

30 May 2017

WCT Holdings Bhd

Starting Off Nicely...

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WCT's 1Q17 CNP of RM37.4m came in within expectations, accounting for 25% of our and streets' full-year estimates, respectively. No dividends declared as expected. No changes to FY17-18E core earnings. Maintain UNDERPERFORM with a Target Price of RM1.83.

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Results highlight. WCT's 1Q17 CNP grew by 8%, YoY despite the marginal decline in revenue (-2%), thanks to the significant improvement in construction operating margins, which improved by 7ppt to 8% driven by the healthy progress of its local projects. Likewise, its property division registered weaker operating profits (-38%) on the back of lower development revenue (-19%) coupled with compression in margins (-5ppt) due to intensive marketing efforts to clear off its inventories. **QoQ wise**, 1Q17 CNP soared 241% mainly due to i) improvement in construction revenue (+3%) and construction operating margins (+2ppt) and ii) growth in property investment income (+19%) lifted by better operating margins of 52% (+10ppt). However, its net gearing inched up by 0.04x to 0.95x compared to 4Q16 due to working capital and land banking.

Earnings. Post 1Q17 results, we make no changes to our FY17-18E earnings of RM146.9m and RM165.3m, respectively.

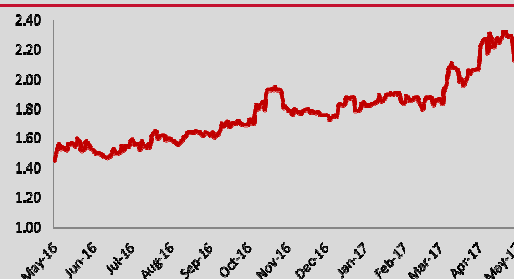
Outlook. Its outstanding order book stands at RM5.2b, providing earnings visibility for the next 2.5-3.0 years. We are anticipating that they may bag more jobs from LRT3 on the viaduct packages in the medium-term. Other job prospects currently are underpinned by contracts from Kwasa Damansara and TRX, which are likely to flow in from FY17.

Maintain UNDERPERFORM. No changes to our UNDERPERFORM call and our SoP-driven Target Price of RM1.83. We believe that WCT has to strive hard to deliver earnings and to continue with its de-gearing exercise while restraining from undergoing more cash-calls after a recent placement exercise. That said, it is traded at fairly rich valuation of 24.4x FY17E FD PER, which is higher, compared to the other big boys that are trading at an average of 20.2x. Hence, we continue to maintain our UNDERPERFORM call.

UNDERPERFORM ↔

Price: RM2.14
Target Price: RM1.83 ↔

Share Price Performance



KLCI 1,764.89
YTD KLCI chg 7.5%
YTD stock price chg 23.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	2,977.3
Issued shares	1,391.3
52-week range (H)	2.49
52-week range (L)	1.45
3-mth avg daily vol:	5,235,460
Free Float	67%
Beta	1.1

Major Shareholders

Dominion Nexus S/B	17.7%
Lembaga Tabung Haji	7.6%
Employees Provident Fund	7.3%

Summary Earnings Table

FY Dec (RM'm)	2016A	2017E	2018E
Turnover	1,933.6	1,958.2	2,302.7
EBIT	167.3	268.3	292.8
PBT	122.0	196.3	220.8
Net Profit (NP)	68.4	146.9	165.3
Core net profit	84.8	146.9	165.3
Consensus (NP)	n.a.	147.9	170.1
Earnings Revision	n.a.	n.a.	n.a.
FD Core EPS (sen)	5.1	8.8	9.9
Core EPS growth (%)	72%	73%	13%
DPS (sen)	0.0	3.1	3.5
NTA/Share (RM)	1.65	1.71	1.77
FD Core PER (x)	52.4	24.4	21.7
BVPS (RM)	1.65	1.71	1.77



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Result Highlight					
FY Dec (RM'm)	1Q17	4Q16	QoQ	1Q16	YoY
Turnover	473.4	453.2	4%	485.0	-2%
EBITDA	62.7	71.4	-12%	89.5	-30%
Depreciation	-2.7	-5.6	-51%	-2.2	23%
EBIT	59.9	65.8	-9%	87.3	-31%
Other income	12.7	35.0	-64%	-13.8	-192%
Other expenses	-3.6	-31.8	-89%	-4.8	-24%
Administrative expenses	-18.1	-19.2	-6%	-18.3	-1%
Interest inc/(exp)	-12.3	-12.8	-4%	-13.4	-9%
Associates/JV	7.8	-23.8	-133%	9.2	-15%
Exceptional items/FV	-4.3	-7.4	-42%	-23.1	-81%
Pretax profit	44.8	11.4	294%	25.2	78%
Taxation	-14.1	-13.2	7%	-15.1	-6%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.
Profit after tax	30.7	-1.9	-1747%	10.1	203%
Minority interest	-2.4	-5.4	-56%	-1.3	83%
PATAMI	33.1	3.5	843%	11.4	190%
Core PATAMI	37.4	11.0	241%	34.6	8%
EPS (sen)	2.6	0.3		0.9	
Core EPS(sen)	3.0	0.9		2.7	
BV/share (RM)	2.21	2.19		2.13	
Net gearing (x)	0.95	0.91		0.81	
EBIT margin	13%	15%		18%	
Pretax margin	9%	3%		5%	
Net margin	8%	2%		7%	
Eff. Tax rate	32%	116%		60%	

Source: Company, Kenanga Research

Segmental Breakdown					
Turnover Segmentation	1Q17	4Q16	QoQ	1Q16	YoY
Construction	383.4	373.7	3%	378.1	1%
Property	74.8	63.8	17%	92.0	-19%
Property investment	15.2	15.6	-3%	14.9	2%
Total	473.4	453.2	4%	485.0	-2%
Op Profit Segmentation					
Construction	30.1	22.5	34%	3.7	704%
Property	11.4	18.9	-40%	18.3	-38%
Property investment	7.9	6.6	19%	7.4	5%
Total	49.3	48.0	3%	29.5	67%
OP Margin					
Construction	8%	6%		1%	
Property	15%	30%		20%	
Property investment	52%	42%		50%	

Source: Company, Kenanga Research

Sum-of-parts valuation			
Segment	Stake	Method	Value (RMm)
Construction	100%	13x FY18 PER	1758.3
Property development	100%	RNAV of 50% discount	592.2
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			3,388.5
Proceed from warrants (C and D)			688.5
Total			4077.0
No of FD shares			1674.6
SOP/share			2.43
Target Price (20% discount)			1.83
Implied Basic PE (x)			15.6
Implied FD PE (x)			20.8

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE

NAME	Price (29/5/17)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd				Actual	1 Yr Fwd	2 Yr Fwd					
EVERSENDAI CORP BHD	0.95	735.2	-5.2	12.5	11.0	0.0	5.9	0.7	-140.3	58.9	67.1	-142.0	13.9	0.80	Underperform	65.22
GAMUDA BHD	5.33	12994.3	20.5	18.1	17.3	2.3	9.8	1.8	626.1	709.5	741.7	13.3	4.5	5.45	Market Perform	11.51
IJM CORP BHD	3.48	12590.0	25.1	22.8	20.5	1.8	5.8	1.3	499.9	549.5	612.0	9.9	11.4	3.51	Market Perform	8.75
KIMLUN CORP BHD	2.27	704.3	8.5	9.8	8.9	2.6	12.1	1.2	82.2	70.7	78.3	-14.0	10.7	2.27	Market Perform	9.13
MUHIKBAH ENGINEERING (M) BHD	2.87	1378.6	15.6	13.4	12.8	1.4	11.2	1.5	87.7	101.5	106.2	15.7	4.6	2.74	Market Perform	28.70
HOCK SENG LEE BERHAD	1.65	906.7	16.1	14.8	12.2	1.3	8.2	1.2	56.4	61.4	74.3	8.9	21.0	1.50	Underperform	3.12
WCT HOLDINGS BHD	2.14	2977.3	42.3	24.4	21.7	0.0	5.0	1.2	84.8	146.9	165.3	73.2	12.5	1.83	Underperform	23.70
MITRAJAYA HOLDINGS BHD	1.40	937.2	10.8	10.3	10.7	3.6	16.1	1.7	97.3	102.1	98.6	4.9	-3.4	1.49	Market Perform	11.11
SUNWAY CONSTRUCTION GROUP	2.08	2689.2	22.8	18.5	18.3	1.9	25.0	4.6	117.7	145.2	146.9	23.4	1.2	2.00	Market Perform	22.35
KERJAYA PROSPEK GROUP BHD	3.16	1628.1	17.9	14.2	12.2	2.2	15.5	2.2	100.0	125.9	146.3	25.9	16.2	3.10	Market Perform	45.62
Average			17.4	15.9	14.6											

NOT RATED/ON OUR RADAR

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd				Actual	1 Yr Fwd	2 Yr Fwd					
MUDAJAYA	1.49	802.2	-3.0	20.9	15.2	1.7	3.3	0.7	-264.9	38.5	52.9	-114.5	37.5	n.a.	Not Rated	63.74
PROTASCO	0.99	420.0	7.7	5.7	5.7	7.1	17.0	1.0	44.4	59.8	60.1	34.8	0.5	1.36	Trading Buy	-12.39
PINTARAS JAYA	3.87	637.5	35.4	14.9	12.5	5.2	12.5	1.9	17.8	42.2	50.6	137.3	19.9	4.20	Trading Buy	9.94
GABUNGAN AQRS	1.43	558.2	24.7	18.7	9.5	0.0	7.6	1.4	22.6	29.8	58.9	32.0	97.7	1.51	Trading Buy	58.01
GADANG HOLDINGS	1.27	831.1	7.8	8.5	8.1	3.1	18.0	1.5	94.2	86.8	90.8	-7.9	4.6	2.44	Not Rated	20.95
AZRB	1.13	600.6	21.0	18.8	n.a.	1.8	n.a.	n.a.	26.0	29.0	n.a.	11.6	n.a.	n.a.	Not Rated	77.95
TRC SYNERGY	0.63	302.7	10.1	9.2	11.5	1.6	8.6	0.8	29.9	32.9	26.3	10.2	-20.1	n.a.	Not Rated	65.79
BINA PURI	0.41	106.9	93.7	6.6	6.6	n.a.	n.a.	n.a.	1.0	14.9	14.9	1328.6	0.0	n.a.	Not Rated	-5.75
GKENT	3.92	1472.0	14.5	15.7	13.9	2.1	21.9	3.4	101.4	93.8	106.0	-7.5	13.0	2.80	Trading Buy	28.95
PESONA	0.66	440.3	21.6	12.2	8.9	2.3	23.4	2.9	20.0	35.3	48.5	76.2	37.4	0.485	Take Profit	9.09
Average			25.8	13.0	10.2											

Source: 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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