WCT Holdings Bhd

Banking on Stronger 2H16…

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MARKET PERFORM ↔

Price: **RM1.59**
Target Price: **RM1.58** ↔

1H16 core net profit (CNP) of RM53.8m was broadly inline, bogged down by higher-than-expected operating cost from its construction division. However, we deem that it is still on track to meet our full-year estimates are we are banking on a stronger 2H16. No dividends declared as expected. No changes to FY16-17E earnings. Maintain MARKET PERFORM with an unchanged Target Price of RM1.58, which implies FY17E FD PER of 13.9x

A weak first half. 1H16 CNP of RM53.8m came in broadly inline, accounting for only 39% and 38% of our and streets' estimates, respectively. We believe the shortfall was driven by higher-than-expected operating cost from its construction division. No dividend was declared as expected.

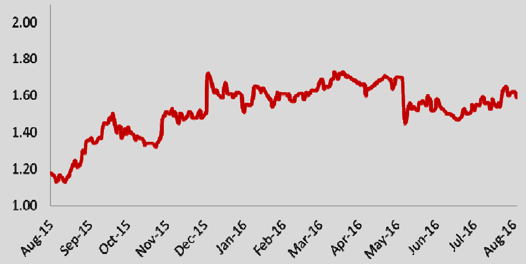
Results highlights. Its 1H16 CNP saw a significant improvement of 154%, YoY on the back of higher revenue, which improved by 38%, YoY backed by the steady progress of its on-going construction jobs secured last year. Its construction revenue was up by 50% whereas its investment division only saw marginal improvements in revenue of 8%. **QoQ,** 2Q16 CNP decreased by 32% despite revenue growth of 20%, due to higher operating cost from its construction division which margin (ex-forex losses) was down by 3ppt to 4%.

Forecast. In terms of estimates, we are keeping our FY17-18E earnings at this juncture as we are looking ahead for a stronger 2H16 performance.

Outlook. Currently, WCT has an external outstanding order book of RM4.3b, with earnings visibility of 2-3 years. In terms of job prospects, managements are maintaining target replenishment target at RM2.0b underpinned by projects such as MRT2, LRT3, Kwasa Damansara, TRX, and RAPID. However, we expect more job awards to flow in closer to 4Q16/1Q17. That said, we are also looking forward on its planned listing for its construction and property investment division in the medium term.

Maintain MARKET PERFORM. We continue to reiterate our MARKET PERFORM call on WCT with an unchanged TP of RM1.58. Our main concern for WCT is still on the possibility of repeated cash calls to address its working capital purposes, particularly when they have debt covenants to meet. To recap, WCT undertook a rights issuance raising up to RM143.0m last year for working capital purposes.

Share Price Performance



KLCI	1,683.07
YTD KLCI chg	-0.6%
YTD stock price chg	-1.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	1,986.3
Issued shares	1,249.2
52-week range (H)	1.76
52-week range (L)	1.10
3-mth avg daily vol:	1,473,177
Free Float	63%
Beta	1.1

Major Shareholders

WCT CAPITAL SDN BHD	19.7%
LEMBAGA TABUNG HAJI	10.2%
EMPLOYEES PROVIDENT	7.2%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,667.9	1,872.9	2,118.2
EBIT	241.2	241.2	281.9
PBT	271.6	178.4	222.8
Net Profit (NP)	**219.1**	**137.1**	**190.2**
Core net profit	**49.3**	**137.1**	**190.2**
Consensus (NP)	n.a.	141.4	170.1
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS	2.9	8.2	11.4
FD EPS (sen)	2.9	8.2	11.4
EPS growth (%)	n.a.	178%	39%
DPS (sen)	4.2	3.3	4.0
NTA/Share (RM)	1.39	1.44	1.52
Basic PER (x)	57.4	20.6	13.9
FD PER (x)	57.4	20.6	13.9
BVPS (RM)	1.39	1.44	1.52
Net Gearing (x)	0.8	0.64	0.66
Dividend Yield (%)	2.5	1.9	2.5

Result Highlight

Y/E : Dec (RM mn)	2Q16	1Q16	QoQ Chg	2Q15	YoY Chg	1H16	1H15	YoY Chg
Turnover	**581.1**	**485.0**	**20%**	**422.3**	**38%**	**1,066.0**	**773.9**	**38%**
EBIT	**54.1**	**29.5**	**84%**	**53.5**	**1%**	**83.6**	**112.8**	**-26%**
Interest expense	-12.8	-13.4	-5%	-19.4	-34%	-26.2	-39.4	-34%
Associates	1.6	2.7	-42%	2.5	-36%	4.3	4.6	-7%
Exceptional items	10.3	-23.1	n.m	24.6	n.m.	-12.9	43.1	n.m.
Pretax profit	**49.8**	**25.2**	**98%**	**43.8**	**14%**	**75.0**	**86.5**	**-13%**
Taxation	-17.8	-15.1	18%	-14.8	20%	-32.8	-24.3	35%
Profit after tax	**32.0**	**10.1**	**217%**	**28.9**	**11%**	**42.2**	**62.2**	**-32%**
Minority interest	0.0	1.3	-102%	-2.1	-99%	1.3	-2.0	-163%
Net profit	**32.1**	**8.8**	**263%**	**31.1**	**3%**	**40.9**	**64.3**	**-36%**
Core net profit	**21.8**	**32.0**	**-32%**	**6.4**	**240%**	**53.8**	**21.2**	**154%**
EPS (sen)	1.9	0.5	263%	1.9	3%	2.4	3.8	-36%
DPS (sen)	0.0	0.0	n.m	2.2	n.m	0.0	2.2	n.m
EBIT margin	9%	6%		13%		8%	15%	
Pretax margin	9%	5%		10%		7%	11%	
Effective tax rate	36%	60%		34%		44%	28%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : Dec (RM mn)	2Q16	1Q16	QoQ Chg	2Q15	YoY Chg	1H16	1H15	YoY Chg
Revenue								
-Construction	503.0	378.1	33%	336.1	50%	881.1	586.1	50%
-Property development	61.8	92.0	-33%	71.9	-14%	153.8	159.2	-3%
-Property investment	16.3	14.9	9%	14.3	14%	31.1	28.7	8%
Group Revenue	**581.1**	**485.0**	**20%**	**422.3**	**38%**	**1,066.0**	**773.9**	**38%**
Segment Profit								
-Construction	29.5	3.7	688%	40.0	-26%	33.2	67.4	-51%
-Property development	17.6	18.3	-4%	7.9	124%	35.9	33.4	7%
-Property investment	7.1	7.4	-5%	5.7	25%	14.5	11.9	22%
Group EBIT	**54.1**	**29.5**	**84%**	**53.5**	**1%**	**83.6**	**112.8**	**-26%**
EBIT Margin								
-Construction	6%	1%		12%		4%	12%	
-Property development	28%	20%		11%		23%	21%	
-Property investment	43%	50%		40%		47%	42%	

**Note: Segment profit are non-core profit which includes unrealised forex gains/(losses)*
Source: Company, Kenanga Research

Table 1: Sum-of-parts valuation

Segment	Stake	Method	Value (RMm)
Construction	100%	12x FY17 PER	1,255.8
Property development	100%	RNAV of 50% discount	542.7
Property investment -excl KLIA2 IC	Various	Book Value	473.9
KLIA2 Integrated complex	70%	DCF	435.9
Highway concession in India	30%	Book Value	128.3
Sub Total			**2,836.6**
Proceed from warrants (C and D)			688.5
Total			**3,525.0**
No of FD shares			1,674.6
SOP/share			**2.11**
Target Price (25% discount)			**1.58**
Implied Basic PE (x)			**10.4**
Implied FD PE (x)			**13.9**

Source: Kenanga Research

Peer Comparison

CORE COVERAGE

NAME	Price (23/8/16) (RM)	Mkt Cap (RMm)	PER (x) Actual	PER (x) 1 Yr Fwd	PER (x) 2 Yr Fwd	Est. Div. Yld. (%)	Est. ROE (%)	P/BV (x)	Net Profit (RMm) Actual	Net Profit (RMm) 1 Yr Fwd	Net Profit (RMm) 2 Yr Fwd	1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
EVERSENDAI CORP BHD	0.46	356.0	7.5	6.9	6.6	0.1	5.5	0.4	47.5	51.5	54.2	8.4	5.2	0.70	Outperform	-39.87
GAMUDA BHD	4.87	11783.1	16.7	18.0	16.2	2.5	13.5	2.4	687.2	636.8	709.7	-7.3	11.4	4.67	Market Perform	4.51
IJM CORP BHD	3.40	12244.8	24.3	19.1	17.3	2.1	6.8	1.3	499.9	634.2	700.8	26.9	10.5	3.66	Market Perform	1.48
KIMLUN CORP BHD	1.85	574.0	8.6	7.9	6.6	3.3	13.7	1.1	64.4	70.0	83.8	8.7	19.7	2.10	Outperform	34.06
MUHIBBAH ENGINEERING (M) BHD	2.23	1071.1	11.5	11.0	9.7	2.2	9.0	1.0	88.9	92.9	104.9	4.5	12.9	2.53	Outperform	0.90
HOCK SENG LEE BERHAD	1.75	961.7	12.6	13.6	10.8	1.5	9.9	1.3	76.2	70.9	89.2	-7.0	25.8	1.79	Market Perform	-7.41
NAIM HOLDINGS BERHAD	1.81	428.9	194.9	16.2	8.9	1.5	2.0	0.3	2.2	26.4	48.3	1100.0	83.0	1.83	Underperform	-26.42
WCT HOLDINGS BHD	1.59	1986.3	54.0	19.4	14.0	1.9	4.3	1.1	49.3	137.1	190.2	178.1	38.7	1.58	Market Perform	-1.24
MMC CORP BHD	2.37	7216.8	60.7	28.7	22.8	0.0	2.7	0.8	118.8	251.6	316.6	111.8	25.8	2.67	Outperform	20.92
MITRAJAYA HOLDINGS BHD	1.39	929.7	11.9	9.9	9.2	3.0	19.7	2.0	87.7	105.7	114.4	20.5	8.2	1.79	Outperform	15.83
SUNWAY CONSTRUCTION GROUP	1.63	2107.4	16.6	15.8	14.1	2.2	24.6	3.9	127.2	133.5	149.6	5.0	12.1	1.81	Outperform	16.43
Average			*38.1*	*15.1*	*12.4*											

NOT RATED/ON OUR RADAR

NAME	Price (RM)	Mkt Cap (RMm)	PER (x) Actual	PER (x) 1 Yr Fwd	PER (x) 2 Yr Fwd	Est. Div. Yld. (%)	Est. ROE (%)	P/BV (x)	Net Profit (RMm) Actual	Net Profit (RMm) 1 Yr Fwd	Net Profit (RMm) 2 Yr Fwd	1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
MUDAJAYA	1.14	613.8	-431.1	18.9	11.1	2.9	2.9	0.6	-1.4	32.7	55.3	-2386.4	69.4	n.a.	Not Rated	-3.39
PROTASCO	1.55	524.0	7.8	6.4	n.a.	n.a.	n.a.	n.a.	66.2	81.4	n.a.	22.9	n.a.	2.25	Trading Buy	-3.73
PINTARAS JAYA	3.60	588.7	11.2	23.9	12.2	4.0	7.1	1.7	51.9	24.3	47.5	-53.2	95.3	4.20	Trading Buy	9.09
GABUNGAN AQRS	1.03	402.1	-40.5	9.5	9.0	1.5	n.a.	n.a.	-9.9	42.0	44.4	-524.8	5.7	n.a.	Not Rated	24.10
GADANG HOLDINGS	2.64	682.8	6.5	7.1	6.8	2.5	16.6	1.2	94.2	86.3	89.4	-8.4	3.7	2.44	Not Rated	24.53
AZRB	0.65	310.9	13.6	n.a.	n.a.	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	1.57
TRC SYNERGY	0.45	213.8	7.0	11.0	6.4	2.2	5.0	0.6	30.7	19.4	33.3	-36.8	71.4	n.a.	Not Rated	20.27
BINA PURI	0.39	93.2	24.6	6.4	5.4	5.2	n.a.	n.a.	3.3	12.6	15.1	282.3	19.8	n.a.	Not Rated	-10.47
KERJAYA PROSPEK GROUP BHD	2.28	1155.9	76.3	13.0	10.8	2.1	15.2	2.0	16.1	94.7	114.1	488.4	20.4	2.62	Trading Buy	39.88
Average			*-59.2*	*12.8*	*8.5*											

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector'sExpected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector'sExpected Total Return is LESS than 3% (an approximation tothe 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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