



## WCT Holdings Bhd (WCTHG MK) : HOLD

Mkt. Cap: US\$562m | 3m Avg. Daily Val: US\$0.95m

Last Traded Price ( 22 Nov 2017): RM1.65

Price Target 12-mth: RM1.84 (12% upside) (Prev RM1.84)

### Analyst

Tjen San CHONG, CFA +60 3 26043972; tjensan@alliancedbs.com

### A much better quarter

- 3Q17 results in line with expectations
- Construction and property earnings showed improvement
- Weak property sales and stretched balance sheet continue to be key concerns
- Maintain HOLD rating and TP of RM1.84

#### Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	1,934	2,103	2,311	2,328
EBITDA	178	266	277	288
Pre-tax Profit	122	173	179	188
Net Profit	68.4	135	140	149
Net Pft (Pre Ex.)	68.4	135	140	149
Net Pft Gth (Pre-ex) (%)	(57.6)	97.0	4.3	5.8
EPS (sen)	4.34	8.56	8.92	9.44
EPS Pre Ex. (sen)	4.34	8.56	8.92	9.44
EPS Gth Pre Ex (%)	(68)	97	4	6
Diluted EPS (sen)	4.34	8.56	8.92	9.44
Net DPS (sen)	3.38	3.38	3.38	3.38
BV Per Share (sen)	176	181	188	194
PE (X)	38.0	19.3	18.5	17.5
PE Pre Ex. (X)	38.0	19.3	18.5	17.5
P/Cash Flow (X)	nm	16.5	10.7	9.1
EV/EBITDA (X)	28.9	19.6	18.8	17.9
Net Div Yield (%)	2.0	2.0	2.0	2.0
P/Book Value (X)	0.9	0.9	0.9	0.8
Net Debt/Equity (X)	0.9	0.9	0.9	0.8
ROAE (%)	2.5	4.8	4.8	4.9

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### What's New

**A stronger quarter.** WCT registered a 3Q17 headline net profit of RM41m (+64% y-o-y and +90% q-o-q), bringing 9M17 net profit to RM95m (+47% y-o-y). This was on the back of a 10% y-o-y decline in revenue to RM1,326m.

**Construction earnings continue to improve.** 3Q17 construction EBIT came in at RM47m vs RM23m in 2Q17 and RM1m in 3Q16, given the higher progress of works for its local civil engineering projects. Stripping out the effects of forex, we estimate that 3Q17 construction EBIT was RM46m vs 2Q17's RM39m and 1Q17's RM35m. This translates into 3Q17 EBIT margins of 7% vs 2Q17's 10% and 3Q16's 0.2%.

We estimate that WCT's current outstanding orderbook stands at RM5.2bn with YTD wins of RM1.76bn. Of which, 92% comprises engineering and infrastructure-related work given the sizeable wins for two LRT 3 packages (GS02 and GS03). We understand its tenderbook stands at RM6bn and it will be bidding for more building-related projects in Tun Razak Exchange (TRX) given the additional capacity for such work.

**Property earnings also improved but not likely to be sustainable.** 3Q17 property EBIT came in at RM21m vs 2Q17's RM14m and 3Q16's RM28m. This was on the back of a 67% y-o-y increase in 3Q17 revenue to RM46m. Hence, the lower margins of 14% in 3Q17 vs 32% in 3Q16 is likely a reflection of higher marketing expenses and rebates offered to buyers for its ongoing property projects.

WCT posted 3Q17 property sales of RM96m, bringing 9M17 sales to RM228m. The sequential momentum has picked up in relation to 1Q17 and 2Q17 presales of RM49m



## Flash Note

and RM83m respectively. Its repricing strategy for its d'Laman Greenville has worked out quite well, with the current outstanding inventory at RM50-60m vs RM179m in June 2017. It is targeting to hit property presales of RM500m by mid-2018 with an estimated RM800m in inventory by then. There will be no new launches for FY17F and the focus has been on clearing inventory.

We expect property sales to remain lacklustre in FY18F given that the new launches will only be rolled out from 3Q18 onwards. The planned new launches in FY18F include Phase 2 @ Paradigm Garden City OUG comprising 940 units with a GDV of RM1.045bn. This is slated for 3Q18. The other project to be launched in 4Q18 is Paradigm Johor Bahru serviced apartments comprising 263 units with a GDV of RM165m.

**Maintain HOLD with TP of RM1.84.** We do not see any meaningful re-rating catalyst for the stock, especially in light of its still stretched balance sheet and weak property franchise.

### Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	414	383	470	13.4	22.6
Cost of Goods Sold	(365)	(304)	(366)	0.4	20.6
<b>Gross Profit</b>	<b>49.6</b>	<b>79.5</b>	<b>103</b>	<b>108.3</b>	<b>30.0</b>
Other Oper. (Exp)/Inc	(13.9)	(33.3)	(27.3)	95.9	(18.0)
<b>Operating Profit</b>	<b>35.7</b>	<b>46.3</b>	<b>76.1</b>	<b>113.1</b>	<b>64.5</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	7.21	5.78	4.04	(44.0)	(30.1)
Net Interest (Exp)/Inc	(7.3)	(13.5)	(14.3)	(96.6)	(5.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>35.7</b>	<b>38.5</b>	<b>65.8</b>	<b>84.7</b>	<b>71.0</b>
Tax	(10.8)	(17.0)	(25.3)	134.8	49.0
Minority Interest	0.0	0.0	0.26	nm	(119,645.5)
<b>Net Profit</b>	<b>24.9</b>	<b>21.5</b>	<b>40.8</b>	<b>64.0</b>	<b>89.7</b>
Net profit bef Except.	24.9	21.5	40.8	64.0	89.7
EBITDA	42.9	52.0	80.1	86.7	54.0
<b>Margins (%)</b>					
Gross Margins	12.0	20.8	22.0		
Opg Profit Margins	8.6	12.1	16.2		
Net Profit Margins	6.0	5.6	8.7		

Source of all data: Company, AllianceDBS

## Target Price &amp; Ratings History



**Note:** Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Nov 16	1.90	1.99	HOLD
2:	19 Jan 17	1.78	1.99	HOLD
3:	24 Feb 17	1.85	1.99	HOLD
4:	27 Feb 17	1.83	1.99	HOLD
5:	27 Apr 17	2.12	1.99	HOLD
6:	28 Apr 17	2.22	1.99	HOLD
7:	30 May 17	2.13	1.99	HOLD
8:	24 Aug 17	1.85	1.90	HOLD
9:	28 Aug 17	1.82	1.90	HOLD
10:	06 Oct 17	1.79	1.90	HOLD
11:	10 Nov 17	1.68	1.84	HOLD

Source: AllianceDBS

Analyst: Tjen San CHONG

### DISCLOSURE

---

#### Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

#### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

**DISCLAIMER**

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by  
**AllianceDBS Research Sdn Bhd (128540 U)**  
 19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.  
 Tel.: +603 2604 3333 Fax: +603 2604 3921 email : [general@alliancedbs.com](mailto:general@alliancedbs.com)