

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

19 Mar 2018

Wah Seong Corp (WSC MK) : BUY

Mkt. Cap: US\$320m | 3m Avg. Daily Val: US\$0.65m

Last Traded Price (16 Mar 2018): RM1.62

Price Target 12-mth: RM1.90 (17% upside) (Prev RM1.90)

Shariah Compliant: Yes

Analyst

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A good start to FY18

- Bags RM135m contract from Iraq's Basrah Gas
- Upside risks to earnings estimates
- Contracts replenishment prospects increasingly positive with sizeable local and global projects on the horizon
- Reiterate BUY with TP of RM1.90

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	2,492	3,083	2,911	3,000
EBITDA	279	336	342	358
Pre-tax Profit	123	158	165	181
Net Profit	113	123	129	141
Net Pft (Pre Ex.)	88.9	123	129	141
Net Pft Gth (Pre-ex) (%)	112.2	38.7	4.3	9.5
EPS (sen)	14.6	15.9	16.6	18.2
EPS Pre Ex. (sen)	11.5	15.9	16.6	18.2
EPS Gth Pre Ex (%)	112	39	4	9
Diluted EPS (sen)	11.5	15.9	16.6	18.2
Net DPS (sen)	4.39	4.78	4.99	5.46
BV Per Share (sen)	116	127	139	151
PE (X)	11.1	10.2	9.7	8.9
PE Pre Ex. (X)	14.1	10.2	9.7	8.9
P/Cash Flow (X)	3.8	4.4	4.2	4.7
EV/EBITDA (X)	7.3	5.1	4.4	3.8
Net Div Yield (%)	2.7	3.0	3.1	3.4
P/Book Value (X)	1.4	1.3	1.2	1.1
Net Debt/Equity (X)	0.7	0.3	0.2	0.0
ROAE (%)	13.5	13.1	12.5	12.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Wah Seong Corporation (WSC) announced that it had been awarded a contract by Basrah Gas Company, a company incorporated in Iraq with headquarters in Khor Al Zubair. The contract is valued at USD34.6m (RM135m) and encompasses the design, packaging and sale of gas compressor packages and associated plant and site facilities.

The scope of work of the contract involves the provision of gas compressors and process equipment such as tri-ethylene glycol (TEG) unit, fuel gas conditioning skid, pipe racks, slug catcher, knock out drum, vent stack, site facilities such as office and workshop containers, lighting, safety equipment, fire and gas detectors, power generators and air compressors. The activities undertaken will include engineering, detail design, procurement and packaging of the above process equipment. Work is expected to commence in March 2018, with completion by end-2018.

The contract is for the provision of engineering, design, supply and fabrication services which are within the business scope of the Engineering Division of WSC. The group had previously supplied similar packages to the same customer in Iraq.



Flash Note

Our view

We are positive about the newsflow on the group securing new contracts. This is the first contract announcement for FY18. Its total outstanding orderbook is estimated at RM3bn. This will provide good earnings visibility until 2020. The group tenderbook stands at RM5bn.

We make no changes to our estimates for now as these form part of our conservative orderbook replenishment assumption. We pencil in a modest annual replenishment assumption of RM200m for FY18 which we believe can be

easily surpassed. We believe there is upside risk to our earnings estimates.

Valuation and recommendation

We reiterate our BUY call on WSC with a TP of RM1.90, based on 12x fully-diluted FY18F EPS, which is the sector's weighted average PE for small-cap players. However, this is still at a significant discount to its key competitor ShawCor's current PE of 35x.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Inani ROZIDIN

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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