# 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 a 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*

## 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*** | |
| *EBITDA margin (%)* | *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* | |
| *Tax rate (%)* | *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*

**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 |



This report is printed and published by:
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