

23 November 2021

# Wah Seong Corporation

## 9MFY21 Missed Expectations

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9MFY21 missed expectations with wider loss in 3Q on the back of slower-than-expected order-book recognition. Nonetheless, the group's order-book continues to grow, to RM1.7b from RM1.4b last quarter – with majority of the jobs expected to commence only in FY22. Given repeated earnings disappointments, and above-mean trading valuations, we downgrade our call to UP and TP to RM0.63. Its recovery outlook will be heavily dependent on management's ability to translate the growing order-book in a profitable manner.

**9MFY21 missed expectations.** 9MFY21 core net loss of RM21.8m (arrived after adjusting for gains on disposal, net forex, impairments, among other non-core items) missed expectations, against our full-year loss forecast of RM4.5m and consensus of profit forecast of RM13m, due to slower-than-expected order book recognition. No dividends were announced, as expected.

**Widened losses sequentially.** 3QFY21 quarter recorded core net loss of RM11.9m, widening 30% QoQ – dragged by slower order-book recognition in its oil and gas and renewable energy segments. YoY, the quarter plunged into losses, from a core profit of RM9.3m, similarly due to the slow order-book recognition. Cumulatively, 9MFY21 core net loss narrowed 68% YoY, given higher job flows on the back of improved activity levels.

**Order-book continues to expand.** The group's order-book managed to continue to expand, to RM1,657.9m, from RM1,336m last quarter. Management has guided that project execution for a majority of the orders in hand will only commence in FY22, and hence, we expect to see some mild earnings improvement going forward on the back of this order-book recognition.

**Downgrade to UNDERPERFORM**, with a lowered TP of RM0.63 (from RM0.65 previously) – pegged to unchanged valuation of 0.7x FY22E PBV – broadly in-line with the stock's mean valuations. Post results, we further tripled our FY21E loss assumption and cut our FY22E profit forecasts by 21%, to account for the slower order-book recognition.

Our call is premised on the stock's repeated disappointment in earnings delivery, with its shares currently also trading at above-mean valuations. Its recovery outlook will be heavily dependent on management's ability to recognise its growing order-book in a profitable manner.

**Risks to our call include:** (i) higher-than-expected order-book replenishment, (ii) faster-than-expected jobs execution, and (iii) lower-than-expected project costs.

## UNDERPERFORM ↓

Price : **RM0.735**  
Target Price : **RM0.630** ↓

### Share Price Performance



KLCI 1,526.87  
YTD KLCI chg -6.2%  
YTD stock price chg -7.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK Equity
Market Cap (RM m)	569.1
Shares outstanding	774.3
52-week range (H)	0.91
52-week range (L)	0.43
3-mth avg daily vol:	605,047
Free Float	55%
Beta	1.5

### Major Shareholders

Wah Seong (M) Trading	32.5%
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	1,200.0	1,700.0
EBIT	5.9	33.0	76.0
PBT	(268.0)	(24.0)	19.0
<b>Net Profit (NP)</b>	<b>(295.1)</b>	<b>(18.0)</b>	<b>14.3</b>
<b>Core Net Profit</b>	<b>(54.9)</b>	<b>(18.0)</b>	<b>14.3</b>
Consensus (NP)		13.0	55.9
Earnings Revision (%)		300.0	-20.8
Core EPS (sen)	-7.1	-2.3	1.8
CNP growth (%)	-178.2	-67.2	-179.2
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.9	0.9	0.9
Core PER (x)	-10.4	-31.6	39.9
P/BV (x)	0.8	0.8	0.8
Gearing (x)	1.0	1.7	1.6
Dividend Yield (%)	0.0	0.0	0.0

23 November 2021

Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY21	FY21		FY20		FY21	FY20	
<b>Y/E : Dec (RM m)</b>								
Revenue	303.8	336.9	-9.8%	453.3	-33.0%	974.1	1,023.2	-4.8%
Cost of sales	(269.2)	(303.2)	-11.2%	(385.2)	-30.1%	(851.9)	(913.4)	-6.7%
<b>Gross profit</b>	<b>34.6</b>	<b>33.6</b>	<b>2.9%</b>	<b>68.1</b>	<b>-49.1%</b>	<b>122.2</b>	<b>(913.4)</b>	<b>-113.4%</b>
Other operating income	15.7	16.0	-2.3%	1.8	777.9%	54.3	36.0	50.7%
Selling and distribution	(7.8)	(7.7)	1.7%	(7.2)	7.8%	(22.2)	(23.7)	-6.4%
Administrative expenses	(35.6)	(34.9)	1.9%	(78.9)	-54.9%	(116.4)	(166.8)	-30.2%
Impairments	(1.0)	0.1	-882.3%	(204.6)	-99.5%	0.0	(213.8)	-100.0%
Other (losses)/gain	0.2	(0.1)	-368.8%	(1.2)	-114.9%	(2.4)	0.4	-790.1%
Finance costs	(7.9)	(8.7)	-9.1%	(10.3)	-23.2%	(24.8)	(34.7)	-28.4%
Associates & JV	(0.2)	5.9	-103.3%	(3.1)	-93.7%	4.8	(16.3)	-129.2%
<b>Profit before tax</b>	<b>(2.0)</b>	<b>4.4</b>	<b>-145.2%</b>	<b>(3.1)</b>	<b>-36.9%</b>	<b>15.4</b>	<b>(309.2)</b>	<b>-105.0%</b>
Tax expense	(3.4)	(6.5)	-48.3%	(24.4)	-86.2%	(10.8)	(31.2)	-65.3%
Non-controlling interest	(0.6)	4.1	-114.6%	3.9	-115.1%	(0.0)	10.5	-100.1%
<b>Net profit</b>	<b>(5.9)</b>	<b>2.0</b>	<b>-402.2%</b>	<b>(255.8)</b>	<b>-97.7%</b>	<b>4.6</b>	<b>(329.9)</b>	<b>-101.4%</b>
<b>Core net profit</b>	<b>(11.9)</b>	<b>(9.2)</b>	<b>30.4%</b>	<b>9.3</b>	<b>-228.5%</b>	<b>(21.8)</b>	<b>(68.8)</b>	<b>-68.4%</b>
Gross margin	11.4%	10.0%		15.0%		12.5%	-89.3%	
PBT margin	-0.7%	1.3%		-0.7%		1.6%	-30.2%	
Net margin	-2.0%	0.6%		-56.4%		0.5%	-32.2%	
Core net margin	-3.9%	-2.7%		2.0%		-2.2%	-6.7%	
Effective tax rate	-169.0%	148.0%		-773.3%		70.1%	-10.1%	

Source: Company

Segment Breakdown								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY21	FY21		FY20		FY21	FY20	
<b>Y/E : Dec (RM m)</b>								
<b><u>Oil &amp; Gas</u></b>								
Revenue	150.9	164.1	-8.1%	221.7	-32.0%	462.5	416.3	11.1%
Operating Profit	(4.2)	1.0	-504.5%	(232.9)	-98.2%	10.3	(281.9)	-103.7%
Operating Margin	-2.8%	0.6%		-105.0%		2.2%	-67.7%	
<b><u>Renewable Energy</u></b>								
Revenue	58.4	65.4	-10.6%	98.6	-40.7%	197.8	258.8	-23.5%
Operating Profit	5.1	7.0	-27.0%	9.9	-48.3%	18.5	17.3	7.3%
Operating Margin	8.8%	10.7%		10.1%		9.4%	6.7%	
<b><u>Industrial Trading &amp; Services</u></b>								
Revenue	56.1	65.5	-14.3%	89.0	-37.0%	203.7	212.8	-4.3%
Operating Profit	6.3	0.7	836.3%	2.3	178.2%	9.6	(1.7)	-665.7%
Operating Margin	11.2%	1.0%		2.5%		4.7%	-0.8%	
<b><u>Others</u></b>								
Revenue	38.4	41.9	-8.4%	44.0	-12.7%	110.1	135.3	-18.6%
Operating Profit	(2.3)	(5.4)	-56.5%	(2.1)	13.4%	(7.7)	0.3	-2397.0%
Operating Margin	-6.1%	-12.9%		-4.7%		-7.0%	0.2%	

Source: Company

23 November 2021

### 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	0.485	2,864.9	N	12/2021	4.7%	-0.4%	35.9%	-13.2%	6.0	4.4	5.1	0.9	0.7	18.6%	0.0%	0.570	OP
DAYANG ENTERPRISE HLDGS BHD	0.935	1,082.5	Y	12/2021	-14.5%	20.0%	-18.9%	50.9%	16.2	20.0	13.2	0.7	0.6	3.3%	0.0%	1.20	OP
DIALOG GROUP BHD	2.70	15,234.9	Y	06/2022	-38.1%	28.1%	-7.9%	15.4%	25.3	27.5	23.8	3.7	3.4	12.8%	1.1%	3.50	OP
MISC BHD	6.90	30,799.8	Y	12/2021	7.8%	14.2%	-10.0%	1.4%	14.3	15.8	15.6	1.0	0.9	5.7%	4.8%	8.05	OP
PETRONAS CHEMICALS GROUP BHD	8.30	66,400.0	Y	12/2021	48.1%	-8.1%	247.1%	-34.4%	34.6	10.0	15.2	2.2	2.0	20.7%	5.0%	8.75	MP
PETRONAS DAGANGAN BHD	19.90	19,769.7	Y	12/2021	10.2%	10.2%	113.3%	18.9%	69.4	32.5	27.3	3.5	3.5	10.8%	3.1%	18.90	MP
SAPURA ENERGY BHD	0.095	1,518.0	Y	01/2022	11.9%	-40.6%	-879.6%	-118.9%	N.A.	N.A.	N.A.	0.2	0.2	-30.4%	0.0%	0.070	UP
SERBA DINAMIK HOLDINGS	0.350	1,298.4	Y	06/2022	-31.6%	10.0%	-38.2%	6.2%	1.7	2.7	2.6	0.3	0.3	11.5%	0.0%	UR	UR
UZMA BHD	0.575	202.4	Y	06/2022	15.2%	15.0%	27.6%	27.4%	8.5	6.6	5.2	0.4	0.4	6.0%	0.0%	0.750	OP
VELESTO ENERGY BHD	0.140	1,150.2	Y	12/2021	-38.2%	33.9%	-304.1%	-118.9%	N.A.	N.A.	N.A.	0.5	0.5	-3.8%	0.0%	0.130	UP
WAH SEONG CORP BHD	0.735	569.1	Y	12/2021	-14.8%	41.7%	-132.8%	-20.6%	N.A.	N.A.	39.8	0.8	0.8	-2.6%	0.0%	0.630	UP
YINSON HOLDINGS BHD	5.89	6,272.5	Y	01/2022	-6.6%	-15.5%	-20.3%	-18.1%	10.1	12.7	15.5	3.5	2.8	24.7%	1.0%	7.35	OP
<b>Simple Average</b>					<b>-3.8%</b>	<b>9.0%</b>	<b>-82.3%</b>	<b>-17.0%</b>	<b>20.7</b>	<b>14.7</b>	<b>16.3</b>	<b>1.5</b>	<b>1.3</b>	<b>6.4%</b>	<b>1.2%</b>		

Source: Bloomberg, Kenanga Research

23 November 2021

**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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