

24 May 2018

WCT Holdings Bhd

Decent Start

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1Q18 CNP of RM39.8m is within expectations, accounting for 27%/25% of our and consensus' full-year estimates. No dividend declared, as expected. No changes to FY18-19E earnings. Maintain OUTPERFORM with an unchanged SoP-driven Target Price of RM1.90.

In line. 1Q18 CNP of RM39.8m is within expectations, accounting for 27%/25% of our and consensus' full-year estimates. No dividend declared, as expected.

Results highlight. 1Q18 CNP of grew 6%, YoY. The improvement was attributable to several factors; (i) revenue growth of 14% backed by construction and property investment divisions, which registered growth of 16% and 152%, respectively, and (ii) improvement in construction operating margins by 5ppt to 13% as most of its on-going local projects picked up pace. On QoQ basis, 1Q18 CNP saw a significant increase by 79% due to narrowed losses of joint-venture and associates.

Outlook. Its outstanding order-book currently stands at c.RM4.8b providing earnings visibility for the next 2.5-3.0 years and we expect its performance to see further improvement after the impairment on its Middle East project. As for its property division, we believe that management's focus remains on clearing unbilled sales and unsold completed property stocks that stand at c.RM700.0m collectively through re-pricing strategy to clear the existing inventories. That aside, we also expect land disposals in the near future as part of their de-gearing exercise.

Estimates maintained. Post results, we are keeping our FY18-19E earnings, and we believe that WCT would be able to maintain its performance as demonstrated in 1Q18.

Maintain OUTPERFORM. We reiterate our OUTPERFORM call on WCT but with an unchanged SoP-driven Target Price of RM1.90 as we believe that the worst could be over after the impairment on its Middle East projects, and we laud the new management team for their continuous efforts in improving the company's profitability i.e. (i) securing more local construction jobs, (ii) re-pricing strategy to clear property inventories, and (iii) de-gearing plans through land disposal in the near term. Our current TP implies FY18E PER of 18.3x, in line with the big boys' range of 18.0-20.0x. However, we might look to review our call and Target Price post a result briefing which is scheduled to be held today as we get better clarity on the construction industry outlook from management.

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

OUTPERFORM ↔

Price : **RM0.795**
Target Price : **RM1.90** ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,804.25 |
| YTD KLCI chg | 0.4% |
| YTD stock price chg | -50.9% |

Stock Information

| | |
|----------------------|-----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | WCTHG MK Equity |
| Market Cap (RM m) | 1,118.5 |
| Shares Outstanding | 1,406.9 |
| 52-week range (H) | 2.27 |
| 52-week range (L) | 0.70 |
| 3-mth avg daily vol: | 9,816,993 |
| Free Float | 65% |
| Beta | 1.1 |

Major Shareholders

| | |
|--------------------------|-------|
| Dominion Nexus Sdn Bhd | 17.6% |
| Employees Provident Fund | 8.9% |
| Lembaga Tabung Haji | 8.7% |

Summary Earnings Table

| FYE Dec (RM m) | 2017A | 2018E | 2019E |
|------------------------|--------------|--------------|--------------|
| Turnover | 1,905.9 | 2,302.7 | 2,621.7 |
| EBIT | 255.3 | 282.9 | 311.4 |
| PBT | 230.6 | 196.3 | 224.9 |
| Net Profit (NP) | 154.6 | 146.9 | 168.3 |
| Core net profit | 114.4 | 146.9 | 168.3 |
| Consensus (NP) | | 159.3 | 171.0 |
| Earnings Revision | | 0% | 0% |
| Basic Core EPS | 7.3 | 9.4 | 10.8 |
| FD Core EPS (sen) | 6.4 | 8.2 | 9.4 |
| Core EPS growth (%) | 35% | 28% | 15% |
| DPS (sen) | 3.0 | 0.0 | 0.0 |
| NTA/Share (RM) | 1.61 | 1.69 | 1.78 |
| Basic Core PER (x) | 10.8 | 8.4 | 7.4 |
| FD Core PER (x) | 12.4 | 9.7 | 8.5 |
| BVPS (RM) | 1.61 | 1.69 | 1.78 |
| Net Gearing (x) | 0.8 | 0.7 | 0.7 |
| Dividend Yield (%) | 3.8 | 0.0 | 0.0 |

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| Result Highlight | | | | | | |
|-------------------------|--------------|--------------|-------------|--------------|------------|--|
| | 1Q18 | 4Q17 | QoQ | 1Q17 | YoY | |
| FYE Dec (RM'm) | | | | | | |
| Turnover | 539.8 | 579.4 | -7% | 473.4 | 14% | |
| EBITDA | 83.9 | 104.7 | -20% | 53.6 | 56% | |
| Depreciation | 0.0 | 0.0 | n.m. | 0.0 | n.m. | |
| EBIT | 83.9 | 104.7 | -20% | 53.6 | 56% | |
| Interest inc/(exp) | -25.1 | -23.1 | 9% | -12.3 | 104% | |
| Associates/JV | -2.2 | -37.2 | -94% | 7.8 | -128% | |
| Admin/Others | -29.2 | -204.9 | -86% | -21.7 | 35% | |
| Exceptional items | 0.0 | 37.7 | -100% | 0.0 | n.m. | |
| Forex gain/(loss) | -1.4 | -0.7 | 94% | -4.3 | -68% | |
| Pretax profit | 55.3 | 81.5 | -32% | 44.8 | 23% | |
| Taxation | -17.0 | -22.3 | -24% | -14.1 | 20% | |
| Deferred tax | 0.0 | 0.0 | n.m. | 0.0 | n.m. | |
| Profit after tax | 38.3 | 59.2 | -35% | 30.7 | 25% | |
| Minority interest | 0.1 | 0.1 | -4% | 2.4 | -96% | |
| PATAMI | 38.4 | 59.3 | -35% | 33.1 | 16% | |
| Core PATAMI | 39.8 | 22.2 | 79% | 37.4 | 6% | |
| DPS (sen) | 0.0 | 3.0 | | 0.0 | | |
| EBIT margin | 16% | 18% | | 11% | | |
| Pretax margin | 10% | 14% | | 9% | | |
| NP margin | 10% | 14% | | 9% | | |
| CNP margin | 7% | 4% | | 8% | | |
| EPS (sen) | 2.7 | 4.2 | | 2.6 | | |
| Core EPS(sen) | 2.8 | 1.6 | | 3.0 | | |
| BV/share (RM) | 2.2 | 2.2 | | 2.2 | | |
| Net gearing (x) | 0.95 | 0.88 | | 0.95 | | |
| Effective tax | 31% | 27% | | 32% | | |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | | |
|----------------------------|-------------|-------------|------------|-------------|------------|--|
| | 1Q18 | 4Q17 | QoQ | 1Q17 | YoY | |
| External Revenue | | | | | | |
| Construction | 445.8 | 463.4 | -4% | 383.4 | 16% | |
| Property Development | 55.5 | 88.6 | -37% | 74.8 | -26% | |
| Property Investment | 38.4 | 27.4 | 40% | 15.2 | 152% | |
| EBIT Segmentation | | | | | | |
| Construction | 59.2 | -132.4 | -145% | 30.1 | 97% | |
| Property Development | 8.5 | 27.7 | -69% | 11.4 | -26% | |
| Property Investment | 14.9 | 246.5 | -94% | 7.9 | 89% | |
| EBIT margins | | | | | | |
| Construction | 13% | -29% | | 8% | | |
| Property Development | 15% | 31% | | 15% | | |
| Property Investment | 39% | 898% | | 52% | | |

Source: Company, Kenanga Research

| Sum-of-parts valuation | | | |
|------------------------------------|--------------|----------------------|--------------------|
| Segment | Stake | Method | Value (RMm) |
| Construction | 100% | 14x FY18 PER | 1,851.0 |
| Property development | 100% | RNAV of 50% discount | 598.1 |
| 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 | | | 3,487.1 |
| Proceeds placement & Warrants E | | | 740.5 |
| Total | | | 4,227.6 |
| No of FD shares | | | 1,789.6 |
| SOP/share | | | 2.36 |
| Target Price (20% discount) | | | 1.90 |
| Implied Basic PE (x) | | | 18.3 |
| Implied FD PE (x) | | | 23.2 |

Source: Kenanga Research

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Peer Comparison

| CORE COVERAGE | | | | | | | | | | | | | | | | |
|------------------------------|---------------------|---------|---------|-------------|-------------|-------------------|----------|------|------------------|-------------|-------------|--------------------------|--------------------------|-----------------|----------------|---------|
| NAME | Price (23/05/18) | 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 | 0.920 | 719 | 13.1 | 10.0 | 10.2 | 2% | 8% | 0.7 | 86.5 | 78.4 | 76.7 | -9% | -2% | 0.740 | Underperform | 6.4 |
| GAMUDA BHD | 4.24 | 10458 | 19.8 | 14.9 | 13.1 | 3% | 12% | 1.5 | 602.1 | 804.3 | 909.9 | 34% | 13% | 5.65 | Outperform | -14.5 |
| IJM CORP BHD | 2.02 | 7324 | 13.6 | 15.8 | 14.2 | 3% | 5% | 0.7 | 539.1 | 462.9 | 511.9 | -14% | 11% | 3.35 | Outperform | -33.8 |
| KIMLUN CORP BHD | 1.85 | 593 | 9.3 | 7.3 | 6.6 | 3% | 13% | 0.9 | 70.0 | 81.6 | 90.3 | 17% | 11% | 2.55 | Outperform | -16.7 |
| MUHIBBAH ENGINEERING (M) BHD | 2.98 | 1431 | 11.6 | 10.5 | 10.0 | 2% | 12% | 1.3 | 131.6 | 136.5 | 143.7 | 4% | 5% | 3.55 | Outperform | 4.9 |
| HOCK SENG LEE BERHAD | 1.43 | 786 | 16.8 | 11.3 | 10.1 | 2% | 9% | 1.0 | 46.6 | 69.1 | 77.9 | 48% | 13% | 1.40 | Market Perform | 0.0 |
| WCT HOLDINGS BHD | 0.80 | 1118 | 12.4 | 9.7 | 8.5 | 0% | 5% | 0.5 | 114.4 | 146.9 | 168.3 | 28% | 15% | 1.90 | Outperform | -50.9 |
| MITRAJAYA HOLDINGS BHD | 0.535 | 502 | 6.8 | 4.6 | 4.4 | 4% | 15% | 0.6 | 70.6 | 104.9 | 109.1 | 49% | 4% | 0.90 | Outperform | -35.2 |
| SUNWAY CONSTRUCTION GROUP | 1.99 | 2572 | 19.1 | 14.6 | 13.4 | 4% | 26% | 3.8 | 137.8 | 176.0 | 192.8 | 28% | 10% | 2.40 | Outperform | -20.7 |
| KERJAYA PROSPEK GROUP BHD | 1.57 | 1950 | 15.7 | 12.8 | 11.7 | 2% | 38% | 2.2 | 124.5 | 152.9 | 166.1 | 23% | 9% | 1.55 | Market Perform | -14.9 |
| GEORGE KENT (MALAYSIA) BHD | 1.48 | 834 | 6.7 | 5.9 | 5.7 | 6% | 21% | 1.2 | 124.4 | 141.0 | 147.2 | 13% | 4% | 3.65 | Market Perform | -57.8 |
| <i>Average</i> | | | 13.2 | 10.7 | 9.8 | | | | | | | | | | | |
| 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 | 0.61 | 360 | -1.3 | 8.8 | 6.4 | n.a. | n.a. | n.a. | -264.9 | 38.5 | 52.9 | -115% | 37% | n.a. | Not Rated | -34.4 |
| PROTASCO | 0.61 | 299 | 5.8 | 5.1 | 5.0 | 9% | 14% | 0.7 | 51.8 | 58.5 | 60.1 | 13% | 3% | 1.52 | Trading Buy | -32.8 |
| PINTARAS JAYA | 2.95 | 489 | 27.2 | 11.5 | 9.6 | 7% | 13% | 1.5 | 17.8 | 42.2 | 50.6 | 137% | 20% | 4.2 | Trading Buy | -20.7 |
| GABUNGAN AQRS | 0.94 | 435 | 16.9 | 10.3 | 4.9 | 3% | 11% | 1.1 | 22.6 | 37.2 | 77.9 | 65% | 109% | 1.6 | Not Rated | -51.6 |
| GADANG HOLDINGS | 0.76 | 503 | 2.6 | 2.8 | 2.7 | 4% | 27% | 0.8 | 94.2 | 86.8 | 90.8 | -8% | 5% | 2.44 | Not Rated | -31.5 |
| AZRB | 0.39 | 207 | 7.4 | 3.5 | 2.8 | n.a. | 14% | 0.5 | 27.2 | 57.4 | 73 | 111% | 27% | 1.35 | Trading Buy | -59.2 |
| TRC SYNERGY | 0.51 | 245 | 8.2 | 7.4 | 9.3 | 4% | 8% | 0.6 | 29.9 | 32.9 | 26.3 | 10% | -20% | n.a. | Not Rated | -19.0 |
| BINA PURI | 0.31 | 85 | 79.7 | 5.3 | 5.3 | n.a. | n.a. | n.a. | 1 | 14.9 | 14.9 | 1390% | 0% | n.a. | Not Rated | -10.3 |
| PESONA | 0.29 | 202 | 10.1 | 5.7 | 4.2 | 4% | 20% | 1.1 | 20 | 35.3 | 48.5 | 77% | 37% | 0.485 | Take Profit | -35.6 |
| JAKS | 1.50 | 819 | 1.0 | 11.5 | 8.3 | 0% | 9% | 1.1 | 736 | 61.933 | 85.433 | -92% | 38% | 1.54 | Not Rated | 0.7 |
| <i>Average</i> | | | 15.8 | 7.2 | 5.9 | | | | | | | | | | | |

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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