

27 February 2018

Construction & Engineering | Construction

WCT

BUY (Maintained)

Target Price: MYR2.18

Price: MYR1.58

Market Cap: USD570m

Bloomberg Ticker: WCTHG MK

Key Infrastructure Projects To Pick Up Pace

Although WCT's results missed our expectations – FY17 earnings made up 90% of our full-year forecast – we keep our BUY call and SOP-based TP of MYR2.18 (38% upside). It underwent a kitchen-sinking exercise in 4Q17, writing off receivables due from its Qatari clients. This was, however, largely offset by a fair value gain on its newly-opened Paradigm Mall in Johor Baru, which enjoyed a higher-than-anticipated occupancy rate of 90%. We expect it to see a 3-year earnings CAGR of 21%.

Slight earnings miss. WCT's FY17 core earnings of MYR116.6m made up 90% of our FY17 estimate, implying a slight miss. Against the consensus, it only met 80% of the FY17 earnings projection. The slight earnings miss, on our part, was due to a slower-than-expected recognition of construction billings from its MYR5.6bn outstanding orderbook (9M17: MYR6bn). We excluded several items in deriving our core earnings figure – notably a fair value gain on Paradigm Mall Johor Baru (MYR225.3m), an impairment on receivables from a Qatar project (MYR165m), and unrealised forex losses (MYR20m).

Expecting a pick-up in construction billings in FY18. In 4Q17, WCT recorded construction revenue of MYR463.4m, reflecting a surge of 23% YoY and 50% QoQ. We believe this indicates that jobs on hand are picking up pace, in particular, its MYR1.6bn Light Rail Transit Line 3 (LRT3) and MYR0.95bn Mass Rapid Transit Line 2 (MRT2) packages – which are less than 10% complete. Premised on this, we are leaving our FY18-20 earnings estimates unchanged.

Maintain BUY. We retain our SOP-based TP of MYR2.18. Our calculation values WCT's construction segment at 14x FY18F earnings (in line with the sector's 5-year mean). Our BUY recommendation is supported by the company's robust earnings growth potential, with a 3-year earnings CAGR of 21% and MYR2bn in job replenishments in FY18, according to our estimates.

Figure 1: WCT's results review

FYE Dec (MYRm)	4Q16	3Q17	4Q17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)	Comments
Revenue	453.2	469.8	579.4	23.3	27.8	1,933.6	1,905.9	(1.4)	Lower YoY revenue from the construction segment
EBIT	85.9	76.1	81.7	7.5	(4.8)	214.2	253.4	18.3	
<i>EBIT Margin (%)</i>	<i>19.0</i>	<i>16.2</i>	<i>14.1</i>			<i>11.1</i>	<i>13.3</i>		
Interest expense	(28.1)	(14.3)	(23.1)	61.5	(17.8)	(61.5)	(63.2)	2.6	
Associates	(23.8)	4.0	(15.2)	(477.3)	(35.9)	1.0	2.3	126.2	
Pretax profit	11.4	65.8	81.5	23.8	617.0	122.0	230.6	89.1	
<i>Pretax Margin (%)</i>	<i>2.5</i>	<i>14.0</i>	<i>14.1</i>			<i>6.3</i>	<i>12.1</i>		
Tax	(13.2)	(25.3)	(22.3)	(11.8)	68.6	(56.8)	(78.7)	38.5	
<i>Effective tax rate (%)</i>	<i>(37.6)</i>	<i>(40.9)</i>	<i>(23.1)</i>			<i>(47.0)</i>	<i>(34.5)</i>		
Minority Interest	5.4	0.3	0.1	(65.8)	(98.3)	3.2	2.7	(15.6)	
Net Profit	3.5	40.8	59.3	45.3	1,589.2	68.4	154.6	126.1	
Core Profit	26.2	40.8	21.2	(48.0)	(19.0)	100.1	116.6	16.5	Slightly missed expectations
<i>Core Net Margin (%)</i>	<i>5.8</i>	<i>8.7</i>	<i>3.7</i>			<i>5.2</i>	<i>6.1</i>		Improved margins from local construction projects

Source: Company data, RHB

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (MYRm)	1,934	1,906	2,514	2,802	2,791
Reported net profit (MYRm)	68	155	176	204	209
Recurring net profit (MYRm)	100	117	176	204	209
Recurring net profit growth (%)	24.2	16.5	50.9	15.7	2.4
Recurring EPS (MYR)	0.08	0.09	0.14	0.16	0.17
DPS (MYR)	na	0.03	0.07	0.08	0.08
Recurring P/E (x)	19.4	17.1	11.3	9.8	9.6
P/B (x)	0.72	0.70	0.68	0.65	0.63
P/CF (x)	na	5.8	13.4	11.9	9.5
Dividend Yield (%)	na	1.9	4.4	5.1	5.2
EV/EBITDA (x)	11.8	9.7	9.8	9.0	8.8
Return on average equity (%)	2.5	5.5	6.1	6.8	6.7
Net debt to equity (%)	90.3	81.3	80.6	79.4	76.9
Our vs consensus EPS (adjusted) (%)			16.2	24.1	27.1

Source: Company data, RHB

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