

# WCT Holdings Berhad

Strong Performance from Construction Division

**TP: RM1.25 (+57.2%)**

Last Traded: RM0.795

**BUY**

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## Results Review

- Excluding a forex loss of RM1.4mn, WCT's IQ18 core profit of RM39.8mn came in within expectations, accounting for 25.7% and 24.9% of ours and consensus' full-year forecast respectively.
- YoY, IQ18 core profit improved by 7.0% to RM39.8mn as revenue jumped 14.1% to RM539.8mn. Operating profits from construction and property investment divisions surged 76.0% and 89.1% to RM60.5mn and RM14.9mn respectively.
- The significant improvements in these 2 divisions were the result of higher construction revenue and better construction margin from infrastructure works, as well as additional income from Paradigm Mall JB, which commenced operations end-November 2017. However, this was partly offset by weaker performance from the property division, which saw the revenue and operating profit declined by 25.3% and 23.4% to RM55.5mn and RM8.5mn respectively.
- QoQ, IQ18 core profit jumped 19.2% to RM39.8mn, boosted by an 83.9% jump in construction operating profit to RM60.5mn, more than sufficient to offset the weaker performance from property development division (operating profit -69.3%) and property investment division (operating profit -54.2%)

## Impact

- Maintain our FY18 to FY20 earnings forecasts, subject to an analyst briefing scheduled later today.

## Outlook

- Its outstanding construction order book is estimated at RM5bn, providing construction earnings visibility for the next 3 years.

## Valuation

- We roll forward our valuation base year to CY19 and lower the target price from RM1.36 to **RM1.25**, based on unchanged 14x and 10x target PE multiples for construction division and property division respectively. The share price has plunged 37.9% post-GE14 results. We think the sell-down is overdone and this provides an opportunity to accumulate the stock. Upgrade the stock from HOLD to **BUY**.

## Share Information

Bloomberg Code	WCTHG MK
Bursa	WCT
Stock Code	9679
Listing	Main Market
Share Cap (mn)	1,406.9
Market Cap (RMmn)	1118.5
52-wk Hi/Lo (RM)	2.27/0.695
12-mth Avg Daily Vol ('000 shrs)	4179.7
Estimated Free Float (%)	70.4
Beta	1.10

## Major Shareholders (%)

Dominion Nexus Sdn Bhd	- 17.57
Employees Provident Fund	- 8.94
Lembaga Tabung Haji	- 8.72
Skim Amanah Saham	- 5.64

## Forecast Revision

	FY18	FY19
Forecast Revision (%)	-	-
Net profit (RMmn)	154.6	147.8
Consensus	159.3	171.1
TA's / Consensus (%)	97.1	86.4
Previous Rating	Hold (Upgraded)	

## Financial Indicators

	FY18	FY19
Net Debt / Equity (%)	65.5	60.9
CFPS (sen)	44.0	7.6
Price / CFPS (x)	1.8	10.4
ROA (%)	2.1	2.0
NTA/Share (RM)	2.2	2.2
Price/NTA (x)	0.4	0.4

## Scorecard

	% of FY	
vs. TA	25.7	Within
vs. Consensus	24.9	Within

## Share Performance (%)

Price Change	WCT	FBM KLCI
1 mth	(31.6)	(4.0)
3 mth	(50.6)	(3.1)
6 mth	(52.7)	4.8
12 mth	(64.2)	2.1

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Table 1: Earnings Summary (RMmn)**

YE 31 Dec (RM mn)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	1933.6	1905.9	2769.7	2453.9	2555.4
EBITDA	197.5	327.7	256.5	233.0	242.0
EBITDA margin (%)	10.2	17.2	9.3	9.5	9.5
Pretax profit	156.2	170.4	209.0	199.7	213.1
Net profit	68.4	154.6	154.6	147.8	157.7
Core net profit	102.6	94.4	154.6	147.8	157.7
Core EPS (sen)	8.3	6.9	10.3	9.5	10.2
EPS Growth (Core) (%)	67.6	(17.0)	49.6	(7.5)	6.7
PER (x)	9.6	11.5	7.7	8.3	7.8
GDPS (sen)	0.0	3.0	3.0	3.0	3.0
Share dividend (%)	0.6	0.0	0.0	0.0	0.0
Div Yield# (%)	0.6	3.8	3.8	3.8	3.8
ROE (%)	3.8	3.2	4.8	4.4	4.6

Note: # including dividend yield arising from distribution of treasury shares

**Table 2: IQFY18 Results Analysis (RMmn)**

YE 31 Dec (RMmn)	1Q17	4Q17	1Q18	QOQ%	YOY%	3MFY17	3MFY18	YOY%
Turnover	472.9	579.4	539.8	(6.8)	14.1	472.9	539.8	14.1
- Construction	383.4	463.4	445.8	(3.8)	16.3	383.4	445.8	16.3
- Property Dev	74.3	88.6	55.5	(37.3)	(25.3)	74.3	55.5	(25.3)
- Property Inv	15.2	27.4	38.4	40.1	152.3	15.2	38.4	152.3
Gross Profit	58.0	98.0	97.6	(0.4)	68.2	58.0	97.6	68.2
EBIT	53.3	93.0	83.9	(9.8)	57.3	53.3	83.9	57.3
- Construction	34.4	32.9	60.5	83.9	76.0	34.4	60.5	76.0
- Property Dev	11.1	27.7	8.5	(69.3)	(23.4)	11.1	8.5	(23.4)
- Property Inv	7.9	32.4	14.9	(54.2)	89.1	7.9	14.9	89.1
Net Int Inc/ (exp)	(12.3)	(23.1)	(25.1)	8.6	104.4	(12.3)	(25.1)	104.4
Associates	7.8	(14.4)	(2.2)	(85.0)	(127.8)	7.8	(2.2)	(127.8)
EI	(4.3)	25.9	(1.4)	(105.3)	(68.2)	(4.3)	(1.4)	(68.2)
PBT	44.5	81.5	55.3	(32.1)	24.2	44.5	55.3	24.2
Core PBT	48.8	55.6	56.7	1.9	16.0	48.8	56.7	16.0
Taxation	(14.1)	(22.3)	(17.0)	(23.8)	20.9	(14.1)	(17.0)	20.9
MI	2.4	0.1	0.1	(4.4)	(96.4)	2.4	0.1	(96.4)
Net Profit	32.8	59.3	38.4	(35.2)	16.9	32.8	38.4	16.9
Core Net Profit	37.1	33.4	39.8	19.2	7.0	37.1	39.8	7.0
Core EPS (sen)	3.0	2.4	2.8	19.0	(6.0)	3.0	2.8	(6.0)
Diluted EPS (Core) (sen)	2.9	2.4	2.8	19.3	(4.6)	2.9	2.8	(4.6)
GDPS (sen)	0.0	3.0	0.0	(100.0)	na	0.0	0.0	na
				% pts	% pts			% pts
EBIT Margin (%)	11.3	16.1	15.5	(0.5)	4.3	11.3	15.5	4.3
- Construction (%)	9.0	7.1	13.6	6.5	4.6	9.0	13.6	4.6
- Property Dev (%)	14.9	31.3	15.3	(16.0)	0.4	14.9	15.3	0.4
- Property Inv (%)	51.5	118.0	38.6	(79.4)	(12.9)	51.5	38.6	(12.9)
Adjusted PBT Margin (%)	10.3	9.6	10.5	0.9	0.2	9.4	10.2	0.8
Core Net Margin (%)	7.9	5.8	7.4	1.6	(0.5)	6.9	7.1	0.2
Tax Rate (%)	31.6	27.4	30.7	3.4	(0.8)	31.6	30.7	(0.8)

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Thursday, May 24, 2018, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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