

25 August 2017

WCT Holdings Bhd

Results In line

By Adrian Ng | adrian.ng@kenanga.com.my

WCT's 1H17 CNP of RM75.1m is within expectations accounting for 51%/50% of our and streets' full-year estimates, respectively. No dividends declared as expected. No changes to our FY17-18E core earnings. Upgrade to MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.83 given the share price correction while earnings outlook appears steadier.

In line. 1H17 Core Net Profit (CNP) of RM75.1m was within expectations accounting for 51%/50% of our and streets' full-year estimates, respectively. We derived our CNP of RM75.1m by adding back its cumulative forex losses of RM20.5m. No dividends declared as expect.

Results highlight. Its 1H17 CNP recorded an impressive YoY improvement of 33% despite 20% decline in revenue. This is mainly driven by the following factors; (i) significant improvements seen in construction operating margins from 4% to 8% as its local jobs that commands higher margins picked up pace, and (ii) improvements in property investment operating margins by 7ppt to 54%.

On QoQ basis, WCT managed to maintain a flattish 2Q17 CNP of RM37.7m (+1%) despite 19% decline in revenue. The main drag on its revenue was due to the steep decline of 38% in construction revenue. Fortunately, the negative impact was negated by better contribution from its property and property investment division, which saw 31%/13% growth in operating profit underpinned by 75%/3% growth in both property and property investment revenue. The sharp increase in property revenue is in-line with management's strategy to clear its inventory /unsold GDVs. Positively, its net gearing had also come off to 0.86x from 0.95x in 1Q17.

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 c.RM5.0b, providing earnings visibility for the next 2.5-3.0 years. Going forward, we expect WCT to maintain its earnings momentum and also anticipate them to bag more jobs from LRT3 on the viaduct packages in the medium-term. As for its property division, we are looking for an update in its upcoming analysts' briefing that is to be held today.

Upgrading to MARKET PERFORM. We raised our recommendation to MARKET PERFORM (previously, UNDERPERFORM) with an unchanged SoP-driven Target Price of RM1.83, in view of its steady earnings performance coupled with the fact that its share price has weakened by 14% since our last report dated back in 30th May 2017. Our TP implies FY18E PER of 18.5x in line with the big-boys range of 18.0-20.0x, which we are comfortable with especially when they are concession owners. Meanwhile, it appears that earnings trajectory appears steadier while there is an improvement in its balance sheet position.

MARKET PERFORM ↑

Price : **RM1.85**
Target Price : **RM1.83** ↔

Share Price Performance



KLCI	1,775.50
YTD KLCI chg	8.1%
YTD stock price chg	7.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	2,599.1
Issued shares	1,404.9
52-week range (H)	2.48
52-week range (L)	1.53
3-mth avg daily vol:	1,681,397
Free Float	67%
Beta	1.0

Major Shareholders

Dominion Nexus Sdn Bhd	17.6%
Employees Provident Fund	8.0%
Lembaga Tabung Haji	7.2%

Summary Earnings Table

FYE 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.	148.5	170.5
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)	45.3	21.1	18.7
BVPS (RM)	1.65	1.71	1.77
Net Gearing (x)	0.9	0.9	0.9
Dividend Yield (%)	0.0	1.7	1.9

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Result Highlight								
FY Dec (RM'm)	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Turnover	383.3	473.4	-19%	581.1	-34%	856.7	1,066.0	-20%
EBITDA	95.7	62.7	53%	48.6	97%	158.4	138.1	15%
Depreciation	-3.4	-2.7	25%	-4.4	-23%	-6.2	-6.7	-8%
EBIT	92.3	59.9	54%	44.1	109%	152.2	131.4	16%
Other income	-4.0	12.7	-132%	20.1	-120%	8.7	6.4	37%
Other expenses	-8.7	-3.6	139%	-7.1	22%	-12.3	-11.8	4%
Administrative expenses	-20.6	-18.1	14%	-17.8	16%	-38.7	-36.1	7%
Interest inc/(exp)	-13.5	-12.3	11%	-12.8	6%	-25.8	-26.2	-2%
Associates/JV	5.8	7.8	-25%	8.5	-32%	13.5	17.6	-23%
Exceptional items	0.0	0.0	n.m.	10.3	-100%	0.0	-12.9	-100%
Forex gain/(loss)	-16.2	-4.3	277%	0.0	n.m.	-20.5	0.0	n.m.
Pretax profit	38.5	44.8	-14%	49.8	-23%	83.3	75.0	11%
Taxation	-17.0	-14.1	20%	-17.8	-4%	-31.1	-32.8	-5%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	21.5	30.7	-30%	32.0	-33%	52.2	42.2	24%
Minority interest	0.0	-2.4	-99%	0.0	-19%	-2.4	-1.3	81%
PATAMI	21.5	33.1	-35%	32.1	-33%	54.6	43.5	26%
Core PATAMI	37.7	37.4	1%	21.8	73%	75.1	56.4	33%
EPS (sen)	1.7	2.6		2.5		4.3	3.5	
Core EPS(sen)	3.0	3.0		1.7		6.0	4.5	
BV/share (RM)	2.42	2.21		2.12		2.42	2.12	
Net gearing (x)	0.86	0.95		0.81		0.86	0.81	
EBIT margin	24%	13%		8%		18%	12%	
Pretax margin	10%	9%		9%		10%	7%	
Net margin	10%	8%		4%		9%	5%	
Eff. Tax rate	44%	32%		36%		37%	44%	

Source: Company, Kenanga Research

Segmental Breakdown								
Turnover Segmentation	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Construction	236.8	383.4	-38%	503.0	-53%	620.2	881.1	-30%
Property	130.9	74.8	75%	61.8	112%	205.7	153.8	34%
Property investment	15.6	15.2	3%	16.3	-4%	30.9	31.1	-1%
Total	383.3	473.4	-19%	581.1	-34%	856.7	1,066.0	-20%
Op Profit Segmentation								
Construction	22.4	30.1	-25%	29.5	-24%	52.5	33.2	58%
Property	15.0	11.4	31%	17.6	-15%	26.4	35.9	-26%
Property investment	8.8	7.9	13%	7.1	25%	16.7	14.5	15%
Total	46.2	49.3	-6%	54.1	-15%	95.6	83.6	14%
OP Margin								
Construction	9%	8%		6%		8%	4%	
Property	11%	15%		28%		13%	23%	
Property investment	56%	52%		43%		54%	47%	

Source: Company, Kenanga Research

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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)			13.9
Implied FD PE (x)			18.5
<i>Source: Kenanga Research</i>			

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Peer Comparison

CORE COVERAGE																
NAME	Price (24/8/17)	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)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	1.08	836	-6.0	14.2	11.9	1%	6%	0.9	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	87.8
GAMUDA BHD	5.41	13269	30.5	21.5	20.6	2%	10%	1.8	499.3	709.5	741.7	42%	5%	5.45	Market Perform	13.2
IJM CORP BHD	3.46	12552	23.2	21.4	19.1	2%	6%	1.3	539.1	585.8	656.1	9%	12%	3.48	Market Perform	8.1
KIMLUN CORP BHD	2.20	703	8.3	9.7	8.7	3%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	5.8
MUHIBBAH ENGINEERING (M) BHD	2.87	1379	16.9	14.6	14.0	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	28.7
HOCK SENG LEE BERHAD	1.46	802	14.2	16.2	11.6	2%	7%	1.1	56.5	49.4	69.0	-13%	40%	1.40	Market Perform	-8.8
WCT HOLDINGS BHD	1.85	2599	36.5	21.1	18.7	2%	5%	1.1	84.8	146.9	165.3	73%	13%	1.83	Market Perform	7.6
MITRAJAYA HOLDINGS BHD	1.33	916	10.3	9.8	10.2	4%	15%	1.4	97.3	102.1	98.6	5%	-3%	1.49	Market Perform	5.6
SUNWAY CONSTRUCTION GROUP	2.32	2998	25.5	20.7	20.4	2%	25%	5.2	117.7	145.2	146.9	23%	1%	2.00	Underperform	36.5
KERJAYA PROSPEK GROUP BHD	3.68	2062	20.8	16.4	14.0	1%	16%	2.6	100	126.7	148.1	27%	17%	3.30	Underperform	69.6
<i>Average</i>			18.0	16.6	14.9											
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)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.08	581	-2.2	15.1	11.0	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	18.7
PROTASCO	1.02	433	8.3	7.4	7.2	6%	14%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-9.7
PINTARAS JAYA	4.04	666	37.0	15.6	13.0	5%	13%	2.0	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	14.8
GABUNGAN AQRS	1.70	730	29.4	17.8	8.5	1%	11%	2.0	22.6	37.2	77.9	65%	109%	1.6	Not Rated	87.8
GADANG HOLDINGS	1.30	855	8.9	9.7	9.3	2%	14%	1.4	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	23.8
AZRB	1.08	574	19.2	9.1	7.2	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	70.1
TRC SYNERGY	0.83	399	13.3	12.1	15.2	2%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	118.4
BINA PURI	0.36	95	84.7	5.7	5.7	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-18.4
GKENT	2.79	1572	15.5	16.8	14.8	3%	21%	3.5	101.4	93.8	106	-7%	13%	2.8	Trading Buy	37.7
PESONA	0.59	390	19.2	10.9	7.9	4%	22%	2.4	20	35.3	48.5	77%	37%	0.485	Take Profit	-3.3
JAKS	1.31	632	0.8	9.3	6.7	0%	12%	1.1	736	61.933	85.433	-92%	38%	1.54	Not Rated	28.4
<i>Average</i>			21.3	11.8	9.7											

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research

