18 January 2024

Energy & Petrochemicals | Oil & Gas Services

# Wasco (WSC MK)

## Buy

## Bright Prospects And Robust Pipelines

| | |
|---|---|
| Target Price (Return): | MYR1.43 (+42%) |
| Price (Market Cap): | MYR1.01 (USD166m) |
| ESG score: | 2.8 (out of 4) |
| Avg Daily Turnover (MYR/USD) | 0.66m/0.14m |

- **Initiate coverage with BUY, MYR1.43 TP based on 11x FY24F P/E (the 5-year mean) and includes a 4% ESG discount, 42% upside.** We like Wasco for its near-term earnings potential, led by a strong orderbook and tenderbook – these are on the back of strong FPSO demand and its gas projects. In the longer run, we believe Wasco should be able to ride on the opportunities arising from the global energy transition wave, capitalising on its EPC and pipe-coating capabilities amidst sustainable growth within its bioenergy arm.
- **Solid orderbook and bright prospects.** As of 3Q23, Wasco's orderbook is valued at MYR3.6bn, of which MYR3.3bn (92%) is related to energy services, followed by bioenergy services (8%). Its tenderbook is currently worth c.RM7bn, of which the bulk is accounted for by the oil and gas (O&G) unit (both pipe-coating and engineering works) – with jobs from the Middle East, Australia, Africa and Malaysia. Wasco targets to continue its strong replenishment rate in 2H24. Hence, we believe it will be able to maintain its orderbook value at more than MYR3bn by end-2024.
- **Opportunities in energy transition**. Wasco has been securing more energy transition-related jobs, and its track record is essential for the company to clinch more relevant projects in the growing renewable energy (RE) and clean energy industries. Although energy transition-related jobs account for only 6% of its existing MYR3.3bn outstanding energy services orderbook, we expect this percentage to increase over the years. It also secured its maiden line pipe coatings contract for a carbon capture and storage (CSS) project worth USD13m at the Port of Rotterdam for Nederlandse Gasunie. According to management, there are approximately 5,000km of pipelines for CCS projects planned between 2024 and 2027, translating to an estimated USD1bn worth of potential pipe-coating job opportunities, including domestic works (ie Kasawari and Lang Lebah).
- **Steady growth from the bioenergy arm,** which contributed 10% of 9M23 topline, is expected to provide a growing, yet stable and recurring earnings stream as there are more new turbine installations enlarging the operations & maintenance (O&M) customer base. Long-term growth will be further anchored by the National Energy Transition Roadmap (NETR) rollout last year. Malaysia targets to increase its bio-refinery capacity to 3.5bn litres, and raise biomass and biogas power generation capacity to 1.4GW by 2050.
- **Decent earnings growth.** We expect Wasco to register 4-40% YoY earnings growth in FY23-25 – led by higher billings from existing contracts, with the possibility of better contributions from its JVs and associate firms, while higher O&G upstream activities should lead to better maintenance jobs and higher vessel demand. Downside risks: i) Decline in work orders from clients, ii) softer oil prices limiting clients' spending, and iii) higher operating costs.

| Forecasts and Valuation | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 1,429 | 2,687 | 2,862 | 3,153 | 3,187 |
| Recurring net profit (MYRm) | (81) | 61 | 75 | 105 | 109 |
| Recurring net profit growth (%) | (72.6) | - | 22.8 | 40.3 | 4.0 |
| Recurring P/E (x) | na | 12.82 | 10.44 | 7.44 | 7.16 |
| P/B (x) | 1.3 | 1.3 | 1.2 | 1.0 | 0.9 |
| P/CF (x) | 3.55 | 4.70 | 4.75 | 4.50 | 3.89 |
| Dividend Yield (%) | na | na | na | na | na |
| EV/EBITDA (x) | 11.29 | 4.30 | 4.06 | 3.33 | 2.92 |
| Return on average equity (%) | (16.6) | (1.1) | 12.1 | 14.8 | 13.4 |
| Net debt to equity (%) | 80.3 | 67.9 | 45.9 | 26.9 | 9.8 |

*Source: Company data, RHB*

**Analyst**

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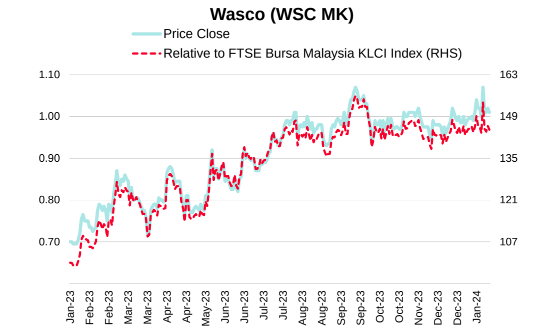
**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 1.5 | (1.0) | 2.0 | 6.9 | 46.4 |
| Relative | (1.0) | (3.0) | (1.3) | 0.8 | 47.0 |
| 52-wk Price low/high (MYR) | | | | | 0.70 – 1.07 |




*Source: Bloomberg*

**Overall ESG Score: 2.8 (out of 4)**

**E: MODERATE**

As a leading service provider, Wasco is commited in reducing its emissions impact in line with its climate transition strategy. Some of the group's initiatives include the tree planting programme where it completed in 2022, as well as its subscription to the Green Electricity Tariff (GET) programme. In 2022, the group's total GHG emissions nearly doubled to 25,224 tCO2e due to expanded reporting from all WSC entities, compared to previous tracking of only the Energy Solution Services division.

**S: GOOD**

WSC prioritizes a safe and healthy workplace for employees, contractors and other stakeholders with stringent health and safety standards in place to help prevent hazards and incidents. As a result, the group reported no Lost Time Incidents (LTIs) or health & safety incidents that have led to fatalities in 2022. In terms of corporate social responsibility, WSC's Foundation, Yayasan Wah Seong, offers scholarships for full time first degree courses in Malaysian public universities. In 2022, Yayasan Wah Seong helped 5 scholars.

**G: EXCELLENT**

Board characteristics are in line with Bursa Malaysia and MCCG requirements, with independence of the board

**Note:**
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

# Financial Exhibits

**Asia**
Malaysia
Energy & Petrochemicals
**Wasco**
WSC MK
Buy

**Valuation basis**

11x FY24F P/E

**Key drivers**

i. Stronger-than-expected contract win;
ii. Lower-than-expected operating costs;
iii. Higher-than-expected oil prices to boost capex spending

**Key risks**

i. Lower-than-expected work orders from clients;
ii. Significantly softer-than-expected oil prices, which could limit clients' spending;
iii. Higher-than-expected operating costs.

**Company Profile**

Established in 1999, Wasco Berhad is an international O&G and industrial services provider with footprints in 17 countries worldwide. The company has two main business pillars – O&G and industrial services divisions. The O&G arm offers pipe-coating, corrosion protection services, EPC, fabrication and rental of gas compressors and process equipment, as well as various E&P products and services. The industrial services division provides process equipment in Asia across different sectors such as plantation, oleo-chemical, petrochemical and utilities industries while distributing infrastructure and building materials in Malaysia.

| Financial summary (MYR) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Recurring EPS | (0.10) | 0.08 | 0.10 | 0.14 | 0.14 |
| BVPS | 0.76 | 0.75 | 0.85 | 0.98 | 1.12 |
| Return on average equity (%) | (16.6) | (1.1) | 12.1 | 14.8 | 13.4 |

| Valuation metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Recurring P/E (x) | na | 12.82 | 10.44 | 7.44 | 7.16 |
| P/B (x) | 1.3 | 1.3 | 1.2 | 1.0 | 0.9 |
| FCF Yield (%) | 15.9 | 16.6 | 13.4 | 14.6 | 18.0 |
| EV/EBITDA (x) | 11.29 | 4.30 | 4.06 | 3.33 | 2.92 |
| EV/EBIT (x) | 39.01 | 5.87 | 5.85 | 4.52 | 3.92 |

| Income statement (MYRm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Total turnover | 1,429 | 2,687 | 2,862 | 3,153 | 3,187 |
| Gross profit | 169 | 412 | 429 | 489 | 494 |
| EBITDA | 93 | 271 | 267 | 298 | 297 |
| Depreciation and amortisation | (66) | (73) | (82) | (78) | (76) |
| Operating profit | 27 | 199 | 185 | 219 | 222 |
| Net interest | (36) | (45) | (56) | (54) | (53) |
| Pre-tax profit | (100) | 82 | 140 | 175 | 181 |
| Taxation | (12) | (39) | (42) | (51) | (53) |
| Reported net profit | (107) | (6) | 75 | 105 | 109 |
| Recurring net profit | (81) | 61 | 75 | 105 | 109 |

| Cash flow (MYRm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Change in working capital | 181 | (65) | (15) | (29) | (3) |
| Cash flow from operations | 220 | 166 | 165 | 174 | 201 |
| Capex | (96) | (37) | (60) | (60) | (60) |
| Cash flow from investing activities | (82) | (11) | (60) | (60) | (60) |
| Cash flow from financing activities | (167) | (18) | 3 | (20) | (20) |
| Cash at beginning of period | 156 | 136 | 276 | 384 | 478 |
| Net change in cash | (29) | 137 | 108 | 94 | 121 |
| Ending balance cash | 128 | 274 | 384 | 478 | 599 |

| Balance sheet (MYRm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Total cash and equivalents | 242 | 329 | 437 | 531 | 652 |
| Tangible fixed assets | 698 | 773 | 751 | 733 | 717 |
| Total investments | 290 | 175 | 175 | 175 | 175 |
| Total assets | 2,231 | 2,713 | 2,851 | 3,010 | 3,125 |
| Short-term debt | 649 | 708 | 711 | 693 | 675 |
| Total long-term debt | 105 | 82 | 82 | 80 | 78 |
| Total liabilities | 1,593 | 2,035 | 2,075 | 2,109 | 2,096 |
| Total equity | 638 | 679 | 777 | 901 | 1,030 |
| Total liabilities & equity | 2,231 | 2,713 | 2,851 | 3,010 | 3,125 |

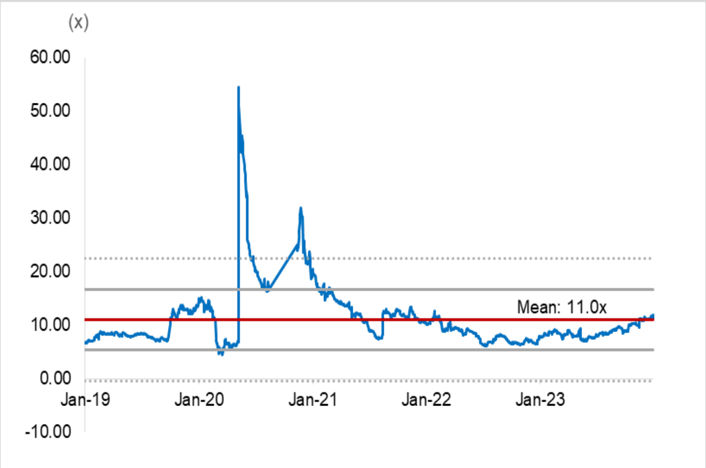
| Key metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
|---|---|---|---|---|---|
| Revenue growth (%) | 1.4 | 88.0 | 6.5 | 10.1 | 1.1 |
| Recurrent EPS growth (%) | (72.6) | 0.0 | 22.8 | 40.3 | 4.0 |
| Gross margin (%) | 11.8 | 15.3 | 15.0 | 15.5 | 15.5 |
| Operating EBITDA margin (%) | 6.5 | 10.1 | 9.3 | 9.4 | 9.3 |
| Net profit margin (%) | (7.5) | (0.2) | 2.6 | 3.3 | 3.4 |
| Capex/sales (%) | 6.7 | 1.4 | 2.1 | 1.9 | 1.9 |
| Interest cover (x) | 0.75 | 4.38 | 3.34 | 4.05 | 4.21 |

*Source: Company data, RHB*

# Valuation And Recommendation

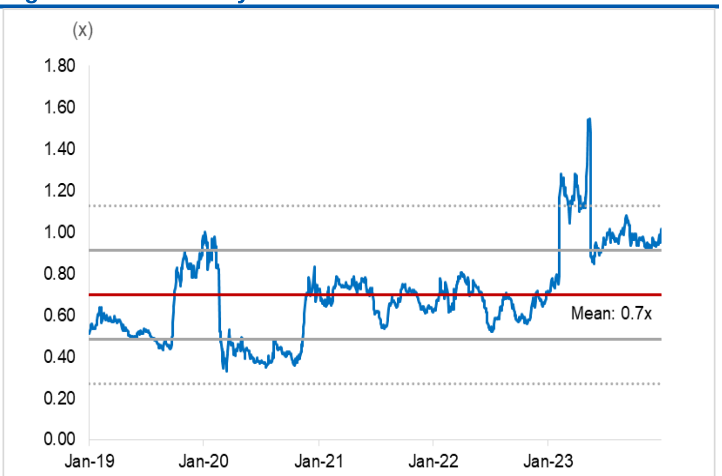
**Initiate coverage with a BUY rating.** Our intrinsic value of MYR1.43 for this stock is based on an ascribed 11x P/E on the company's 2024F earnings. Our ascribed valuation is in line with its 5-year mean of 11x. We like Wasco for its near-term earnings potential, led by a strong orderbook and tenderbook, on the back of strong FPSO demand and gas development projects. We also see the possibility of better contributions from its JVs and associates – stemming from higher O&G upstream activities, which should lead to an increase in maintenance works and higher demand for vessels. In the longer run, we believe Wasco should be able to ride on the opportunities arising from the global energy transition by capitalising on its EPC and pipe-coating capabilities. Our TP implies a FY24 P/BV of 1.5x, at +2SD from the 5-year mean. Note that we have also incorporated a 4% ESG discount on our intrinsic value to derive our TP, based on our ESG score of 2.8.

**Figure 1: Wasco's 5-year P/E band**




*Source: RHB, Bloomberg*

**Figure 2: Wasco's 5-year P/BV band**




*Source: RHB, Bloomberg*

# Key Risks

Key downside risks for the company include:

i. Lower-than-expected work orders from clients;

ii. Significantly softer-than-expected oil prices, which could limit clients' spending;

iii. Operating costs increasing more than expected.

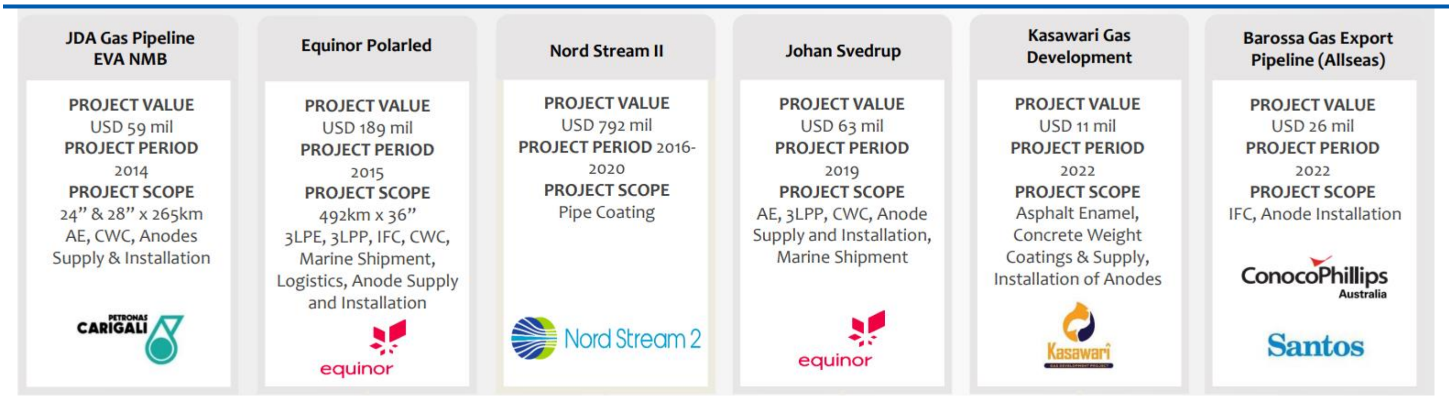
# Investment Thesis

## Experienced O&G services player

Established in 1999, Wasco – previously known as Wah Seong Corporation – is an international O&G and industrial services provider with a footprint in 17 countries worldwide. The company has two main business pillars – O&G and industrial services. The O&G arm offers pipe-coating, corrosion protection services, EPC, fabrication and rental of gas compressors and process equipment, as well as various E&P products and services. The industrial services division supplies process equipment in Asia to different sectors, ie plantation, oleo-chemical, petrochemical, and utilities industries while distributing infrastructure and building materials in Malaysia.

The company recently reclassified its business segments. The RE segment is now reclassified as bioenergy services – and is mainly involved in agro-based industries. The industrial engineering arm – which provides process equipment engineering, fabrication works, and steam solutions within the RE segment – is now lumped into energy services, which encapsulates pipe coating and other engineering & construction (E&C) jobs. Post reclassification, the energy division accounted for 76% of total revenue in 9M23, followed by the trading (14%) and bioenergy services divisions (10%).

**Figure 3: Wasco's pipe-coating track record**

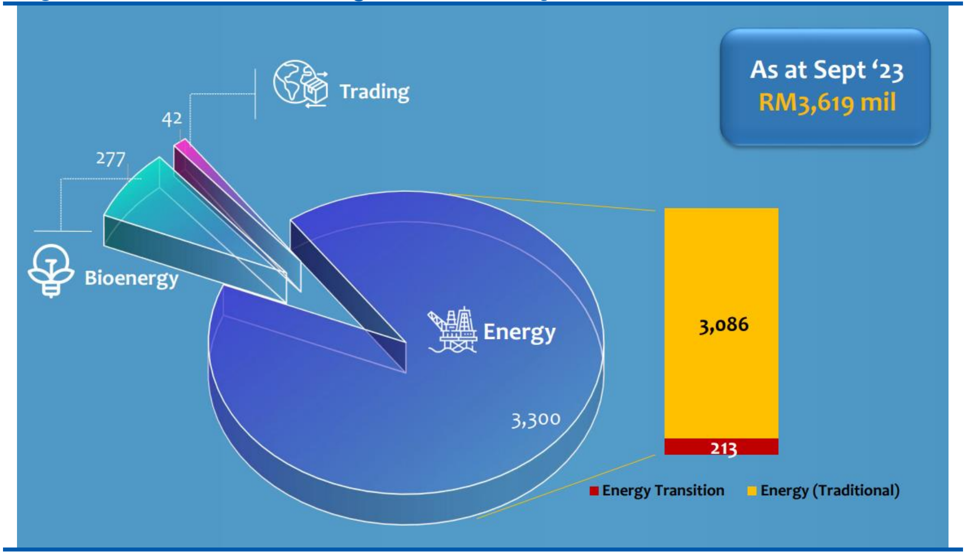



*Source: Company data*

## Strong orderbook and tenderbook

As of 3Q23, Wasco's orderbook value was estimated at MYR3.6bn, of which MYR3.3bn (92%) is related to the energy services, followed by bioenergy services (8%). We were guided that its YTD -9M23 job wins amounted to MYR2.7bn. Recent wins include a USD34m supply of pre-fabricated buildings contract in Africa for Schneider Electric and a USD13m line pipe coatings contract for a CSS project (its first ever) in the Port of Rotterdam for Nederlandse Gasunie. Other ongoing key projects include FPSO certain topside modules worth USD127m for Yinson Azalea Production and the provision of line pipe thermal insulation services for the East African Crude Oil Pipeline Project (EACOP), which are on track. Its tenderbook is worth c.RM7bn, with the bulk accounted for by the O&G segment (both pipe-coating and engineering works) – with jobs from the Middle East, Australia, Africa and Malaysia. Wasco expects to maintain its strong replenishment rate in 2H24. Hence, we believe its orderbook should be maintained at more than MYR3bn by the end of the year.

**Figure 4: Wasco's outstanding orders as of 3Q23**




*Source: Company data*

## Sustained global capex spending

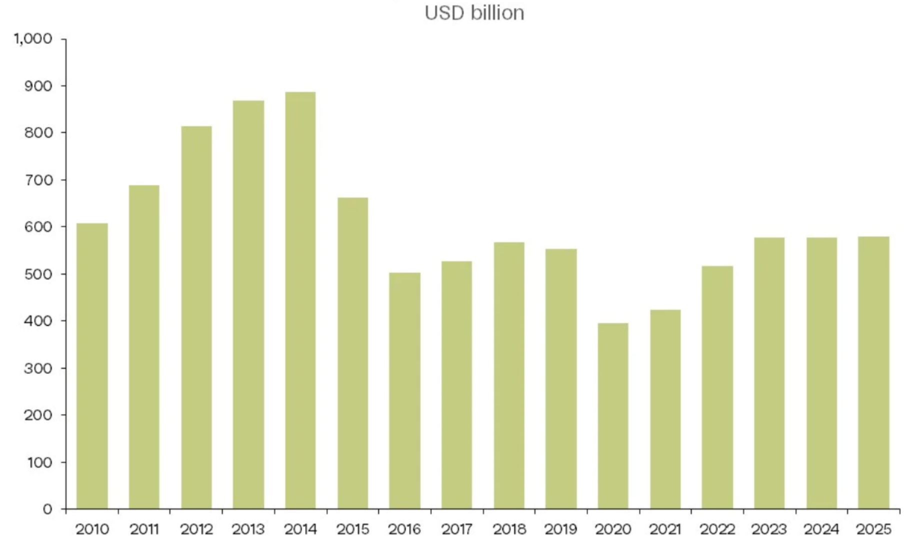
According to Deloitte Insights, the global upstream industry is estimated to maintain hydrocarbon investments at c.USD580bn in 2024. This is also in line with Rystad Energy's estimate, which implies a sustaining at similar levels in 2024-2025. This is not surprising, especially when the demand for fossil fuels spiked up following the outbreak of the Ukraine-Russia conflict in 2022, triggering energy security concerns. In the longer run, natural gas will continue to be the short-to-medium-term interim fuel option in the energy transition journey. With gas being the major key source of energy, we believe Wasco is well-positioned to capitalise on the rising opportunities from gas development projects globally.

As one of the top two global players in the oligopolistic pipe-coating industry, Wasco has, in our view, the edge to compete with its Canada-based rival Bredero Shaw. Some of the pipe-coating services include anti-corrosion coating, concrete weight coating, internal coating, flow assurance coating, and custom coating.

According to Wasco, the pipe coating market is expected to expand from USD8.3bn in 2021 to USD10.6bn by 2027, at a CAGR of 6.8%. For instance, it has commenced works on a new pipe-coating plant in Qatar in 2021. We were guided that the plant has executed some jobs and continues to bid for new projects. In the medium term, Wasco is optimistic that ut will benefit from robust gas development projects in the Middle East, ie Qatar Energy's North Field Expansion project, which aims to raise the country's LNG production capacity to 126mtpa by 2026.

Separately, Wasco also owns a 70% stake in Petro-Pipe (Sabah), the only large-diameter spiral pipe manufacturer of API pipes – line pipes manufactured according to specifications by the American Pipe Institute (API) – in Malaysia. These pipelines are mainly used for onshore infrastructure but the earnings contribution to Wasco is rather immaterial.

**Figure 5: Global upstream investments**




*Source: Rystad Energy*

## Growing engineering business unit

The engineering unit saw strong growth in 2022, with a completion of 10 projects in 2022. Wasco has benefitted from rising modular fabrication within the O&G sector. Basically, modular fabrication involves modules to be pre-fabricated off-site to shorten the project duration in a relatively more cost-effective manner, as compared to traditional on-site fabrication. Modular fabrication also ensures consistency and adherence to international quality assurance standards, while enhancing staff safety with a lower amount of workers to work on-site.

Currently, 50% of its MYR3.3bn outstanding orderbook is related to engineering amd fabrication work. To cater for more jobs, Wasco has more than doubled its Batam yard capacity to 30ha. The new yard has a deep waterfront, and can accommodate large ocean-going vessels. The yard achieved 70% utilisation in 2022, and has improved close to 80% in 2023. With the current robust job pipeline, the yard's utilisation, in our view, is likely to be sustained at a similar level in 2024-2025 with the room to cater for more projects.

One of the core capabilities offered by Wasco is on FPSO and topside module design. As such, there is a potential for the company to clinch an EPC or topside module fabrication job whenever domestic players like Yinson (YNS MK, BUY, TP: MYR3.06) secure a new FPSO charter contract. Globally, FPSO demand remains robust, with Brazil remaining as a bright spot with an estimated USD36bn floating production unit capex over the next five years, followed by the African region (c.USD17bn). In spite of this, the contractors' tight capacity could slow down project rollouts. This is evidenced by only six FPSOs being awarded with contracts in 2023, following a 10-year high of 13 awards in 2022.

Based on our conversation with industry players, we understand that there is still a possibility of more than 10 FPSO awards to be given in 2024, and a high level of upfront payment is expected to be generally offered to contractors to reduce their balance sheet constraints. As there are three projects in the conversion/construction stage, Wasco's existing client Yinson is comfortable to secure another project once any of the projects reach the tail-end conversion stage. All in all, we expect the engineering and construction workflow to remain robust over the medium-term, backed by sustained spending by clients.

## Opportunities in energy transitioning

Apart from conventional hydrocarbon investments to anchor Wasco's future job pipeline, we have also seen a gradual pick-up in its energy transition-related job flow in the recent wins. This showcases Wasco's ability to ride on a new wave of job opportunities as global O&G players are continuously deploying their capital allocations into new low carbon projects. In 2022, the engineering team delivered its first onshore substation for a solar farm in Taiwan, marking its maiden venture into RE. Meanwhile, in Australia, Wasco commenced works on the South Australia Hydrogen and Bess Project and also completed front-end engineering and design or FEED for Lion Energy's first hydrogen and refueling station in southeast Queensland. Wasco is still executing the USD36m EPC work for Ineos New Energy Plant in Scotland. All these track records are essential for Wasco to clinch more relevant projects in the growing RE and clean energy industry. Although energy transition- related jobs only accounted for only 6% of its existing MYR3.3bn outstanding energy services orderbook, we expect such contributions to increase over the years.

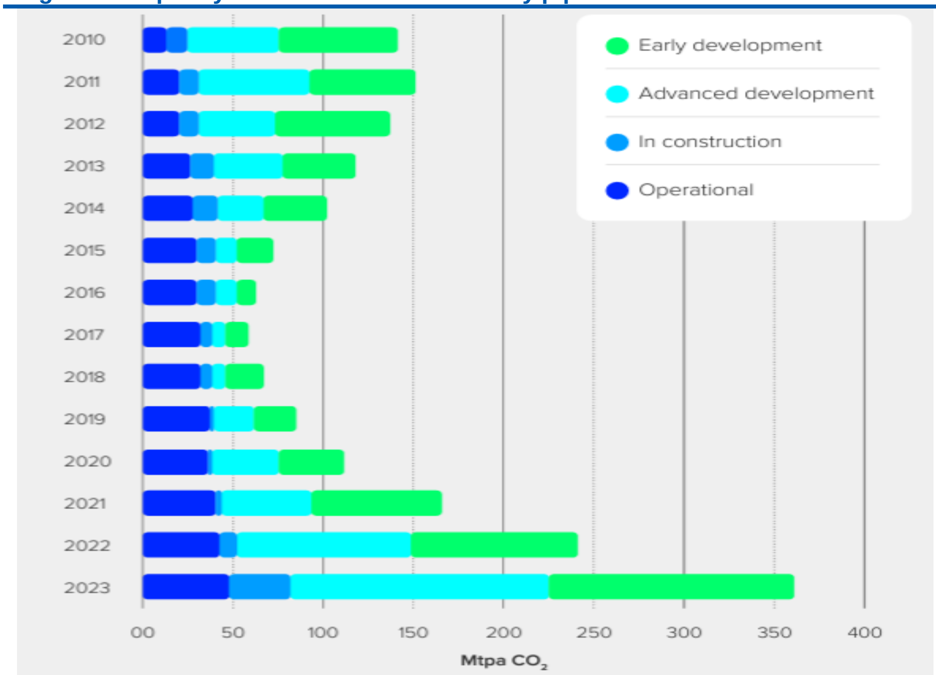
Additionally, Wasco is eyeing the potential of pipe-coating jobs in CCS. It secured its first CCS pipe-coating project in Nov 2023 – this contract is worth USD13m – in the Netherlands. According to management, there are approximately 5,000 km in pipelines for CCS projects planned over 2024-2027, translating to an estimated USD1bn worth of potential pipe-coating job opportunities.

These CCS projects involve capturing carbon dioxide (CO2) from large point sources, ie power generation or industrial facilities, then compressing and transporting it via pipeline, ship, rail or truck, to be used in a range of applications, or injected into deep geological formations that can trap the CO2 for permanent storage.

There is a rapid escalation in the new development of new CCS projects, although the bulk of it has yet to be commercialised. According to Global CCS Institute, the total CO2 capture capacity of publiclly announced CCS projects in development, construction and operation increased by 50% YoY to 361mtpa and the total number of commercial CCS projects in the pipleine has also doubled to 392 as of Jul 2023. Such a trend is expected to continue primarily in Europe and North America, backed by favourable government policies and more stringent climate regulations. Global CCS Institute estimated the deployment must increase at least 100-fold by 2050 to fulfil its essential contribution to a net-zero future.

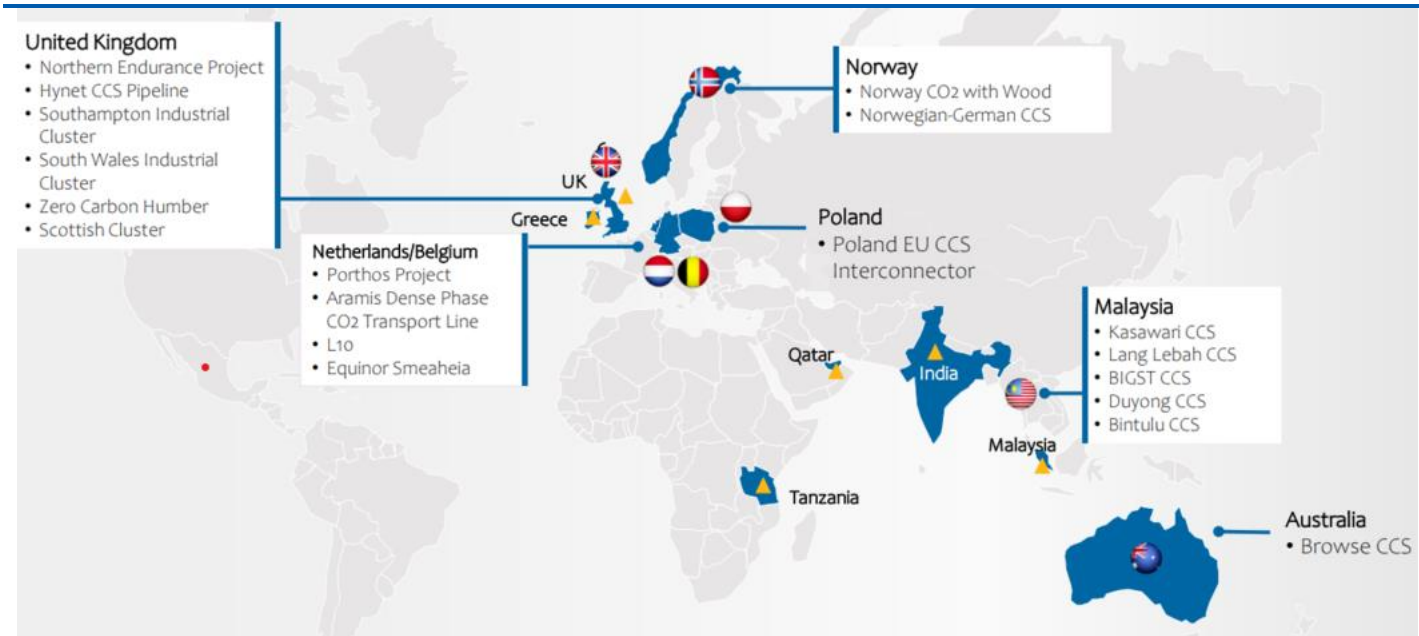
We think that the transport of CO2 via pipelines will continue to gain traction, as it encourages the widespread deployment of carbon capture, utilisatin and storage (CCUS). CO2 is seen to be relatively safer to transport as it does not form flammable or explosive mixtures with the air nor is it directly toxic to humans or wildlife when released into the atmosphere. For instance, the Alberta Carbon Trunk Line (ACTL) that commenced operations in Jun 2022 can transport up to 14.6m tonnes of CO2 pa, which is equivalent to c.20% of all current oil sands emissions in Alberta.

**Figure 6: Capacity of commercial CCS facility pipeline since 2010**




*Source: Global CCS Institute*

**Figure 7: Energy services – the demand outlook for CCS pipelines**




*Source: Company data*

## Better opportunities at home

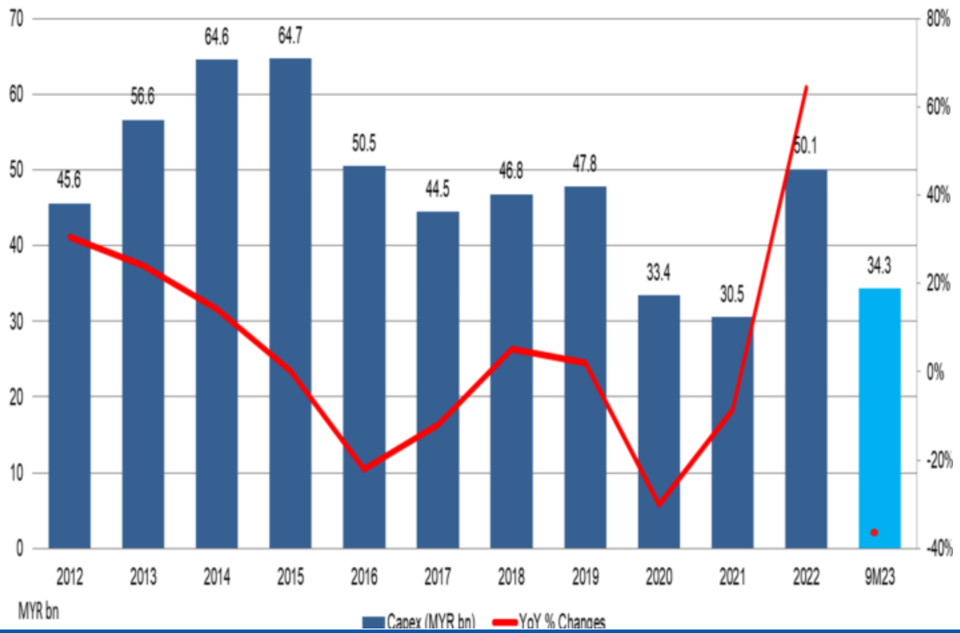
Domestically, the national oil company has guided that it will spend c.MYR113bn or an average of MYR22.6bn pa between 2023 and 2027, which is a 12% increase from the MYR101bn spent over the previous five years (ie MYR20.2bn pa). Simply put, we are not overly excited over such numbers, as Petronas' average annual domestic spending guidance of MYR22.6bn is 9-11% lower than what was spent in 2018-2019 (prior to the pandemic), despite the amount being higher than its annual spending of MYR15-18.6bn in 2020-2022.

Petronas is now targeting a 30% revenue contribution from non-traditional businesses by the end of the decade, while continuing to invest in its core portfolio. This is because hydrocarbon usage is expected to remain relevant in the long run. Its commitment to grow non-traditional sources of income is evidenced by the higher allocation of 25% (previously 20%) of the total, in its 5-year spending plan.

Given that Malaysia aims to position itself as a CCS hub in the region, CCS is one of the top priority focus within the new businesses. Petronas has established 14 strategic commercial partnerships in CCS value chain with energy players, cross-industry partners and institutions to establish a viable ecosystem. The national oil major recently signed a MoU with Japan's Ministry of Economy, Trade and Industry (METI) and Japan Organisation for Metals and Energy Security (JOGMEC) to strengthen collaboration on cross-border CO2 transportation from business to business for CCS projects.

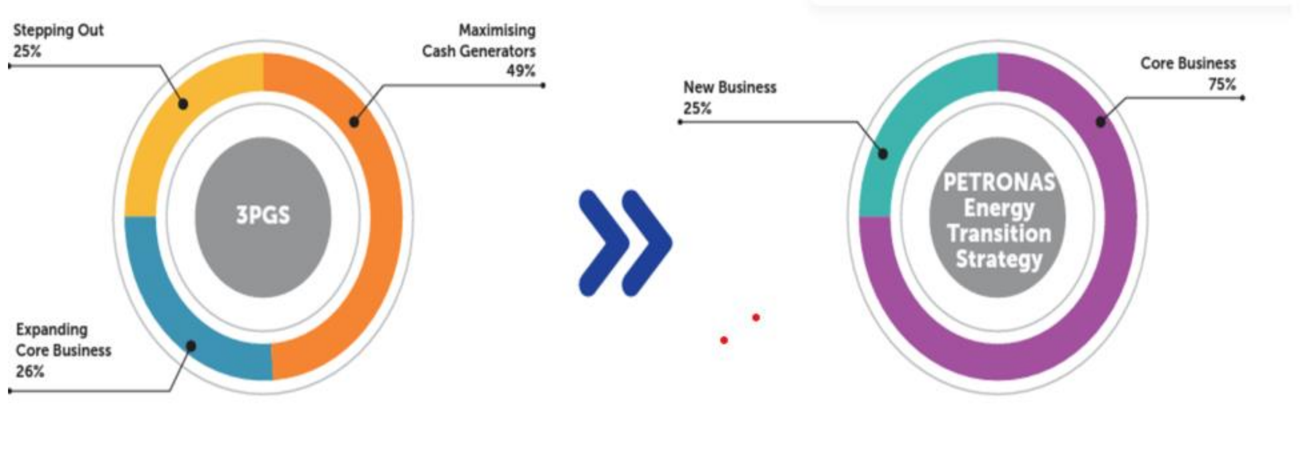
The immediate focus is to achieve Kasawari first CCS injection by 2026 and study new storage sites. As such, we believe Wasco will also benefit from domestic job flow. We gather that the pipe-coating award for the Kasawari CCS project is likely to be awarded in 1Q24 while PTT Exploration & Production's Lang Lebah gas projects pipe-coating work award should materialise in 4Q24. Apart from that, other potential domestic CCS opportunities include the Petronas Carigali and JX Nippon's Bujang, Inas, Guling, Sepat and Tujoh (BIGST).

**Figure 8: Petronas' capex trend**




*Source: RHB, Petronas*

**Figure 9: Petronas' energy transition strategy**

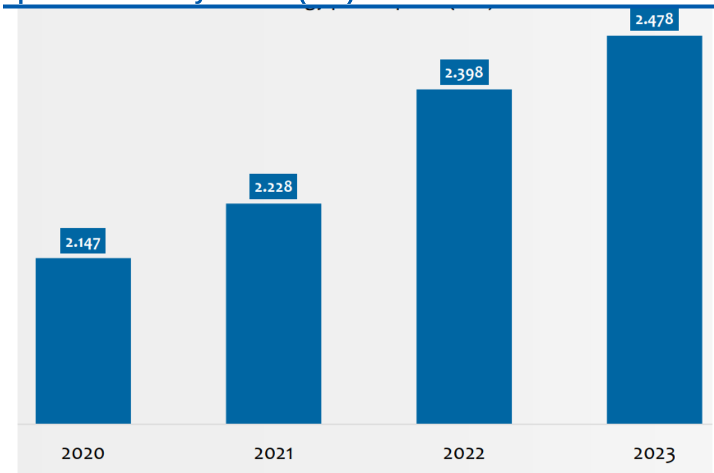



*Source: Petronas*

## More growth potential from its bioenergy services division

Wasco's bioenergy services arm (previously part of its RE arm) supplies specialised equipment for biomass power plants. Equipment like industrial fans, boilers and turbines have run primarily on biomass fuels for the past 20-30 years. It is the sole agent of SHINKO steam turbines from Japan since 1989 and the market leader in the ASEAN region especially for the agro-based Industry. Apart from that, it specialises in designing and fabricating kernel crushing plants and mechanical press machines for oil seeds and palm fibres, and as well as various parts, under the DongYuan brand.

**Figure 10: Cumulative total capacity of bioenergy power plants served by Wasco (GW)**




*Source: Company data*

**Figure 11: Key clients of Wasco;s bioenergy division**


*Source: Company data*

Wasco has installed 1,636 units of turbines and generally any new turbine installation would tie up with a 2-year O&M services contract. We understand almost 60% of these turbines are still being maintained by Wasco. This provides a growing, yet stable and recurring earnings stream as there are more new turbine installation jobs that would enlarge its O&M customer base. Post segmental reclassification, bioenergy services generated MYR210m in revenue (+16% YoY) and MYR34m in operating profit (+42% YoY) in 9M23. The stronger performance was largely led by the higher number of projects executed and improving turbine and equipment sales.

Management is confident to achieve 15-20% growth pa for this segment. In the longer run, we see continuous growth opportunities domestically following the rollout of the NETR last year. Malaysia targets to increase its bio-refinery capacity to 3.5bn litres and upgrade biomass and biogas power generation capacity to 1.4GW by 2050. Biomass demand creation is one of the 10 flagship projects announced under NETR Phase 1, which entails the development of biomass clusters with a centralised plant using aggregated feedstock from multiple neighbouring mills and co-firing initiative at the existing 2,100MW Tanjung Bin Power Plant by burning biomass along with coal. Biomass clustering is expected to improve economies of scale, as well as secure larger and more reliable feedstock. Some of the other few initiatives championed by the Ministry of Plantation and Commodities (KPK) include exploring other alternative bioenergy feedstock, implementing the B30 biodiesel blending mandate by 2030 and addressing feedstock supply security.

# Financial Overview

## Results review

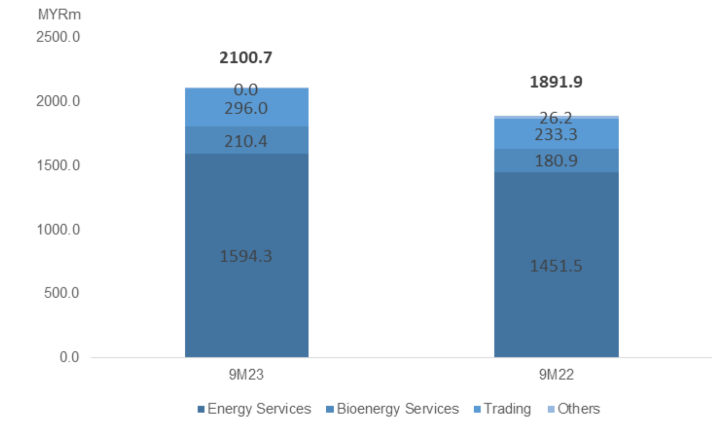
Wasco's earnings have been dragged by weak JV & associate contributions. Last year, lumpy impairments totalling MYR48m were made on investments in associates, Petra Energy (PENB MK, NR) and EVRAZ Wasco Pipe Protection Corporation (EWPPC) as well as its JV, ALAM-PE Holdings (L). Post stripping off one-off items including multiple impairments, Wasco managed to return to the black in FY22 with core earnings of MYR61m (vs FY21's core losses of MYR81m), thanks to stronger earnings contributions from the O&G and RE divisions, led by higher contract billings and industrial engineering (IE) projects executed, as well as improved equipment sales and after-sales services.

**Figure 12: Wasco's results review**

| FYE Dec (MYRm) | 3Q22 | 2Q23 | 3Q23 | QoQ (%) | YoY (%) | 9M22 | 9M23 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **696.0** | **677.1** | **783.9** | ***15.8*** | ***12.6*** | **1,891.9** | **2,100.7** | ***11.0*** |
| **EBITDA** | **61.3** | **69.5** | **78.3** | ***12.6*** | ***27.7*** | **224.5** | **232.3** | ***3.5*** |
| *EBITDA margin (%)* | *8.8* | *10.3* | *10.0* | | | *11.9* | *11.1* | |
| Depreciation | **-20.2** | **-19.1** | **-19.6** | *2.7* | *-3.0* | -55.1 | **-56.3** | *2.3* |
| **EBIT** | **41.0** | **50.4** | **58.6** | ***16.3*** | ***42.9*** | 169.4 | **176.0** | ***3.9*** |
| *EBIT margin (%)* | *5.9* | *7.4* | *7.5* | | | *9.0* | *8.4* | |
| Interest expense | -11.2 | -15.2 | -16.3 | *6.8* | *45.5* | -28.6 | **-46.2** | *61.5* |
| EI/Others | -2.6 | -10.4 | **-6.1** | *-41.6* | *131.8* | -11.8 | **-22.6** | *91.8* |
| **Pretax profit** | **27.7** | **38.8** | **48.6** | ***25.3*** | ***75.3*** | 122.6 | **137.5** | ***12.1*** |
| Tax | -2.7 | -13.7 | -13.3 | *-2.8* | *390.1* | -37.1 | **-39.7** | *6.9* |
| *Effective tax rate (%)* | *9.8* | *35.2* | *27.3* | | | 30.3 | *28.9* | |
| Minority interests | -5.5 | -1.2 | -8.0 | *586.6* | *45.6* | -43.5 | **-24.6** | *-43.5* |
| **Net profit** | **19.6** | **24.0** | **27.4** | ***14.2*** | ***40.1*** | 41.9 | **73.2** | ***74.5*** |
| **Core profit** | **17.0** | **13.6** | **21.4** | ***56.6*** | ***25.9*** | 30.2 | **50.6** | ***67.7*** |
| *Net margin (%)* | *2.4* | *2.0* | *2.7* | ***35.2*** | ***11.8*** | *1.6* | *2.4* | *51.0* |

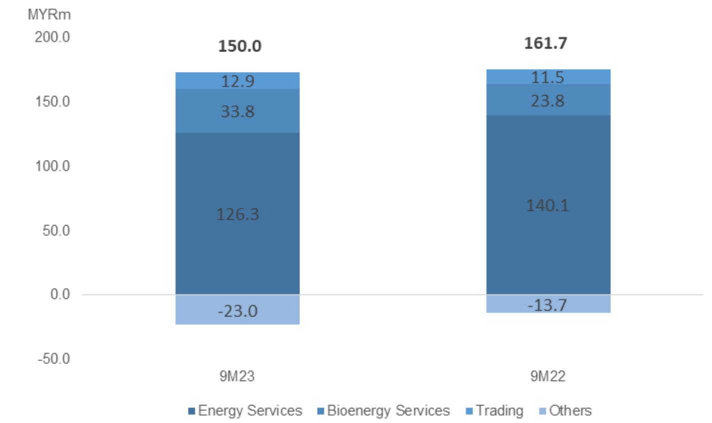
*Source: Company data, RHB*

**Figure 13: 9M23 vs 9M22 revenue breakdown**




*Source: RHB, Company data*

**Figure 14: 9M23 vs 9M22 segmental profit breakdown**



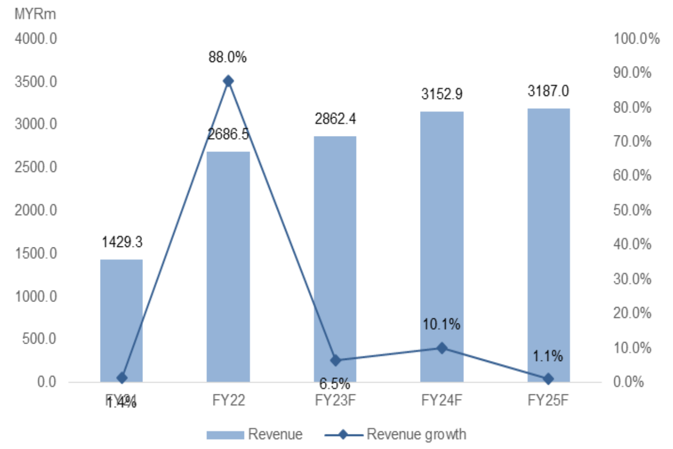

*Source: RHB, Company data*

## More strong earnings growth in FY24

Wasco recorded MYR50.6m in core profit in 9M23 (+68% YoY), mainly due to a ramp-up in project billings from the East African Crude Oil Pipeline or EACOP project and Qatar plant as well as a stronger bioenergy segment (+42% YoY; higher number of projects being executed and higher turbine and equipment sales). This accounted for 68% of our FY23F net profit, as we expect earnings to improve QoQ in 4Q24, backed by decent project billings for energy services. We expect earnings to grow by 23% YoY to MYR75m. For FY24, we estimate core earnings to grow by 40% YoY to MYR105m on the back of 10% YoY topline growth resulting from higher project billings from its existing MYR3.6bn orderbook and an orderbook replenishment of MYR2bn (for energy services). We have also assumed a 10-15% YoY topline growth for its bioenergy division in FY24-25. We may also see further upside in our revenue estimate ifor FY25 if Wasco is able surpass our MYR2bn orderbook replenishment estimate for energy services.

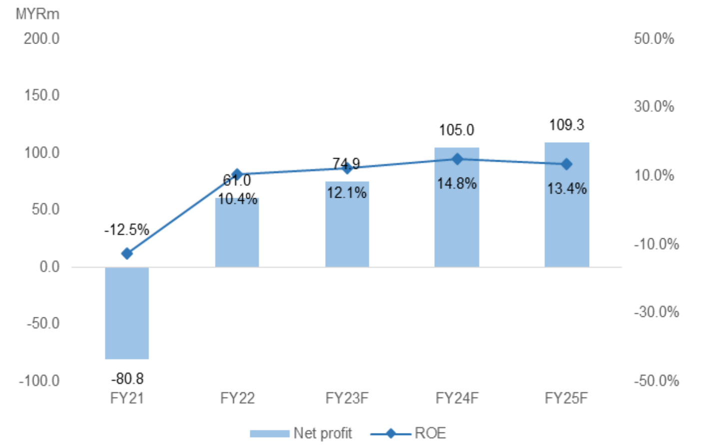
As for its trading division, we have assumed rather flattish revenue growth. We gather that Wasco is looking to exit this business. Although the trading division accounted for 12-13% of total revenue in 9M22-2023, segmental profits for both periods were inflated by disposal gains. The earnings contribution from this GPM assumptions for FY23-24 are 15%, which is rather in line with 9M23's 15%. Should Wasco be able to exit the trading business, we should see revenue tone down by c.10%, but the earnings impact would be rather minimal at 2-3% - along with an overall improvement in margins.

**Figure 15: Wasco's revenue is on a steady growth path**




Source: RHB, Company data

**Figure 16: ROE on a gradual recovery due to a better earnings outlook**

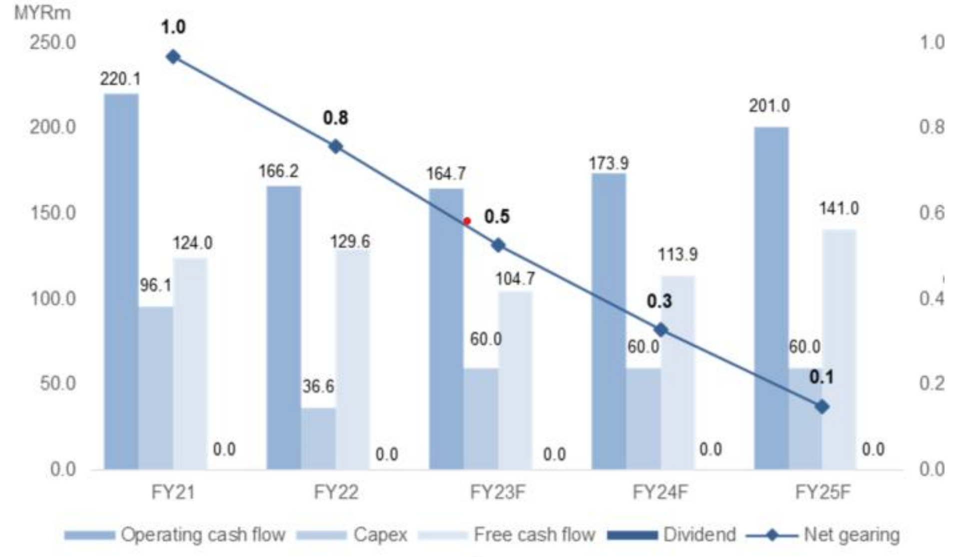



Source: RHB, Company data

## Decent balance sheet with better ROEs.

With Wasco's earnings turnaround, ROE returned to positive territory, at 9.3% in FY22. This is expected to improve further to 10.3% and 12.3% in FY23 and FY24. On Wasco's balance sheet, we note the gradual improvement in net gearing – from 1.0x in 2021 from 0.8x in 2022 – on the back of stronger operating cash flow. We expect such a trend to continue and do not expect any sizeable capex to be incurred. Wasco does not have a dividend policy. Although we do not project the company to distribute dividends, it would not be entirely surprising for Wasco to distribute these in view of its brighter earnings growth outlook.

**Figure 17: Wasco's cash flow, net gearing and capex trend**




*Source: RHB, Company data*

**Figure 18: Peer comparison**

| | Price | Mkt cap | P/E (x) | | P/BV (x) | | EPS growth (%) | | ROE (%) | EV/EBITDA | | Div. yield (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (MYRm) | (MYRm) | CY24 | CY25 | CY24 | CY25 | CY24 | CY25 | CY24 | CY24 | CY25 | CY24 |
| **Wasco** | **1.01** | **782.1** | **7.4** | **7.2** | **1.0** | **0.9** | **40.3** | **4.0** | **14.8** | **3.3** | **3.1** | **0.0** |
| **Local peers** | | | | | | | | | | | | |
| Dialog Group | 1.92 | 10,833.7 | 22.9 | 22.1 | 2.0 | 3.0 | 7.3 | 3.7 | 9.7 | 21.8 | 19.6 | 1.9 |
| Yinson Holdings | 2.56 | 7,441.9 | 10.9 | 8.5 | 1.5 | 1.3 | 72.0 | 27.7 | 15.3 | 8.0 | 6.6 | 0.8 |
| Bumi Armada | 0.53 | 3,139.0 | 4.0 | 4.2 | 0.5 | 0.4 | 31.0 | -5.8 | 12.9 | 1.3 | 0.6 | 0.0 |
| Dayang Enterprise | 1.76 | 2,037.7 | 10.8 | 10.3 | 1.2 | 1.1 | 26.0 | 4.1 | 10.7 | 4.9 | 4.3 | 1.7 |
| MMHE | 0.47 | 744.0 | 18.3 | 12.7 | 0.5 | 0.4 | 127.4 | 44.6 | 2.5 | 2.2 | 0.8 | 1.9 |
| Deleum | 1.02 | 409.6 | 12.3 | 9.0 | 1.0 | 0.9 | 36.1 | 15.0 | 9.4 | 1.9 | 1.8 | 5.8 |
| Uzma | 0.88 | 338.8 | 7.4 | 6.7 | 0.5 | 0.5 | 10.2 | 20.8 | 8.1 | 4.3 | 3.8 | 0.0 |
| **Average** | | | **14.7** | **14.1** | **1.5** | **1.9** | **35.2** | **11.3** | **11.6** | **12.6** | **11.0** | **1.3** |

*Source: RHB, Company data*

# Company Overview

## Background

Wasco (formerly known as Wah Seong Corporation) was incorporated in 1999 and since has evolved into an international energy solutions services and industrial services group. With a strong presence in Malaysia, it has successfully expanded its footprint globally across 17 countries worldwide.

Its energy solutions services division provides world-class specialised pipe coating, corrosion protection services, EPC, fabrication and rental of gas compressors and process equipment, and various E&P products and services for the international O&G sector. Its ndustrial services division is involved in RE, agriculture development and infrastructure materials. Through this division, the company has grown to be one of the leading service providers of process equipment in Asia, serving the plantation, oleo-chemical, petrochemical and power generation industries.

## Business overview

The group has three major services:

i. **Pipeline services.** Wasco is a global operator providing a full range of coating services for both onshore and offshore pipelines where its capabilities include pipe manufacturing, pipe coating and offshore corrosion control. Its extensive global facilities spans across Asia, West Africa, the Middle East, Europe and the US.

**Figure 19: Pipe coating**

**Anti-corrosion coating**

Coats pipes from 4" to 60" OD and up to 18m in length using various coating systems.

**Concrete weight coating**

For negative buoyancy: Impingement process & pipes range from OD 6.625”- 60” and up to 13m in length.

**Internal coating**

2-component liquid epoxy paint improves pipeline flow and can be used for water and chemicals. Pipes range from OD 12.75”- 60” and up to 18m pipe length.

**Flow assurance coating**

As for flow assurance coating, pipes ranging from OD 4”-30” and up to 18m in length.

**Custom coating**

Bends, fittings, fabricated spools, valves, manifolds, short runs of straight pipes, and other components for both onshore and offshore projects.

Thermal spray aluminum (TSA) coatings.

*Source: Company data*

**Figure 20: Pipe manufacturing**

The only large diameter spiral pipe manufacturer of API in Malaysia. Its plant is located in Kota Kinabalu.

Services include
1. API-certified spiral steel pipes
2. Piling pipes
3. Specially coated pipes/lined water pipes
4. Pipe fittings accessories

*Source: Company data*

ii. **Engineering and fabrication services.** The group provides all-encompassing solutions including engineering design, procurement, packaging, general fabrication, installation, commissioning as well as O&M services of offshore and onshore modules. Its fabrication facilities are strategically located in South-East Asia and the Middle East and Africa.

**Figure 21: Engineering services**

**Modules for FPSO, MOPU, Platform & Onshore Plants EPC & PC**

**Pipe Rack and Process Modules (PAU, PAR, STM)**

**E-House & Substations, ESB & E&I Modular Buildings EPC & PC**

**Gas Plant/Compression/EPF/MOPU Leasing& Aftermarket Services**

*Source: Company data*

iii. **Bioenergy services.** The group is a leading process and power generation solutions provider with a strong track record servicing various industries across the world. It has the largest fabricator of steam biomass turbines and boilers, which supplies to 70% of the palm oil industry. Its high-capacity boilers are efficient green solutions that run on clean energy, including biomass waste and natural gas for biomass and co-generation. Its heat recovery steam generator (HRSG) allows for the recovery of waste heat from gas turbine combustion above 80% efficiency, thereby reducing its carbon footprint. The group's bioenergy services include:

iv. Packaged process equipment;

v. Packaged steam turbine;

vi. Empty fruit bunch (EFB) press;

vii. Decanter, separator and purifier;

viii. Biomass pellet plant;

ix. EFB depurating plant;

x. Boiler;

xi. Heat recovery steam generator.

# Board Of Directors

**Dato' Seri Robert Tan Chung Meng, Non-Independent Non-Executive Chairman**. He was appointed to the Board on 22 May 2002. Dato' Seri Robert Tan has vast experience in property development, hotel construction, retail design and development as well as corporate management with more than 30 years' experience in the property and hotel industries. He is also the Group Managing Director of IGB Corp, Managing Director of IGB REIT Management (the Manager of IGB REIT and IGB Commercial REIT), a Director of Tan & Tan Developments (a property division of IGB Corp), and a Trustee of Yayasan Tan Kim Yeow. He also sits on the boards of several private limited companies.

**Gian Carlo Maccagno, Managing Director/Group CEO.** He was first appointed as an Executive Director of Wasco on 1 Jun 2004 and subsequently promoted to be the Deputy Managing Director on 1 Jan 2007. He is also the CEO of the Wasco Energy Group of Companies. He is responsible for the overall business and management operations of the Wasco Group. Maccagno is a Director of Petra Energy. He also sits on the boards of several other private limited companies.

**Chan Cheu Leong, Non-Independent Non-Executive Director.** Chan was appointed to the Board on 22 May 2002. He is responsible for the overall business and management operations of the Wasco Group. In 1994, he established Wah Seong Industrial Holdings and subsequently formed Wasco. He has extensive experience in the property, manufacturing and financial fields. Chan is a Trustee of Yayasan Wah Seong and former member of Sustainable Energy Development Authority (SEDA) Malaysia. He is also a member of the Advisory Council of Federation of Malaysian Manufacturers (FMM) and he sits on the boards of several other private limited companies.

**Halim Bin Haji Din, Non-Independent Non-Executive Director.** He was appointed to the Board on 22 May 2002. Halim is a Chartered Accountant who spent more than 30 years working for multinational corporations and O&G industry. He is the fellow member of MICPA and Malaysian Institute of Accountants.

**Tan Sri Professor Lin See Yan, Non-Independent Non-Executive Director.** He was appointed to the Board on 20 Jul 2004. Prior to 1998, he was Chairman/President and CEO of Pacific Bank and 14 years previously, Deputy Governor of Bank Negara Malaysia, having been a central banker for 34 years. Tan Sri Lin advises and sits on the boards of a number of publicly listed and private businesses in Malaysia as well as ASEAN. He is also a Director of Sunway, IGB REIT Management Sdnas well as IGB Commercial REIT and Nylex (Malaysia).

**Aaron Tan Jian Hong, Aaron, Non-Independent Non-Executive Director.** He was appointed to the Board on 25 May 2015. In 2021, Tan had taken up the investment advisory roles at Astrid Hill Asset Management and K3 Ventures. Mr Tan was appointed as an Alternate Director to Tony Tan Choon Keat on the Board of IGB from Nov 2016 till Apr 2018. He also sits on the board of several private limited companies.

**Tan Sri Saw Choo Boon, Independent Non-Executive Director.** He was appointed to the Board on 6 Apr 2018. He was appointed Chairman of Shell Malaysia in 2006 until his retirement in 2010 after 40 years of continuous service. Currently, Tan Sri Saw is the Chairman of Sentral REIT Management. He is also a Board member of Socio-Economic Research Centre SB of Associated Chinese Chambers of Commerce and Industry Malaysia and a Council Member of the Federation of Malaysian Manufacturers.

**Datin Wan Daneena Liza Binti Wan Abdul Rahman, Independent Non-Executive Director.** She was appointed to the Board on 7 Apr 2023. Datin Wan Daneena has more than 25 years of experience in providing various types of assurance and business advisory services to corporations including financial institutions and conglomerates, listed and private entities which include commercial, Islamic and investment banks, development financial institutions, asset management and stock broking companies, sovereign wealth funds, venture capital and private equity funds, unit and property trusts, investment holding companies, credit rating agency, government-linked investment companies, statutory bodies and foundations.

**Lily Rozita Binti Mohamad Khairi, Independent Non-Executive Director.** She was appointed to the Board on Apr 2023. Lily has more than 28 years of experience within the Shell organisation in a variety of roles inclusive of legal, ethics & compliance and human resources management.

# Key management team

**Gian Carlo Maccagno, Managing Director/Group CEO.** (Please refer to board of directors' section for his profile).

**Ramanathan A/L PR Singaram, CFO.** He attained his ACCA from the Association of Chartered Certified Accountants, the UK, in 1994. He is a Fellow of Association of Chartered Certified Accountants, United Kingdom and a member of Malaysian Institute of Accountants. He began his career in Wah Seong Corporation as the head of group internal audit in Jun 2006 and took up the role of Group Financial Controller of the energy division in Jun 2008. In 2009, he also took up additional responsibility for the regulatory reporting of Wah Seong Corporation. Ramanathan assumed his current role in Jul 2013. He also sits on the boards of a number of subsidiaries, associates and jointly controlled companies within the group.

**Ariesza Noor, Chief Strategy Officer.** She is a CPA Australia and has a BCom Hons Degree in Accounting & Finance from Lincoln University, New Zealand. She joined Wah Seong Corporation as Manager, Investor Relations in 2008. Ariesza Noor rejoined Wasco in 2014 and has served as the Vice President, Group Strategy and Operations where she oversees the group's branding, marketing, strategic planning and M&A activities, apart from leading Wasco's major pipe coating operations in Malaysia.

**Irene Woo Ying Pun, Group Company Secretary.** Woo is a Fellow Member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) and also a former Council Member from Jun 2016 to Jun 2022 of MAICSA. She is a qualified chartered secretary and a chartered governance professional. She heads the Group Corporate Secretarial Department of Wasco and is a member of the key senior management team of the Wasco Group. Woo has more than 30 years of extensive relevant working experience in the corporate secretarial practice both as the in-house group company secretary for large public listed groups as well as in large professional consultancy firms.

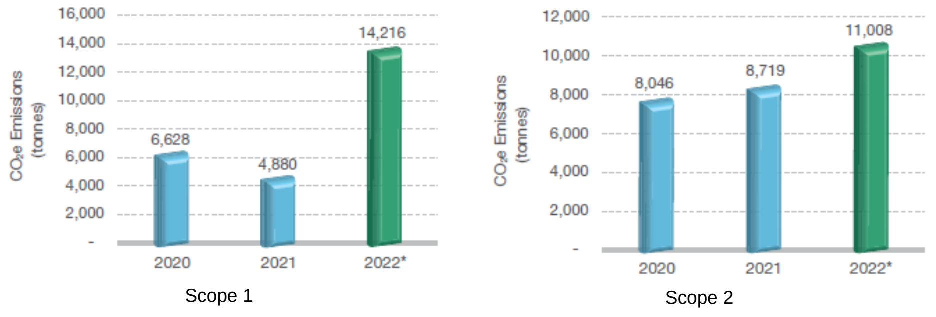
**Sivaramayah A/L Sivalingam, Head, Group Internal Audit.** Sivaramayah has helmed the Group Internal Audit department of Wah Seong Corporation since 1 Aug 2019. He reports functionally to the Audit Committee and administratively to the Managing Director/Group CEO and Deputy Managing Director in assisting Wah Seong Corporation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance. He is a member of the Institute of Internal Auditors Malaysia (IIAM), the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Management (MIM). Sivaramayah has over 20 years of experience where he assumed various responsibilities in internal auditing, external auditing, risk management, quality management, cost accounting and compliance in public-listed companies and other organisations. He has over 15 years in senior positions handling internal audit in the O&G industry including companies such as Sapura Energy and Sumatec Resources.

# ESG Efforts

**Environment.** The pursuit of environmental sustainability is a core commitment at Wasco, as it continually refines its environmental policy and practices to align with legal frameworks and regulations. These ongoing efforts, encompassing pollution prevention, waste minimisation, and resource conservation across all its operational regions, represent the group's dedication to responsible environmental stewardship. As such, the group did not receive any environmental fines and penalties during the year.

Wasco targets to achieve operational net-zero emissions by 2026. This ambitious goal is fuelled by a two-pronged approach: Aggressive emissions reduction targets and strategic carbon offsetting through tree planting. The company is actively investing in nature-based solutions like tree planting. In 2022, it successfully completed the first tree planting programme, which was initiated in 2021. Based on its calculations using 2020 emissions as a baseline, planting approximately 113,700 trees will offset 7,580 tCO2e of residual emissions, contributing to its net-zero goal by 2026. Additionally, Wasco's strategy includes increasing its RE sources in its energy mix and as at 3Q23, green electricity contributes 26% to total electricity. In 2022, the group's total GHG emissions nearly doubled to 25,224 tCO2e due to expanded reporting from all entities, compared to the previous tracking of only the energy solution services division.

**Figure 22: Wasco's 2020-2022 carbon emissions**




*Source: Company*

**Social.** Wasco prioritises a safe and healthy workplace for employees, contractors and other stakeholders with stringent health and safety standards in place to help prevent hazards and incidents. As a result, the group reported no lost time incidents (LTIs) or health & safety incidents that have led to fatalities in 2022. Wasco advocates responsible labour practices wherever it operates, adhering to all relevant employment and human rights regulations. This extends to its suppliers, requiring them to uphold with the group's Principles of Business Conduct and Human Rights Statement as a minimum standard.

Wasco also involves itself with the community and remains active in providing financial assistance under its foundation, Yayasan Wah Seong, which offers scholarships for full-time first degree courses in Malaysian public universities. In 2022, Yayasan Wah Seong helped 5 scholars.

**Governance.** Board characteristics are in line with Bursa Malaysia and Malaysian Code on Corporate Governance requirements, with independence of the board maintained, directors being skilled and experienced. There is female representation on the board although not at the recommended 33% level. Transparency and disclosure of information are at an adequate level, which allows stakeholders to make fair assessments on the firm. Shareholder rights are also well protected.

# Emissions And ESG

**Trend analysis**

Wasco's FY22 GHG emissions rose 85.5% as the year's data encompasses all entities in the company, whereas 2020 and 2021 were scoped to its Energy Solutions Services only.

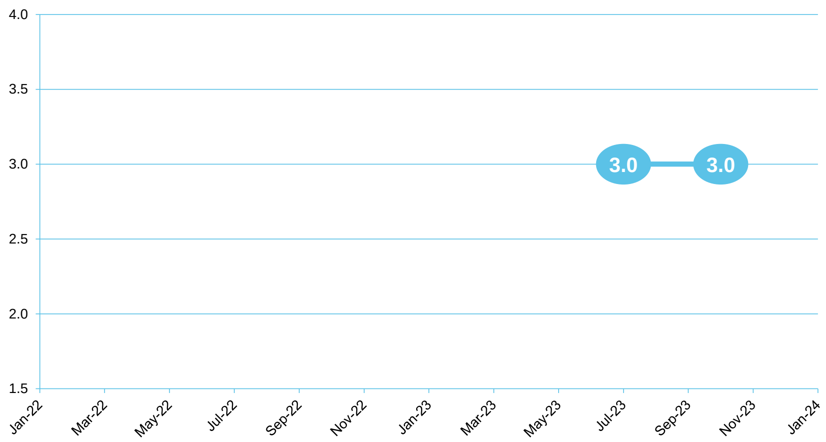
| Emissions (tCO2e) | Dec-20 | Dec-21 | Dec-22 |
|---|---|---|---|
| Scope 1 | 6,628 | 4,880 | 14,216 |
| Scope 2 | 8,046 | 8,719 | 11,008 |
| Scope 3 | na | na | na |
| Total emissions | 14,674 | 13,599 | 25,224 |

*Source: Company data, RHB*

# Latest ESG-Related Developments

- In FY22, Wasco planted 130,000 trees in Maran, Pahang as part of its carbon sequestration programme.
- Wasco also subscribed to the 500,000 kWH/month Green Electricity Tariff (GET) under Tenaga Nasional's GET programme.

# ESG Rating History




*Source: RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2023-07-17 | Trading Buy | 1.37 | 0.95 |

*Source: RHB, Bloomberg*

### RHB Guide to Investment Ratings

| | |
|---|---|
| **Buy:** | Share price may exceed 10% over the next 12 months |
| **Trading Buy:** | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| **Neutral:** | Share price may fall within the range of +/- 10% over the next 12 months |
| **Take Profit:** | Target price has been attained. Look to accumulate at lower levels |
| **Sell:** | Share price may fall by more than 10% over the next 12 months |
| **Not Rated:** | Stock is not within regular research coverage |

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