

23 November 2017

WCT Holdings Bhd

9M17 Inline

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9M17 CNP of RM115.1m is in line at 77%/78% of our and streets' full-year estimates. No dividends declared as expected. No changes to FY17-18E earnings. Upgrade to OUTPERFORM with an unchanged SoP-driven Target Price of RM1.83.

Within expectations. 9M17 CNP of RM115.1m (after stripping off forex loss of RM19.8m) is in line, making up 77%/78% our/streets' full-year estimates. No dividend declared as expected.

Results highlight. WCT managed to grow its 9M17 CNP by 56%, YoY despite the 10% decline in revenue. This is mainly driven by the improvement in operating margins for its construction and property investment divisions to 11% (+8ppt) and 49% (+4ppt), YoY, respectively. The significant improvements in construction margins were due to higher contribution from local projects arising from better executions. Its 3Q17 CNP grew 6%, QoQ underpinned by its revenue growth of 23%, which is backed by all of its divisions that registered growth of 9% to 30%.

Outlook. Its outstanding order-book currently stands at c.RM6.0b providing earnings visibility for the next 2.5-3.0 years. As for its property division, unbilled sales stands at RM487.0m with 1.5 years visibility and management intend to continue with their re-pricing strategy to clear existing inventories. That aside, we also expect land sales in the near term as part of their de-gearing exercise.

Earnings unchanged. Post results, there are no changes to our FY17-18E earnings.

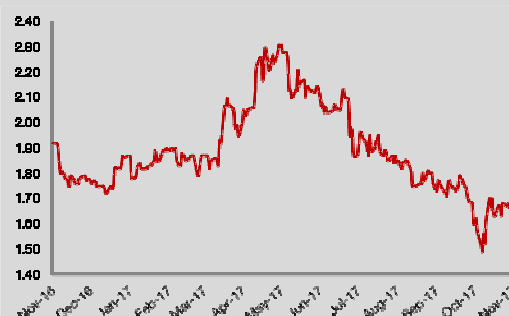
Upgrade to OUTPERFORM. We upgrade our call to OUTPERFORM (previously, MARKET PERFORM) with an unchanged SoP-driven Target Price of RM1.83, premised on improved outlook in the construction space, as they are one of the very few contractors who had bagged multiple awards from LRT3. Our TP implies FY18E FD PER of 18.0x, in line with the big boys' range of 18.0-20.0x which we are comfortable with especially for concession owners.

Risks to our call include: (i) lower-than-expected margins/order-book replenishment, and (ii) lower government spending on infrastructure projects.

OUTPERFORM

Price : RM1.65
Target Price : RM1.83 

Share Price Performance



KLCI	1,723.54
YTD KLCI chg	5.0%
YTD stock price chg	-4.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	2,321.1
Issued shares	1,406.7
52-week range (H)	2.48
52-week range (L)	1.49
3-mth avg daily vol:	2,273,723
Free Float	67%
Beta	1.0

Major Shareholders

Dominion Nexus Sdn Bhd	17.6%
Employees Provident Fund	8.0%
Lembaga Tabung Haji	7.6%

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	199.0	226.4
Net Profit (NP)	68.4	149.0	169.4
Core net profit	84.8	149.0	169.4
Consensus (NP)	n.a.	147.5	168.8
Earnings Revision	n.a.	n.a.	n.a.
Basic Core EPS	5.1	8.9	10.1
FD Core EPS (sen)	5.1	8.9	10.1
Core EPS grow. (%)	72%	76%	14%
DPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.65	1.74	1.84
Basic Core PER (x)	40.4	18.5	16.3
FD Core PER (x)	40.4	18.5	16.3
BVPS (RM)	1.65	1.74	1.84
Net Gearing (x)	0.9	0.8	0.7
Dividend Yield (%)	0.0	0.0	0.0

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Result Highlight								
	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
FYE Dec (RM'm)								
Turnover	469.8	383.3	23%	414.4	13%	1,326.5	1,480.4	-10%
EBIT	75.3	62.5	21%	31.8	137%	191.4	128.3	49%
Interest inc/(exp)	-14.3	-13.5	5%	-7.3	97%	-40.1	-33.5	20%
Associates/JV	4.0	5.8	-30%	7.2	-44%	17.6	24.8	-29%
Admin/Others	-38.8	-29.3	32%	-21.8	78%	-89.8	-69.8	29%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	0.7	-16.2	-105%	3.9	-81%	-19.8	-9.0	119%
Pretax profit	65.8	38.5	71%	35.6	85%	149.2	110.6	35%
Taxation	-25.3	-17.0	49%	-10.8	135%	-56.4	-43.6	29%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	40.5	21.5	88%	24.9	63%	92.7	67.0	38%
Minority interest	0.3	0.0	-1295%	-0.9	-129%	2.6	-2.2	-221%
PATAMI	40.8	21.5	90%	24.0	70%	95.3	64.9	47%
Core PATAMI	40.0	37.7	6%	20.1	99%	115.1	73.9	56%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	16%	16%		8%		14%	9%	
Pretax margin	14%	10%		9%		11%	7%	
NP margin	14%	10%		9%		11%	7%	
CNP margin	9%	10%		5%		9%	5%	
EPS (sen)	3.0	1.6		1.9		7.0	5.2	
Core EPS(sen)	3.0	2.8		1.6		8.5	6.0	
BV/share (RM)	2.3	2.3		2.2		2.3	2.2	
Net gearing (x)	0.9	0.9		0.9		0.9	0.9	
Effective tax	38%	44%		30%		38%	39%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
External Revenue								
Construction	308.2	236.8	30%	313.9	-2%	928.4	1,195.0	-22%
Property Development	142.9	130.9	9%	85.5	67%	348.6	239.3	46%
Property Investment	18.7	15.6	19%	15.0	25%	49.5	46.1	7%
EBIT Segmentation								
Construction	47.1	22.4	110%	1.1	4381%	99.6	34.3	191%
Property Development	21.6	15.0	44%	28.4	-24%	48.0	64.3	-25%
Property Investment	7.4	8.8	-16%	6.2	19%	24.1	20.8	16%
EBIT margins								
Construction	15%	9%		0%		11%	3%	
Property Development	15%	11%		33%		14%	27%	
Property Investment	40%	56%		42%		49%	45%	

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 shares			1674.6
SOP/share			2.43
Target Price (20% discount)			1.83
Implied Basic PE (x)			13.9
Implied FD PE (x)			18.0

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (22/11/17)	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	0.88	683	-4.8	11.5	10.7	2%	6%	0.7	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	52.2
GAMUDA BHD	4.61	11319	18.6	17.5	14.7	3%	10%	1.4	700.6	741.7	885.4	6%	19%	5.45	Market Perform	-3.6
IJM CORP BHD	3.05	11067	20.5	18.8	16.8	2%	6%	1.1	539.1	585.8	656.1	9%	12%	3.48	Outperform	-4.7
KIMLUN CORP BHD	2.38	761	9.0	10.4	9.4	2%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	14.4
MUHIBBAH ENGINEERING (M) BHD	2.83	1359	16.7	14.4	13.8	2%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	26.9
HOCK SENG LEE BERHAD	1.48	813	14.4	16.4	11.8	1%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-7.5
WCT HOLDINGS BHD	1.65	2321	32.4	18.5	16.3	0%	5%	0.9	84.8	149	169.4	76%	14%	1.83	Outperform	-4.0
MITRAJAYA HOLDINGS BHD	0.77	596	7.1	9.9	7.0	3%	12%	1.0	97.3	70.3	98.3	-28%	40%	0.94	Outperform	-31.3
SUNWAY CONSTRUCTION GROUP	2.40	3101	26.4	21.4	17.9	2%	25%	5.4	117.7	145.2	173.1	23%	19%	2.29	Market Perform	41.2
KERJAYA PROSPEK GROUP BHD	4.01	2260	22.7	17.8	14.8	1%	16%	2.8	100	127.3	152.9	27%	20%	3.40	Underperform	84.8
GEORGE KENT (MALAYSIA) BHD	3.15	1774	17.5	14.1	12.6	2%	26%	3.7	101.3	126.1	141	24%	12%	3.65	Outperform	55.4
<i>Average</i>			16.4	15.5	13.3											
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	1.06	627	-2.2	14.9	10.8	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	16.5
PROTASCO	1.09	462	8.9	7.9	7.7	5%	15%	1.2	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-3.5
PINTARAS JAYA	3.87	639	35.6	15.0	12.5	5%	12%	1.8	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	9.9
GABUNGAN AQRS	1.92	840	33.2	20.2	9.6	1%	12%	2.3	22.6	37.2	77.9	65%	109%	1.6	Not Rated	112.2
GADANG HOLDINGS	1.10	724	3.8	4.1	3.9	2%	27%	1.1	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	4.8
AZRB	1.06	563	18.8	8.9	7.0	n.a.	15%	1.3	27.2	57.4	73	111%	27%	1.35	Trading Buy	66.9
TRC SYNERGY	0.71	341	11.4	10.4	13.0	3%	8%	0.8	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	86.8
BINA PURI	0.35	92	82.3	5.5	5.5	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-20.7
PESONA	0.49	340	16.0	9.1	6.6	5%	22%	2.0	20	35.3	48.5	77%	37%	0.49	Take Profit	-19.0
JAKS	1.38	680	0.8	9.8	7.1	0%	12%	1.2	736	61.9	85.4	-92%	38%	1.54	Not Rated	35.3
<i>Average</i>			20.9	10.6	8.4											

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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