

22 November 2019

# Wah Seong Corporation

## 1-2 More Weak Quarters

By Steven Chan / [steven.chan@kenanga.com.my](mailto:steven.chan@kenanga.com.my)

**9MFY19 results came above expectations due to stronger job flows, but were in-line with consensus. Cumulative results were poorer given slower job flows, but enhanced order-book replenishment moving forward, backed by tender book of RM5.4b, could catalyst some earnings recovery potential in FY20-21. However, we anticipate the upcoming 1-2 quarters to remain weak before new jobs execution kick in. Maintain MP with higher TP of RM1.30.**

**Above our expectations.** 9MFY19 core net profit of RM47.6m (arrived after stripping-off non-recurring items, e.g. impairments and forex) came in above our expectations, making up 92% of our full-year earnings forecast, due to stronger-than-expected job flows (i.e. top-line driven). However, the results are deemed to be within consensus' expectations at 78%. No dividends were announced, as expected.

**Poorer results YoY.** Cumulatively, 9MFY19 core earnings deteriorated 30% YoY, with all segments declining as a result of slower jobs progression during the year. Same can be said for the individual quarter of 3QFY19 YoY (core net profit of RM15.3m). However, sequentially, 3QFY19 posted 13% increase in earnings QoQ, despite the weaker revenue, helped by higher associates' contribution (27% stake in PENERGY) coupled with lower finance costs (-29%).

**Outlook still positive heading into FY20.** Notably, the Nord Stream 2 project, which was one of the company's main revenue contributors for the past several years, had been successfully completed in early 3Q19. Hence, expect revenue and earnings decline to persist at least for the next 1-2 quarters. Nonetheless, we believe its outlook may eventually turn around later in FY20. Its order-book actually increased slightly during the quarter (+3% QoQ to RM969.4m), suggesting the inflow of smallish jobs. Meanwhile, with its tender-book still firm at ~RM5.4b, consisting mostly of pipe coating jobs in Australia and Africa, the company is actively bidding for FPSO package module fabrication jobs. All-in, we expect the company to secure ~USD200m worth of jobs in the coming few months, which would help buoy FY20-21E earnings moving forward.

**Maintain MARKET PERFORM.** Post-results, we raised our FY19E/FY20E earnings by 14%/11% to account for stronger job flows, and as such, our TP has also been raised to RM1.30 (from previous TP of RM1.20). Valuation remains unchanged, pegged to 14x PER on FY20E – in-line with +0.5SD from its 3-year average.

While its outlook is undoubtedly much more positive now as compared to earlier during the year, underpinned by increased order-book replenishment visibility (*refer our last report dated 30 Oct 2019*), we feel that some consolidation is due after an almost perpendicular jump in share price in the recent weeks. Earnings are still expected to be underwhelming for the coming 1-2 quarters before execution of the new jobs kick in, which could dampen sentiment somewhat.

**Risks to our call include:** (i) sooner-than-expected order-book or tender-book replenishment, (ii) stronger-than-expected order book recognition, and (iii) better-than-expected margins.

# MARKET PERFORM ↔

**Price :** RM1.24  
**Target Price :** RM1.30 ↑

### Share Price Performance



KLCI	1,592.19
YTD KLCI chg	-5.8%
YTD stock price chg	95.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK Equity
Market Cap (RM m)	955.4
Shares outstanding	770.5
52-week range (H)	1.33
52-week range (L)	0.60
3-mth avg daily vol:	2,471,437
Free Float	26%
Beta	1.5

### Major Shareholders

Wah Seong (M) Trading	33.0%
Tan Kim Yeow Sdn Bhd	7.0%
Midvest Asia Sdn Bhd	5.7%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	2,961.1	2,550.0	3,130.0
EBIT	164.3	124.5	153.5
PBT	107.1	79.2	100.5
<b>Net Profit (NP)</b>	<b>64.8</b>	<b>59.4</b>	<b>75.4</b>
<b>Core Net Profit</b>	<b>63.3</b>	<b>59.4</b>	<b>75.4</b>
Consensus (NP)		60.7	75.4
Earnings Revision (%)		14.4	11.0
Core EPS (sen)	8.2	7.7	9.8
CNP growth (%)	-30.8	-6.2	26.9
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.2	1.3	1.4
Core PER	15.1	16.1	12.7
P/BV (x)	1.0	0.9	0.9
Gearing (x)	0.7	0.6	0.4
Dividend Yield (%)	0.0	0.0	0.0

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<b>Income Statement</b>								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
<b>Y/E : Dec (RM'mil)</b>								
Revenue	644.5	757.4	-14.9%	701.9	-8.2%	2,085.7	2,254.8	-7.5%
Cost of sales/services	(577.8)	(674.3)	-14.3%	(613.9)	-5.9%	(1,852.3)	(1,997.2)	-7.3%
<b>Gross profit</b>	<b>66.7</b>	<b>83.1</b>	<b>-19.8%</b>	<b>88.1</b>	<b>-24.2%</b>	<b>233.4</b>	<b>257.6</b>	<b>-9.4%</b>
Other operating income	7.3	1.9	278.1%	17.1	-57.4%	20.6	44.3	-53.5%
Selling and distribution expenses	(9.6)	(7.1)	35.6%	(6.8)	41.9%	(23.9)	(20.9)	14.2%
Administrative expenses	(42.8)	(39.2)	9.0%	(45.7)	-6.4%	(130.9)	(138.8)	-5.7%
Other (losses)/gain	0.1	0.1	82.1%	0.5	-73.0%	0.1	(0.8)	-108.1%
Finance costs	(11.3)	(15.8)	-28.6%	(9.5)	18.6%	(39.5)	(28.8)	37.3%
Associates & JV	6.1	3.5	72.5%	(6.3)	-197.5%	9.6	(10.4)	-192.9%
<b>Profit before tax</b>	<b>16.6</b>	<b>26.5</b>	<b>-37.5%</b>	<b>37.4</b>	<b>-55.6%</b>	<b>69.4</b>	<b>102.1</b>	<b>-32.0%</b>
Tax expense	(2.9)	(9.4)	-68.9%	(13.0)	-77.6%	(22.6)	(31.3)	-27.7%
Non-controlling interest	1.6	2.1	-21.4%	0.2	948.7%	8.0	4.0	100.2%
<b>Net profit</b>	<b>15.3</b>	<b>19.2</b>	<b>-20.6%</b>	<b>21.0</b>	<b>-27.4%</b>	<b>54.7</b>	<b>74.8</b>	<b>-26.8%</b>
<b>Core net profit</b>	<b>15.3</b>	<b>13.5</b>	<b>13.0%</b>	<b>21.5</b>	<b>-28.9%</b>	<b>47.6</b>	<b>68.2</b>	<b>-30.1%</b>
Gross margin	10.4%	11.0%		12.5%		11.2%	11.4%	
PBT margin	2.6%	3.5%		5.3%		3.3%	4.5%	
Net margin	2.4%	2.5%		3.0%		2.6%	3.3%	
Core net margin	2.4%	1.8%		3.1%		2.3%	3.0%	
Effective tax rate	17.6%	35.3%		34.9%		32.6%	30.6%	

Source: Company

<b>Segment Breakdown</b>								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
<b>Y/E : Dec (RM'mil)</b>								
<b><u>Oil &amp; Gas</u></b>								
Revenue	360.8	516.4	-30.1%	450.4	-19.9%	1,317.6	1,525.6	-13.6%
Operating Profit	11.4	23.7	-51.7%	41.3	-72.3%	59.7	110.7	-46.1%
Operating Margin	3.2%	4.6%		9.2%		4.5%	7.3%	
<b><u>Renewable Energy</u></b>								
Revenue	111.7	90.5	23.3%	91.7	21.8%	286.9	235.8	21.7%
Operating Profit	4.7	7.4	-36.2%	10.8	-56.2%	19.6	22.3	-12.1%
Operating Margin	4.3%	8.2%		11.8%		6.8%	9.5%	
<b><u>Industrial Trading &amp; Services</u></b>								
Revenue	113.6	96.3	17.9%	111.3	2.1%	326.9	370.7	-11.8%
Operating Profit	2.1	(0.3)	-898.5%	1.1	100.7%	2.2	10.2	-78.1%
Operating Margin	1.9%	-0.3%		1.0%		0.7%	2.8%	
<b><u>Others</u></b>								
Revenue	58.5	54.1	8.1%	48.5	20.5%	154.3	122.7	25.7%
Operating Profit	0.5	0.3	62.7%	0.5	0.0%	1.4	(2.4)	-157.1%
Operating Margin	0.8%	0.5%		1.0%		0.9%	-1.9%	

Source: Company

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### Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BHD	0.515	3,026.4	N	12/2019	-15.9%	0.0%	34.4%	2.3%	13.4	10.0	9.7	0.9	0.9	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	2.12	2,161.2	Y	12/2019	22.2%	4.4%	-10.8%	8.1%	14.9	16.8	15.5	2.2	2.1	12.8%	0.0%	2.00	OP
DIALOG GROUP BHD	3.43	19,339.4	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.1	34.5	31.5	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.905	1,448.0	Y	12/2019	-10.1%	43.0%	-445.8%	121.1%	N.A.	N.A.	63.8	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.33	37,183.0	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	28.1	21.6	20.5	1.1	1.1	4.9%	3.6%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.485	363.7	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.3	8.2	7.7	0.7	0.6	7.6%	3.3%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.01	56,080.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.3	16.2	14.1	1.8	1.7	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	23.58	23,425.6	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.0	24.8	23.0	4.0	3.8	15.6%	2.8%	22.45	MP
SAPURA ENERGY BHD	0.285	4,542.7	Y	01/2020	5.9%	20.7%	-445.5%	236.1%	N.A.	N.A.	55.8	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.34	6,373.3	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.6	14.2	12.5	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.975	312.0	Y	06/2020	21.4%	2.2%	240.2%	8.8%	32.2	9.5	8.7	0.7	0.6	6.7%	0.0%	1.05	MP
VELESTO ENERGY BHD	0.390	3,204.1	Y	12/2019	5.3%	17.2%	119.7%	298.0%	N.A.	210.8	53.0	1.1	1.1	0.5%	0.0%	0.400	OP
WAH SEONG CORP BHD	1.24	955.4	Y	12/2019	-13.9%	22.7%	-6.2%	26.9%	15.2	16.2	12.7	1.0	0.9	5.3%	0.0%	1.30	MP
YINSON HOLDINGS BHD	6.59	7,112.3	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.0	33.0	19.8	4.1	3.7	11.9%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

