

# Wah Seong Corporation

(RM2.34 WSC MK)

**Buy**

Target Price: RM2.90

## RM48m pipe coating job

## OIL & GAS

### • RM48m pipe coating job in Thailand

Last week, Wah Seong announced on their website ([www.wascoenergy.com](http://www.wascoenergy.com)) that their pipe coating arm segment had received a small US\$15m (RM48m @ USD/MYR 3.2). The job was awarded by Italian company ILVA S.p.A for the PTT Offshore Gas Spur Lines Project (off Thailand). This contract involves the coating of 48 km of 28" and 39 km of 24" with a three-layer polyethylene anti-corrosion coating, internal flow coating and concrete weight coating. Work will be undertaken at Wasco's coating plant in Kuantan, Malaysia, and is expected to commence in the third quarter of 2010. (*Wasco Energy*)

### • Comments

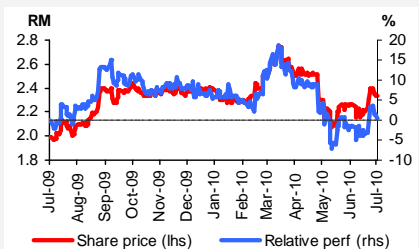
While the job is small, it's still good news for the company as all O&G stocks are typically news (contract news specifically) flow driven. Wah Seong, it would seem, has been pretty dry of contract flow over the past quarter but in actual fact they have been getting small jobs not just for pipe coating but also for their engineering segment. To note, Wah Seong typically does not announce smallish jobs on Bursa but it's good to see them at least highlighting some of these small awards through their own web portal to keep investors informed and more importantly, interested.

Again, we make no changes to our assumptions with the award of this job as it would fall into our replenishment assumptions of RM150m (for the pipe coating segment) for FY10. Margins for a job as such would be in the region of roughly 15% at EBIT level. In terms of total group orderbook, it still would stand at about RM1.2bn at this juncture (see figure 1).

2Q results for the group are due to be announced at the end of August and we warn again that numbers will still be weak until 3QFY10. 3QFY10 is when the RM500m Gorgon job kicks in and also this job for ILVA. Besides that, the group noted that their gas compressor business in Singapore has been seeing a trickle back of orders recently but full effects from this will likely be seen in 2011.

In view that the group's expansion plans have seen a setback (Socotherm M&A that fell through), we are lowering our target price on the stock given that expansion will now be a lengthier process (likely up to 24 months) than earlier envisioned. The group still has a healthy RM460m cash balance but for now it looks to be for organic growth rather than M&A. Previously, we peg Wah Seong's FY10 EPS to their historical average PE of 20x. We are now applying a 15% discount to that (17x PE) deriving a target of RM2.90 from RM3.40 previously. BUY call Maintained.

### Share Price Chart



Source: Bloomberg

### Price Performance

Price (RM)	2.34
52-week Range (RM)	1.96 – 2.75
Avg Daily Volume ('000)	787

	1M	3M	6M
Absolute (%)	3.5	-7.5	-1.3
Relative (%)	2.3	-7.9	-4.9

### Key Data

Market Cap (RM m)	1,659.6
Issued Shares (m)	709.2
ICULS (m)	26.3

### Major Shareholders

	%
Wah Seong Trading Co.	21.9
Employees Provident Fund	10.6
KWAP	5.5

### Balance Sheet Highlights (RM m)

(@ 31.12.2010) (performance indicator's annualised)

Total Assets	2,237.0
Total Liabilities	1,051.8
Total Debt (Gross)	565.9
Shareholders' Equity	986.2

Return on Assets (%)	5.2
Return on Equity (%)	11.8
Net Cash / Share (RM)	-

Debt/Equity (x)	0.5
Interest Cover (x)	6.4

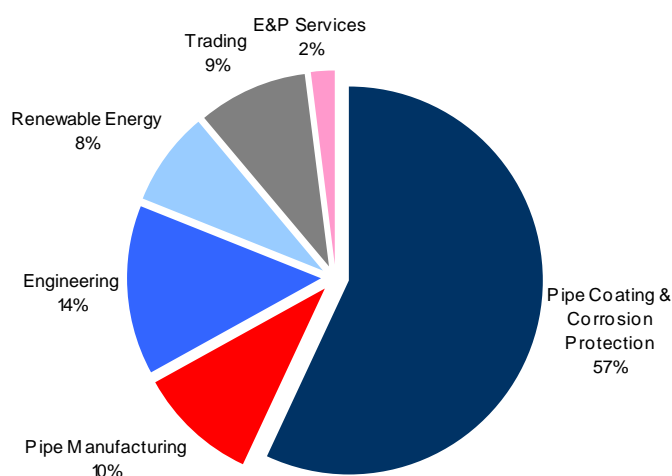
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### Financial summary

FYE 31 Dec	2008	2009	2010F	2011F	2012F
Net profit (RM m)	115.6	121.3	116.0	133.8	145.8
EPS (sen)	26.9	18.1	16.9	19.5	21.2
P/E (x)	8.7	13.0	13.8	12.0	11.0
DPS (sen)	4.7	6.3	5.9	6.8	7.4
Dividend yield (%)	2.0	2.7	2.5	2.9	3.2
BVPS (RM)	1.20	1.29	1.44	1.57	1.72
P/BV (x)	1.9	1.8	1.6	1.5	1.4

**Figure 1 : Latest RM1.2bn orderbook breakdown**



Source: Company

**Key to stock recommendations:**

- Buy** = Share price is expected to appreciate by >10% over the next 12 months
- Hold** = Share price is expected to move by less than +/-10% over the next 12 months
- Sell** = Share price is expected to decline by >10% over the next 12 months

**Key to sector recommendations:**

- Overweight** = Industry expected to outperform the market over the next 12 months
- Neutral** = Industry expected to perform in-line with the market over the next 12 months
- Underweight** = Industry expected to underperform the market over the next 12 months

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