

# Wah Seong Corporation

## 2Q19 Weaker Results Overall

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We deem 1H19 results to be broadly within expectations, in anticipation of a weaker 2H19 due to upcoming jobs completion. Nonetheless, the results were overall weaker, dragged by jobs completion for its O&G segment. Overall, with major job wins expected to come in only in late-2019 or 2020, earnings outlook for the next 12 months seems momentarily bleak. However, upgrade to MP with TP of RM0.62, given recent share price weakness.

**Broadly within expectations.** 1H19 core net profit of RM32.4m (arrived after stripping-off non-core items, e.g. forex and impairments) came in at 63% of our full-year earnings forecasts. Nonetheless, we deem this to be broadly within our expectations as we anticipate a weaker 2H19 due to jobs completion, particularly the Nord Stream 2 project, which is expected to be completed in 3Q19. However, 1H19 came in at 50% of consensus full year forecasts. We believe the market could have possibly imputed in project execution from immediate new wins throughout the year, although we believe contributions from these would not be overly significant. No dividends were declared, as expected.

**Poorer results overall.** Cumulatively, 1H19 plunged 31% YoY, dragged by poorer oil and gas segment (-31%) due to work completions, partially offset by stronger renewable energy segment (+30%) from higher contributions from process equipment fabrication and boiler businesses. For 2Q19, core net profit of RM13.5m plunged 49% YoY, dragged by works completion in the oil and gas segment, coupled with lower margin mix works in renewable energy. Sequentially, core net profit deteriorated 28% QoQ from poorer oil and gas segment due to jobs completion, while its renewable energy segment stayed relatively flattish.

**Weaker 2H19 expected.** Given its expected dwindling order-book (currently at RM938.1m), we believe earnings may have momentarily peaked, and could start to suffer a gradual decline trend for the next 1-2 years. We expect major new wins to be secured only in late-2019 or even 2020, backed by its tender-book at ~RM5-6b, with project execution most likely to commence only in 2021. Key markets the company is tendering for include Australia and Africa, albeit with margins competition still likely.

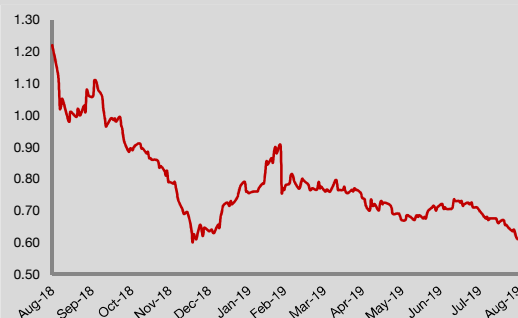
**Upgrade to MARKET PERFORM**, given recent share price weakness of late having fairly priced-in foreseeable negatives, with an unchanged TP of RM0.62, pegged to "floor valuations" of 0.5x PBV on FY20E at -2S.D (from its mean of 1x PBV). Our TP also implies forward PER of 9x - somewhat in line with its 2-year average. No changes were made to our FY19-20E numbers post-results.

**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 : **RM0.610**  
Target Price : **RM0.620** ↔

### Share Price Performance



KLCI	1,612.14
YTD KLCI chg	-4.6%
YTD stock price chg	-3.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WSC MK Equity
Market Cap (RM m)	470.0
Shares outstanding	770.5
52-week range (H)	1.26
52-week range (L)	0.60
3-mth avg daily vol:	200,060
Free Float	54%
Beta	1.4

### 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	1,550.0	1,430.0
EBIT	164.3	90.5	82.1
PBT	107.1	68.5	56.1
<b>Net Profit (NP)</b>	<b>64.8</b>	<b>51.4</b>	<b>42.1</b>
<b>Core Net Profit</b>	<b>63.3</b>	<b>51.4</b>	<b>42.1</b>
Consensus (NP)		62.4	64.3
Earnings Revision (%)		-	-
Core EPS (sen)	8.2	6.7	5.5
CNP growth (%)	-30.8	-18.8	-18.1
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.2	1.3	1.4
Core PER	7.4	9.1	11.2
P/BV (x)	0.0	0.0	0.0
Gearing (x)	0.7	0.6	0.5
Dividend Yield (%)	0.0	0.0	0.0

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Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
<b>Y/E : Dec (RM'mil)</b>								
Revenue	757.4	683.8	10.8%	760.0	-0.3%	1,441.2	1,552.8	-7.2%
Cost of sales/services	(674.3)	(600.2)	12.3%	(674.6)	0.0%	(1,274.5)	(1,383.3)	-7.9%
<b>Gross profit</b>	<b>83.1</b>	<b>83.5</b>	<b>-0.5%</b>	<b>85.4</b>	<b>-2.7%</b>	<b>166.7</b>	<b>169.5</b>	<b>-1.7%</b>
Other operating income	1.9	11.4	-83.0%	(0.5)	-455.6%	13.3	27.1	-51.1%
Selling and distribution expenses	(7.1)	(7.2)	-1.6%	(7.6)	-6.9%	(14.3)	(14.2)	1.0%
Administrative expenses	(39.2)	(48.8)	-19.7%	(31.3)	25.5%	(88.1)	(93.1)	-5.4%
Other (losses)/gain	0.1	(0.1)	-155.8%	(1.3)	-105.0%	(0.1)	(1.3)	-95.9%
Finance costs	(15.8)	(12.4)	27.0%	(9.5)	66.2%	(28.2)	(19.3)	46.6%
Associates & JV	3.5	(0.0)	-14276.0%	(6.3)	-156.0%	3.5	(4.1)	-185.8%
<b>Profit before tax</b>	<b>26.5</b>	<b>26.3</b>	<b>1.1%</b>	<b>28.8</b>	<b>-7.8%</b>	<b>52.8</b>	<b>64.7</b>	<b>-18.4%</b>
Tax expense	(9.4)	(10.3)	-9.5%	(6.3)	49.0%	(19.7)	(18.2)	8.1%
Non-controlling interest	2.1	4.3	-52.1%	(1.5)	-241.4%	6.3	3.8	66.0%
<b>Net profit</b>	<b>19.2</b>	<b>20.2</b>	<b>-4.7%</b>	<b>21.0</b>	<b>-8.6%</b>	<b>39.4</b>	<b>50.3</b>	<b>-21.6%</b>
<b>Core net profit</b>	<b>13.5</b>	<b>18.8</b>	<b>-28.1%</b>	<b>25.9</b>	<b>-47.8%</b>	<b>32.4</b>	<b>46.6</b>	<b>-30.6%</b>
Gross margin	11.0%	12.2%		11.2%		11.6%	10.9%	
PBT margin	3.5%	3.8%		3.8%		3.7%	4.2%	
Net margin	2.5%	3.0%		2.8%		2.7%	3.2%	
Core net margin	1.8%	2.8%		3.4%		2.2%	3.0%	
Effective tax rate	35.3%	39.4%		21.8%		37.3%	28.2%	

Source: Company

Segment Breakdown								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY19	FY19		FY18		FY19	FY18	
<b>Y/E : Dec (RM'mil)</b>								
<b>Oil &amp; Gas</b>								
Revenue	516.4	440.3	17.3%	536.3	-3.7%	956.8	1,075.1	-11.0%
Operating Profit	23.7	24.5	-3.2%	38.3	-38.1%	48.2	69.4	-30.6%
Operating Margin	4.6%	5.6%		7.1%		5.0%	6.5%	
<b>Renewable Energy</b>								
Revenue	90.5	84.7	6.8%	74.5	21.5%	175.3	144.1	21.6%
Operating Profit	7.4	7.4	0.4%	7.7	-3.1%	14.9	11.5	29.5%
Operating Margin	8.2%	8.7%		10.3%		8.5%	8.0%	
<b>Industrial Trading &amp; Services</b>								
Revenue	96.3	117.0	-17.6%	109.3	-11.8%	213.3	259.4	-17.8%
Operating Profit	(0.3)	0.4	-173.5%	3.0	-109.0%	0.1	9.2	-98.9%
Operating Margin	-0.3%	0.3%		2.7%		0.0%	3.5%	
<b>Others</b>								
Revenue	54.1	41.7	29.7%	39.9	35.6%	95.8	74.2	29.1%
Operating Profit	0.3	0.6	-49.9%	(6.3)	-104.7%	0.9	(4.8)	-118.4%
Operating Margin	0.5%	1.4%		-15.7%		0.9%	-6.4%	

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 BERHAD	0.255	1,498.5	N	12/2019	-15.9%	0.0%	34.4%	2.3%	6.6	4.9	4.8	0.4	0.4	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.39	1,341.1	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.2	12.4	11.3	1.2	1.2	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.48	19,621.3	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.6	35.0	32.0	5.2	4.9	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.800	1,280.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	88.3	36.9	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.26	32,406.8	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.5	18.8	17.9	0.9	0.9	4.9%	4.1%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.500	375.0	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	6.93	55,440.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.1	16.0	13.9	1.8	1.7	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	22.88	22,730.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.2	24.1	22.3	3.9	3.7	15.6%	2.9%	22.45	MP
SAPURA ENERGY BHD	0.275	4,383.3	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	90.8	25.3	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.40	6,461.4	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.8	14.4	12.7	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.675	216.0	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	22.3	10.2	7.1	0.5	0.4	4.2%	0.0%	0.610	MP
VELESTO ENERGY BHD	0.305	2,505.8	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	164.9	65.4	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.610	470.0	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.5	9.2	11.2	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.95	7,509.5	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	28.6	30.8	19.7	4.4	3.9	13.5%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

**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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