

01 March 2019

# WCT Holdings Bhd

## FY18 Within Our, Above Consensus

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**FY18 CNP of RM127.9m came within our, but above consensus, expectations, making up 105%/109% of respective full-year estimates. A 1.71 sen dividend declared was a surprise for us, as we did not expect any dividend for the year. No changes to FY19E earnings, introduces FY20E NP of RM154.0m. Downgrade from OP to MP with an unchanged SoP-driven TP of RM0.850.**

**Within our, above consensus.** FY18 CNP of RM127.9m came within our, but above consensus, expectations, making up 105%/109% of respective full-year estimates. Items that we stripped off/add back to derive our CNP are as follows: fair value gain on investment properties (-RM141.3m), fair value loss of a joint-venture (+RM30.8m), impairment charge on acquisition of Subang Skypark (+RM82.4m), unrealised forex loss (+RM4.0m) and deferred tax arising from RPGT (+RM40.1m). We believe that consensus could be slightly more conservative on their construction billings recognition. A 1.71 sen dividend declared was a surprise for us, as we did not expect any dividend for the year.

**Results highlight.** Its FY18 revenue registered an impressive growth of 22%, YoY. The growth in revenue was mainly driven by its construction and property investment divisions, which registered revenue growth of 35% and 155%, respectively. However, CNP fell 7% underpinned by higher financing cost (+115%) due to the commencement of operations for Paradigm JB. **QoQ**, its 4Q18 CNP fell 11% despite registering revenue growth of 91% as it was dragged down by: (i) the increase in financing cost (+23%), and (ii) loss contribution from its associates/joint venture and sharp increase in admin/other costs (+426%). On a segmental basis, its construction division saw its EBIT margin compressed to 3% (-4ppt), while its property division registered a loss of RM14.3m compared to profit of RM7.6m in 3Q18 due to impairment on its inventories and undeveloped land.

**Outlook.** Its outstanding order-book currently stands at c.RM7.3b, providing earnings visibility for the next 2.5-3.0 years. As for its property division, clearance of its inventories of RM865.0m remains a top priority for its management team, and we believe that it would be positive for the company should they be able to clear more than 50% of inventories.

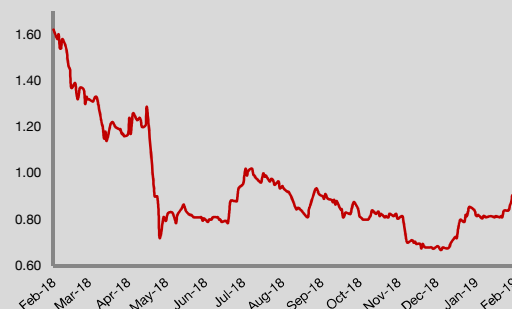
**Estimates maintained.** Post results, no changes to our FY19E earnings for now, and we introduce FY20E NP of RM154.0m.

**Downgrade to MARKET PERFORM (from OUTPERFORM)** on unchanged SoP-driven Target Price of RM0.850 given the recent run-up in share price. While we remain hopeful to see improvements in its construction division, we believe that the next re-rating catalyst for the stock mainly depends on their de-gearing effort. Our Target Price implies FY19E PER of 8.1x, which we believe is fair given its balance sheet risk (net gearing: 1.1x) due to its high property inventories.

**Risks to our call include:** (i) higher/lower-than-expected margins/order-book replenishment, and (ii) higher/lower government spending on infrastructure projects.

**MARKET PERFORM** ↓  
Price : RM0.845  
Target Price : RM0.850 ↔

### Share Price Performance



KLCI 1,707.73  
YTD KLCI chg 1.0%  
YTD stock price chg 25.2%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker WCTHG MK Equity  
Market Cap (RM m) 1,166.6  
Shares Outstanding 1,380.6  
52-week range (H) 1.61  
52-week range (L) 0.66  
3-mth avg daily vol: 2,097,333  
Free Float 64%  
Beta 1.2

### Major Shareholders

Dominion Nexus Sdn Bhd 17.9%  
Employees Provident Fund Board 9.4%  
Urusharta Jamaah Sdn Bhd 8.6%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2333	2718	2832
EBIT	340	295	304
PBT	155	193	202
<b>Net Profit</b>	<b>112</b>	<b>147</b>	<b>154</b>
<b>Core PATAMI</b>	<b>128</b>	<b>147</b>	<b>154</b>
Consensus (NP)	n.a.	136.2	146.2
Earnings Revision	n.a.	0%	n.a.
Core EPS (sen)	9.1	10.5	10.9
Core EPS growth (%)	12%	15%	5%
NDPS (sen)	1.7	0.0	0.0
NTA per Share (RM)	2.3	2.4	2.5
Price to NTA (x)	0.4	0.4	0.3
PER (x)	9.3	8.1	7.7
Debt-to-Equity ratio (x)	1.0	1.0	0.9
Return on Asset (%)	2%	2%	2%
Return on Equity (%)	3%	4%	4%
Net Div. Yield (%)	2.0%	0.0%	0.0%

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**Result Highlight**

	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	<b>737.9</b>	<b>385.8</b>	<b>91%</b>	<b>579.4</b>	<b>27%</b>	<b>2,333.4</b>	<b>1,905.9</b>	<b>22%</b>
<b>EBIT</b>	<b>96.4</b>	<b>66.5</b>	<b>45%</b>	<b>104.7</b>	<b>-8%</b>	<b>339.6</b>	<b>296.2</b>	<b>15%</b>
Interest inc/(exp)	-44.9	-36.7	23%	-23.1	95%	-135.7	-63.2	115%
Associates/JV	-31.1	1.4	-2328%	-37.2	-16%	-33.0	-19.6	68%
Admin/Others	-199.9	-38.0	426%	-204.9	-2%	-304.8	-294.7	3%
Exceptional items	-19.7	3.5	-670%	37.7	-152%	-12.0	37.7	-132%
Forex gain/(loss)	0.6	-2.6	-124%	-0.7	-189%	-4.0	-20.5	-80%
<b>Pretax profit</b>	<b>1.2</b>	<b>32.1</b>	<b>-96%</b>	<b>81.5</b>	<b>-98%</b>	<b>154.8</b>	<b>230.6</b>	<b>-33%</b>
Taxation	-54.1	-9.1	494%	-22.3	142%	-104.7	-78.7	33%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>-52.8</b>	<b>23.0</b>	<b>-330%</b>	<b>59.2</b>	<b>-189%</b>	<b>50.1</b>	<b>151.9</b>	<b>-67%</b>
Minority interest	56.3	3.1	1694%	0.1	62482%	61.6	2.7	2179%
<b>PATAMI</b>	<b>3.5</b>	<b>26.1</b>	<b>-87%</b>	<b>59.3</b>	<b>-94%</b>	<b>111.8</b>	<b>154.6</b>	<b>-28%</b>
<b>Core PATAMI</b>	<b>22.6</b>	<b>25.3</b>	<b>-11%</b>	<b>22.2</b>	<b>2%</b>	<b>127.9</b>	<b>137.4</b>	<b>-7%</b>
DPS (sen)	1.7	0.0		3.0		1.7	3.0	
EBIT margin	13.1%	17.2%		18.1%		14.6%	15.5%	
Pretax margin	0.2%	8.3%		14.1%		6.6%	12.1%	
NP margin	0.2%	8.3%		14.1%		6.6%	12.1%	
CNP margin	3.1%	6.6%		3.8%		5.5%	7.2%	
EPS (sen)	0.2	1.8		4.2		7.9	10.9	
Core EPS(sen)	1.6	1.8		1.6		9.0	9.7	
BV/share (RM)	2.3	2.2		2.2		2.3	2.2	
Net gearing (x)	1.1	1.0		0.9		1.1	0.9	
Effective tax	4344%	28%		27%		68%	34%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
<b>External Revenue</b>								
Construction	643.6	306.9	110%	463.4	39%	1,882.3	1,391.8	35%
Property Development	29.9	32.6	-8%	88.6	-66%	254.9	437.1	-42%
Property Investment	64.4	46.3	39%	27.4	135%	196.2	77.0	155%
<b>EBIT Segmentation</b>								
Construction	20.6	22.5	-9%	-132.4	-116%	141.3	-32.8	-531%
Property Development	-14.3	7.6	-288%	27.7	-152%	40.5	75.7	-46%
Property Investment	71.0	37.2	91%	246.5	-71%	141.7	270.5	-48%
<b>EBIT margins</b>								
Construction	3%	7%		-29%		8%	-2%	
Property Development	-48%	23%		31%		16%	17%	
Property Investment	110%	80%		898%		72%	351%	

Source: Company, Kenanga Research

**Sum-of-parts valuation**

SoP	Valuation/Discount	Value (RM'm)
Construction	8.0	773.7
Property		1020.2
Property investment		1147.5
<b>Sub-total</b>		<b>2941.4</b>
Property RNAV Discount	75%	-765.1
Property investment Discount	30%	-344.3
<b>Total</b>		<b>1832.0</b>
Shares Outstanding (m)		1406.9
SOP/share (RM)		1.30
<b>Target Price (35% Discount)</b>		<b>0.850</b>
<b>Implied FY19E PER (x)</b>		<b>8.1</b>

Source: Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
EVERSENDAL CORP BHD	0.545	425.6	Y	12/2019	-7.3%	-3.2%	-10.9%	-2.1%	6.8	7.6	7.8	0.4	0.4	5.6%	0.0%	0.490	UP
GAMUDA BHD	2.94	7,256.2	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	8.9	12.3	12.1	1.0	0.9	7.7%	4.1%	3.05	MP
GEORGE KENT (MALAYSIA) BHD	1.05	565.7	Y	01/2019	-24.1%	5.3%	-45.1%	9.7%	4.3	7.9	7.2	1.2	1.1	15.0%	4.8%	0.845	MP
HOCK SENG LEE BERHAD	1.57	862.7	Y	12/2019	16.0%	11.2%	28.1%	5.6%	16.0	12.5	11.9	1.1	1.0	8.6%	1.6%	1.25	UP
IJM CORP BHD	1.80	6,527.3	Y	03/2019	9.6%	5.1%	-10.9%	26.7%	15.9	17.8	14.1	0.7	0.7	3.8%	2.8%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.26	1,556.2	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.3	10.1	9.9	1.6	1.4	14.9%	2.4%	1.20	MP
KIMLUN CORP BHD	1.28	424.8	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.8	6.9	6.7	0.6	0.6	9.0%	2.9%	1.30	MP
MITRAJAYA HOLDINGS BHD	0.320	283.2	Y	12/2019	-4.7%	-7.3%	1.8%	-8.4%	8.6	8.4	9.2	0.4	0.3	4.0%	4.7%	0.260	UP
MUHIKBAH ENGINEERING (M) BHD	2.99	1,440.6	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.9	9.1	8.7	1.3	1.2	14.8%	2.4%	3.20	MP
SUNWAY CONSTRUCTION GROUP BHD	1.74	2,248.5	Y	12/2019	12.0%	2.2%	3.7%	3.6%	16.1	15.6	15.0	3.7	3.4	22.7%	3.7%	1.40	UP
WCT HOLDINGS BHD	0.845	1,166.6	Y	12/2019	16.5%	4.2%	15.0%	4.7%	9.3	8.1	7.7	0.4	0.4	4.5%	0.0%	0.850	MP
<b>Simple Average</b>					<b>2.3%</b>	<b>1.1%</b>	<b>-3.5%</b>	<b>4.6%</b>	<b>10.3</b>	<b>10.6</b>	<b>10.0</b>	<b>1.1</b>	<b>1.0</b>	<b>10.1%</b>	<b>2.7%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.445	266.2	Y	12/2018	N.A.	N.A.	N.A.	N.A.	9.1	N.A.	N.A.	1.0	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.190	72.4	Y	12/2019	N.A.	N.A.	N.A.	N.A.	139.3	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.10	527.1	Y	12/2019	57.4%	12.5%	36.3%	27.2%	8.3	6.1	0.0	1.0	1.2	17.3%	8.2%	1.74	BUY
GADANG HOLDINGS BHD	0.595	393.7	Y	05/2019	3.7%	11.9%	-19.8%	6.5%	4.1	5.1	0.0	0.5	N.A.	5.9%	4.2%	0.685	BUY
JAKS RESOURCES BHD	0.560	327.4	Y	12/2019	46.5%	-31.1%	473.9%	17.7%	21.6	3.8	0.0	0.4	0.4	11.9%	0.0%	0.775	BUY
MUDAJAYA GROUP BHD	0.280	165.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.28	378.2	Y	06/2019	99.1%	9.6%	65.9%	16.7%	24.4	14.7	0.1	1.2	1.2	8.2%	8.9%	2.38	NEUTRAL
PESONA METRO HOLDINGS	0.200	139.0	Y	12/2019	26.5%	-6.8%	242.9%	-4.2%	16.8	4.9	0.0	0.8	N.A.	15.0%	7.5%	0.260	BUY
PROTASCO BHD	0.230	113.0	Y	12/2019	0.0%	7.9%	369.2%	31.2%	N.A.	8.6	0.0	0.3	0.3	3.6%	10.0%	0.185	SELL
TRC SYNERGY BHD	0.550	264.3	Y	12/2019	25.7%	3.0%	56.6%	13.0%	12.7	8.1	0.0	0.6	0.6	7.6%	4.2%	0.600	NEUTRAL

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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