

Wah Seong (WSC MK)

Bags EACOP's USD254m contract; Qatar next?

Maintain BUY and MYR1.20 TP

We are positively surprised by this big EACOP contract win. It elevates WSC's order backlog by 65%, improves visibility over 3 years and will be a key feature to earnings (with Qatar ops). WSC is entrenched to ride the upcycle energy play. Valuations are undemanding, should WSC deliver to its expectation. Our TP is based on 10x FY22 PER (unchanged).

Salient details of the EACOP job

WSC, via its ISOAF S.r.L indirect subsidiary has been awarded a midstream contract worth USD254.1m (MYR1.1b) by EAST AFRICAN CRUDE OIL PIPELINE (EACOP) Ltd for the provision of line pipe thermal insulation services for the EACOP Project and Feeder Line. The project is located between the town of Kabaale, Uganda and the port of Tanga, Tanzania. WSC's works and services for this project will take about 30 months to complete and are expected to be handed over by Aug 2024. The entire EASOP project (encompassing 1,443km of heated oil pipeline) is about USD3.5b. WSC's contract portion makes up 7% of the total investment.

A major positive surprise

We understand that WSC beat three bidders for this job. This: (i) is a very sizeable contract win for WSC, arguably among its single largest job wins (after NordStream2; NS2: EUR600m @MYR2.8b), (ii) equates to 66% of its order backlog (MYR1.7b @ Sep 2021) and (iii) elevates its order backlog by 65% to MYR2.8b (peak: MYR3.8b in 2017). Earnings-wise, we expect WSC to make about MYR55m-MYR88m in net profit from this project, based on net profit margin of 5-8%, which will be reflected in FY22-24. Majority of that will be back-loaded in the final 24 months. Our estimates are unchanged, incorporating MYR2b-3b job wins in FY22-24.

Qatar ops will drive optimism further

After EACOP, Qatar will be another key feature to the Group. Securing new orders from there on a constant basis (over the next 36 months) will be a catalyst, for it will offer similar earnings impact to the NS2 project. The Qatar ops alone could potentially offer WSC a cumulative MYR180m net profit over 4 years (2021-24).

| FYE Dec (MYR m) | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------|--------|--------|-------|----------|-------|
| Revenue | 2,515 | 1,409 | 1,503 | 2,273 | 2,442 |
| EBITDA | 264 | 117 | 133 | 234 | 255 |
| Core net profit | 70 | (64) | 0 | 92 | 109 |
| Core EPS (sen) | 9.1 | (8.3) | 0.1 | 11.8 | 14.1 |
| Core EPS growth (%) | (16.7) | nm | nm | 18,249.6 | 19.3 |
| Net DPS (sen) | 1.1 | 1.0 | 0.0 | 0.0 | 0.0 |
| Core P/E (x) | 13.1 | nm | nm | 6.0 | 5.1 |
| P/BV (x) | 0.9 | 0.9 | 0.8 | 0.7 | 0.6 |
| Net dividend yield (%) | 0.9 | 1.3 | 0.0 | 0.0 | 0.0 |
| ROAE (%) | 2.5 | (35.1) | 0.1 | 12.3 | 12.9 |
| ROAA (%) | 2.6 | (2.6) | 0.0 | 3.9 | 4.3 |
| EV/EBITDA (x) | 6.8 | 11.1 | 8.9 | 5.0 | 4.4 |
| Net gearing (%) (incl perps) | 76.8 | 84.7 | 78.9 | 70.6 | 57.2 |
| Consensus net profit | - | - | (9) | 58 | 66 |
| MKE vs. Consensus (%) | - | - | 105.7 | 57.3 | 65.2 |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 0.72 |
| 12m Price Target | MYR 1.20 (+68%) |
| Previous Price Target | MYR 1.20 |

Company Description

An O&G company (pipe-coating, fabrication) with renewable energy and industrial trading & services (ITS) complementing it

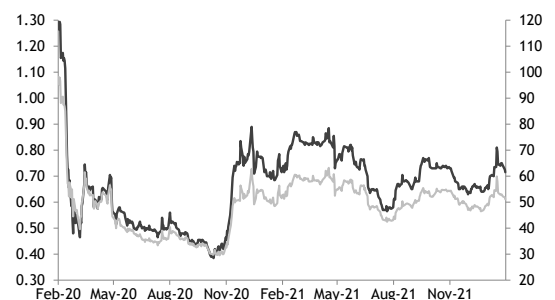
Statistics

| | |
|------------------------|----------------------|
| 52w high/low (MYR) | 0.89/0.57 |
| 3m avg turnover (USDm) | 0.1 |
| Free float (%) | 41.4 |
| Issued shares (m) | 775 |
| Market capitalisation | MYR554.0M USD133M |

Major shareholders:

| | |
|--|-------|
| Wah Seong (Malaya) Trading Co. Sdn. Bhd. | 33.0% |
| Permodalan Nasional Bhd. | 7.4% |
| Tan Kim Yeow Sendirian Bhd. | 7.0% |

Price Performance



— Wah Seong - (LHS, MYR) — Wah Seong / Kuala Lumpur Composite Index - (RHS, %)

| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 9 | (3) | 0 |
| Relative to index (%) | 5 | (6) | (1) |

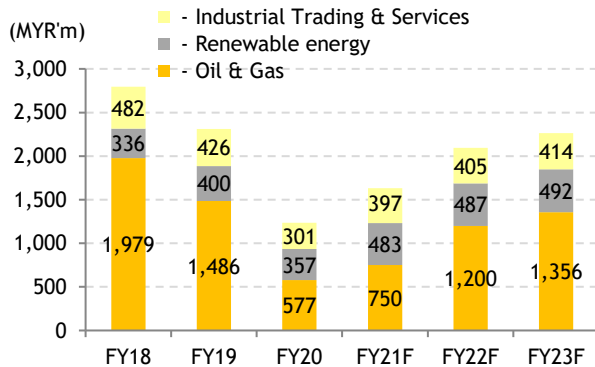
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- WSC is predominantly a specialized pipe-coating & corrosion protection solutions provider in the O&G space. Industrial services (renewable energy, industrial trading services) are its complementary businesses.
- Its business is orderbook driven. Returns in the past have been compressed by the severe cyclical headwinds with ROIC retreating to below WACC.
- Returns outlook is improving but the pace of recovery will be gradual, backed by its continuous efforts to optimise costs and improve replenishment.

Revenue breakdown by business segment

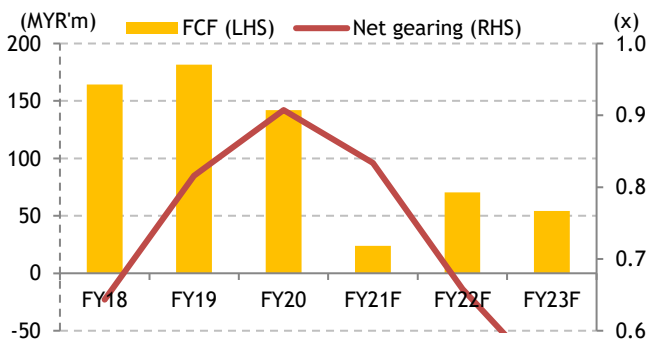


Source: Company

Financial Metrics

- Order backlog, margins, order replenishment and opex are WSC's key earnings drivers.
- Constant orderbook replenishment is crucial to ensure earnings visibility. Cost management, capital discipline and cashflow preservation are mid-term priorities.
- Balance sheet strengthening remains an on-going agenda. Up to MYR200m assets have been identified for such schemes (via sales & leaseback/ sale of non-core assets).

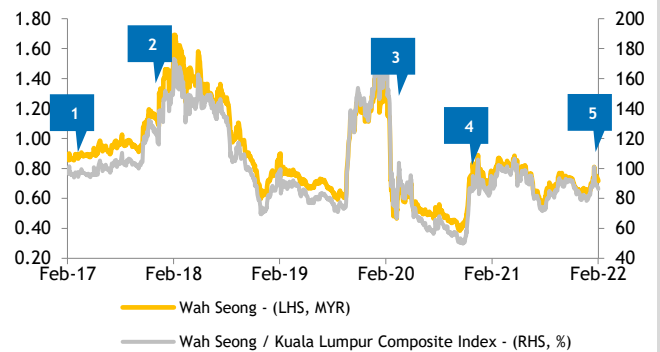
FCF vs. net gearing level



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Signs a sales & leaseback of two properties with Axis REIT for MYR155m.
- Crude oil price recovered to USD80/bbl.
- OPEC+ pact breaks-off in Mar 2020.
- OPEC+ renews alliance in Apr 2020.
- Clinched the East African Crude Oil Pipeline (EACOP) 30-month project to supply line pipe thermal insulation services worth USD254.1m (length: e.1,400km).

Swing Factors

Upside

- Rebound in crude oil prices a near term stock driver.
- Recovery in order replenishment and margin expansion are key catalysts.
- Corporate exercise(s) to strengthen its balance sheet will likely generate excitement.

Downside

- Further weakness in oil price will hurt share price performance.
- Execution mishap, cost overruns and / or absence of new orders will cause adverse reaction.
- Failure to meet debt repayment/covenant is a sign of financial distress.

| | |
|----------------------------------|----|
| Risk Rating & Score ¹ | na |
| Score Momentum ² | na |
| Last Updated | na |
| Controversy Score ³ | na |

Business Model & Industry Issues

- WSC's sustainability: (i) policy; in place since 2012 and (ii) focus are as follows: (i) governance, (ii) health & safety, (iii) strategic engagement, (iv) economic responsibility, (v) operational efficiency, (vi) product & service innovation, (vii) environmental stewardship, (viii) people empowerment and (ix) advocacy & social responsibility.
- Has been consistent in collecting and disclosing its natural capitals statistics but is missing its carbon emissions (CO²) data.
- Setting up: (i) a more comprehensive 'E' targets/ agenda (i.e. baseline, reduction, offsets, carbon neutral, energy transition/ decarbonisation) and (ii) short-/mid-/long-term sustainability framework would be well-received.
- Not ahead of its peers in its ESG disclosures/ progress but should see improvement on a YoY basis.

Material E issues

- In 2020, consumed 11,104,349 KWh of electricity and used 211,127m³ of water at its 5 operations.
- Recorded: (i) 3.04m total man-hours worked, (ii) 41.9m man-hours without LTI and (iii) 0.66 Total Reportable Occupational Illness Frequency (TRIF) in 2020.
- Achieved: (i) zero LTI, (ii) zero fatality, (iii) zero reportable occupational illness, (iv) 1 restricted work & (v) 1 medical treatment; on reportable cases in 2020.
- Developed a new single-pass high tower compact boiler (60 tons @ 55 Barg @ 430°C).
- Signed a MOU with MAN Energy Solutions to promote and commercialise Power-to-X (PtX) projects in SEA. It converts electricity into carbon-neutral synthetic fuels, gas or liquid for a clean carbon-neutral energy source.
- Its RE agro-based business completed the installation of solar panels at its facility in Shah Alam in 2020, capable of generating 500kWp of electricity.
- Signed a MOU with the Pahang Forestry Department to co-operate on forest conservation and planting.

Material S issues

- Has 1,890 employees in 2020: (i) engineering: 1,415, (ii) pipeline services: 440 & (iii) corporate office: 35. Salaries, wages & other benefits totalled MYR191.3m
- Has a diversified workforce - 8 countries: (i) Indonesia (65%), (ii) Malaysia (23%), (iii) Australia (4%), (iv) Singapore (2%), (v) UAE (2%), (vi) Netherlands (1%), (vii) China (1%) and (viii) Greece (1%).
- Has 'zero harm' to people, property & environmental goals.
- Granted full-ride tertiary education scholarships via Yayasan Wah Seong to more than 50 recipients since 2008.
- CSR activities in 2020: Collaborated with these organisations in support, namely: (i) University International Islamic Medical Centre and (ii) Pertubuhan Pusat Jagaan 1 Malaysia, to name a few.

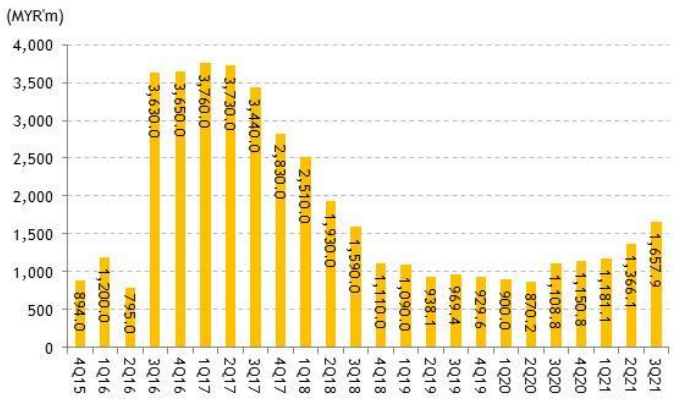
Key G metrics and issues

- Adopts these policies: (i) Company Directors' Code of Ethics (COE), (ii) Whistle Blowing, (iii) Anti-Bribery & Corruption (ABC) and (iv) diversity, to name a few.
- WSC's board comprises 7 directors - 2 Independent Non-Executive Directors (INEDs), 1 Senior Independent Non-Executive Director (SINED), 2 Non-Independent Non-Executive Directors (NINEDs), and 2 Non-Independent Executive Directors (NIEDs; MD/ CEO and Deputy MD).
- A very experienced board with a good mix of tenure of service. 71% are above 60 years old and 86% have served more than 6 years.
- A male-dominated board; no female representation.
- The: (i) MD/ CEO (MYR3.1m), (ii) Deputy MD (MYR4.1m) and (iii) BODs total remuneration packages (MYR8.7m) for 2020 accounted for 2.6%, 3.5% and 7.6% respectively of the Group's EBITDA.
- Its: (i) Audit and (ii) Nomination Committees are made up of 1 SINED, 2 INEDs & 1 NINED respectively. The Risk Management Committee is a sub-committee of (i).
- Its Remuneration Committee has 1 SINED and 2 INEDs.
- WSC is audited by PricewaterhouseCoopers PLT (PwC), one of the Big Four accounting firms in the world.
- Wah Seong (Malaya) Trading Co. Sdn. Bhd. is the largest shareholder of WSC (32.5%).
- Significant related party transactions (RPTs) in 2020 mainly consisted of: (i) lease rental income of equipment (MYR10m) and advances/ repayments.
- Material impairment exercises (e.g. PPE, receivables etc): 2016: MYR192m, 2017: (MYR37m), 2018: (MYR20m), 2019: (MYR58m) and 2020: (MYR212m).
- Ventured into plantation operations in Congo in 2012, via the acquisition of a 51% stake at Atama Resources Inc for MYR75m. Atama had a 30-year plantation concession, comprising 470k ha of tropical land, of which 180k ha accessed to be suitable for oil palm cultivation.

The division was never profitable, incurring sizeable impairment and became an associate (49%) in FY15. WSC exited the business in 2017, suffering huge losses.

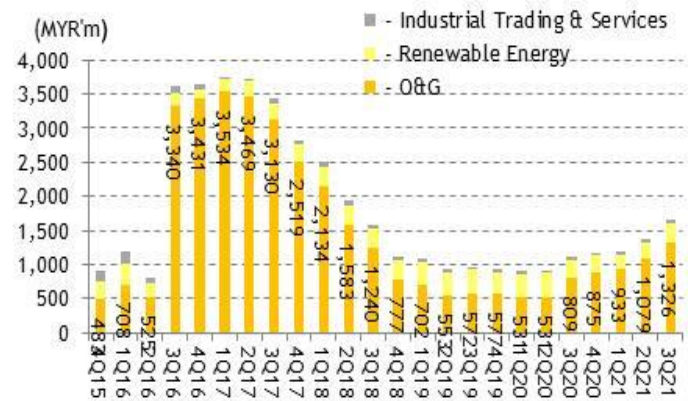
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

WSC: Quarterly backlog



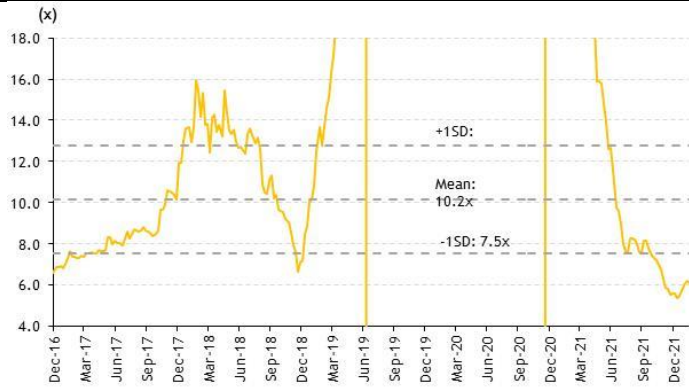
Source: Bloomberg, Maybank IBBG Research

WSC: Quarterly order backlog by segments



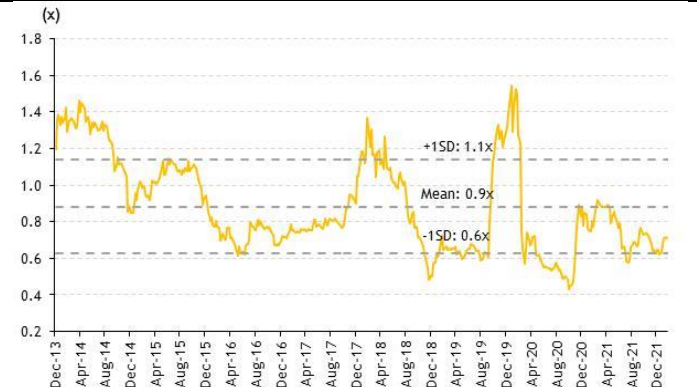
Source: Bloomberg, Maybank IBBG Research

1-year forward PER



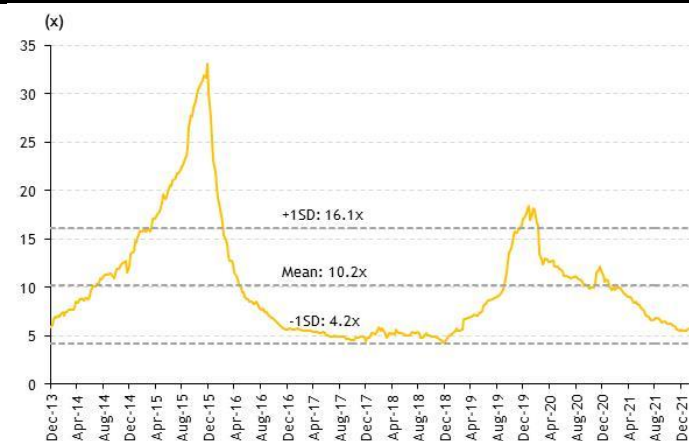
Source: Bloomberg, Maybank IBBG Research

1-year forward PBV



Source: Bloomberg, Maybank IBBG Research

1-year forward EV/ EBITDA



Source: Bloomberg, Maybank IBBG Research

| FYE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 25.8 | nm | nm | 6.0 | 5.1 |
| Core P/E (x) | 13.1 | nm | nm | 6.0 | 5.1 |
| P/BV (x) | 0.9 | 0.9 | 0.8 | 0.7 | 0.6 |
| P/NTA (x) | 0.9 | 0.9 | 0.8 | 0.7 | 0.6 |
| Net dividend yield (%) | 0.9 | 1.3 | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | 19.7 | 23.1 | 9.8 | 0.7 | 9.8 |
| EV/EBITDA (x) | 6.8 | 11.1 | 8.9 | 5.0 | 4.4 |
| EV/EBIT (x) | 16.2 | 65.5 | 33.1 | 8.6 | 7.0 |
| INCOME STATEMENT (MYR m) | | | | | |
| Revenue | 2,514.9 | 1,409.1 | 1,503.0 | 2,273.0 | 2,442.0 |
| EBITDA | 263.7 | 117.2 | 133.1 | 234.4 | 254.8 |
| Depreciation | (153.6) | (97.3) | (97.3) | (97.3) | (97.3) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 110.1 | 19.9 | 35.8 | 137.1 | 157.5 |
| Net interest income / (exp) | (54.7) | (43.4) | (41.7) | (41.2) | (40.8) |
| Associates & JV | (3.8) | (13.5) | 0.0 | 0.0 | 0.0 |
| Exceptionals | (46.1) | (231.0) | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 5.6 | (268.0) | (5.8) | 95.9 | 116.7 |
| Income tax | 8.0 | (38.7) | 2.3 | (14.4) | (17.5) |
| Minorities | 10.6 | 11.6 | 4.0 | 10.0 | 10.0 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 24.1 | (295.1) | 0.5 | 91.5 | 109.2 |
| Core net profit | 70.3 | (64.1) | 0.5 | 91.5 | 109.2 |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & Short Term Investments | 147.5 | 239.5 | 279.4 | 274.3 | 320.1 |
| Accounts receivable | 446.9 | 359.6 | 313.1 | 631.4 | 678.3 |
| Inventory | 267.1 | 195.7 | 273.3 | 239.3 | 339.2 |
| Property, Plant & Equip (net) | 987.3 | 694.6 | 622.3 | 550.0 | 477.8 |
| Intangible assets | 144.0 | 142.3 | 142.3 | 142.3 | 142.3 |
| Investment in Associates & JVs | 319.5 | 312.2 | 312.2 | 312.2 | 312.2 |
| Other assets | 353.2 | 324.8 | 324.8 | 324.8 | 324.8 |
| Total assets | 2,665.4 | 2,268.7 | 2,267.5 | 2,474.4 | 2,594.8 |
| ST interest bearing debt | 730.1 | 775.0 | 775.0 | 775.0 | 775.0 |
| Accounts payable | 291.7 | 246.2 | 262.8 | 397.4 | 426.9 |
| LT interest bearing debt | 217.0 | 103.1 | 92.8 | 83.5 | 75.2 |
| Other liabilities | 385.0 | 391.0 | 391.0 | 391.0 | 391.0 |
| Total Liabilities | 1,624.2 | 1,515.1 | 1,521.4 | 1,646.7 | 1,667.9 |
| Shareholders Equity | 979.9 | 703.7 | 700.3 | 791.8 | 901.0 |
| Minority Interest | 61.3 | 49.8 | 45.8 | 35.8 | 25.8 |
| Total shareholder equity | 1,041.2 | 753.6 | 746.1 | 827.6 | 926.8 |
| Total liabilities and equity | 2,665.4 | 2,268.7 | 2,267.5 | 2,474.4 | 2,594.8 |
| CASH FLOW (MYR m) | | | | | |
| Pretax profit | 5.6 | (268.0) | (5.8) | 95.9 | 116.7 |
| Depreciation & amortisation | 153.6 | 97.3 | 97.3 | 97.3 | 97.3 |
| Adj net interest (income)/exp | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | (222.1) | 137.4 | (14.7) | (149.7) | (117.3) |
| Cash taxes paid | 8.0 | (38.7) | 2.3 | (14.4) | (17.5) |
| Other operating cash flow | 3.8 | 13.5 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 211.7 | 105.7 | 79.1 | 29.1 | 79.2 |
| Capex | (30.2) | 36.3 | (25.0) | (25.0) | (25.0) |
| Free cash flow | 181.5 | 142.1 | 54.1 | 4.1 | 54.2 |
| Dividends paid | 0.0 | (4.2) | (4.0) | 0.0 | 0.0 |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | 99.5 | (69.0) | (10.3) | (9.3) | (8.4) |
| Other invest/financing cash flow | (366.2) | 23.2 | 0.0 | 0.0 | 0.0 |
| Effect of exch rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (85.3) | 92.1 | 39.9 | (5.1) | 45.8 |

| FYE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|--|--------|--------|-------|----------|-------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (15.1) | (44.0) | 6.7 | 51.2 | 7.4 |
| EBITDA growth | (29.5) | (55.6) | 13.6 | 76.1 | 8.7 |
| EBIT growth | (40.2) | (81.9) | 80.0 | 282.8 | 14.9 |
| Pretax growth | (94.8) | nm | nm | nm | 21.7 |
| Reported net profit growth | (62.8) | nm | nm | 18,243.8 | 19.3 |
| Core net profit growth | (17.0) | nm | nm | 18,243.8 | 19.3 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 10.5 | 8.3 | 8.9 | 10.3 | 10.4 |
| EBIT margin | 4.4 | 1.4 | 2.4 | 6.0 | 6.4 |
| Pretax profit margin | 0.2 | nm | nm | 4.2 | 4.8 |
| Payout ratio | 34.0 | nm | 0.0 | 0.0 | 0.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 1.0 | nm | 0.0 | 4.0 | 4.5 |
| Revenue/Assets (x) | 0.9 | 0.6 | 0.7 | 0.9 | 0.9 |
| Assets/Equity (x) | 2.7 | 3.2 | 3.2 | 3.1 | 2.9 |
| ROAE (%) | 2.5 | (35.1) | 0.1 | 12.3 | 12.9 |
| ROAA (%) | 2.6 | (2.6) | 0.0 | 3.9 | 4.3 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 37.2 | 92.0 | 75.1 | 61.2 | 75.4 |
| Days receivable outstanding | 72.0 | 103.0 | 80.6 | 74.8 | 96.5 |
| Days inventory outstanding | 48.3 | 67.7 | 63.9 | 47.4 | 49.8 |
| Days payables outstanding | 83.0 | 78.8 | 69.4 | 61.0 | 71.0 |
| Dividend cover (x) | 2.9 | (38.2) | nm | nm | nm |
| Current ratio (x) | 0.9 | 0.8 | 0.9 | 1.0 | 1.1 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.6 | 1.5 | 1.5 | 1.5 | 1.6 |
| Net gearing (%) (incl perps) | 76.8 | 84.7 | 78.9 | 70.6 | 57.2 |
| Net gearing (%) (excl. perps) | 76.8 | 84.7 | 78.9 | 70.6 | 57.2 |
| Net interest cover (x) | 2.0 | 0.5 | 0.9 | 3.3 | 3.9 |
| Debt/EBITDA (x) | 3.6 | 7.5 | 6.5 | 3.7 | 3.3 |
| Capex/revenue (%) | 1.2 | nm | 1.7 | 1.1 | 1.0 |
| Net debt/ (net cash) | 799.6 | 638.5 | 588.4 | 584.2 | 530.1 |

Source: Company; Maybank

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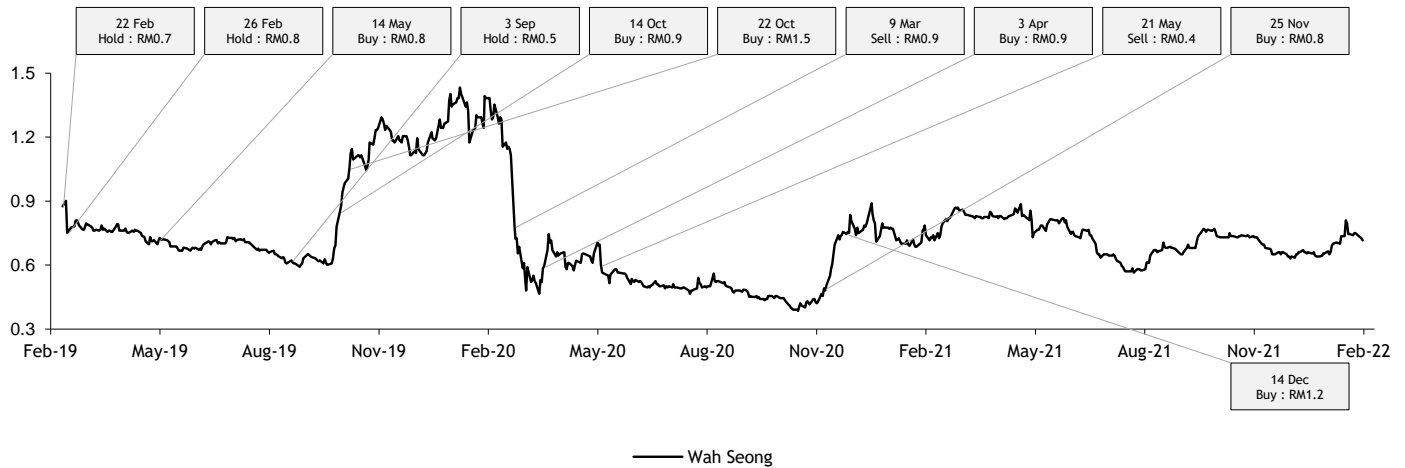
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