

▶ WAH SEONG CORP BHD				
	2009	2010F	2011F	2012F
<b>NET PROFIT (RM mil)</b>	121.3	116.0	133.8	145.8
<b>EPS (sen)</b>	18.1	16.9	19.5	21.2
<b>P/E (x)</b>	13.0	13.8	12.0	11.0
<b>DIV YIELD (%)</b>	2.7	2.5	2.9	3.2

## Wah Seong's unit secures RM48m pipe coating contract

▶ **Recommendation: Buy**  
**Target Price: RM2.90**  
 By ECMLibra Investment Research (July 26)

LAST week, Wah Seong Corp Bhd (Wasco) announced on its website that its pipe coating arm had received a small US\$15 million (RM48 million) contract.

The job was awarded by Italian company ILVA SpA for the PTT Offshore Gas Spur Lines Project (off Thailand).

The contract involves the coating of 48km of 28-inch and 39km of 24-inch pipes 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 and is expected to commence in the third quarter of 2010.

While the job is small, it's still good news for the company as all oil and gas stocks are typically news (contract news specifically) flow driven.

Again, we make no changes to our assumptions with the award of this job as it would fall into our replenishment assumptions of RM150 million (for the pipe coating segment) for FY10.

Margins for a job such as this would be in the region of roughly 15% at EBIT level.

In terms of total group order book, it still would stand at about RM1.2 billion at this juncture.

In view that the group's expansion plans have seen a setback (Socotherm M&A fell through), we are lowering our target price on its stock given that expansion will now be a lengthier process (likely up to 24 months) than earlier envisioned.

The group still has a healthy RM460 million cash balance but for now, it is likely to be used for organic growth rather than via 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 price of RM2.90 from RM3.40 previously. 'Buy' call maintained.