

Out think. Out perform.

## Local construction drive

WCT's focus on growing domestic order book to improve profitability has started to pay off. Net profit jumped 47% yoy to RM95m in 9M17, which was within our expectation but below market expectations. Excluding forex losses, core net profit grew by a stronger 60% yoy in 9M17. Order book of RM5.9bn and unbilled sales of RM322m will sustain the earnings trajectory in 4Q17. WCT remains one of our top BUYs among construction stocks with 12M TP of RM2.46, based on 10% discount to RNAV.

### Within our expectation

WCT's net profit of RM95 comprise 73% of our FY17E estimate of RM130m but was only 64% of consensus FY17E forecast of RM149m. Revenue eased 10% yoy to RM1.33bn in 9M17 due to lower construction revenue (-22% yoy), which was partly offset by higher property development revenue (+46% yoy) and property investment revenue (+7% yoy). Operating profit jumped 44% yoy to RM172m, mainly driven by the construction division (+191% yoy). Construction operating profit margin improved to 10.7% in 9M17 compared to 2.9% in 9M16 as local construction projects started to contribute more to revenue, while project execution efficiency improved.

### Strong new contract procurement

WCT has secured RM1.8bn new contracts to date, raising outstanding order book to about RM5.9bn. Property sales of about RM277m supported property revenue growth in 9M17 with some of sales of completed properties (inventories). But property development operating profit margin fell to 13.8% in 9M17 from 26.8% in 9M16.

### Good prospects to replenish order book

WCT is keen to bid for several building jobs in Klang Valley, RM2bn KL-Klang Bus Rapid Transit, an elevated highway and East Coast Rail Link projects. This will support order book replenishment or expansion. Net gearing improved to 0.86x at end-3Q17 from 0.90x at end-2016 following the private placement equivalent to 8% of share capital.

### Maintain BUY

We expect the potential corporate restructuring, asset monetization and de-gearing efforts to spur interest in WCT. We reaffirm our BUY call with a 12M TP of RM2.46. WCT is one of our top sector picks. Key risks to our positive view would be slower property sales and construction execution risks and overhang from the proposed private placement of new shares of up to 10% of share capital (maximum of 140m new shares).

### Earnings & Valuation Summary

| FYE 31 Dec          | 2015    | 2016    | 2017E   | 2018E   | 2019E   |
|---------------------|---------|---------|---------|---------|---------|
| Revenue (RMm)       | 1,667.9 | 1,933.6 | 2,277.4 | 2,828.7 | 2,800.9 |
| EBITDA (RMm)        | 126.4   | 145.7   | 224.3   | 313.5   | 371.6   |
| Pretax profit (RMm) | 271.6   | 122.0   | 184.2   | 298.8   | 364.3   |
| Net profit (RMm)    | 219.1   | 68.4    | 130.2   | 220.1   | 262.9   |
| EPS (sen)           | 13.9    | 5.2     | 8.7     | 13.2    | 15.6    |
| PER (x)             | 13.3    | 35.5    | 21.2    | 14.1    | 11.9    |
| Core net profit     | 72.3    | 58.6    | 151.3   | 220.1   | 262.9   |
| Core EPS (sen)      | 5.5     | 4.6     | 10.0    | 13.2    | 15.6    |
| Core EPS growth (%) | (31.2)  | (16.0)  | 117.1   | 31.4    | 18.5    |
| Core PER (x)        | 33.7    | 40.1    | 18.5    | 14.1    | 11.9    |
| Net DPS (sen)       | 6.0     | 2.0     | 4.0     | 4.0     | 4.0     |
| Dividend Yield (%)  | 3.2     | 1.1     | 2.2     | 2.2     | 2.2     |
| EV/EBITDA (x)       | 33.9    | 30.6    | 20.3    | 14.3    | 11.8    |
| Chg in EPS (%)      |         |         | 0.0     | 0.0     | 0.0     |
| Affin/Consensus (x) |         |         | 0.9     | 1.3     | 1.4     |

Source: Company, Affin Hwang forecasts, Bloomberg

## Results Note

# WCT Holdings

WCTHG MK  
Sector: Construction & Infra

RM1.65 @ 22 November 2017

## BUY (maintain)

Upside: 49%

Price Target: RM2.46

Previous Target: RM2.46



## Price Performance

|             | 1M    | 3M     | 12M    |
|-------------|-------|--------|--------|
| Absolute    | -3.6% | -13.0% | +16.3% |
| Rel to KLCI | -4.4% | -13.2% | +10.2% |

## Stock Data

|                                     |               |
|-------------------------------------|---------------|
| Issued shares (m)                   | 1,406.7       |
| Mkt cap (RMm)/(US\$m)               | 2,321.1/564.7 |
| Avg daily vol - 6mth (m)            | 2.0           |
| 52-wk range (RM)                    | 1.49-2.48     |
| Est free float                      | 65.8%         |
| BV per share (RM)                   | 2.16          |
| P/BV (x)                            | 0.76          |
| Net cash/ (debt) (RMm) (3Q17)       | (2,626.39)    |
| ROE (2017E)                         | 4.3%          |
| Derivatives                         | Yes           |
| (Warr 12/17, WP RM0.005, EP RM1.71) |               |
| (Warr 15/20, WP RM0.27, EP RM2.08)  |               |
| Shariah Compliant                   | Yes           |

## Top 3 Key Shareholders

|                        |       |
|------------------------|-------|
| Dominion Nexus Sdn Bhd | 17.6% |
| EPF                    | 8.0%  |
| LTH                    | 7.3%  |

Source: Affin Hwang, Bloomberg

Loong Chee Wei CFA  
(603) 2146 7548  
cheewei.loong@affinhwang.com

Outthink. Outperform.

Fig 1: Results comparison

| FYE 31 Dec (RMm)         | 3Q17         | % QoQ          | % YoY          | 9M17           | % YoY          | 3Q17 Comment  |
|--------------------------|--------------|----------------|----------------|----------------|----------------|---|
| <b>Revenue</b>           | <b>469.8</b> | <b>22.6</b>    | <b>13.4</b>    | <b>1,326.5</b> | <b>(10.4)</b>  | 9M17: Lower revenue due to decline in construction revenue (-22% yoy), partly offset by higher property development revenue (+46% yoy). |
| Operating costs          | (366.4)      | 13.3           | (5.4)          | (1,076.9)      | (20.9)         |   |
| <b>EBITDA</b>            | <b>72.4</b>  | <b>20.7</b>    | <b>&gt;100</b> | <b>185.9</b>   | <b>57.2</b>    |   |
| <i>EBITDA margin (%)</i> | <i>15.4</i>  | <i>-0.2ppt</i> | <i>8.9ppt</i>  | <i>14.0</i>    | <i>6.0ppt</i>  | Higher operating profit margin for its construction division offset the impact of lower property development margin.                    |
| Depreciation             | (3.4)        | (0.6)          | 26.3           | (9.6)          | 2.0            |   |
| <b>EBIT</b>              | <b>69.0</b>  | <b>21.9</b>    | <b>&gt;100</b> | <b>176.3</b>   | <b>62.0</b>    |   |
| Interest expense         | (14.3)       | 5.5            | 96.6           | (40.1)         | 19.7           |   |
| Interest income          | 8.0          | (28.9)         | 4.7            | 17.4           | (9.4)          |   |
| Associates               | 4.0          | >100           | (44.0)         | 17.6           | (29.2)         |   |
| Forex gain/(loss)        | 0.7          | NA             | (80.9)         | (19.8)         | >100           | Loss from translation of receivables in Middle East due to stronger Ringgit.  |
| Exceptional gain/(loss)  | (1.7)        | NA             | >100           | (2.3)          | NA             |   |
| <b>Pretax profit</b>     | <b>65.8</b>  | <b>71.0</b>    | <b>84.7</b>    | <b>149.2</b>   | <b>34.8</b>    |   |
| <b>Core pretax</b>       | <b>66.8</b>  | <b>22.2</b>    | <b>&gt;100</b> | <b>171.2</b>   | <b>43.4</b>    |   |
| Tax                      | (25.3)       | 49.0           | >100           | (56.4)         | 29.4           |   |
| <i>Tax rate (%)</i>      | <i>38.4</i>  | <i>12.6ppt</i> | <i>8.2ppt</i>  | <i>37.8</i>    | <i>-1.6ppt</i> | Higher tax rate as unrealised forex loss and certain expenses are not tax deductible.   |
| Minority interests       | 0.3          | NA             | NA             | 2.6            | NA             |   |
| <b>Net profit</b>        | <b>40.8</b>  | <b>89.9</b>    | <b>70.2</b>    | <b>95.3</b>    | <b>46.9</b>    | In line with our expectation.   |
| EPS (sen)                | 2.9          | 85.8           | 50.0           | 7.0            | 34.6           |   |
| <b>Core net profit</b>   | <b>41.7</b>  | <b>10.8</b>    | <b>10.8</b>    | <b>117.4</b>   | <b>59.5</b>    | Exclude forex loss.   |

Source: Affin Hwang estimates, Company

Fig 2: Segmental operating profit

| FYE 31 Dec (RMm)     | 3Q16        | 2Q17        | 3Q17        | % QoQ       | % YoY          | 9M16         | 9M17         | % YoY          |
|----------------------|-------------|-------------|-------------|-------------|----------------|--------------|--------------|----------------|
| Construction         | 1.1         | 22.4        | 47.1        | >100        | >100           | 34.3         | 105.0        | >100           |
| Property development | 28.4        | 14.9        | 21.6        | 45.1        | (23.8)         | 64.3         | 86.2         | 34.1           |
| Others               | 6.2         | 8.8         | 7.4         | (16.2)      | 18.5           | 20.8         | 54.4         | >100           |
| <b>Total</b>         | <b>35.7</b> | <b>46.2</b> | <b>76.1</b> | <b>64.8</b> | <b>&gt;100</b> | <b>119.3</b> | <b>245.6</b> | <b>&gt;100</b> |

Source: Company, Affin Hwang

Fig 3: Segmental operating profit margin

| FYE 31 Dec (%)       | 3Q16       | 2Q17        | 3Q17        | ppt QoQ    | ppt YoY    | 9M16       | 9M17        | ppt YoY    |
|----------------------|------------|-------------|-------------|------------|------------|------------|-------------|------------|
| Construction         | 0.3        | 9.5         | 15.3        | 5.8        | 14.9       | 2.9        | 10.7        | 7.9        |
| Property development | 33.2       | 11.4        | 15.1        | 3.8        | (18.1)     | 26.8       | 13.8        | (13.1)     |
| Others               | 41.7       | 56.5        | 39.7        | (16.8)     | (2.0)      | 45.0       | 48.6        | 3.6        |
| <b>Total</b>         | <b>8.6</b> | <b>12.0</b> | <b>16.2</b> | <b>4.2</b> | <b>7.6</b> | <b>8.1</b> | <b>12.9</b> | <b>4.9</b> |

Source: Company, Affin Hwang

Outthink. Outperform.

Fig 4: RNAV and target price assumptions

| Segment   | Stake (%) | RNAV (RMm)   |
|---|-----------|--------------|
| Construction @ PE 14x avg earnings of RM100m      | 100       | 1,400        |
| Property devt @ RNAV                              | 100       | 2,837        |
| BBT mall @ NBV                                    | 100       | 442          |
| Paradigm mall @ NBV                               | 70        | 510          |
| gateway@klia2 @ NBV                               | 70        | 420          |
| Other investment properties                       | 100       | 683          |
| Indian toll roads                                 | 30        | 135          |
| Net cash/(debt)                                   |           | (2,107)      |
| <b>RNAV</b>                                       |           | <b>4,320</b> |
| No. of shares (m shrs)                            |           | 1,521        |
| <b>RNAV/share (RM)</b>                            |           | <b>2.84</b>  |
| <br>  |           |              |
| New shares from warrants conversion (m)           |           | 237          |
| Fully-diluted no. of shares (m)                   |           | 1,758        |
| <b>Fully-diluted RNAV/share (RM)</b>              |           | <b>2.74</b>  |
| <b>Target price at 10% discount to RNAV/share</b> |           | <b>2.46</b>  |

Source: Affin Hwang estimates

**Equity Rating Structure and Definitions**


---

ETotal return is expected to exceed +10% over a 12-month period

FTotal return is expected to be between -5% and +10% over a 12-month period

§Total return is expected to be below -5% over a 12-month period

IAffin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

ICl industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months

INd industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months

UIndustry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

---

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:  
 Affin Hwang Investment Bank Berhad (14389-U)  
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
 69, Jalan Raja Chulan,  
 50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700  
 F : + 603 2146 7630  
 research@affinhwang.com

www.affinhwang.com