



WCT HOLDINGS BERHAD

Neutral

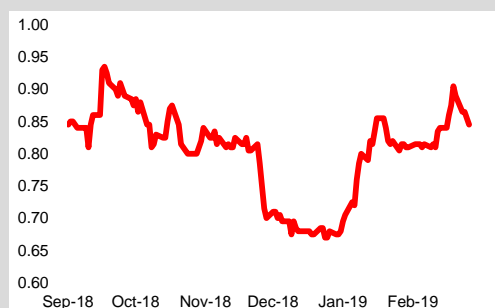
DESCRIPTION

Malaysian construction company with core businesses in civil engineering construction, property development and investment and management of properties and concession assets.

12-Month Target Price RM0.91
Current Price RM0.85
Expected Return +7.1%

Market Main
Sector Construction
Bursa Code 9679
Bloomberg Ticker WCTHG MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 0.66 -1.61
3-Month Average Vol ('000) 2,097.3

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	4.3	8.9	-7.1
Relative Returns	2.8	18.7	0.0

KEY STOCK DATA

Market Capitalisation (RMm)	1,166.6
No. of Shares (m)	1,380.6

MAJOR SHAREHOLDERS

	%
Tan Sri Desmond Lim	17.9
Employee Provident Fund	9.4
Urusharta Jamaah SB	8.6
Kumpulan Wang Persaraan	6.1
Permodalan Nasional Bhd	5.7

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Dragged By Lower Profit Margins

WCT Holdings (WCT) reported FY18 headline profit of RM111.8m (-51% YTD) on the back of a 16.4% revenue growth to RM2.3bn. Stripping-off the fair value gain that is usually recognized in 4Q results, together with and all other exceptional items amounting to RM43m, core net profit for full-year FY18 stood at RM133.8m (-40.3% YTD), exceeding our and consensus expectations at 107% and 114% of full year estimates respectively. We observe that the discrepancy came from strong construction billings recognized during the quarter. That said, the Group's slower growth in its FY18 earnings is mainly due to margin compressions in its construction and property segments. In view of our persistently cautious outlook on the Group due to the uncertainties (margins and timeline) in its LRT3 and MRT2 contract, we are lowering our FY20/21 forecast by an average of 14.9%. This is also to account for a deteriorating property sector outlook. We maintain our **Neutral** rating on WCT with a revised target price of RM0.90, at a 30% discount to our SOTP valuations.

§ **Earnings outlook.** We remain cautious on the Group's earnings outlook due to i) uncertainty in its LRT3 and MRT2 contract as the contract value revision and profit margins remains indeterminable at this juncture, ii) delays in the construction progress albeit its relatively strong outstanding orderbook in hand of RM6bn, and iii) deteriorating property sector outlook which could dampen management's efforts in clearing its existing stock. WCT's unbilled sales remain weak at only approx. RM120m. We are trimmed our FY19-20 forecast by an average 14.9% to factor our conservative stance on the Group's outlook.

§ **Building jobs a priority.** For FY18, the Group has secured a total of RM2.5bn worth of new contracts – exceeding management's target of RM2bn, pushing its balance order book in hand to RM6bn currently, which will provide earnings visibility over the next 3 to 4 years. As prospects on infrastructure-related projects has dimmed due to the reduction in the Government's development expenditure in order to consolidate the country's fiscal position, the Group has adopted a new strategy with focus now on building jobs to replenish its orderbook.

KEY FORECAST TABLE

FYE Dec (RM m)	2017F	2018A	2019F	2020F	2021F	CAGR (%)
Revenue	2,004.9	2,333.4	2,297.9	2,329.0	2,365.4	(1.3)
Operating Profit	401.6	323.5	247.3	252.0	258.4	(0.1)
Pre-tax Profit	318.8	154.8	161.4	170.6	181.6	1.1
Net Profit	228.2	111.8	130.4	137.4	145.8	5.6
Core Net Profit	224.2	133.8	130.4	137.4	145.8	5.6
EPS (Sen)	16.7	8.0	9.7	10.2	10.8	5.6
P/E (x)	5.1	10.6	8.8	8.4	7.9	
DPS (Sen)	2.0	0.0	2.0	2.0	2.0	
Dividend Yield (%)	2.4	0.0	2.4	2.4	2.4	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec</u> <u>(RM m)</u>	<u>4Q18</u>	<u>4Q17</u>	<u>3Q18</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>FY18</u>	<u>FY17</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>
Revenue	737.9	680.0	385.8	91.3	8.5	2333.4	2005.0	16.4
Cost of sales	-629.7	-520.4	-337.3	86.7	21.0	-1955.9	-1596.7	22.5
Gross profit	108.2	159.6	48.5	123.1	-32.2	377.5	408.3	-7.5
Other income	168.7	259.0	57.0	195.8	-34.9	250.8	280.5	-10.6
Other expenses	-199.7	-187.7	-38.2	423.0	6.4	-304.8	-287.2	6.1
Operating profit	77.3	230.8	67.4	14.7	-66.5	323.5	401.6	-19.4
Finance costs	-44.9	-23.1	-36.7	22.6	94.8	-135.7	-63.2	114.8
Share of results of associates & JV	-31.1	-37.2	1.4	-2327.7	-16.5	-33.0	-19.6	68.2
Pre-tax profit	1.2	170.6	32.1	-96.1	-99.3	154.8	318.8	-51.4
Tax	-54.1	-37.1	-9.1	493.7	45.7	-104.7	-93.3	12.2
Net profit	-52.8	133.4	23.0	-329.8	-139.6	50.1	225.5	-77.8
Minority interest	56.3	0.1	3.1	1694.3	62482.2	61.6	2.7	2178.9
PATAMI	3.5	133.5	26.1	-86.6	-97.4	111.8	228.2	-51.0
<i>Exceptional items</i>	45.6	-26.0	21.8	108.6	-275.3	22.0	-4.0	-656.2
Core net profit	49.1	107.5	4.3	1043.7	-54.4	133.8	224.2	-40.3
EPS	0.3	9.6	1.9			8.0	16.7	
<u>Margins (%):</u>								
Gross profit	14.7	23.5	12.6			16.2	20.4	
Pre-tax profit	0.2	25.1	8.3			6.6	15.9	
Core net profit	6.6	15.8	1.1			5.7	11.2	

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	2,004.9	2,333.4	2,297.9	2,329.0	2,365.4
Gross Profit	408.3	377.4	330.8	375.1	420.7
Operating expenses	-287.2	-304.8	-83.5	-123.2	-162.3
Operating Profit	401.6	323.5	247.3	252.0	258.4
Other Gains / (Losses)	-19.6	-33.0	17.8	18.4	18.9
Finance Costs	-63.1	-135.7	-103.8	-99.8	-95.7
Pre-tax Profit	318.8	154.8	161.4	170.6	181.6
Income Tax	-93.3	-104.7	-38.7	-40.9	-43.6
Effective Tax Rate (%)	29.3	67.7	24.0	24.0	24.0
Minorities	2.7	61.6	7.8	7.8	7.8
Net Profit	228.2	111.8	130.4	137.4	145.8
Growth					
Revenue (%)	15.9	16.4	-1.5	1.4	1.6
Gross Profit (%)	-19.5	-7.5	-12.3	13.4	12.1
Net Profit	-67.3	-51.0	16.7	5.4	6.1

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2017F	2018A	2019F	2020F	2021F
Property, Plant & Equipment	341.0	365.2	451.1	498.8	546.4
Cash and Cash Equivalents	527.2	400.9	744.8	673.4	694.8
Receivables	1,526.5	2,480.3	1,521.9	1,542.4	1,566.5
Other Assets	5,785.0	5,467.2	4,198.2	4,213.0	4,230.6
Total Assets	8,179.7	8,713.6	6,916.0	6,927.6	7,038.3
Payables	1,671.2	1,669.4	1,170.1	1,186.0	1,204.5
Borrowings	3,285.2	3,659.1	2,261.7	2,172.3	2,083.0
Tax payable	7.5	12.6	35.4	35.4	35.4
Other Liabilities	69.6	206.0	809.4	817.9	828.0
Total Liabilities	5,033.5	5,547.1	4,276.6	4,211.6	4,150.8
Shareholders' Equity	3,146.1	3,166.5	2,639.3	2,715.9	2,887.5
Total Equity and Liabilities	8,179.7	8,713.6	6,916.0	6,927.6	7,038.3

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2017F	2018A	2019F	2020F	2021F
Book Value Per Share	2.3	2.3	1.9	2.0	2.1
NTA Per Share	5.9	6.2	5.0	5.0	5.1
EPS (Sen)	16.7	8.0	9.7	10.2	10.8
DPS (Sen)	2.0	0.0	2.0	2.0	2.0
Payout Ratio (%)	23.0	0.0	20.7	19.7	18.5
ROA (%)	2.8	1.4	1.9	2.0	2.1
ROE (%)	7.3	3.6	4.9	5.1	5.0

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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