

Outthink. Outperform.

Sustained growth

WCT's 1Q18 result was in line with market expectations but below ours. Net profit increased 16% yoy to RM38.4m in 1Q18, mainly driven by higher construction and property investment earnings. Weaker sales led to lower property development earnings. We cut our EPS forecasts by 10-17% in 2018-20E. We believe the recent sharp stock sell down has reflected the political and high leverage concerns but there is no catalyst to spark an upward re-rating of the stock. We downgrade our call to HOLD from BUY with a lowered TP of RM0.85, based on 50% discount to reduced RNAV.

Below our expectation

Net profit of RM38.4m (+16% yoy) comprises 24% of consensus FY18E forecast of RM159m but only 21% of our estimate of RM186m. We maintain our earnings forecasts on expectation that progress billings on its RM5bn order book will accelerate. Revenue was up 14% yoy, driven by construction (+16% yoy) and property investment (+152% yoy) segments. The full-quarter contribution from its new Paradigm Johor Bahru Mall lifted property investment revenue. Operating profit increased 67% yoy to RM82.5m with higher construction (+97% yoy) and property investment (+89% yoy) earnings. Core net profit increased 3% yoy to RM38.9m.

Weaker property development earnings

Property development operating profit fell 26% yoy on lower revenue from disposal of inventories, which remains WCT's focus and there was no new property launches in 1Q18. It is positive to note that operating profit margin improved to 15.3% in 1Q18 from 10.4% in 1Q17, mainly due to the expansion in construction margin to 13.3% in 1Q18 from 7.8% in 1Q17. Net gearing increased to 0.94x as its de-gearing efforts were hampered by delays for its proposed listing of WCT REIT and private placement of new shares.

Earnings cut

We cut our EPS forecasts by 10-17% in 2018-20E to reflect slower property sales and lower EBIT margin as the market remains challenging. We cut our RNAV/share for WCT to RM1.70 from RM2.37 to reflect lower property segment valuation and higher net debt as at 31 March 2018. Based on the same 50% discount to RNAV, we cut our TP to RM0.85 from RM1.18.

Downgrade to HOLD

We downgrade our call to HOLD from Buy. Current 2018E PER of 7x is undemanding but earnings forecasts risk remains due to its weak property earnings. Key upside risk is property sales rebounds. Key downside risk is its debt restructuring is delayed leading to possible debt rating downgrade.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	1,933.6	1,905.9	2,365.1	2,235.7	2,485.0
EBITDA (RMm)	163.1	283.0	293.9	326.2	381.5
Pretax profit (RMm)	122.0	230.6	252.1	280.3	347.6
Net profit (RMm)	68.4	154.6	185.6	200.7	251.0
EPS (sen)	5.2	10.0	11.9	12.8	15.9
PER (x)	15.4	8.0	6.7	6.2	5.0
Core net profit	84.8	150.7	185.6	200.7	250.0
Core EPS (sen)	4.4	8.4	11.9	12.8	15.8
Core EPS growth (%)	(19.5)	90.3	41.5	7.7	23.2
Core PER (x)	18.1	9.5	6.7	6.2	5.1
Net DPS (sen)	1.3	3.0	3.0	3.0	3.0
Dividend Yield (%)	1.6	3.8	3.8	3.8	3.8
EV/EBITDA (x)	19.3	10.9	9.2	8.9	6.2
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.2	1.2	1.4

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

WCT Holdings

WCTHG MK
Sector: Construction & Infra

RM0.80 @ 23 May 2018

HOLD (downgrade)

Upside: 6%

Price Target: RM0.85

Previous Target: RM1.18



Price Performance

	1M	3M	12M
Absolute	-32.1%	-50.9%	-64.5%
Rel to KLCI	-29.2%	-49.4%	-65.2%

Stock Data

Issued shares (m)	1,406.9
Mkt cap (RMm)/(US\$m)	1,119/281
Avg daily vol - 6mth (m)	6.3
52-wk range (RM)	0.70-2.27
Est free float	70.4%
BV per share (RM)	2.22
P/BV (x)	0.4
Net cash/ (debt) (RMm) (1Q18)	(2,968)
ROE (2018E)	6.2%
Derivatives	Yes
(Warr 15/20, WP RM0.11, EP RM2.08)	
Shariah Compliant	Yes

Key Shareholders

Dominion Nexus Sdn Bhd	17.6%
EPF	8.9%
LTH	8.7%
Skim Amanah Saham Bumiputera	5.6%

Source: Affin Hwang, Bloomberg

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Higher gearing

WCT's net gearing increased to 0.94x in 1Q18 from 0.88x in 4Q17 with the drawdown of loans to finance its higher working capital requirements. The proposed listing of WCT REIT has been delayed, pending the outcome of the legal suit filed by AEON against the termination of the leasing contract for BBT Mall (High Court ruled in favour of WCT but pending a court appeal). Its proposed private placement of up to 140m new shares (10% of share capital) has been delayed due to volatile stock market conditions.

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q FY17	4Q FY17	1Q FY18	QoQ % chg	YoY % chg	Comment
Revenue	473.4	579.4	539.8	(6.8)	14.0	Higher revenue yoy, driven by construction (+16% yoy) and property investment (+152% yoy) divisions. Property development revenue fell 26% yoy.
Operating costs	(435.4)	(459.4)	(459.8)	0.1	5.6	
EBITDA	38.0	120.0	80.0	(33.4)	110.4	
<i>EBITDA margin (%)</i>	8.0	20.7	14.8	-5.9ppt	6.8ppt	Higher operating profit margin for its construction division.
Depreciation	(2.7)	(12.7)	(2.4)	(80.8)	(11.0)	
EBIT	35.3	107.3	77.6	(27.7)	119.9	
Interest expense	(12.3)	(23.1)	(25.1)	8.6	104.4	
Interest income	18.9	8.5	5.5	(35.5)	(71.0)	
Associates	7.8	(37.2)	(2.2)	(94.2)	(127.8)	
Forex gain/(loss)	(4.3)	(0.7)	(1.4)	93.8	(68.2)	Loss from translation of receivables in Middle East due to stronger Ringgit.
Exceptional gain/(loss)	(0.5)	26.7	0.8	(96.9)	(253.1)	Gain on disposal of property, plant and equipment.
Pretax profit	44.8	81.5	55.3	(32.1)	23.3	
Core pretax	49.7	55.5	55.8	0.5	12.3	
Tax	(14.1)	(22.3)	(17.0)	(23.8)	20.2	
<i>Tax rate (%)</i>	31.5	27.4	30.7	3.4ppt	-0.8ppt	Higher tax rate than statutory rate as unrealised forex loss and certain expenses are not tax deductible.
Minority interests	2.4	0.1	0.1	(4.4)	(96.4)	
Net profit	33.1	59.3	38.4	(35.2)	16.0	Below expectation.
EPS (sen)	2.6	4.2	2.7	(35.3)	2.7	
Core net profit	37.9	33.3	38.9	16.9	2.6	Exclude one-off items.

Source: Affin Hwang estimates, Company

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	1Q17	2Q17	3Q17	4Q17	1Q18	% QoQ	% YoY
Construction	30.1	22.4	47.1	(132.4)	59.2	NA	(433.6)
Property development	11.4	14.9	21.6	27.7	8.5	28.1	52.2
Property investment	7.9	8.8	7.4	246.5	14.9	>100	>100
Total	49.3	46.2	76.1	141.8	82.5	86.2	124.3

Source: Company, Affin Hwang

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	1Q17	2Q17	3Q17	4Q17	1Q18	ppt QoQ	ppt YoY
Construction	7.8	9.5	15.3	(28.6)	13.3	41.8	5.4
Property development	15.3	11.4	15.1	31.3	15.3	(16.0)	0.1
Others	51.5	56.5	39.7	897.9	38.6	>100	(12.9)
Total	10.4	12.0	16.2	24.5	15.3	(9.2)	4.9

Source: Company, Affin Hwang

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Fig 4: RNAV and target price assumptions

Segment	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 12x avg earnings of RM60m	100	720	720	0
Property devt @ RNAV	100	1,904	2,557	(26)
BBT mall @ NBV	100	442	442	0
Paradigm mall @ NBV	70	510	510	0
gateway@klia2 @ NBV	70	420	420	0
Other investment properties	100	1,152	1,152	0
Indian toll roads	30	135	135	0
Net cash/(debt)		(2,968)	(2,515)	18
RNAV		2,316	3,422	(32)
No. of shares (m shrs)		1,415	1,415	0
RNAV/share (RM)		1.64	2.42	(32)
New shares from warrants conversion (m)		237	237	0
Fully-diluted no. of shares (m)		1,652	1,652	0
Fully-diluted RNAV/share (RM)		1.70	2.37	(28)
Target price at 50% discount to RNAV/share		0.85	1.18	(28)

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin 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.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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 Affin Hwang Investment Bank Berhad (14389-U)
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