

24 February 2021

Wah Seong Corporation

Recovery in 4QFY20

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Its recovery trajectory continued in 4QFY20 on the back of higher job deliveries, after suffering from the lack of new projects in the previous several quarters. Moving forward, its order book of ~RM1.2b gives <1-year revenue visibility. As such, we believe the group have to successfully secure major new contracts from its current tender-book of ~RM4b in order to sustain the current recovery trajectory. Maintain MP, with TP of RM0.72, with current valuations already pricing in very aggressive recovery traction.

FY20 slightly beat expectations. FY20 Core Net Loss of RM54.9m slightly beat expectations, coming in at 92% of our, and 80% of consensus, full-year loss forecast, from better-than-expected jobs delivery. No dividends were announced, as expected.

4QFY20 stayed on recovery path. The 4QFY20 quarter recorded a Core Net Profit of RM17.2m, jumping 85% sequentially from 3QFY20, on the back of higher jobs delivery, especially in its oil and gas segment. Cumulatively, however, full-year FY20 still recorded losses, due to the lack of new projects resulting from deferment of capex from global oil and gas companies amidst the on-going pandemic.

Further job wins needed to sustain recovery. Currently, its order-book stands at RM1,150.8m. This gives a <1-year revenue visibility. As such, in order to continue sustaining the current recovery trajectory, we feel that the group have to successfully secure new projects from its current tender-book of ~RM4b. Currently, the group is actively tendering for jobs globally in key regions e.g. Africa and Australia. Meanwhile, the group is also tendering for the pipe coating job for Qatargas' North Field Expansion project, with contract award expected in 1HFY21.

Maintain MARKET PERFORM, with higher TP of RM0.72 (from RM0.43 previously). In tandem with the group's recovery trajectory moving forward, we raised our ascribed valuation to 0.7x PBV, roughly in line with its 5-year mean (from 0.5x at -1.5SD previously). Post results, we raised our FY21E earnings by 42%, pricing in an aggressive recovery, while introducing FY22E numbers (>2x earnings growth).

Note that failure to secure any significant order-book replenishment in the next 3-6 months pose material downgrade risk to our call and earnings estimates.

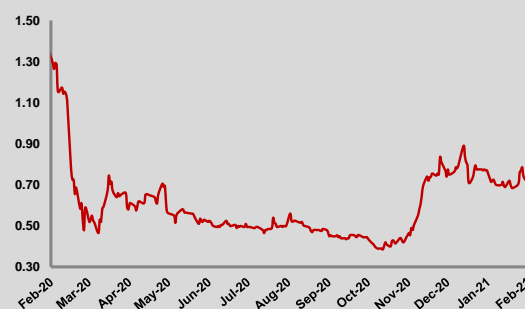
Risks to our call include: (i) failure of order-book replenishment, (ii) slower-than-expected jobs execution, (iii) costs overrun, (iv) further impairments or deterioration to its book value.

MARKET PERFORM ↔

Price : RM0.730

Target Price : RM0.720 ↑

Share Price Performance



KLCI 1,565.05
YTD KLCI chg -3.8%
YTD stock price chg -8.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK Equity
Market Cap (RM m)	565.2
Shares outstanding	774.3
52-week range (H)	1.31
52-week range (L)	0.38
3-mth avg daily vol:	9,564,616
Free Float	55%
Beta	1.4

Major Shareholders

Wah Seong (M) Trading	33.0%
Tan Kim Yeow Sdn Bhd	7.0%
Midvest Asia Sdn Bhd	5.4%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	1,409.1	1,900.0	2,200.0
EBIT	5.9	87.0	148.0
PBT	(268.0)	30.0	91.0
Net Profit (NP)	(295.1)	22.5	68.3
Core Net Profit	(54.9)	22.5	68.3
Consensus (NP)		29.5	72.7
Earnings Revision (%)		42.4	NEW
Core EPS (sen)	-7.1	2.9	8.8
CNP growth (%)	-178.2	+141.0	203.3
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.9	0.9	1.0
Core PER (x)	-10.3	25.1	8.3
P/BV (x)	0.8	0.8	0.7
Gearing (x)	1.0	1.5	1.3
Dividend Yield (%)	0.0	0.0	0.0

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Income Statement

	4Q FY20	3Q FY20	Q-o-Q	4Q FY19	Y-o-Y	12M FY20	12M FY19	Y-o-Y
Y/E : Dec (RM m)								
Revenue	386.0	453.3	-14.9%	429.3	-10.1%	1,409.1	2,514.9	-44.0%
Cost of sales	(316.0)	(385.2)	-18.0%	(354.6)	-10.9%	(1,229.4)	(2,206.9)	-44.3%
Gross profit	69.9	68.1	2.7%	74.7	-6.4%	179.7	308.1	-41.7%
Other operating income	28.2	1.8	1477.5%	15.9	76.7%	64.2	36.5	75.7%
Selling and distribution	(8.3)	(7.2)	14.3%	(8.5)	-2.1%	(32.0)	(32.4)	-1.4%
Administrative expenses	(47.7)	(283.5)	-83.2%	(59.2)	-19.5%	(209.0)	(192.3)	8.7%
Impairment of assets	2.3	0.0	N.M.	(57.3)	N.M.	(217.0)	(55.1)	294.1%
Other (losses)/gain	2.6	(1.2)	N.M.	(1.0)	N.M.	3.0	(0.9)	N.M.
Finance costs	(8.7)	(10.3)	-15.5%	(15.2)	-42.8%	(43.4)	(54.7)	-20.6%
Associates & JV	2.7	(3.1)	N.M.	(13.4)	N.M.	(13.5)	(3.8)	258.8%
Profit before tax	41.2	(235.4)	N.M.	(63.8)	N.M.	(268.0)	5.6	N.M.
Tax expense	(7.5)	(24.4)	-69.2%	30.6	-124.4%	(38.7)	8.0	-583.2%
Non-controlling interest	1.1	3.9	-72.9%	2.6	-59.1%	11.6	10.6	9.3%
Net profit	34.7	(255.8)	N.M.	(30.6)	N.M.	(295.1)	24.1	N.M.
Core net profit	17.2	9.3	84.7%	21.7	-21.0%	(54.9)	70.3	N.M.
Gross margin	18.1%	15.0%		17.4%		12.8%	12.2%	
PBT margin	10.7%	-51.9%		-14.9%		-19.0%	0.2%	
Net margin	9.0%	-56.4%		-7.1%		-20.9%	1.0%	
Core net margin	4.4%	2.0%		5.1%		-3.9%	2.8%	

Source: Company

Segment Breakdown

	4Q FY20	3Q FY20	Q-o-Q	4Q FY19	Y-o-Y	12M FY20	12M FY19	Y-o-Y
Y/E : Dec (RM m)								
Oil & Gas								
Revenue	160.8	221.7	-27.5%	168.7	-4.7%	577.0	1,486.3	-61.2%
Operating Profit	9.3	(232.9)	N.M.	(44.0)	N.M.	(272.7)	15.6	N.M.
Operating Margin	5.8%	-105.0%		-26.1%		-47.3%	1.1%	
Renewable Energy								
Revenue	98.7	98.6	0.1%	112.6	-12.3%	357.5	399.6	-10.5%
Operating Profit	9.3	9.9	-6.5%	4.4	112.4%	26.5	24.0	10.8%
Operating Margin	9.4%	10.1%		3.9%		7.4%	6.0%	
Industrial Trading & Services								
Revenue	88.3	89.0	-0.8%	99.2	-11.0%	301.1	426.1	-29.3%
Operating Profit	21.5	2.3	847.9%	(4.4)	N.M.	19.8	(2.1)	N.M.
Operating Margin	24.3%	2.5%		-4.4%		6.6%	-0.5%	
Others								
Revenue	38.2	44.0	-13.2%	48.7	-21.5%	173.5	203.0	-14.5%
Operating Profit	3.9	(2.1)	N.M.	8.3	-53.8%	4.2	9.7	-56.7%
Operating Margin	10.1%	-4.7%		17.1%		2.4%	4.8%	

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	0.390	2,295.5	N	12/2020	13.0%	4.3%	40.3%	10.3%	8.1	5.8	5.2	0.7	0.6	11.5%	0.0%	0.210	UP
DAYANG ENTERPRISE HLDGS BHD	1.54	1,783.0	Y	12/2020	-31.2%	15.5%	-71.2%	32.3%	7.6	26.4	19.9	1.1	1.1	4.2%	0.0%	1.20	MP
DIALOG GROUP BHD	3.21	18,111.1	Y	06/2021	-33.7%	26.3%	1.8%	11.5%	30.1	29.5	26.5	4.4	4.0	14.1%	0.9%	4.35	OP
MISC BHD	6.68	29,817.8	Y	12/2021	20.3%	7.3%	0.2%	1.0%	13.8	13.8	13.6	0.9	0.9	6.6%	4.9%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	7.50	60,000.0	Y	12/2021	9.3%	10.3%	30.8%	16.4%	31.3	23.9	20.5	2.0	1.9	8.1%	2.1%	7.50	MP
PETRONAS DAGANGAN BHD	19.16	19,034.6	Y	12/2021	10.2%	10.2%	58.9%	48.3%	66.8	42.0	28.3	3.4	3.4	8.0%	2.4%	17.60	UP
SAPURA ENERGY BHD	0.150	2,396.9	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.3	0.3	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.69	6,269.3	Y	12/2020	15.0%	16.0%	9.6%	13.4%	12.6	11.5	10.1	2.6	2.0	19.5%	3.3%	2.50	OP
UZMA BHD	0.755	241.6	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	89.5	9.4	7.8	0.5	0.5	5.5%	0.0%	0.800	OP
VELESTO ENERGY BHD	0.170	1,396.7	Y	12/2020	-15.8%	6.9%	-133.1%	-215.1%	43.6	N.A.	N.A.	0.5	0.5	-0.4%	0.0%	0.130	MP
WAH SEONG CORP BHD	0.730	565.2	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	25.1	8.3	0.8	0.8	3.1%	0.0%	0.720	MP
YINSON HOLDINGS BHD	5.32	5,667.2	Y	01/2021	92.4%	-0.4%	206.8%	-15.1%	26.4	8.6	10.1	3.6	2.6	34.8%	1.1%	6.95	OP
Simple Average					8.0%	10.3%	68.7%	-9.6%	33.0	19.6	15.1	1.7	1.5	9.4%	1.2%		

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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