

Wah Seong (WSC MK)

1Q22 results came in below

Maintain BUY and MYR1.20 TP

1Q22 results came in below our expectation, impacted by losses at its associate and delivery delays on its Qatar project, which led to a 12%-30% cut in our FY22-24 earnings. These setbacks are mostly short term. We remain positive on its long-term outlook (rising order backlog, tenders pipeline, margins), with its Qatar ops poised to inspire growth, delivering similar impact as its Nordstream 2 project in 2017. Valuations are undemanding, should it deliver to expectation. Our TP is unchanged, as we roll over valuations to FY23 (10x FY23 PER).

1Q22: 2 key highlights

WSC reported core net profit of MYR4m (-48% QoQ; -46% YoY) in 1Q22, 4% of our initial FY estimate. The underlying weakness was mainly due to: (i) losses at its associate (-MYR11m) and (ii) timing deliveries of its pipe-coating project in Qatar. The losses at the former came equally from its: (i) 49% EVRAZ WASC0 (demand softness at the North American markets) and (ii) 26.7% Petra Energy (lower vessels utilization). Meanwhile, contrary to initial expectation of a strong earnings push from the Qatar project in 1Q22, it faced unmitigated push-back on deliveries for the coated pipes (-3M setback). This too led to lower PBT margins (-7-ppts YoY) at its O&G ops. Its engineering & fabrication ops (2/3 of O&G revenue) typically deliver lower margins.

Rising orderbook momentum

We cut FY22/23/24E earnings by 30%/ 15%/ 12% post results, mainly to account for losses at its associate (vs. break-even previously) and delays in its Qatar ops. That said, we see this as a short-term setback. Its mid-to-longer term outlook is showing good promise: (i) rising orderbook (pipe-coating loaded); for the 7th consecutive quarter to MYR3b (+10% QoQ) @ Mar 2022) and (ii) strong tender pipeline (-MYR4b).

Qatar ops will drive optimism from FY22

The Qatar ops alone could potentially offer WSC a cumulative MYR180m net profit over 3 years (2022-24E). Subsequent phases (2 tenders p.a.) in 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 they will offer similar earnings impact to the NS2 project.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,409	1,429	2,089	2,153	2,358
EBITDA	117	186	190	200	218
Core net profit	(64)	3	64	92	110
Core EPS (sen)	(8.3)	0.4	8.2	11.9	14.2
Core EPS growth (%)	nm	nm	2,092.5	45.2	18.8
Net DPS (sen)	1.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	176.0	8.9	6.2	5.2
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)	10.2	13.2	13.6
ROAA (%)	(2.6)	0.1	2.7	3.7	4.2
EV/EBITDA (x)	11.1	5.8	5.7	4.8	3.8
Net gearing (%) (incl perps)	84.7	80.3	67.7	45.8	27.6
Consensus net profit	-	-	58	71	104
MKE vs. Consensus (%)	-	-	9.0	30.1	4.8

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BUY

Share Price	MYR 0.74
12m Price Target	MYR 1.20 (+63%)
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

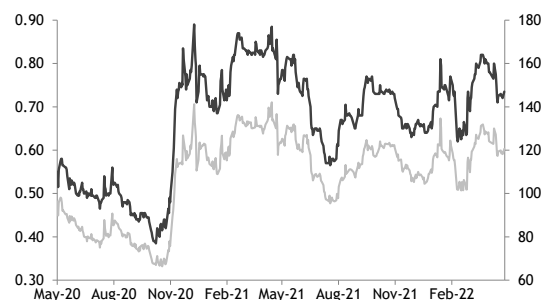
Statistics

52w high/low (MYR)	0.82/0.57
3m avg turnover (USDm)	0.1
Free float (%)	38.8
Issued shares (m)	775
Market capitalisation	MYR569.5M USD130M

Major shareholders:

Wah Seong (Malaya) Trading Co. Sdn. Bhd.	32.6%
TAN FAMILY	7.2%
Permodalan Nasional Bhd.	5.2%

Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(9)	0	(2)
Relative to index (%)	(6)	2	(1)

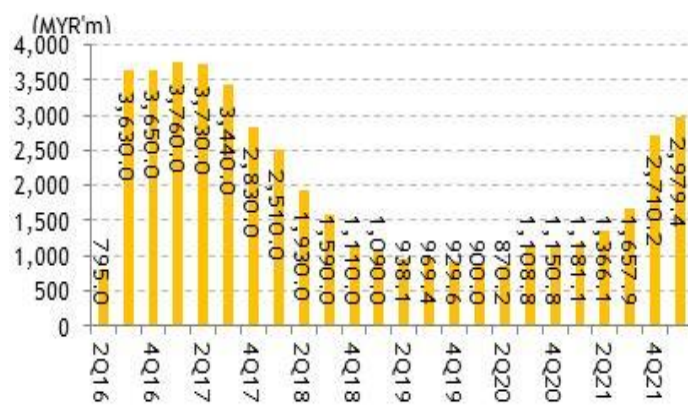
Source: FactSet

Wah Seong: Summary results

FY Dec (MYR m)	Quarterly results				
	1Q22	1Q21	% YoY	4Q21	% QoQ
Turnover	458.8	333.4	37.6	455.2	0.8
Gross profit	62.7	53.9	16.2	46.4	35.0
EBIT	28.4	21.2	34.1	93.8	(69.7)
Interest expense	(8.7)	(8.3)	4.5	(11.3)	(22.8)
Associates	(11.2)	(1.0)	NM	(78.5)	(85.7)
Exceptional item	0.9	1.1	(22.3)	(119.8)	NM
Pretax profit	9.4	13.0	(28.0)	(115.7)	NM
Tax	(3.3)	(1.0)	NM	(0.8)	NM
Minority interest	(1.2)	(3.5)	(65.7)	4.4	NM
Net profit	4.9	8.6	(42.8)	(112.1)	NM
Net profit Ex EI	4.0	7.4	(45.9)	7.7	(47.7)
Gross margin (%)	13.7	16.2	(2.5)	10.2	3.5
EBIT margin (%)	6.2	6.4	(0.2)	20.6	(14.4)
Tax rate (%)	34.9	7.4	27.5	(0.7)	35.6
SEGMENTAL	1Q22	1Q21	% YoY	4Q21	% QoQ
Turnover	458.8	333.4	37.6	455.2	0.8
- O&G	266.4	147.5	80.6	263.5	1.1
- Renewable Energy	90.0	74.0	21.6	84.1	7.0
- Industrial Trading & Svcs	81.3	82.1	(1.1)	75.1	8.2
- Others	21.2	29.8	(28.8)	32.5	(34.6)
Pretax profit	9.4	13.0	(28.0)	(115.7)	NM
- O&G	3.0	12.5	(75.9)	(38.1)	NM
- Renewable Energy	9.1	6.6	36.6	8.8	3.1
- Industrial Trading & Svcs	4.3	2.7	57.3	0.8	>100
- Others	(7.0)	(8.8)	NM	(87.2)	NM
Pretax margin (%)	2.0	3.9	(1.9)	(25.4)	27.5
- O&G	1.1	8.4	(7.3)	(14.5)	15.6
- Renewable Energy	10.1	9.0	1.1	10.4	(0.4)
- Industrial Trading & Svcs	5.3	3.3	2.0	1.1	4.2

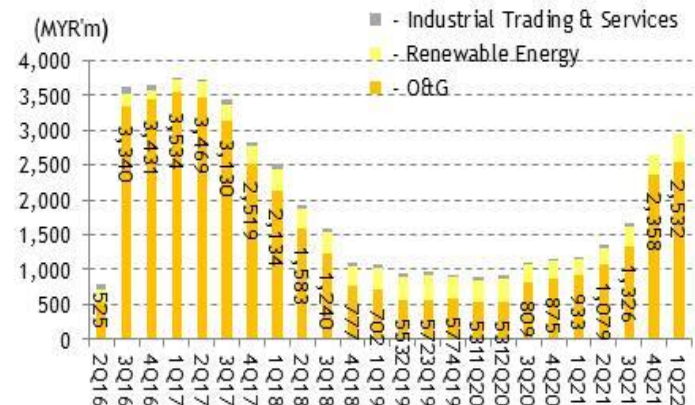
Source: Company

WSC: Quarterly backlog



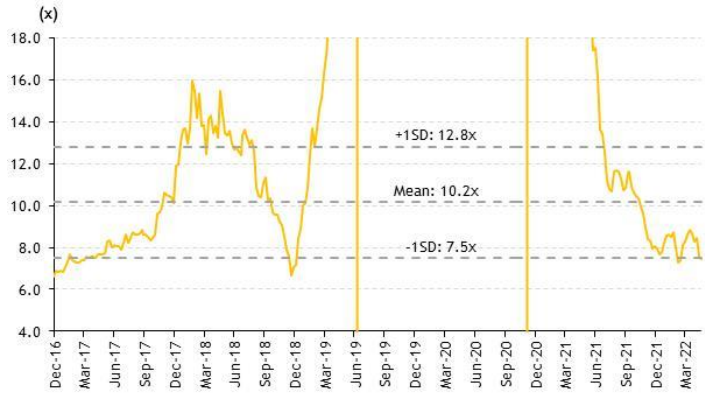
Source: Bloomberg, Maybank IBG Research

WSC: Quarterly order backlog by segments



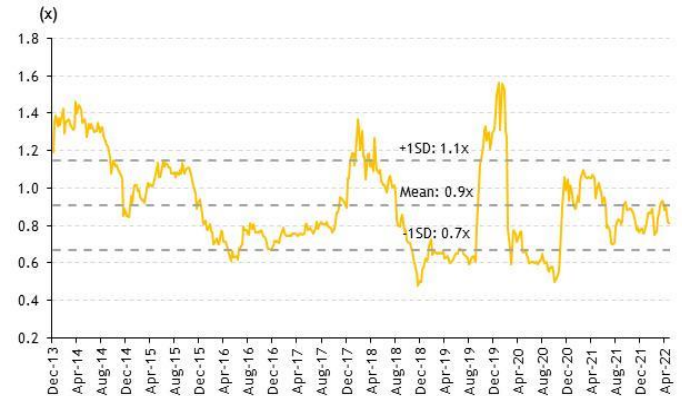
Source: Bloomberg, Maybank IBG Research

1-year forward PER



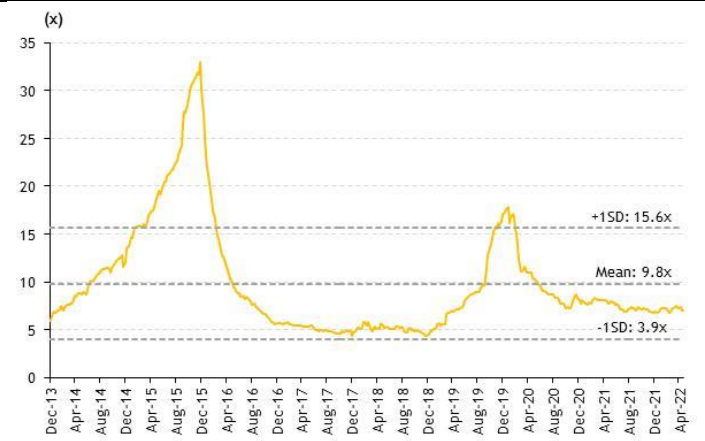
Source: Bloomberg, Maybank IBG Research

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	8.9	6.2	5.2
Core P/E (x)	nm	176.0	8.9	6.2	5.2
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	7.5	20.0	20.1
EV/EBITDA (x)	11.1	5.8	5.7	4.8	3.8
EV/EBIT (x)	65.5	8.9	8.8	7.1	5.5
INCOME STATEMENT (MYR m)					
Revenue	1,409.1	1,429.3	2,089.2	2,153.0	2,358.3
EBITDA	117.2	186.3	189.7	200.5	218.1
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	123.3	134.1	151.7
Net interest income / (exp)	(43.4)	(36.1)	(35.7)	(35.3)	(34.8)
Associates & JV	(13.5)	(73.7)	(22.0)	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)	65.6	98.8	117.9
Income tax	(38.7)	(11.6)	(9.8)	(14.8)	(17.7)
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)	63.6	92.3	108.7
Core net profit	(64.1)	2.9	63.6	92.3	109.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	239.5	242.0	273.9	377.8	483.4
Accounts receivable	359.6	342.1	499.8	515.1	564.2
Inventory	195.7	178.0	260.2	268.1	293.7
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	213.5	213.5	213.5
Other assets	323.9	362.3	362.3	362.3	362.3
Total assets	2,267.8	2,232.7	2,446.2	2,537.0	2,680.9
ST interest bearing debt	775.0	649.2	649.2	649.2	649.2
Accounts payable	246.2	363.4	531.6	547.8	600.1
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	1,752.2	1,759.0	1,802.7
Shareholders Equity	703.7	588.5	652.1	744.4	853.1
Minority Interest	49.8	49.7	41.9	33.6	25.1
Total shareholder equity	753.6	638.2	693.9	778.0	878.2
Total liabilities and equity	2,267.8	2,232.7	2,446.2	2,537.0	2,680.9
CASH FLOW (MYR m)					
Pretax profit	(268.0)	(100.3)	65.6	98.8	117.9
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	(71.8)	(7.0)	(22.4)
Cash taxes paid	(38.7)	(11.6)	(9.8)	(14.8)	(17.7)
Other operating cash flow	13.5	73.7	22.0	0.0	0.0
Cash flow from operations	105.7	220.1	72.4	143.4	144.1
Capex	36.3	(94.2)	(30.0)	(30.0)	(30.0)
Free cash flow	142.1	126.0	42.4	113.4	114.1
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	31.9	103.9	105.6

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(44.0)	1.4	46.2	3.1	9.5
EBITDA growth	(55.6)	59.0	1.8	5.7	8.8
EBIT growth	(81.9)	502.6	2.9	8.7	13.2
Pretax growth	nm	nm	nm	50.6	19.3
Reported net profit growth	nm	nm	nm	45.2	17.8
Core net profit growth	nm	nm	2,092.3	45.2	18.8
Profitability ratios (%)					
EBITDA margin	8.3	13.0	9.1	9.3	9.2
EBIT margin	1.4	8.4	5.9	6.2	6.4
Pretax profit margin	nm	nm	3.1	4.6	5.0
Payout ratio	nm	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	3.0	4.3	4.6
Revenue/Assets (x)	0.6	0.6	0.9	0.8	0.9
Assets/Equity (x)	3.2	3.8	3.8	3.4	3.1
ROAE (%)	(35.1)	(16.6)	10.2	13.2	13.6
ROAA (%)	(2.6)	0.1	2.7	3.7	4.2
Liquidity & Efficiency					
Cash conversion cycle	92.0	54.7	26.6	31.0	29.9
Days receivable outstanding	103.0	88.4	72.5	84.8	82.4
Days inventory outstanding	67.7	53.3	44.0	51.6	50.3
Days payables outstanding	78.8	87.0	90.0	105.4	102.8
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	1.4	1.5
Net gearing (%) (incl perps)	84.7	80.3	67.7	45.8	27.6
Net gearing (%) (excl. perps)	84.7	80.3	67.7	45.8	27.6
Net interest cover (x)	0.5	3.3	3.5	3.8	4.4
Debt/EBITDA (x)	7.5	4.1	3.9	3.7	3.3
Capex/revenue (%)	nm	6.6	1.4	1.4	1.3
Net debt/ (net cash)	638.5	512.4	470.1	356.7	242.5

Source: Company; Maybank IBG Research

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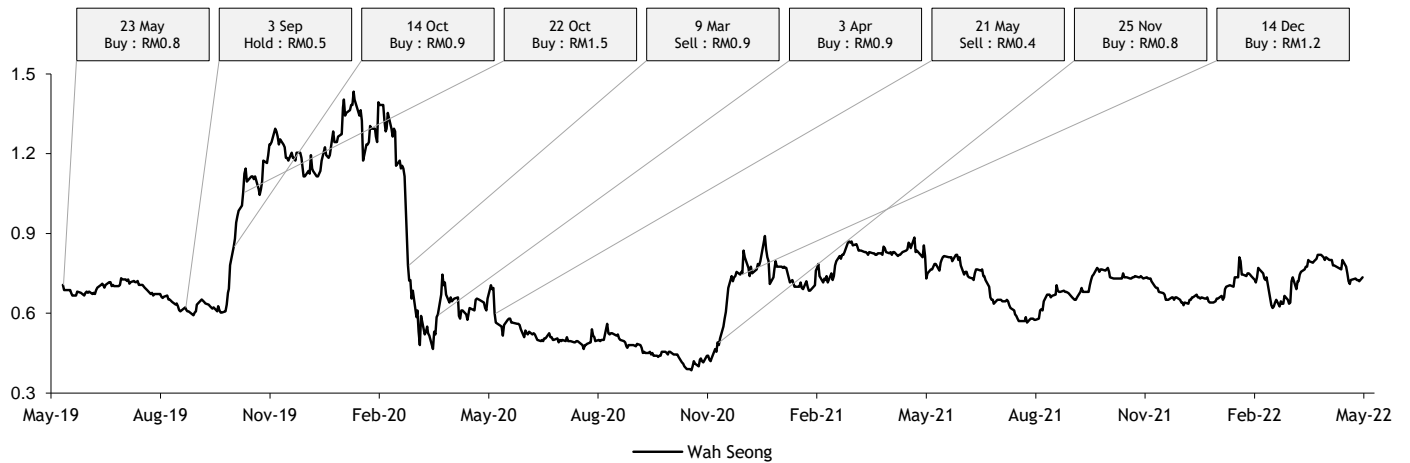
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