

27 February 2018 | 4QFY17 Results Review

## Wah Seong Corporation Berhad

*Nord Stream 2 project lifted FY17 earnings*

### INVESTMENT HIGHLIGHTS

- **Wah Seong Corp's (WSC) 4QFY17 profit before tax increased by +45.3% q-o-q to RM61.9m**
- **Cumulatively, FY17 normalised earnings amounted to RM88.9m**
- **The positive earnings was supported by the improved activities from the oil and gas segment**
- **Total current orderbook stands at RM2.8b**
- **Maintain NEUTRAL with revised TP of RM1.58**

**4QFY17 profit before tax increased by +45.3% quarter-on-quarter.** In 4QFY17, WSC's earnings continues to improve, increasing by +45.3%qoq to RM61.9m. Cumulatively, FY17 normalised earnings (excluding exceptional items) turned positive to RM88.9m compared to FY16's loss of -RM37.1m. This exceeded both ours and consensus' full year earnings expectations at +115%.

**Oil & Gas Segment.** 4QFY17 O&G segment recorded a profit before tax of RM64.0m compared to the loss before tax in 4QFY16 of RM111.5m. This improved performance was attributable to the increase in activity level and its healthy orderbook which mostly consists of the Nord Stream 2 (NS2) project.

**Renewable Energy Segment.** The renewable energy segment's profit before tax for 4QFY17 also increased by +9.0%yoy to RM12.1m. The increase in earnings was attributable to the higher revenue received from equipment fabrication and its boiler business.

**Industrial Trading & Services Segment.** The segment recorded 4QFY17 profit before tax of RM0.4m compared to a loss of -RM16.2m in 4QFY16. The improvement in earnings is attributable to the higher sales from the trading of building materials especially cement and steel bars, and the revenue from the sale and servicing of construction equipment and power generation systems.

**Orderbook.** The company's current orderbook stands at RM2.8b where 89% of the jobs are from the O&G segment, 9% from the renewable energy segment and 2% from the industrial trading & services (ITS). The bulk of its orderbook from the O&G segment consists of its NS2 project which takes up approximately 72%. As for the group's tenderbook, it currently stands at approximately RM5.0b, with the O&G segment consisting of approximately RM4.2b.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM1.58**  
**(Previously RM1.04)**

### RETURN STATS

Price (26 February 2018)	RM1.67
Target Price	RM1.58
Expected Share Price Return	-5.4%
Expected Dividend Yield	+1.7%
<b>Expected Total Return</b>	<b>-3.7%</b>

### STOCK INFO

KLCI	1,860.08
Bursa / Bloomberg	5142 / WSC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	772.8
Market cap. (RM'm)	1,290.6
Price over NA	1.92x
52-wk price Range	RM0.83 – RM1.71
Beta (against KLCI)	1.63
3-mth Avg Daily Vol	1.54m
3-mth Avg Daily Value	RM2.05m
Major Shareholders (%)	
Wah Seong (M) Trading	32.89
Tan Kim Yeow Sdn Bhd	6.96
Midwest Asia Sdn Bhd	5.25
Skim ASB	5.20

**Impact on earnings.** We revise our FY18 earnings forecasts upwards to RM115.6m. This is to account for: (i) higher topline contribution from all the three core business segments and, ii) cost savings from the plantation segment.

**Maintain NEUTRAL.** We maintain our **NEUTRAL** call on Wah Seong with a revised TP of **RM1.58** per share, after rolling forward the earnings reference year to FY19. Our TP is based on a EPS19 of 15.8sen pegged to an unchanged forward PER19 of 10x.



## 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)	136.9	(5.7)	11.4	11.2	10.6
Dividend yield (%)	1.8	0.6	1.0	1.3	1.7

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## 4QFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results			Cumulative results		
	4QFY17	YoY (%)	QoQ (%)	FY17	FY16	YoY (%)
Revenue	979.2	196.5	30.5	2,492.1	1,276.6	95.2
Cost of sales	-886.6	203.9	33.9	-2,182.4	-1,118.4	95.1
<b>Gross profit</b>	<b>92.7</b>	<b>140.7</b>	<b>5.4</b>	<b>309.7</b>	<b>158.2</b>	<b>95.7</b>
Other operating income	121.1	217.0	393.6	169.0	103.8	62.8
Selling and distribution expenses	-7.2	16.0	11.0	-28.0	-31.5	-11.0
Administrative and general expenses	-135.4	-42.4	188.3	-290.7	-381.5	-23.8
Other losses - net	0.1	-78.0	-129.2	-0.5	1.0	-149.1
Finance costs	-11.6	24.0	17.7	-41.9	-29.9	40.1
Share of results of associates and JV	2.4	-108.3	-139.0	5.0	-46.0	-110.9
<b>Profit before tax</b>	<b>61.9</b>	<b>-130.7</b>	<b>45.2</b>	<b>122.6</b>	<b>-225.9</b>	<b>-154.3</b>
Taxation	12.3	663.6	-181.7	-8.0	-8.7	-8.4
<b>Profit after tax</b>	<b>74.2</b>	<b>-137.0</b>	<b>169.3</b>	<b>114.6</b>	<b>-234.6</b>	<b>-148.9</b>
Non-controlling interests	8.3	-497.9	-368.7	1.6	-6.3	-125.9
<b>PATANCI</b>	<b>66.0</b>	<b>-133.3</b>	<b>115.2</b>	<b>113.0</b>	<b>-228.3</b>	<b>-149.5</b>
Basic EPS (sen)	8.5	-133.3	115.1	14.6	-29.5	-149.6
		<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
PBT margin (%)	6.3	67.5	0.6	4.9	-17.7	-1.1
PAT margin (%)	7.6	68.3	3.9	4.6	-18.4	-1.1
Tax rate (%)	-19.9	-20.7	-55.2	6.5	-3.8	9.8
<b>Segmental</b>						
<i>Revenue</i>						
Oil and Gas	710.5	633.0	44.8	1557.1	423.0	268.1
Renewable Energy	85.6	18.3	15.4	280.3	292.5	-4.2
ITS	147.5	9.2	4.2	520.4	496.2	4.9
Others	35.6	37.6	-18.3	134.3	64.9	107.0
<b>Total</b>	<b>979.2</b>	<b>196.5</b>	<b>30.5</b>	<b>2,492.1</b>	<b>1,276.6</b>	<b>95.2</b>

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.