

Wah Seong (WSC MK)

FY21 results above expectation

Maintain BUY and MYR1.20 TP

WSC's FY21 results beat our FY expectation. Overall, focus is on its FY22 performance onwards (rising order backlog & tenders pipeline), with its Qatar ops poised to inspire growth, delivering similar impact as its Nordstream 2 (NS2) project in 2017. Valuations are undemanding, should WSC deliver to its expectation. Our TP is based on 10x FY22 PER (unchanged). Also, its concerted efforts to divest non-core assets, monetise and recycle its capital effectively are a positive.

4Q21: Back in the black; substantial one-offs

Excluding the one-off loss of MYR120m in 4Q21 (impairment loss on investments and share of loss of associates & JV; Evraz Wasco & Alam), WSC reported core net profit of MYR8m (vs. -MYR6m in 3Q21), which took FY21 core earnings to MYR3m (vs. FY20: -MYR64m; vs. our estimate: break-even). The QoQ strength was driven by improved renewable energy (RE)'s revenue/ PBT contributions (+44%/ +69%) due to recovery in its boiler business and equipment fabrication ops.

Rising orderbook momentum

Our earnings estimates are unchanged; incorporating MYR2b-3b job wins in FY22-24. The sub-par FY21 is well-flagged. Its longer term outlook is showing more promise (rising orderbook, -MYR4b tender pipeline and improved cost management). Replenishment continues to show constant growth, with order backlog rising for the 6th consecutive quarter to MYR2.7b (+63 QoQ) in 4Q21, which includes EACOP's MYR1.1b project. After EACOP, Qatar will be another key feature to WSC this FY. 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.

Qatar ops will drive optimism from FY22

The Qatar ops alone could potentially offer WSC a cumulative MYR180m net profit over 3 years (2022-24). Meanwhile, its ESG drive is a work-in-progress and should see considerable progress (disclosures, roadmap) over the next 12 months. WSC aims to be carbon neutral by 2026.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,409	1,429	2,234	2,398	2,543
EBITDA	117	186	201	220	233
Core net profit	(64)	3	92	109	123
Core EPS (sen)	(8.3)	0.4	11.8	14.1	15.9
Core EPS growth (%)	nm	nm	3,056.6	19.3	12.4
Net DPS (sen)	1.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	176.0	6.5	5.5	4.9
P/BV (x)	0.9	0.9	0.9	0.8	0.7
Net dividend yield (%)	1.3	0.0	0.0	0.0	0.0
ROAE (%)	(35.1)	(16.6)	14.4	14.9	14.3
ROAA (%)	(2.6)	0.1	3.9	4.2	4.5
EV/EBITDA (x)	11.1	5.8	5.6	4.5	3.6
Net gearing (%) (incl perps)	84.7	80.3	66.5	43.8	24.2
Consensus net profit	-	-	58	66	na
MKE vs. Consensus (%)	-	-	57.3	65.2	na

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BUY

Share Price	MYR 0.77
12m Price Target	MYR 1.20 (+56%)
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

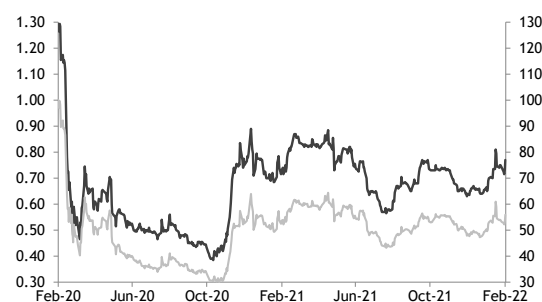
Statistics

52w high/low (MYR)	0.89/0.57
3m avg turnover (USDm)	0.1
Free float (%)	41.4
Issued shares (m)	775
Market capitalisation	MYR596.7M USD143M

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 (%)	16	5	6
Relative to index (%)	11	1	4

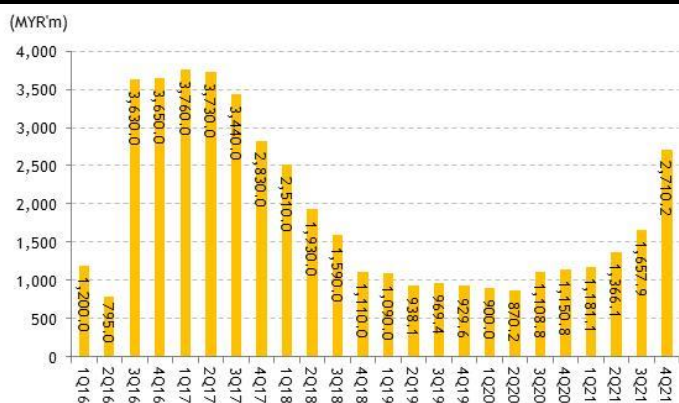
Source: FactSet

Wah Seong: Summary results

FY Dec (MYR m)	Quarterly results					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Turnover	455.2	386.0	17.9	303.8	49.8	1,429.3	1,409.1	1.4
Gross profit	46.4	69.9	(33.6)	34.6	34.0	168.6	179.7	(6.2)
EBIT	93.8	26.1	>100	20.7	>100	119.9	19.9	>100
Interest expense	(11.3)	(8.7)	29.8	(22.2)	(49.4)	(36.1)	(43.4)	(16.8)
Associates	(78.5)	2.7	NM	(0.2)	NM	(73.7)	(13.5)	NM
Exceptional item	(119.8)	20.9	NM	(0.2)	NM	(110.4)	(231.0)	(52.2)
Pretax profit	(115.7)	41.2	NM	(2.0)	NM	(100.3)	(268.0)	(62.6)
Tax	(0.8)	(7.5)	(89.6)	(3.4)	(76.8)	(11.6)	(38.7)	(70.0)
Minority interest	4.4	1.1	>100	(0.6)	NM	4.4	11.6	(61.9)
Net profit	(112.1)	34.7	NM	(5.9)	NM	(107.5)	(295.1)	(63.6)
Net profit Ex EI	7.7	13.8	(44.2)	(5.7)	NM	2.9	(64.1)	NM
Gross margin (%)	10.2	18.1	(7.9)	11.4	(1.2)	11.8	12.8	(1.0)
EBIT margin (%)	20.6	6.8	13.8	6.8	13.8	8.4	1.4	7.0
Tax rate (%)	(0.7)	18.2	(18.9)	(169.0)	168.3	(11.6)	(14.4)	2.9
SEGMENTAL	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Turnover	455.2	386.0	17.9	303.8	49.8	1,429.3	1,409.1	1.4
- O&G	263.5	160.8	63.9	150.9	74.7	726.0	577.0	25.8
- Renewable Energy	84.1	98.7	(14.7)	58.4	43.9	282.0	357.4	(21.1)
- Industrial Trading & Svcs	75.1	88.3	(15.0)	56.1	33.9	278.8	301.1	(7.4)
- Others	32.5	38.2	(15.0)	38.4	(15.5)	142.6	173.5	(17.8)
Pretax profit	(115.7)	41.2	NM	(2.0)	NM	(100.3)	(268.0)	(62.6)
- O&G	(38.1)	26.4	NM	(3.8)	NM	(21.6)	(272.7)	(92.1)
- Renewable Energy	8.8	8.4	4.8	5.2	68.9	27.8	26.5	4.6
- Industrial Trading & Svcs	0.8	21.4	(96.2)	6.4	(87.2)	10.8	19.8	(45.6)
- Others	(60.7)	209.7	NM	(9.8)	NM	(90.7)	183.1	NM
Pretax margin (%)	(25.4)	10.7	(36.1)	(0.7)	(24.8)	(7.0)	(19.0)	12.0
- O&G	(14.5)	16.4	(30.9)	(2.5)	(12.0)	(3.0)	(47.3)	44.3
- Renewable Energy	10.4	8.5	1.9	8.9	1.5	9.8	7.4	2.4
- Industrial Trading & Svcs	1.1	24.3	(23.2)	11.3	(10.3)	3.9	6.6	(2.7)

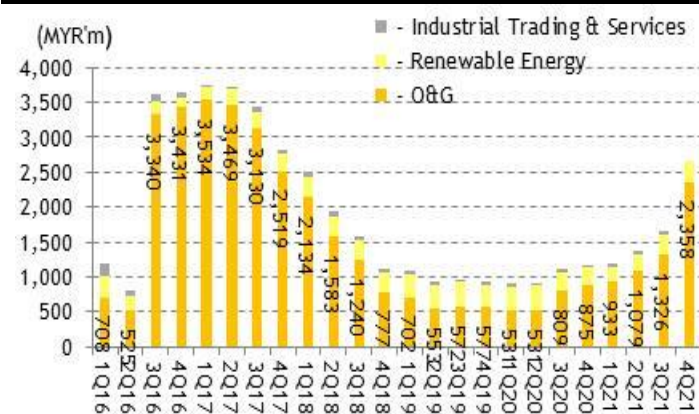
Source: Company

WSC: Quarterly backlog



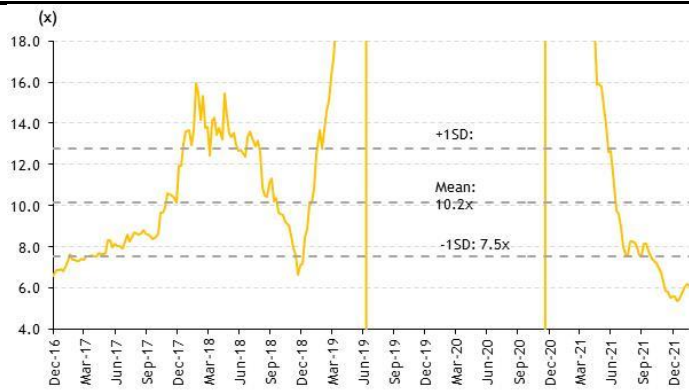
Source: Bloomberg, Maybank IBG Research

WSC: Quarterly order backlog by segments



Source: Bloomberg, Maybank IBG Research

1-year forward PER



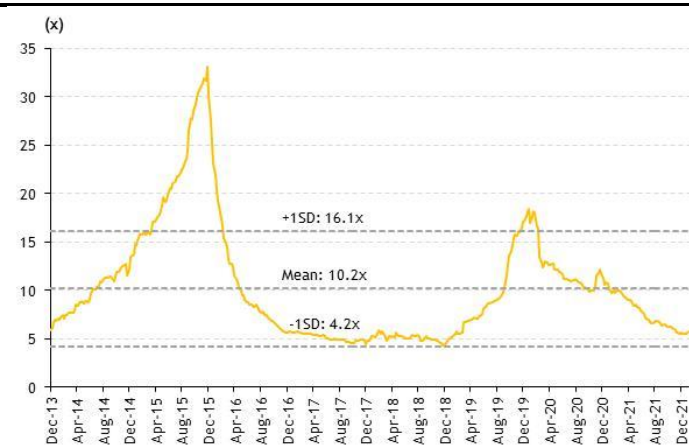
Source: Bloomberg, Maybank IBG Research

1-year forward PBV



Source: Bloomberg, Maybank IBG Research

1-year forward EV/ EBITDA



Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	6.5	5.5	4.9
Core P/E (x)	nm	176.0	6.5	5.5	4.9
P/BV (x)	0.9	0.9	0.9	0.8	0.7
P/NTA (x)	0.9	0.9	0.9	0.8	0.7
Net dividend yield (%)	1.3	0.0	0.0	0.0	0.0
FCF yield (%)	23.1	24.7	5.4	20.0	22.5
EV/EBITDA (x)	11.1	5.8	5.6	4.5	3.6
EV/EBIT (x)	65.5	8.9	8.3	6.4	5.1
INCOME STATEMENT (MYR m)					
Revenue	1,409.1	1,429.3	2,234.4	2,398.4	2,542.8
EBITDA	117.2	186.3	200.6	220.3	233.4
Depreciation	(97.3)	(66.4)	(66.4)	(66.4)	(66.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	19.9	119.9	134.2	154.0	167.1
Net interest income / (exp)	(43.4)	(36.1)	(35.7)	(35.3)	(34.8)
Associates & JV	(13.5)	(73.7)	0.0	0.0	0.0
Exceptionals	(231.0)	(110.4)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	1.0
Pretax profit	(268.0)	(100.3)	98.5	118.7	133.2
Income tax	(38.7)	(11.6)	(14.8)	(17.8)	(20.0)
Minorities	11.6	4.4	7.8	8.3	8.5
Discontinued operations	0.0	0.0	0.0	0.0	1.0
Reported net profit	(295.1)	(107.5)	91.5	109.2	121.7
Core net profit	(64.1)	2.9	91.5	109.2	122.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	239.5	242.0	263.9	373.8	499.1
Accounts receivable	359.6	342.1	534.5	573.8	608.3
Inventory	195.7	178.0	278.3	298.7	316.7
Property, Plant & Equip (net)	694.6	726.6	690.2	653.9	617.5
Intangible assets	142.3	146.3	146.3	146.3	146.3
Investment in Associates & JVs	312.2	235.5	235.5	235.5	235.5
Other assets	323.9	362.3	362.3	362.3	362.3
Total assets	2,267.8	2,232.7	2,511.1	2,644.2	2,785.7
ST interest bearing debt	775.0	649.2	649.2	649.2	649.2
Accounts payable	246.2	363.4	568.5	610.3	647.0
LT interest bearing debt	103.1	105.2	94.7	85.2	76.7
Other liabilities	390.0	477.0	477.0	477.0	477.0
Total Liabilities	1,514.3	1,594.5	1,789.2	1,821.4	1,849.7
Shareholders Equity	703.7	588.5	680.0	789.2	911.0
Minority Interest	49.8	49.7	41.9	33.6	25.1
Total shareholder equity	753.6	638.2	721.9	822.8	936.0
Total liabilities and equity	2,267.8	2,232.7	2,511.1	2,644.2	2,785.7
CASH FLOW (MYR m)					
Pretax profit	(268.0)	(100.3)	98.5	118.7	133.2
Depreciation & amortisation	97.3	66.4	66.4	66.4	66.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	137.3	194.2	(87.6)	(17.9)	(15.8)
Cash taxes paid	(38.7)	(11.6)	(14.8)	(17.8)	(20.0)
Other operating cash flow	13.5	73.7	0.0	0.0	0.0
Cash flow from operations	105.7	220.1	62.4	149.3	163.8
Capex	36.3	(94.2)	(30.0)	(30.0)	(30.0)
Free cash flow	142.1	126.0	32.4	119.3	133.8
Dividends paid	(4.2)	(4.0)	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(69.0)	(123.7)	(10.5)	(9.5)	(8.5)
Other invest/financing cash flow	23.2	34.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	92.1	32.3	22.0	109.9	125.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(44.0)	1.4	56.3	7.3	6.0
EBITDA growth	(55.6)	59.0	7.7	9.8	5.9
EBIT growth	(81.9)	502.6	11.9	14.7	8.5
Pretax growth	nm	nm	nm	20.5	12.2
Reported net profit growth	nm	nm	nm	19.3	11.5
Core net profit growth	nm	nm	3,056.3	19.3	12.4
Profitability ratios (%)					
EBITDA margin	8.3	13.0	9.0	9.2	9.2
EBIT margin	1.4	8.4	6.0	6.4	6.6
Pretax profit margin	nm	nm	4.4	4.9	5.2
Payout ratio	nm	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	4.1	4.6	4.8
Revenue/Assets (x)	0.6	0.6	0.9	0.9	0.9
Assets/Equity (x)	3.2	3.8	3.7	3.4	3.1
ROAE (%)	(35.1)	(16.6)	14.4	14.9	14.3
ROAA (%)	(2.6)	0.1	3.9	4.2	4.5
Liquidity & Efficiency					
Cash conversion cycle	92.0	54.7	25.9	30.4	30.3
Days receivable outstanding	103.0	88.4	70.6	83.2	83.7
Days inventory outstanding	67.7	53.3	42.9	50.6	51.1
Days payables outstanding	78.8	87.0	87.6	103.4	104.5
Dividend cover (x)	(38.2)	nm	nm	nm	nm
Current ratio (x)	0.8	0.8	0.9	1.0	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	84.7	80.3	66.5	43.8	24.2
Net gearing (%) (excl. perps)	84.7	80.3	66.5	43.8	24.2
Net interest cover (x)	0.5	3.3	3.8	4.4	4.8
Debt/EBITDA (x)	7.5	4.1	3.7	3.3	3.1
Capex/revenue (%)	nm	6.6	1.3	1.3	1.2
Net debt/ (net cash)	638.5	512.4	480.0	360.6	226.8

Source: Company; Maybank

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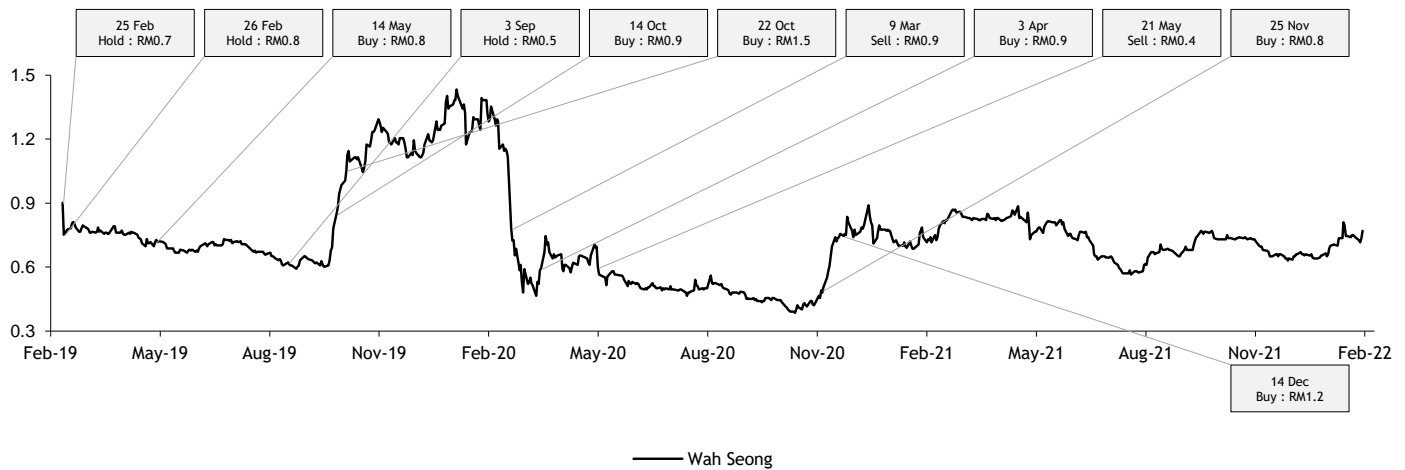
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