



### WCT HOLDINGS BERHAD

**Neutral**

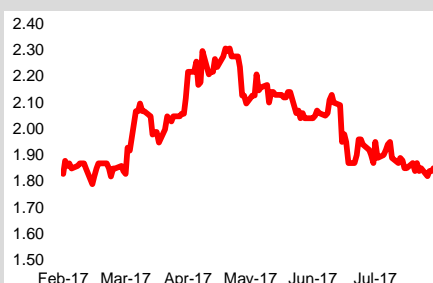
#### DESCRIPTION

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** RM2.00  
**Current Price** RM1.85  
**Expected Return** +8%

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

#### SHARE PRICE CHART



**52 Week Range (RM)** 1.53-2.48  
**3-Month Average Vol ('000)** 1,730.7

#### SHARE PRICE PERFORMANCE

|                  | 1M   | 3M    | 6M   |
|------------------|------|-------|------|
| Absolute Returns | -5.2 | -17.7 | -3.1 |
| Relative Returns | -4.4 | -13.3 | -4.3 |

#### KEY STOCK DATA

|                             |         |
|-----------------------------|---------|
| Market Capitalisation (RMm) | 2,599.1 |
| No. of Shares (m)           | 1,404.9 |

#### MAJOR SHAREHOLDERS

|                     | %    |
|---------------------|------|
| Tan Sri Desmond Lim | 17.6 |
| EPF                 | 8.0  |
| Lembaga Tabung Haji | 7.3  |

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## Within Expectations

WCT Holdings (WCT) registered a net profit of RM21.5m (-35.0% QoQ, -33.0% YoY) in 2Q2017, contributing to 1H2017 net profit of RM70.8m (excluding unrealized FX loss of RM16.2m). This constituted 53% and 49% of our and consensus full year profit estimates. We deem this in line as we believe subsequent quarters' earnings could be weaker due to possible lower contributions from the property development division. FY17 earnings are adjusted downward by 12% to account for the FX losses. Revenue in 2QFY17 dropped 19% QoQ to RM383m due to completion of a building project. Our SOTP-derived TP remains unchanged at RM2.00, while our **Neutral** call is maintained.

§ **Construction division, the key profit driver.** YTD, engineering and construction division delivered RM52.5m (+58% YoY) or c.55% of total operating profit. Property, with no new launches planned in this financial year, saw its operating profit drop 26% YoY to RM26.4m or 28% of the total operating profit. As for property investment and management, its operating profit rose 15% YoY to RM32.2m.

§ **Outstanding order book.** The Group's outstanding order book is estimated in excess of RM4.5bn, underpinning its construction earnings visibility for the next 2-3 years. Management is targeting to secure jobs worth RM2-3bn from its tender book of c.RM10bn (with RM1.8bn from overseas jobs). Going forward, new construction-related jobs eyed include the Pan Borneo Sabah highway, LRT3 (other packages) and works in Kwasa Damansara and Tun Razak Exchange (TRX). As for property, sales target for FY17 is RM500m. The new sales are expected mainly from its unsold inventories which is said to have GDV of over RM1bn. Margins, however, are expected to be lower due to its re-pricing strategy to make to the properties more competitive in the soft market currently.

#### KEY FORECAST TABLE

| FYE Dec (RM m)     | 2015A   | 2016A   | 2017F   | 2018F   | 2019F   | CAGR (%) |
|--------------------|---------|---------|---------|---------|---------|----------|
| Revenue            | 1,667.9 | 1,933.6 | 2,495.7 | 2,576.4 | 2,682.4 | 9.9      |
| Operating Profit   | 241.2   | 120.9   | 259.3   | 279.2   | 314.2   | 1.1      |
| Pre-tax Profit     | 261.8   | 122.0   | 173.5   | 188.7   | 228.2   | 0.4      |
| Net Profit         | 209.4   | 68.4    | 117.4   | 151.2   | 181.3   | 1.1      |
| EPS (Sen)          | 15.5    | 5.1     | 8.7     | 11.2    | 13.4    | 1.1      |
| P/E (x)            | 13.6    | 41.4    | 21.3    | 16.5    | 13.8    |          |
| DPS (Sen)          | 2.0     | -       | 3.0     | 3.0     | 4.0     |          |
| Dividend Yield (%) | 0.9     | -       | 1.6     | 1.6     | 2.2     |          |

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

| <u>FYE Dec (RM m)</u>          | <u>2Q17</u> | <u>2Q16</u> | <u>1Q17</u> | <u>QoQ<br/>chg<br/>(%)</u> | <u>YoY<br/>chg<br/>(%)</u> | <u>YTD FY17</u> | <u>YTD FY16</u> | <u>YoY<br/>chg<br/>(%)</u> |
|--------------------------------|-------------|-------------|-------------|----------------------------|----------------------------|-----------------|-----------------|----------------------------|
| Revenue                        | 383.3       | 581.1       | 473.4       | -19.0                      | -34.0                      | 856.7           | 1066.0          | -19.6                      |
| Cost of sales                  | -303.8      | -522.2      | -415.0      | -26.8                      | -41.8                      | -718.8          | -940.8          | -23.6                      |
| <b>Gross profit</b>            | <b>79.5</b> | <b>58.9</b> | <b>58.4</b> | <b>36.2</b>                | <b>35.0</b>                | <b>137.9</b>    | <b>125.2</b>    | <b>10.1</b>                |
| Other income                   | -4.0        | 20.1        | 12.7        | -131.5                     | -119.9                     | 8.7             | 6.4             | 36.7                       |
| Other expenses                 | -29.3       | -24.9       | -21.7       | 34.8                       | 17.5                       | -51.0           | -48.0           | 6.3                        |
| <b>Operating profit</b>        | <b>46.2</b> | <b>54.1</b> | <b>49.3</b> | <b>-6.3</b>                | <b>-14.5</b>               | <b>95.6</b>     | <b>83.6</b>     | <b>14.4</b>                |
| Finance costs                  | -13.5       | -12.8       | -12.3       | 10.2                       | 5.5                        | -25.8           | -26.2           | -1.6                       |
| Share of results of associates | 5.8         | 8.5         | 7.8         | -25.4                      | -31.6                      | 13.5            | 17.6            | -23.2                      |
| <b>Pre-tax profit</b>          | <b>38.5</b> | <b>49.8</b> | <b>44.8</b> | <b>-14.2</b>               | <b>-22.7</b>               | <b>83.3</b>     | <b>75.0</b>     | <b>11.1</b>                |
| Tax                            | -17.0       | -17.8       | -14.1       | 20.1                       | -4.3                       | -31.1           | -32.8           | -5.2                       |
| <b>Net profit</b>              | <b>21.5</b> | <b>32.0</b> | <b>30.7</b> | <b>-30.0</b>               | <b>-32.8</b>               | <b>52.2</b>     | <b>42.2</b>     | <b>23.8</b>                |
| <b>PATAMI</b>                  | <b>21.5</b> | <b>32.1</b> | <b>33.1</b> | <b>-35.0</b>               | <b>-33.0</b>               | <b>54.6</b>     | <b>40.9</b>     | <b>33.4</b>                |

Source: Company, PublicInvest Research

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

| FYE Dec (RM m)         | 2015A   | 2016A   | 2017F   | 2018F   | 2019F   |
|------------------------|---------|---------|---------|---------|---------|
| Revenue                | 1,667.9 | 1,933.6 | 2,495.7 | 2,576.4 | 2,682.4 |
| Gross Profit           | 296.6   | 238.8   | 463.4   | 488.9   | 519.9   |
| Operating expenses     | 1.0     | -117.9  | -204.1  | -209.7  | -205.7  |
| Operating Profit       | 297.6   | 120.9   | 259.3   | 279.2   | 314.2   |
| Other Gains / (Losses) | 55.8    | 109.3   | 16.8    | 17.3    | 17.8    |
| Finance Costs          | -91.5   | -108.2  | -102.6  | -107.8  | -103.8  |
| Pre-tax Profit         | 261.8   | 122.0   | 173.5   | 188.7   | 228.2   |
| Income Tax             | -53.6   | -32.7   | -41.6   | -45.3   | -54.8   |
| Effective Tax Rate (%) | 20.5    | 26.8    | 24.0    | 24.0    | 24.0    |
| Minorities             | 1.8     | 2.8     | 1.7     | 7.8     | 7.8     |
| Net Profit             | 209.4   | 68.4    | 117.4   | 151.2   | 181.3   |
| <b>Growth</b>          |         |         |         |         |         |
| Revenue (%)            | 0.5     | 15.9    | 11.1    | 3.2     | 4.1     |
| Gross Profit (%)       | 27.0    | -19.5   | 13.6    | 5.5     | 6.3     |
| Net Profit             | 42.3    | -67.3   | 10.5    | 28.9    | 19.9    |

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

| FYE Dec (RM m)                      | 2015A          | 2016A          | 2017F          | 2018F          | 2019F          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Property, Plant & Equipment         | 237.4          | 288.4          | 319.6          | 361.1          | 404.5          |
| Cash and Cash Equivalents           | 950.8          | 524.3          | 1,000.4        | 794.2          | 711.4          |
| Receivables                         | 1,022.2        | 1,155.9        | 1,487.3        | 1,652.9        | 1,706.3        |
| Other Assets                        | 3,990.7        | 4,793.5        | 4,165.1        | 4,300.3        | 4,343.5        |
| <b>Total Assets</b>                 | <b>6,201.1</b> | <b>6,762.1</b> | <b>6,972.5</b> | <b>7,108.5</b> | <b>7,165.6</b> |
| Payables                            | 862.1          | 1,457.5        | 1,143.6        | 1,270.9        | 1,312.0        |
| Borrowings                          | 2,430.5        | 2,593.2        | 2,565.2        | 2,440.5        | 2,351.1        |
| Tax payable                         | 37.8           | 9.2            | 35.4           | 35.4           | 35.4           |
| Other Liabilities                   | 589.9          | 44.7           | 795.0          | 863.9          | 886.1          |
| <b>Total Liabilities</b>            | <b>3,920.4</b> | <b>4,104.7</b> | <b>4,539.2</b> | <b>4,610.7</b> | <b>4,584.6</b> |
| Shareholders' Equity                | 2,280.7        | 2,657.4        | 2,433.3        | 2,497.8        | 2,581.0        |
| <b>Total Equity and Liabilities</b> | <b>6,201.1</b> | <b>6,762.1</b> | <b>6,972.5</b> | <b>7,108.5</b> | <b>7,165.6</b> |

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

| FYE Dec              | 2015A | 2016A | 2017F | 2018F | 2019F |
|----------------------|-------|-------|-------|-------|-------|
| Book Value Per Share | 1.8   | 2.1   | 1.7   | 1.7   | 1.8   |
| NTA Per Share        | 1.8   | 2.1   | 1.7   | 1.7   | 1.8   |
| EPS (Sen)            | 15.5  | 5.1   | 7.9   | 8.7   | 11.2  |
| DPS (Sen)            | 2.0   | 2.0   | 3.0   | 3.0   | 3.0   |
| Payout Ratio (%)     | 12.9  | 39.5  | 38.1  | 34.5  | 26.8  |
| ROA (%)              | 3.1   | 1.8   | 2.4   | 1.5   | 1.6   |
| ROE (%)              | 9.4   | 2.6   | 4.5   | 4.8   | 6.0   |

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

|                     |  |
|---------------------|--|
| <b>OUTPERFORM</b>   | The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.  |
| <b>NEUTRAL</b>      | The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.  |
| <b>UNDERPERFORM</b> | The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.  |
| <b>TRADING BUY</b>  | 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. |
| <b>TRADING SELL</b> | The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.  |
| <b>NOT RATED</b>    | The stock is not within regular research coverage.   |

### SECTOR

|                    |  |
|--------------------|--|
| <b>OVERWEIGHT</b>  | The sector is expected to outperform a relevant benchmark over the next 12 months.           |
| <b>NEUTRAL</b>     | The sector is expected to perform in line with a relevant benchmark over the next 12 months. |
| <b>UNDERWEIGHT</b> | The sector is expected to underperform a relevant benchmark over the next 12 months.         |

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