

WCT Holdings Bhd

Light at End of Tunnel

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We left WCT's results briefing feeling reassured with its outlook backed by strong outstanding order-book of RM5.1b, and on-going de-gearing initiatives that are set to bring earnings to greater heights. No changes to FY18-19E earnings. Maintain **OUTPERFORM** with a lower SoP-driven Target Price of RM1.35 (previously, RM1.90) due to the de-rating arising from weak market sentiment.

Business as usual. Post briefing, we were reassured with WCT's prospect in the construction amid uncertainty in the roll-out of mega infrastructure projects in the near-term due to the change in government on the following; (i) massive outstanding order-book of RM5.1b with 3-year's visibility, (ii) focus shift to private sector jobs which looks promising i.e. building jobs, and (iii) on-going inventory clearance and land disposal exercise as part of their de-gearing plans.

Construction. Despite the uncertainty in the roll-out of infrastructure projects from the government and WCT yet to secure any replenishment, management remain hopeful to achieve their replenishment target of RM2.0b backed by tender book of c.RM5.0b specifically in building works. Management indicated that RM2.0b out of the RM5.0b tender books are from related parties, i.e. development projects from its major shareholder's private and listed entities. While WCT has yet to secure any jobs to date; we believe WCT is steering in the right direction i.e. targeting building works in diversifying their jobs portfolio and could possibly achieve their/our replenishment targets of RM2.0b for the year.

Property. As for its property division, management have a sales target of RM300.0m, higher compared to our target of RM250.0m. Given the challenging back drop in the property scene, we are less hopeful with management's target as its remaining inventories of RM624.0m are priced at a higher scale. However, the game changer would be its upcoming project launch in 3Q18, i.e. Sapphire Residences (GDV: RM229.0m) which is on a built-then-sell model, which we believe could see encouraging sales, priced lower to its previous development, i.e. Azure in the same vicinity.

De-gearing slowly but surely. WCT has long talked about its de-gearing exercise plans, i.e. (i) equity fund raising, (ii) monetisation of investment assets, (iii) clearance of inventories, and (iv) disposal of lands prior the change in major shareholder. Positively, we have seen these plans put into action as management have managed to clear RM305.0m worth of property inventories in 2017 since the change in major shareholder, and aspires to achieve the same target in 2018. That aside, management also successfully signed three conditional SPAs for the disposal of lands in 1Q18 for a total consideration of RM116.0m which are all expected to concluded in FY18. We opine that management's de-gearing plans to be highly challenging under current market circumstances and we laud management's strong will and relentless effort working towards these targets, especially on property inventory clearance.

Estimates maintained. Post briefing, we maintained our FY18-19E earnings, as we were assured that WCT is able to maintain its performance as demonstrated in 1Q18.

Maintain OUTPERFORM. We lowered our SoP-driven Target Price to RM1.35 (previously, RM1.90) due to the de-rating in valuation underpinned by weak market sentiment, especially the construction sector. However, we reiterate our OUTPERFORM call on the stock backed by promising outlook as mentioned above. Our current TP implies FY19E FD PER of 14.3x, below with its 5-year average of 18.7x.

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

OUTPERFORM ↔

Price : **RM0.820**
Target Price : **RM1.35** ↓

Share Price Performance



KLCI	1,775.66
YTD KLCI chg	-1.2%
YTD stock price chg	-49.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	1,153.6
Shares Outstanding	1,406.9
52-week range (H)	2.24
52-week range (L)	0.70
3-mth avg daily vol:	10,082,070
Free Float	65%
Beta	1.1

Major Shareholders

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

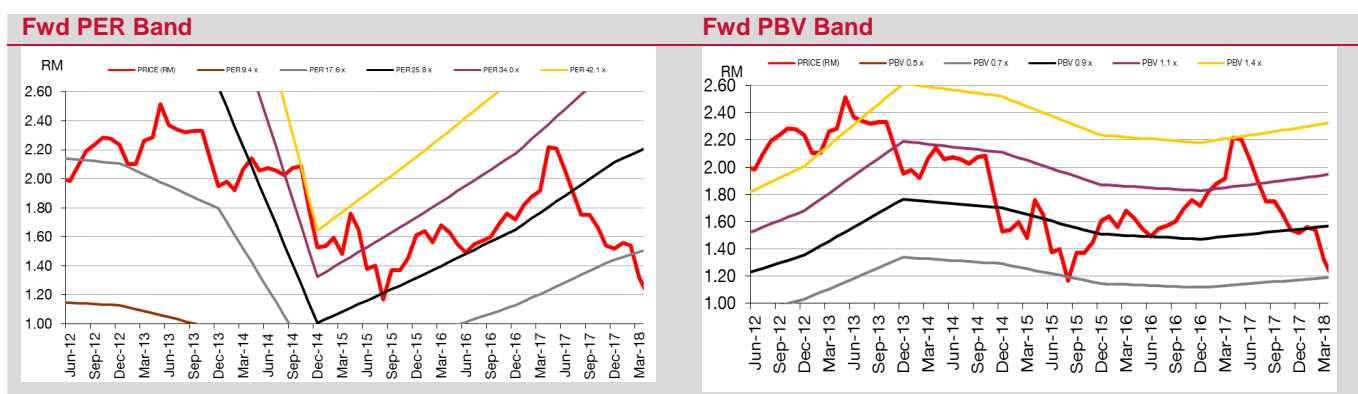
Summary Earnings Table

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)	n.a.	159.3	171.0
Earnings Revision	n.a.	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)	11.2	8.7	7.6
FD Core PER (x)	12.8	10.0	8.7
BVPS (RM)	1.61	1.69	1.78
Net Gearing (x)	0.8	0.7	0.7
Dividend Yield (%)	3.7	0.0	0.0

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Income Statement						Financial Data & Ratios					
FY Dec (RMm)	2015A	2016A	2017A	2018E	2019E	FY Dec (RMm)	2015A	2016A	2017A	2018E	2019E
Revenue	1,668	1,934	1,906	2,303	2,622	Growth					
EBITDA	241	167	255	283	311	Turnover (%)		16%	-1%	21%	14%
Depreciation	0	0	0	-13	-13	EBITDA (%)		-31%	53%	11%	10%
Operating Profit	241	167	255	270	299	Operating Profit (%)		-31%	53%	6%	11%
Other Income	170	-16	40	0	0	PBT (%)		-55%	89%	-15%	15%
Interest Exp	-58	-46	-63	-77	-77	Core Net Profit (%)		72%	35%	28%	15%
Associate	88	1	-20	3	3	Profitability (%)					
Exceptional Items	170	-16	40	0	0	EBITDA Margin	14%	9%	13%	12%	12%
PBT	272	122	231	196	225	Operating Margin	14%	9%	13%	12%	11%
Taxation	-55	-57	-79	-49	-56	PBT Margin	16%	6%	12%	9%	9%
Minority Interest	2	3	3	0	0	Net Margin	3%	4%	6%	6%	6%
Net Profit	219	68	155	147	168	Effective Tax Rate	20%	47%	34%	25%	25%
Core Net Profit	49	85	114	147	168	ROA	1%	1%	2%	2%	2%
						ROE	2%	3%	4%	5%	5%
Balance Sheet						DuPont Analysis					
FY Dec (RMm)	2015A	2016A	2017A	2018E	2019E	Net Margin (%)	3%	4%	6%	6%	6%
PPE	1,929	1,385	1,925	1,883	1,858	Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Intangible Assets	0	0	0	0	0	Leverage Factor (x)	2.7	2.7	2.5	2.5	2.4
Other FA	1,513	3,323	3,323	3,323	3,323	ROE (%)	2%	3%	4%	5%	5%
Inventories	1,048	132	123	253	358	Leverage					
Receivables	883	827	523	632	719	Debt/Asset (x)	0.5	0.5	0.5	0.5	0.5
Other CA	407	1,226	815	815	815	Debt/Equity (x)	1.5	1.4	1.2	1.2	1.1
Cash	547	455	544	566	625	Net Cash/(Debt)	-1,883	-2,527	-2,238	-2,217	-2,157
Total Assets	6,327	7,348	7,253	7,472	7,698	Net Debt/Equity (x)	0.8	0.9	0.8	0.7	0.7
Payables	465	794	789	861	918	Valuations					
ST Borrowings	584	823	623	623	623	Core FD EPS (sen)	2.8	4.7	6.4	8.2	9.4
Other ST Liability	595	196	196	196	196	DPS (sen)	6.7	1.3	3.0	0.0	0.0
LT Borrowings	1,846	2,159	2,159	2,159	2,159	FD PER (x)	6.7	21.5	9.5	10.0	8.7
Other LT Liability	453	579	579	579	579	Net Div. Yield (%)	8.2	1.5	3.7	0.0	0.0
Minorities Int.	50	34	31	31	32	BVPS	1.3	1.5	1.6	1.7	1.8
Net Assets	2,333	2,763	2,876	3,022	3,191	P/B (x)	0.6	0.5	0.5	0.5	0.5
Share Capital	2,720	2,942	2,942	2,942	2,942						
Reserves	-387	-179	-67	80	249						
Total Equity	2,333	2,763	2,876	3,022	3,191						
Cashflow Statement											
FY Dec (RMm)	2015A	2016A	2017A	2018E	2019E						
Operating CF	-261.8	181.2	934.4	236.5	257.8						
Investing CF	36.2	-1,266.3	-539.7	-12.8	-12.7						
Financing CF	-178.0	2,447.9	-305.7	-76.8	-76.8						
Change In Cash	-403.6	1,362.8	89.0	146.9	168.3						
Free CF	-170.7	781.4	473.4	272.8	301.4						

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Table 1: Sum-of-parts valuation			
Segment	Stake	Method	Value (RMm)
Construction	100%	10x FY19 PER	1,582.1
Property development	100%	RNAV of 68% discount	379.0
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			2,999.2
Proceeds placement & Warrants E			740.5
Total			3,739.7
No of FD shares			1,789.6
SOP/share			2.09
Target Price (35% discount)			1.35
Implied FY19E PER (x)			11.3
Implied FY19E FD PER (x)			14.3

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (24/05/18)	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	0.940	734	13.4	10.2	10.4	2%	8%	0.8	86.5	78.4	76.7	-9%	-2%	0.740	Underperform	8.7
GAMUDA BHD	4.20	10359	19.6	14.7	13.0	3%	12%	1.5	602.1	804.3	909.9	34%	13%	5.65	Outperform	-15.3
IJM CORP BHD	2.00	7251	13.4	15.6	14.1	3%	5%	0.7	539.1	462.9	511.9	-14%	11%	3.35	Outperform	-34.4
KIMLUN CORP BHD	1.76	564	8.8	6.9	6.2	4%	13%	0.9	70.0	81.6	90.3	17%	11%	2.55	Outperform	-20.7
MUHIBBAH ENGINEERING (M) BHD	2.95	1417	11.5	10.4	9.9	2%	12%	1.3	131.6	136.5	143.7	4%	5%	3.55	Outperform	3.9
HOCK SENG LEE BERHAD	1.36	747	16.0	10.8	9.6	2%	9%	0.9	46.6	69.1	77.9	48%	13%	1.40	Market Perform	-4.9
WCT HOLDINGS BHD	0.82	1154	12.8	10.0	8.7	0%	5%	0.5	154.6	146.9	168.3	-5%	15%	1.35	Outperform	-49.4
MITRAJAYA HOLDINGS BHD	0.524	488	6.6	4.5	4.3	4%	15%	0.6	70.6	104.9	109.1	49%	4%	0.90	Outperform	-36.9
SUNWAY CONSTRUCTION GROUP	1.98	2559	19.0	14.6	13.3	4%	26%	3.8	137.8	176.0	192.8	28%	10%	2.40	Outperform	-21.1
KERJAYA PROSPEK GROUP BHD	1.54	1913	15.4	12.5	11.5	2%	38%	2.1	124.5	152.9	166.1	23%	9%	1.55	Market Perform	-16.6
GEORGE KENT (MALAYSIA) BHD	1.41	794	6.4	5.6	5.4	6%	21%	1.2	124.4	141.0	147.2	13%	4%	3.65	Market Perform	-59.8
<i>Average</i>			13.0	10.5	9.7											
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	0.58	342	-1.2	8.4	6.1	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	-37.6
PROTASCO	0.59	290	5.6	4.9	4.8	9%	14%	0.7	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-35.0
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	0.93	430	16.7	10.2	4.9	3%	11%	1.1	22.6	37.2	77.9	65%	109%	1.6	Not Rated	-52.1
GADANG HOLDINGS	0.75	496	2.6	2.8	2.7	4%	27%	0.8	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	-32.4
AZRB	0.40	210	7.5	3.6	2.8	n.a.	14%	0.5	27.2	57.4	73	111%	27%	1.35	Trading Buy	-58.6
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	0.30	83	78.4	5.3	5.3	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-11.8
PESONA	0.28	195	9.7	5.5	4.0	5%	20%	1.1	20	35.3	48.5	77%	37%	0.485	Take Profit	-37.8
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>			15.6	7.1	5.8											

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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