

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

27 Feb 2018

WCT Holdings Bhd (WCTHG MK) : HOLD

Mkt. Cap: US\$567m | 3m Avg. Daily Val: US\$1.1m

Last Traded Price (26 Feb 2018): RM1.58

Price Target 12-mth: RM1.73 (9% upside) (Prev RM1.84)

Shariah Compliant: Yes

Analyst

Tjen San CHONG, CFA +60 3 26043972; tjensan@alliancedbs.com

Boosted by revaluation gain

- 4Q17 core profit missed expectations, after stripping out account revaluation gain and impairment
- Core construction earnings showed some improvement but property margins have plunged
- Balance sheet still stretched; Likely placement post April
- Maintain HOLD, TP lowered to RM1.73

Forecasts and Valuation

FY Dec (RMm)	2016A	2017A	2018F	2019F
Revenue	1,934	1,906	2,311	2,328
EBITDA	178	323	255	267
Pre-tax Profit	122	231	179	188
Net Profit	68.4	155	138	145
Net Pft (Pre Ex.)	68.4	155	138	145
Net Pft Gth (Pre-ex) (%)	(57.6)	126.1	(10.8)	5.4
EPS (sen)	4.34	9.82	8.76	9.23
EPS Pre Ex. (sen)	4.34	9.82	8.76	9.23
EPS Gth Pre Ex (%)	(68)	126	(11)	5
Diluted EPS (sen)	4.34	9.82	8.76	9.23
Net DPS (sen)	3.38	2.25	2.25	2.25
BV Per Share (sen)	176	199	204	209
PE (X)	36.4	16.1	18.0	17.1
PE Pre Ex. (X)	36.4	16.1	18.0	17.1
P/Cash Flow (X)	nm	nm	8.8	9.6
EV/EBITDA (X)	28.3	16.3	20.4	19.4
Net Div Yield (%)	2.1	1.4	1.4	1.4
P/Book Value (X)	0.9	0.8	0.8	0.8
Net Debt/Equity (X)	0.9	0.9	0.8	0.8
ROAE (%)	2.5	5.2	4.3	4.5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Boosted by revaluation gain. WCT registered a 4Q17 headline net profit of RM59m (>100% y-o-y and +45% q-o-q), bringing 12M17 net profit to RM155m (+126% y-o-y). This was on the back of a slight y-o-y decline in revenue to RM1,906m. For 4Q17, there was i) an impairment of RM164.6m in relation to its Qatar project, and ii) a fair value gain of RM225.3m, largely for Paradigm Mall, Johor Bahru. Excluding the impact of these items and taking into account the unrealised forex loss, the results were below our forecast and consensus estimates.

Construction earnings would have shown improvement if not for impairment. 4Q17 construction headline EBIT was in the red to the tune of RM133m vs 3Q17 profit of RM47m and 4Q16 profit of RM23m due to the impairment for its Qatar project. Stripping this out and the impact of forex, we estimate that 4Q17 construction EBIT was RM52m vs 3Q17's RM46m and 4Q16's RM1m. This translates into a 4Q17 EBIT margin of 5% vs 3Q17's 7%.

We estimate that WCT's current outstanding orderbook stands at c.RM5bn with no wins yet for FY18F. The largest projects are the two LRT 3 packages (GS02 and GS03) won last year. It will be bidding for more building-related projects in Tun Razak Exchange (TRX) given the additional capacity for such work.

Property margins took a nosedive . 4Q17 property EBIT was RM16m vs 3Q17's RM21m and 4Q16's RM19m. This was on the back of close to a 3-fold increase in 4Q17 revenue y-o-y to RM256m. Hence, the lower margins of 6% in 4Q17 vs 29% in 4Q16 is a reflection of higher marketing expenses and rebates offered to buyers for its ongoing property projects.



Flash Note

We do not yet have any details on 4Q17 property sales but 9M17 property sales stood at RM228m while its target is to achieve RM500m in new sales by mid-CY18. There was no new launches for FY17F and the focus has been on clearing inventory.

We expect property sales to remain lacklustre in FY18F given the new launches are slated from 3Q18 onwards. The planned new launches in FY18F include Phase 2 @ Paradigm Garden City OUG – comprising 940 units with a GDV of RM1.045bn. This is slated for 3Q18. The other project to be launched in 4Q18 is Paradigm Johor Bahru serviced apartments, comprising 263 units with a GDV of RM165m.

Maintain HOLD with lower TP of RM1.73. We do not see a meaningful re-rating catalyst for the stock with its still stretched balance sheet and weak property franchise. We maintain our Hold rating but lower our SOP-derived TP to RM1.73/share (from RM1.84) as we factor in higher debt levels given slower than expected progress of its de-gearing efforts. WCT will likely be looking to place out up to 140m new shares post April 2018 (after the moratorium period) given the proceeds from the conversion of WCT-WD did not materialise and expired late last year. The proceeds were earmarked for repayment of bank borrowings.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	453	470	579	27.9	23.3
Cost of Goods Sold	(389)	(366)	(481)	23.7	31.4
Gross Profit	64.0	103	98.0	53.2	(5.2)
Other Oper. (Exp)/Inc	(16.0)	(27.3)	(17.0)	6.0	(37.9)
Operating Profit	48.0	76.1	81.1	69.0	6.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	(23.8)	4.04	(37.2)	(56.4)	(1,021.1)
Net Interest (Exp)/Inc	(12.8)	(14.3)	(23.1)	(79.9)	(61.5)
Exceptional Gain/(Loss)	0.0	0.0	60.7	nm	nm
Pre-tax Profit	11.4	65.8	81.5	617.3	23.9
Tax	(13.2)	(25.3)	(22.3)	68.6	(11.8)
Minority Interest	0.0	0.26	0.0	(3,233.3)	(103.4)
Net Profit	3.51	40.8	59.2	1,587.3	45.2
Net profit bef Except.	3.51	40.8	(1.5)	nm	(103.7)
EBITDA	24.2	80.1	43.9	81.3	(45.2)
Margins (%)					
Gross Margins	14.1	22.0	16.9		
Opg Profit Margins	10.6	16.2	14.0		
Net Profit Margins	0.8	8.7	10.2		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Feb 17	1.83	1.99	HOLD
2:	27 Apr 17	2.12	1.99	HOLD
3:	28 Apr 17	2.22	1.99	HOLD
4:	30 May 17	2.13	1.99	HOLD
5:	24 Aug 17	1.85	1.90	HOLD
6:	28 Aug 17	1.82	1.90	HOLD
7:	06 Oct 17	1.79	1.90	HOLD
8:	10 Nov 17	1.68	1.84	HOLD
9:	23 Nov 17	1.69	1.84	HOLD

Source: AllianceDBS

Analyst: Tjen San CHONG

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by
AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com