

Wasco (WSC MK)

ESG 2.0: Improved ESG scoring

Above average ESG score

We revisited Wasco's ESG disclosures post-release of its FY23 Annual and Corporate Governance Reports and have assigned an ESG score of 63 (out of 100), which makes its ESG scoring above average, an improvement from its last score of 48 for FY22. We maintain our BUY call on Wasco with an unchanged TP of MYR1.67, pegged to a 12x PER (in-line with the target multiple we ascribe to OGSE players in our coverage) on FY25E EPS.

GHG emissions up, but intensity improved

Wasco posted higher Scope 1 & Scope 2 emissions for 3 consecutive years (FY21 to FY23). The group recorded Scope 1 emissions of 15.5k tCO₂e and Scope 2 emissions of 14.1k tCO₂e in FY23. Wasco's NO_x emissions also rose in FY23 to 99.0 kg (from 85.0 kg in FY22). While Wasco has yet to disclose its Scope 3 emissions, we applaud improvements in its: i) GHG intensity of 1.9t CO₂e/1000 manhours in FY23 (from 2.3t CO₂e/1000 manhours in FY22); ii) energy consumption intensity of 1.7 MWh/1000 manhours in FY23 (from 2.2 MWh/1000 manhours in FY22); iii) water consumption intensity of 16.7 m³/1000 manhours in FY23 (from 20.6 m³/1000 manhours in FY22); iv) total waste recycled of 31.5% in FY23 (from 31.3% in FY22).

Good social metrics

Wasco recorded an increasing trend of women participation at 8% of total workforce in FY23 (from 6% in FY21 and 8% in FY22 respectively). We also note a significant improvement in its training hours per employee of 14 hours in FY23 (from 5 hours in FY22). Wasco maintained its zero LTIF rate for 3 consecutive years - which we think is a worthy mention.

Has some decent targets for 2024

Wasco aims for a 30% reliance on renewable energy in 2024 (achieved 25% in FY23). Also, the group aspires to reduce emission intensity from stationary combustion by 5% in 2024 (from 2023 base). Wasco achieved a 12% reduction in emission intensity from stationary combustion in FY23. We highlight that Wasco's MD/CEO has sustainability-related KPIs which are linked to his annual remuneration.

| FYE Dec (MYR m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|-------|-------|--------|----------|----------|
| Revenue | 2,366 | 2,606 | 2,708 | 2,933 | 3,444 |
| EBITDA | 232 | 349 | 375 | 401 | 435 |
| Core net profit | 65 | 76 | 101 | 107 | 120 |
| Core EPS (sen) | 8.3 | 9.9 | 13.1 | 13.9 | 15.5 |
| Core EPS growth (%) | nm | 18.2 | 32.4 | 6.3 | 11.6 |
| Net DPS (sen) | 0.0 | 0.0 | 2.0 | 2.1 | 2.3 |
| Core P/E (x) | 7.4 | 10.1 | 8.6 | 8.1 | 7.2 |
| P/BV (x) | 0.8 | 1.1 | 1.1 | 1.0 | 0.9 |
| Net dividend yield (%) | 0.0 | 0.0 | 1.7 | 1.9 | 2.0 |
| ROAE (%) | (2.3) | 16.1 | 13.5 | 12.8 | 12.7 |
| ROAA (%) | 2.6 | 2.7 | 3.4 | 3.5 | 3.8 |
| EV/EBITDA (x) | 4.5 | 3.4 | 3.1 | 2.6 | 2.1 |
| Net gearing (%) (incl perps) | 67.9 | 35.7 | 10.8 | net cash | net cash |
| Consensus net profit | - | - | 114 | 122 | 134 |
| MIBG vs. Consensus (%) | - | - | (11.2) | (11.8) | (11.4) |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | MYR 1.12 |
| 12m Price Target | MYR 1.67 (+49%) |
| Previous Price Target | MYR 1.67 |

Company Description

Wasco primarily engages in pipe coating services in the global O&G space

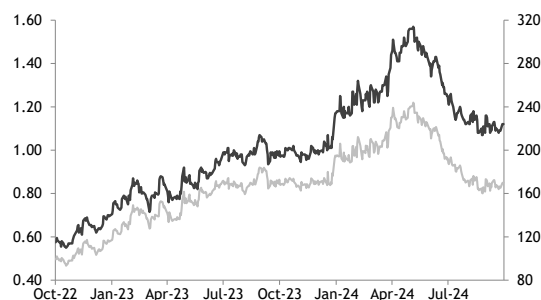
Statistics

| | |
|------------------------|----------------------|
| 52w high/low (MYR) | 1.57/0.95 |
| 3m avg turnover (USDm) | 0.3 |
| Free float (%) | 40.6 |
| Issued shares (m) | 775 |
| Market capitalisation | MYR867.9M USD200M |

Major shareholders:

| | |
|--|-------|
| Wah Seong (Malaya) Trading Co. Sdn. Bhd. | 30.9% |
| Tan Kim Yeow Sendirian Bhd. | 8.6% |
| Permodalan Nasional Bhd. | 7.3% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|------|------|
| Absolute (%) | 4 | (10) | 15 |
| Relative to index (%) | 5 | (11) | 1 |

Source: FactSet

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| | |
|---|----|
| Risk Rating & Score ¹ | NA |
| Score Momentum ² | NA |
| Last Updated | NA |
| Controversy Score ³ (Updated: NA) | NA |

Business Model & Industry Issues

- Wasco's sustainability policy has been in place since 2012 and its focus areas are as follows: (i) governance, (ii) health & safety, (iii) strategic engagement, (iv) economic responsibility, (v) operational efficiency, (vi) product & service innovation, (vii) environmental stewardship, (viii) people empowerment, and (ix) advocacy & social responsibility.
- Wasco has consistently collect and disclose its natural capital statistics but is missing on its Scope 3 data and some air emissions data. Its ESG disclosures/ progress should nonetheless see further improvement on a YoY basis.
- Wasco scores above average in our proprietary scoring methodology (see next page) with an overall score of 63/100.

Material E issues

- FY23 energy consumption: 27.0m kWh (FY22: 23.9m kWh).
- FY23 Scope 1 emissions: 15.5k tCO₂e (FY22: 14.2k tCO₂e).
- FY23 Scope 2 emissions: 14.1k tCO₂e (FY21: 11.0k tCO₂e).
- FY23 GHG intensity: 1.88 tCO₂e/1000 manhours (FY22: 2.30 tCO₂e/1000 manhours).
- FY23 water withdrawal: 261,490 m³ (FY22: 225,916 m³).
- FY23 water intensity: 16.65 m³/k manhours (FY22: 20.57 m³/k manhours).
- Its RE agro-based business completed the installation of solar panels at its facility in Shah Alam in 2020, capable of generating 500kWp of electricity.
- Signed a MOU with MAN Energy Solutions to promote and commercialise Power-to-X (PtX) projects in SEA, which converts electricity into carbon-neutral synthetic fuels, gas or liquid for a clean carbon-neutral energy source.
- Signed a MOU with the Pahang Forestry Department to co-operate on forest conservation and planting.

Material S issues

- FY23 work-related fatalities: 0 (FY22: 0).
- FY23 Lost Time Injury (LTI): 0 (FY22: 0).
- FY23 percentage of women in the workforce: 8% (FY22: 8%).
- FY23 average training hours per employee: 14 hours (FY22: 5 hours).
- FY23 percentage of women in senior management: 15.0% (FY22: 15.4%).
- Aspires for women to hold at least 30% of leadership positions.

Key G metrics and issues

- Adopts the following policies: i) Company Directors' Code of Ethics (COE), ii) Whistle Blowing, iii) Anti-Bribery & Corruption (ABC) and iv) diversity;
- Wasco's Board comprises of 8 directors: 1 Managing Director, 4 Non-Independent Non-Executive Directors and 3 Independent Non-Executive Directors (38% of total; short of MCCG's recommendation of at least half).
- A male-dominated Board (6 out of 8); at 25% of total, the ratio of women directors is short of MCCG's recommendation of at least 30%.
- A very experienced Board where 56% are above 60 years old.
- WSC is audited by PricewaterhouseCoopers PLT (PwC), one of the Big Four accounting firms globally.
- Aims for 30% reliance on renewable energy by 2024.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

| Quantitative Parameters (Score: 35) | | | | | | |
|-------------------------------------|-----------------------------------|--------------------------------|-------------|-------------|-------------|----------------|
| | Particulars | Unit | FY21 | FY22 | FY23 | YNS MK (FY23) |
| E | Scope 1 emissions | '000 tCO2e | 4.9 | 14.2 | 15.5 | 44.1 |
| | Scope 2 emissions | '000 tCO2e | 8.7 | 11.0 | 14.1 | 0.4 |
| | Total | '000 tCO2e | 13.6 | 25.2 | 29.5 | 44.6 |
| | Scope 3 emissions | '000 tCO2e | NA | NA | N/A | 1,729.7 |
| | Total | '000 tCO2e | 13.6 | 25.2 | 29.5 | 1,774.2 |
| | GHG intensity | tCO2e/1000 manhours | 2.3 | 2.3 | 1.9 | NA |
| | Energy consumption | GWh | 14.1 | 23.9 | 27.0 | 3,427.7 |
| | Energy consumption intensity | MWh/1000 manhours | 2.4 | 2.2 | 1.7 | NA |
| | Water consumption intensity | m3/1000 man hours | 25.5 | 20.6 | 16.7 | NA |
| | Share of renewable energy used | % | NA | NA | 25% | NA |
| S | Total waste recycled | % | 0.0% | 31.3% | 31.5% | 45.5% |
| | Major Spills | number | NA | NA | N/A | NA |
| | NOx | kg | 30.0 | 85.0 | 99.0 | NA |
| | SOx | kg | NA | NA | 0 | NA |
| | VOC/PM | kg | NA | NA | 0 | NA |
| | % of women in workforce | % | 6.0% | 8.0% | 8.0% | 21.5% |
| | % of women in senior management | % | 7.7% | 15.4% | 15.0% | 9.1% |
| | Training hours per employee | hours | 2 | 5 | 14 | NA |
| | Lost time injury frequency (LTIF) | rate per k hours | 0.0 | 0.0 | 0.0 | 0.0 |
| | G | Chairman/MD salary as % of PAT | % | loss | 15.3% | 13.9% |
| Board salary as % of PAT | | % | loss | 16.8% | 14.2% | 0.2% |
| Independent directors on the Board | | % | 29% | 43% | 38% | 55% |
| Female directors on the Board | | % | 0% | 22% | 25% | 36% |

| Qualitative Parameters (Score: 83) | |
|------------------------------------|---|
| a) | Is there an ESG policy in place and whether there is a standalone Sustainability Committee or is it part of Risk committee? <i>Yes, there is an ESG policy in place and the ESG policy is formulated by the risk committee which is led by the deputy director.</i> |
| b) | Is the senior management salary linked to fulfilling ESG targets? <i>Yes, Wasco's MD/Group CEO has sustainability-related KPIs which are linked to his annual remuneration.</i> |
| c) | Does the company have a strategy in place to provide cleaner energy solutions? <i>Yes, already in operation in their pipeline services, engineering and fabrication services, industrial trading and services.</i> |
| d) | Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>Not yet.</i> |
| e) | What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>1) The company has subscribed to a 500,000 kWh/month Green Energy Tariff by TNB 2) collaborating with WSC on solutions for more efficient water generation and disposal. 3) Sewage and greywater are collected in designated tanks, supplied and plumbed, and attached to ablution and lunchroom facilities.</i> |
| f) | Does carbon offset/credit form part of the carbon reduction/net zero strategy? <i>Yes, Wasco has planted 160,000 trees as part of its carbon sequestration programme which will help it offset residual emissions.</i> |

| Target (Score: 100) | | |
|---|--------|-------------|
| Particulars | Target | Achieved |
| Reduce emission intensity from stationary combustion by 5% (from 2023 base) | 2024 | 12% |
| 30% reliance on renewable energy by 2024 | 30% | 25% in 2023 |
| Impact | | |
| N/A | | |
| Overall Score: 63 | | |
| As per our ESG matrix, Wasco (WSC MK) has an overall score of 63. | | |

| ESG score | Weights | Scores | Final Score |
|--------------|---------|--------|-------------|
| Quantitative | 50% | 35 | 18 |
| Qualitative | 25% | 83 | 21 |
| Target | 25% | 100 | 25 |
| Total | | | 63 |

As per our ESG assessment, Wasco has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics. Wasco's overall ESG score is 63, which makes its ESG rating **above average**, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Risk statement

There are several risk factors that may impact our earnings estimates, target price and BUY rating for Wasco. Key risks include: (i) the group's inability to secure/win new contracts; and (ii) unforeseen cost overruns (project execution risks).

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | nm | 6.6 | 8.5 | 8.0 | 7.2 |
| Core P/E (x) | 7.4 | 10.1 | 8.5 | 8.0 | 7.2 |
| P/BV (x) | 0.8 | 1.1 | 1.1 | 1.0 | 0.9 |
| P/NTA (x) | 0.8 | 1.1 | 1.1 | 1.0 | 0.9 |
| Net dividend yield (%) | 0.0 | 0.0 | 1.8 | 1.9 | 2.0 |
| FCF yield (%) | 27.0 | 14.4 | 23.6 | 24.7 | 25.8 |
| EV/EBITDA (x) | 4.5 | 3.4 | 3.1 | 2.6 | 2.1 |
| EV/EBIT (x) | 5.5 | 4.3 | 4.0 | 3.3 | 2.7 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| Revenue | 2,366.1 | 2,605.7 | 2,707.7 | 2,933.4 | 3,443.7 |
| EBITDA | 231.7 | 348.8 | 375.4 | 401.4 | 434.6 |
| Depreciation | (42.0) | (76.4) | (90.0) | (90.0) | (90.0) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 189.7 | 272.5 | 285.4 | 311.4 | 344.6 |
| Net interest income / (exp) | (43.3) | (58.7) | (64.6) | (71.1) | (78.2) |
| Associates & JV | (23.0) | 4.5 | 4.5 | 4.5 | 4.5 |
| Exceptionals | (48.5) | 0.0 | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Pretax profit | 74.9 | 218.3 | 225.3 | 244.9 | 272.0 |
| Income tax | (38.9) | (68.1) | (54.1) | (58.8) | (65.0) |
| Minorities | (49.4) | (46.4) | (70.3) | (78.8) | (89.2) |
| Perpetual securities | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Reported net profit | (13.4) | 103.7 | 100.9 | 107.3 | 118.7 |
| Core net profit | 64.5 | 76.2 | 100.9 | 107.3 | 119.7 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Short Term Investments | 329.0 | 410.3 | 497.7 | 493.9 | 496.8 |
| Accounts receivable | 558.3 | 563.6 | 585.6 | 634.4 | 744.8 |
| Inventory | 223.4 | 186.3 | 193.6 | 209.8 | 246.2 |
| Reinsurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Property, Plant & Equip (net) | 773.2 | 840.3 | 800.3 | 760.3 | 720.3 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 134.5 | 132.9 | 137.5 | 142.0 | 146.5 |
| Other assets | 695.0 | 813.2 | 813.4 | 813.7 | 813.4 |
| Total assets | 2,713.5 | 2,946.7 | 3,028.0 | 3,054.0 | 3,169.0 |
| ST interest bearing debt | 708.1 | 652.0 | 552.0 | 352.0 | 152.0 |
| Accounts payable | 533.7 | 595.6 | 618.9 | 670.5 | 787.2 |
| Insurance contract liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT interest bearing debt | 81.9 | 50.9 | 50.9 | 50.9 | 50.9 |
| Other liabilities | 711.0 | 828.0 | 830.0 | 834.0 | 844.0 |
| Total Liabilities | 2,034.5 | 2,126.3 | 2,051.6 | 1,907.5 | 1,834.1 |
| Shareholders Equity | 580.0 | 704.8 | 790.6 | 881.8 | 981.0 |
| Minority Interest | 98.9 | 115.6 | 185.9 | 264.7 | 353.9 |
| Total shareholder equity | 678.9 | 820.4 | 976.5 | 1,146.5 | 1,334.9 |
| Total liabilities and equity | 2,713.5 | 2,946.7 | 3,028.0 | 3,054.0 | 3,169.0 |

CASH FLOW (MYR m)

| | | | | | |
|----------------------------------|--------|---------|---------|---------|---------|
| Pretax profit | 74.9 | 218.3 | 225.3 | 244.9 | 272.0 |
| Depreciation & amortisation | 42.0 | 76.4 | 90.0 | 90.0 | 90.0 |
| Adj net interest (income)/exp | 1.5 | (57.0) | 0.0 | 0.0 | 0.0 |
| Change in working capital | (64.8) | (1.0) | (4.2) | (9.3) | (21.0) |
| Cash taxes paid | (21.4) | (42.6) | (54.1) | (58.8) | (65.0) |
| Other operating cash flow | 23.0 | 0.0 | (4.5) | (4.5) | (4.5) |
| Cash flow from operations | 166.2 | 238.2 | 252.5 | 262.3 | 271.4 |
| Capex | (36.6) | (127.5) | (50.0) | (50.0) | (50.0) |
| Free cash flow | 129.6 | 110.7 | 202.5 | 212.3 | 221.4 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | 6.2 | (19.6) | (100.0) | (200.0) | (200.0) |
| Other invest/financing cash flow | (49.7) | (14.8) | 0.0 | 0.0 | 0.0 |
| Effect of exch rate changes | 1.2 | 3.6 | 0.0 | 0.0 | 0.0 |
| Net cash flow | 87.3 | 79.8 | 102.5 | 12.3 | 21.4 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|-------|-------|-------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 65.5 | 10.1 | 3.9 | 8.3 | 17.4 |
| EBITDA growth | 254.2 | 50.6 | 7.6 | 6.9 | 8.3 |
| EBIT growth | 602.1 | 43.7 | 4.7 | 9.1 | 10.7 |
| Pretax growth | nm | 191.5 | 3.2 | 8.7 | 11.1 |
| Reported net profit growth | nm | nm | (2.7) | 6.3 | 10.7 |
| Core net profit growth | nm | 18.2 | 32.4 | 6.3 | 11.6 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 9.8 | 13.4 | 13.9 | 13.7 | 12.6 |
| EBIT margin | 8.0 | 10.5 | 10.5 | 10.6 | 10.0 |
| Pretax profit margin | 3.2 | 8.4 | 8.3 | 8.3 | 7.9 |
| Payout ratio | 0.0 | 0.0 | 15.0 | 15.0 | 14.7 |
| DuPont analysis | | | | | |
| Net profit margin (%) | nm | 4.0 | 3.7 | 3.7 | 3.4 |
| Revenue/Assets (x) | 0.9 | 0.9 | 0.9 | 1.0 | 1.1 |
| Assets/Equity (x) | 4.7 | 4.2 | 3.8 | 3.5 | 3.2 |
| ROAE (%) | (2.3) | 16.1 | 13.5 | 12.8 | 12.7 |
| ROAA (%) | 2.6 | 2.7 | 3.4 | 3.5 | 3.8 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 23.3 | 17.5 | 9.5 | 9.3 | 8.9 |
| Days receivable outstanding | 68.4 | 77.5 | 76.4 | 74.9 | 72.1 |
| Days inventory outstanding | 36.5 | 34.1 | 30.5 | 29.9 | 28.8 |
| Days payables outstanding | 81.7 | 94.1 | 97.4 | 95.5 | 91.9 |
| Dividend cover (x) | nm | nm | 6.7 | 6.7 | 6.8 |
| Current ratio (x) | 0.9 | 1.0 | 1.1 | 1.2 | 1.4 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.3 | 1.4 | 1.5 | 1.6 | 1.7 |
| Net gearing (%) (incl perps) | 67.9 | 35.7 | 10.8 | net cash | net cash |
| Net gearing (%) (excl. perps) | 67.9 | 35.7 | 10.8 | net cash | net cash |
| Net interest cover (x) | 4.4 | 4.6 | 4.4 | 4.4 | 4.4 |
| Debt/EBITDA (x) | 3.4 | 2.0 | 1.6 | 1.0 | 0.5 |
| Capex/revenue (%) | 1.5 | 4.9 | 1.8 | 1.7 | 1.5 |
| Net debt/ (net cash) | 461.0 | 292.6 | 105.3 | (90.9) | (293.8) |

Source: Company; Maybank IBG Research

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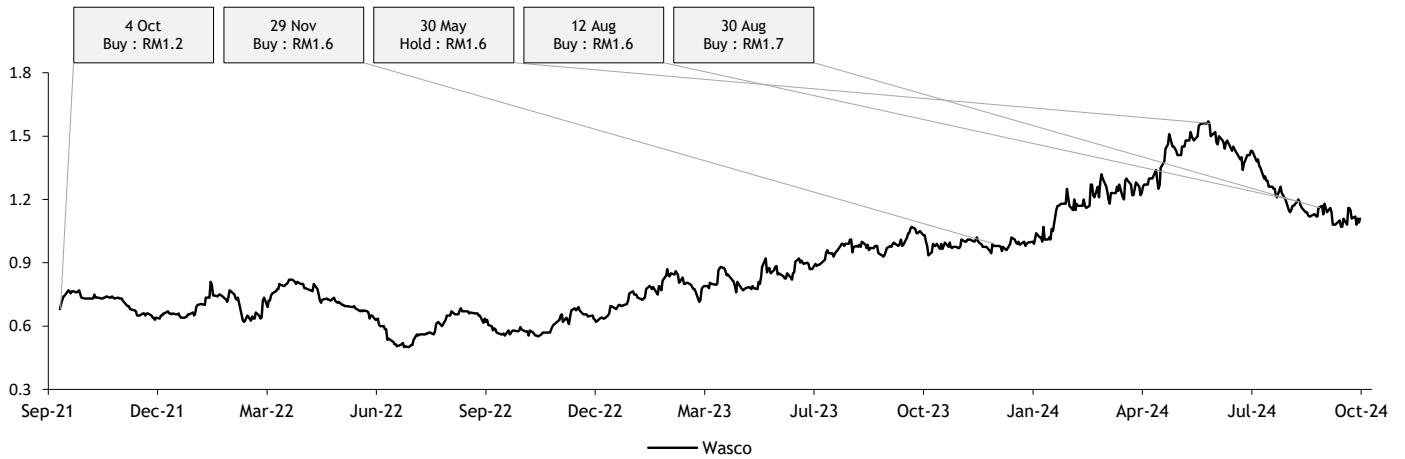
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