

29 November 2023

Wasco

Earnings Recovery Gains Momentum

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WASCO's 9MFY23 results beat our forecast but disappointed the market. Its 9MFY23 core net profit rose 19% YoY driven by the ramp-up in works orders and improved economies of scale. We raise our FY23-24F net profit forecasts by 20% and 4%, respectively, lift our TP by 6% to RM0.94 (from RM0.89) and upgrade our call to MARKET PERFORM from UNDERPERFORM.

WASCO's 9MFY23 core net profit of RM49.2m (after excluding EI of RM9.8m forex gain, RM8.2m gain on disposal, RM2.3m inventory impairment reversal and RM2.1m JV impairment reversal) beat our forecast at 86% of our full-year consensus estimate but disappointed the market at only 70% of the full-year consensus estimate. The variance against our forecast came largely from stronger-than-expected billings at its oil & gas division.

YoY. Its 9MFY23 revenue grew 11% driven by the ramp-up in work orders, coupled with increased sales of turbines and equipment at the bioenergy division. Its core net profit rose sharper by 19% on improved economies of scale and the turnaround at its JVs.

The key takeaways from WASCO's analyst briefing yesterday are as follows:

1. WASCO has set a 20% YoY growth target in its bio-energy division's top line in FY23 backed by strong demand for steam turbines. This trend is likely to sustain into FY24. This compares with our assumption of 18%.
2. The progress of its key projects are as follows:
 - (i) East African Crude Oil Pipeline (EACOP) at 37% - the project is on track with no indication of cost overrun;
 - (i) North Field East Project, Qatar, at 27% - still at early stages of execution but is largely in-line with progress milestones.
 - (ii) YINSON Agogo at 31% - largely on track with no immediate sign of cost hikes.
3. The group recently secured a USD34m contract from Schneider Electric France for the supply of pre-fabricated buildings for a project in Africa. It also won the USD13.4m pipe coating for carbon capture storage project for Nederlandse Gasunie (NG). This, together with other undisclosed wins, has brought its YTD contract wins to RM2.1b, which is above our assumption of RM1.5b.

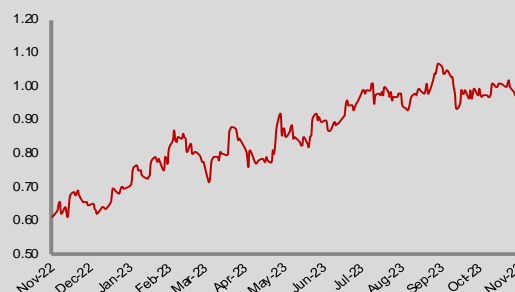
Forecasts. We raise our FY23-24F net profit forecasts by 20% and 4%, respectively, after reflecting higher order book replenishment assumptions of RM2.2b for both FY23 and FY24 (vs. RM1.5b and RM1.9b, respectively, previously).

Correspondingly, we lift our TP by 6% to RM0.94 (from RM0.89) pegged to an unchanged 9x FY24F PER, in line with its global peer Shawcor. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

MARKET PERFORM ↑

Price : **RM0.945**
Target Price : **RM0.94** ↑

Share Price Performance



KLCI 1,449.38
YTD KLCI chg -3.1%
YTD stock price chg 54.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK EQUITY
Market Cap (RM m)	743.3
Shares outstanding	774.3
52-week range (H)	1.09
52-week range (L)	0.59
3-mth avg daily vol:	1,483,855
Free Float	29%
Beta	1.0

Major Shareholders

Wah Seong (M) Trading	33.0%
Tan Kim Yeow Sdn Bhd	7.8%
Midvest Asia Sdn Bhd	5.4%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	2610.0	2740.5	2523.0
EBIT	296.4	171.6	197.7
PBT	232.5	124.5	147.1
Net Profit (NP)	127.7	68.4	80.8
Core Net Profit	83.3	68.4	80.8
Consensus (NP)	-	70.4	76.4
Earnings Revision (%)	-	20.1	4.1
Core EPS (sen)	16.5	8.8	10.4
CNP growth (%)	-218.8	-46.5	18.2
DPS (sen)	-	-	-
BV/Share (RM)	0.92	1.01	1.12
Core PER (x)	5.7	10.7	9.1
P/BV (x)	1.0	0.9	0.8
Gearing (x)	1.0	0.8	0.5
Dividend Yield (%)	-	-	-

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We like WASCO due to: (i) it being a beneficiary of the robust tender pipeline for global pipe coating and EPC projects, (ii) its thrust into contracting work for sustainable projects (e.g. solar farm in Taiwan, hydrogen and refuelling station in Queensland, and Ineos New Energy Plant in Scotland), and (iii) it being the second largest market player in the global pipe coating duopoly. However, cost pressure remains for its oil & gas works and further inflation may affect its project margins. Upgrade to **MARKET PERFORM** from **UNDERPERFORM**.

Risks to our call include: (i) delays and cost overruns from poor project execution, (ii) slow orderbook replenishment, and (iii) surge in opex due to an inflationary cost environment.

Results Highlights

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FYE Dec (RM m)	FY23	FY23		FY22		FY23	FY22	
Revenue	783.9	677.1	15.8%	696.0	12.6%	2,100.7	1,891.9	11.0%
EBITDA	(19.6)	50.4	-138.9%	41.0	-147.8%	97.7	169.4	-42.3%
Finance Costs	(16.3)	(15.2)	6.8%	(11.2)	45.5%	(46.2)	(28.6)	61.5%
Associates & JVs	6.3	3.6	72.3%	(2.1)	-394.8%	7.7	(18.2)	-142.5%
Profit before tax	48.6	38.8	25.3%	27.7	75.3%	137.5	122.6	12.1%
Tax expense	(13.3)	(13.7)	-2.8%	(2.7)	390.1%	(39.7)	(37.1)	6.9%
Non-controlling interest	(8.0)	(1.2)	586.6%	(5.5)	45.6%	(24.6)	(43.5)	-43.5%
Net profit	27.4	24.0	14.2%	19.6	40.1%	73.2	41.9	74.5%
Exceptionals	6.4	11.2	-42.3%	(0.5)	-1308.1%	24.0	0.4	5575.2%
Core net profit	21.0	12.8	63.2%	20.1	4.3%	49.2	41.5	18.5%
Core EPS	2.7	1.7	63.2%	2.6	4.3%	6.3	5.4	18.5%
EBITDA margin	-2.5%	7.4%		5.9%		4.7%	9.0%	
PBT margin	6.2%	5.7%		4.0%		6.5%	6.5%	
Net margin	3.5%	3.5%		2.8%		3.5%	2.2%	
Core net margin	2.7%	1.9%		2.9%		2.3%	2.2%	
Effective tax rate	-27.3%	-35.2%		9.8%		28.9%	30.3%	

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.535	0.58	8.4%	3,168.6	N	12/2023	10.3	13.6	-25.9%	31.9%	5.2	3.9	0.5	11.1%	0.0	0.0%
DIALOG GROUP BHD	OP	2.09	3.10	48.3%	11,793.0	Y	06/2024	9.9	10.3	10.7%	4.2%	21.1	20.3	2.0	9.7%	4.2	2.0%
MISC BHD	MP	7.20	7.00	-2.8%	32,139.0	Y	12/2023	46.8	49.6	-11.8%	6.0%	15.4	14.5	0.8	5.5%	30.0	4.2%
PETRONAS CHEMICALS GROUP BHD	MP	7.08	6.74	-4.8%	56,640.0	Y	12/2023	21.3	45.0	-73.0%	111.1%	31.6	15.0	1.4	8.7%	14.9	2.2%
PETRONAS DAGANGAN BHD	MP	22.16	22.4	1.1%	22,014.9	Y	12/2023	94.8	94.4	25.2%	-0.4%	23.4	23.5	3.7	16.1%	75.8	3.4%
PETRON MALAYSIA REFINING	MP	4.57	4.74	3.7%	1,233.9	Y	12/2023	109.3	99.6	-2.0%	-8.8%	4.2	4.6	0.5	12.6%	21.0	4.6%
UZMA BHD	OP	0.780	1.22	56.4%	302.0	Y	06/2024	11.8	12.2	16.9%	3.5%	6.6	6.4	0.6	8.7%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.225	0.19	-15.6%	1,848.5	Y	12/2023	0.6	1.3	-45.8%	104.6%	35.7	17.4	0.8	2.2%	0.0	0.0%
WAH SEONG CORP BHD	MP	0.945	0.94	-0.5%	731.7	Y	12/2023	8.8	10.4	-46.5%	18.2%	10.7	9.0	1.2	8.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.47	3.79	53.4%	7,179.7	N	01/2024	29.0	29.9	13.7%	3.0%	8.5	8.3	1.4	18.4%	2.0	0.8%
Sector Aggregate					138,927.0					-38.1%	32.4%	18.6	14.1	1.3	9.7%		1.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★			
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★			
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Transition to Low-Carbon Future	★	★	★		
	Conservation & Biodiversity	★	★	★		
	Effluent/Waste Management	★	★	★	★	
	Water Management	★	★	★		
	Supply Chain Management	★	★			
	Energy Efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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