Malaysia Results Review

Shariah Compliant

1 March 2019

Construction & Engineering | Construction

WCT (WCTHG MK)

Buy (Maintained)

Earnings Recovery In FY19; Stay BUY

Target Price (Return)	MYR0.93 (+10%)
Price:	MYR0.845
Market Cap:	USD293m
Avg Daily Turnover (MYR/USD)	4.6m/1.1m

- **Stay BUY with a new MYR0.93 TP from MYR0.99, 10% upside plus 4% FY19F yield.** We expect WCT to stage an earnings recovery in FY19, as the rate of progress on several large-scale projects secured in 2018, such as Pavilion Damansara and Tun Razak Exchange Mall (TRX Mall) shift into higher gear. In addition, its MYR1.4bn Light Rail Transit 3 (LRT3) contract is expected to recommence in 2H19 following redesign works. For WCT's property investment and management division, FY19 will see full contributions from Paradigm JB mall, which is EBIT positive, and 20% increase in rental rates for Aeon Bukit Tinggi. We believe this will be enough to cushion continued weakness in WCT's property development division.
- **Disappointing 4Q18,** with core net loss of MYR10.7m from a profit in 4Q17, attributed by a 61% YoY fall in construction EBIT, while the property division slipped into the red with operating losses of MYR14.3m. Despite a rise in construction revenue, operating margins dipped 8ppts to just 3%, as management took a conservative approach in recognising profits for its infrastructure jobs (LRT3 and Mass Rapid Transit 2) due to cost rationalisation negotiations that should soon take place. WCT's property division was affected by lower sales due to a lack of new launches, as finance costs continued to bite.
- **FY18 earnings missed.** Full-year core earnings came in at 102m (-27% YoY), missing our and consensus estimates at only 66-87% of forecasts. We excluded a handful of exceptional items, including a fair value gain on Aeon Bukit Tinggi Mall and Paradigm Mall JB, fair value loss of a JV, writedowns on the value of unsold property stock and undeveloped land bank, FX gains, and an impairment on the goodwill of the Subang Skypark acquisition.
- **Cutting FY19F-20F by 13-14%** to account for lower margins for the construction division and lower property earnings. Nonetheless, we are expecting a recovery in earnings in FY19: with earnings growth of 49%, as the LRT3 project resumes in 2H19, and new projects – such as Pavilion Damansara and TRX Mall – kick off. WCT's current outstanding construction orderbook amounts to MYR6bn (compared to MYR5.6bn at the start of 2018), having secured MYR2.3bn and MYR345m (the effective stake in the PNB118 mall) worth of new orders in FY18 and 3M19.
- **Key risks:** a larger-than-anticipated cut to its LRT3 contract value, margins erosion from competitive tenders, and a prolonged downturn in the property market.

WCT's results review

FYE Dec (MYRm)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)	Comments
Revenue	**579.4**	**385.8**	**737.9**	**91.3**	**27.4**	**1,905.9**	**2,333.4**	**22.4**	Higher billings from outstanding orderbook
EBIT	**104.6**	**78.2**	**61.2**	**(21.7)**	**(41.5)**	**276.3**	**314.0**	**13.7**	
EBIT Margin (%)	*18.1*	*20.3*	*8.3*			*14.5*	*13.5*		
Interest expense	(23.1)	(36.7)	(44.9)	22.6	94.8	(63.2)	(135.7)	114.8	
Associates	(15.2)	(2.6)	(29.2)	nm	91.9	2.3	(33.0)	nm	
Pretax profit	**81.5**	**32.1**	**1.2**	**(96.1)**	**(98.5)**	**230.6**	**154.8**	**(32.9)**	
Pretax Margin (%)	*14.1*	*8.3*	*0.2*			*12.1*	*6.6*		
Tax	(22.3)	(9.1)	(54.1)	493.7	142.4	(78.7)	(104.7)	33.0	Excluded FV loss, receivable impairment
Effective tax rate (%)	*(23.1)*	*(26.3)*	*nm*			*(34.5)*	*(55.7)*		
Minority Interest	0.1	3.1	56.3	nm	nm	2.7	61.6	nm	
Net Profit	**59.3**	**26.1**	**3.5**	**(86.6)**	**(94.1)**	**154.6**	**111.8**	**(27.7)**	Better property contributions
Core Profit	**44.1**	**33.0**	**(10.7)**	**(132.5)**	**(124.3)**	**139.4**	**102.3**	**(26.7)**	
Core Net Margin (%)	*7.6*	*8.5*	*(1.5)*			*7.3*	*4.4*		

Source: Company data, RHB

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	1,906	2,333	2,605	2,784	2,968
Recurring net profit (MYRm)	139.4	102	152	157	166
Recurring net profit growth (%)	16.5	(12.3)	48.8	3.1	5.9
Recurring EPS (MYR)	0.08	0.07	0.10	0.10	0.11
Recurring P/E (x)	10.9	12.4	8.4	8.1	7.7
P/B (x)	0.42	0.41	0.40	0.38	0.38
P/CF (x)	2.09	2.38	2.94	3.46	2.31
Dividend Yield (%)	3.6	2.0	3.6	3.6	3.6
EV/EBITDA (x)	13.26	15.48	14.26	14.11	14.02
Return on average equity (%)	4.1	5.4	5.9	5.9	5.9
Net debt to equity (%)	82.3	80.8	80.0	78.0	71.0

Source: Company data, RHB

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