**Maintain NEUTRAL.** We are maintaining our **NEUTRAL** stance on Wah Seong with an unchanged 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.

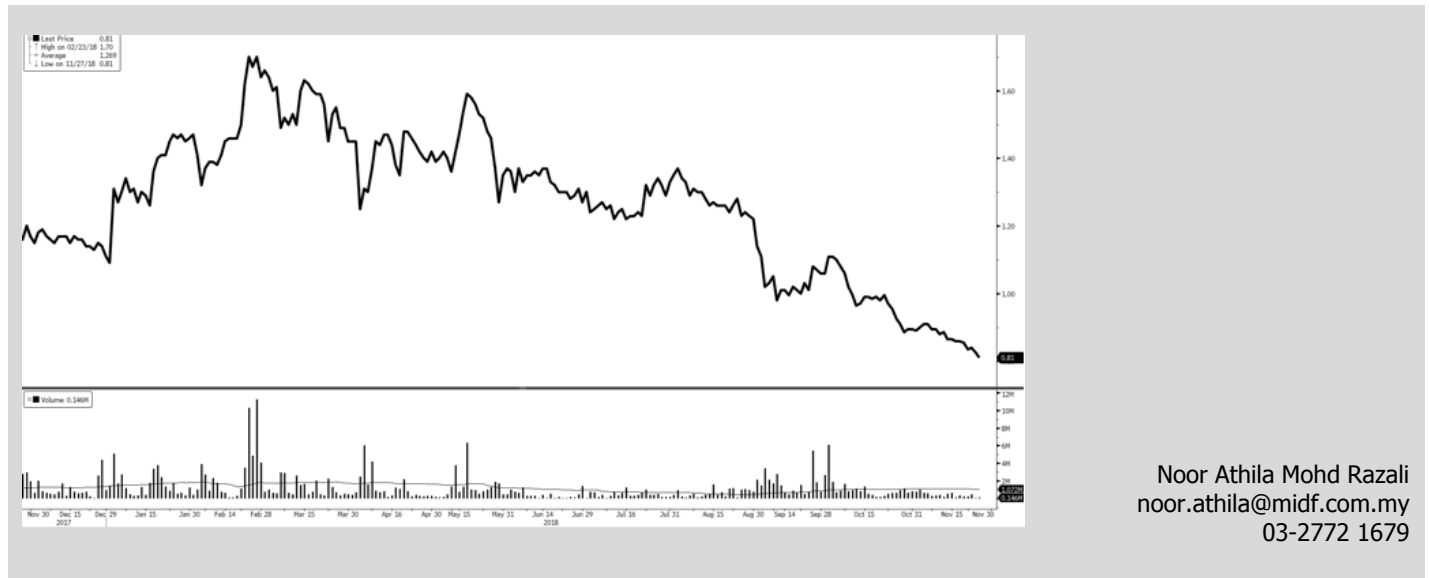


## INVESTMENT STATISTICS

FYE Dec (RM'm)	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)	66.4	(2.7)	5.5	6.0	5.6
Dividend yield (%)	3.7	1.2	2.0	2.4	3.2

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

**Table 1: Wah Seong quarterly earnings review**

FYE Dec (RM'm)	Quarterly Results					Cumulative Results		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
<b>Revenue</b>	<b>750.1</b>	<b>760.0</b>	<b>701.9</b>	(7.6)	(6.4)	<b>1,512.9</b>	<b>2,254.8</b>	49.0
Cost of sales	(662.1)	(674.6)	(613.9)	(9.0)	(7.3)	(1,295.9)	(1,997.2)	54.1
<b>Gross Profit</b>	<b>87.9</b>	<b>85.4</b>	<b>88.1</b>	3.1	0.2	<b>217.0</b>	<b>257.6</b>	18.7
Other operating income	24.5	(0.5)	17.1	(3,256.4)	(30.2)	47.9	44.3	(7.6)
Selling and distribution expenses	(6.5)	(7.6)	(6.8)	(11.1)	4.0	(20.8)	(20.9)	0.8
Admin and general expenses	(47.0)	(31.3)	(45.7)	46.1	(2.7)	(155.3)	(138.8)	(10.6)
Other losses - net	(0.4)	(1.3)	0.5	(133.7)	(218.9)	(0.6)	(0.8)	41.8
Finance costs	(9.9)	(9.5)	(9.5)	0.1	(3.8)	(30.3)	(28.8)	(4.9)
Share of results of associates and JV	(6.1)	(6.3)	(6.3)	(1.0)	3.6	2.7	(10.4)	(490.5)
<b>Profit before tax</b>	<b>42.6</b>	<b>28.8</b>	<b>37.4</b>	29.9	(12.3)	<b>60.7</b>	<b>102.1</b>	68.2
Tax expense	(15.1)	(6.3)	(13.0)	107.6	(13.5)	(20.3)	(31.3)	54.2
<b>Profit after tax</b>	<b>27.6</b>	<b>22.5</b>	<b>24.3</b>	8.2	(11.7)	<b>40.4</b>	<b>70.8</b>	75.2
Non-controlling interests	(3.1)	1.5	(0.2)	(110.6)	(95.0)	(6.7)	(4.0)	(40.3)
<b>PATANCI</b>	<b>30.6</b>	<b>21.0</b>	<b>24.5</b>	16.4	(20.1)	<b>47.1</b>	<b>74.8</b>	58.9
Basic EPS (sen)	4.0	2.7	3.2	0.5	(0.8)	6.1	9.7	3.6
PBT margin (%)	5.7	3.8	5.3	1.5	(0.4)	4.0	4.5	0.5
PAT margin (%)	3.7	3.0	3.5	0.5	(0.2)	2.7	3.1	0.5
Tax rate (%)	35.3	21.8	34.9	13.1	(0.4)	33.4	30.6	(2.8)
<b>Segmental</b>								
<i>Revenue</i>								
Oil and Gas	490.9	536.3	754.6	40.7	53.7	846.5	1,525.6	80.2
Renewable Energy	74.2	74.5	91.7	23.1	23.7	194.7	235.8	21.1
ITS	141.5	109.3	111.3	1.8	(21.4)	372.9	370.7	(0.6)
Others	43.5	39.9	48.5	21.6	11.5	98.7	122.7	24.3
<i>Profit Before Tax</i>								
Oil and Gas	45.3	31.8	46.4	46.0	2.3	63.5	110.7	74.3
Renewable Energy	2.8	8.1	10.2	26.3	258.9	16.8	22.3	33.1
ITS	(0.4)	2.8	1.3	(52.9)	457.0	(0.9)	10.2	nm
Others	0.9	(6.2)	1.8	(129.8)	105.8	2.0	(2.4)	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.