

27 February 2020

WCT Holdings Bhd

Land Sales Boost

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FY19 CNP of RM125.3m (-52% YoY) accounted for 114%/136% of our/consensus full-year expectations. The better-than-expected results were boosted by land sales (which lifted property profit), while the construction division contributed less during the year. Our revised net profit forecasts now stand at RM88m (-33%) for FY20 and RM92m (new) for FY21. We have lowered our SoP-driven target price to RM0.75 (from RM0.815) but upgrade our call to MARKET PERFORM following its share price decline (-22% since mid-Dec 2019).

Better-than-expected headline profit. FY19 CNP of RM125.3m (-52% YoY) beat expectations, representing 114%/136% of our/consensus full-year estimates. In terms of segmental breakdown, the property development segment posted operating profit (before unallocated expenses and finance costs) of RM57.2m (up from RM16.9m in FY18), which would have otherwise reported a loss if not boosted by gains from land sale amounting to RM91m. However, the engineering & construction (-28% to RM100.1m) and property investment & management (-13% to RM110.2m) divisions posted weaker contributions.

Results' highlight. 4QFY19 CNP of RM38.4m was down 76% YoY, mainly attributable to: (i) construction division, which contributed operating profit (before unallocated expenses and finance costs) of merely RM2.0m (versus 4QFY18's 16.7m), and (ii) higher effective tax rate of 41.2% in the last quarter. QoQ, CNP increased 55% despite construction operating profit coming below 3QFY19's RM25.7m due to higher property development profit. Meanwhile, WCT has proposed a share dividend via distribution of treasury shares on the basis of 1 treasury share for every 100 ordinary shares held.

Outlook. Forward earnings will be underpinned by its outstanding order-book of >RM5b, which represents approximately 4x FY19 construction revenue. Still, overall prospects (to win new construction contracts and sell more properties) will remain challenging given the prevailing tough market conditions currently clouding the construction and property sectors.

Cutting earnings estimates. Post results, we adjust our FY20E CNP forecasts to RM88m (-33%) after tweaking our assumptions on progress billings, margins and effective tax rate, and introduce FY21E CNP of RM92m (new),.

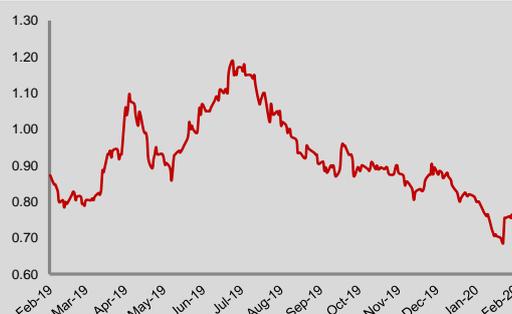
Target Price is revised to RM0.75, down from RM0.815 previously based on SoP valuation (see table overleaf). This implies an underlying P/E multiple of 12x on FY20E earnings. Following the share price slide (down 22% since mid-Dec last year), we are upgrading our call from UNDERPERFORM to MARKET PERFORM.

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

MARKET PERFORM ↑

Price : **RM0.710**
Target Price : **RM0.750** ↓

Share Price Performance



KLCI 1,495.19
YTD KLCI chg -5.9%
YTD stock price chg -18.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK EQUITY
Market Cap (RM m)	996.5
Shares Outstanding	1,403.5
52-week range (H)	1.22
52-week range (L)	0.69
3-mth avg daily vol:	2,339,845
Free Float	48%
Beta	1.2

Major Shareholders

Dominion Nexus Sdn Bhd	18.0%
Urusharta Jamaah Sdn Bhd	8.6%
Employees Provident Fund Board	7.1%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1,794	1809	1806
EBIT	322	248	248
PBT	127	158	164
Net Profit	89	88	92
Core PATAMI	125	88	92
Consensus (NP)	N.A.	107	127
Earnings Revision	N.A.	-33%	N.A.
Core EPS (sen)	9.0	6.2	6.6
Core EPS growth (%)	0%	-25%	5%
NDPS (sen)	0.7	0.0	0.0
NTA per Share (RM)	2.3	2.4	2.5
Price to NTA (x)	0.2	0.3	0.3
PER (x)	7.9	11.4	10.8
Debt-to-Equity ratio (x)	0.9	0.8	0.8
Return on Asset (%)	1	1	1
Return on Equity (%)	3	3	3
Net Div. Yield (%)	1.0	0.0	0.0

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Result Highlight

FYE Dec (RM m)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Turnover	461.0	368.3	25%	701.2	-34%	1,794.1	2,296.7	-22%
EBIT	108.2	60.5	79%	214.7	-50%	322.1	451.3	-29%
Net interest exp and sukuk profit	(25.3)	(32.1)	-21%	(28.3)	-11%	(121.9)	(117.4)	4%
Share of profit from assoc/JVs	(39.9)	(5.5)	621%	(30.9)	29%	(37.1)	(33.0)	12%
Exceptional items [^]	(25.9)	(11.5)	125%	(155.2)	-83%	(36.5)	(152.2)	-76%
Pretax profit	17.0	11.4	49%	0.3	n.m.	126.6	148.7	-15%
Taxation	(7.0)	0.2	n.m.	(54.1)	-87%	(44.7)	(103.5)	-57%
Profit after tax	10.0	11.6	-14%	(53.8)	n.m.	81.9	45.2	81%
Minority interest	2.5	1.7	42%	56.3	-96%	6.9	61.6	-89%
PATAMI	12.5	13.3	-6%	2.5	394%	88.8	106.8	-17%
Core PATAMI	38.4	24.8	55%	157.7	-76%	125.3	259.0	-52%
DPS (sen)	0.7	0.0		1.7		0.7	1.7	
EBIT margin	23.5%	16.4%		30.6%		18.0%	19.7%	
Pretax margin	3.7%	3.1%		0.0%		7.1%	6.5%	
EPS (sen)	0.89	0.95		0.18		6.36	7.65	
Core EPS(sen)	2.73	1.76		11.42		8.96	18.55	
Effective tax	41.2%	-1.6%		n.m.		35.3%	69.6%	

[^] Exceptional items consist of:

- Impairment of goodwill on acq. of subs.	0.0	0.0		(137.4)		0.0	(137.4)	
- Net impairment & allowance of expected credit losses of trade & other rec'bles	(0.9)	(14.5)		(2.1)		(15.0)	(2.1)	
- Gain on disposal of PPE	0.3	1.8		2.1		2.3	9.8	
- Net writedown in value of inventory properties and land held for devlpmt.	(22.6)	0.0		(18.4)		(22.6)	(18.4)	
- Unrealised gain/(loss) on FX	(2.8)	1.2		0.6		(1.2)	(4.0)	
Total	(25.9)	(11.5)		(155.2)		(36.5)	(152.2)	

Source: Company, Kenanga Research

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Segmental Breakdown								
FYE Dec (RM m)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Revenue								
Engineering & Construction	260.5	258.0	1%	606.9	-57%	1,244.1	1,845.6	-33%
Property development	147.6	61.9	138%	29.9	393%	346.5	254.9	36%
Property investment & management	52.9	48.4	9%	64.4	-18%	203.5	196.2	4%
Total	461.0	368.3	25%	701.3	-34%	1,794.1	2,296.7	-22%
Pretax Profit								
Engineering & Construction^	2.0	25.7	-92%	16.7	-88%	100.1	138.9	-28%
Property development^	19.3	(2.0)	n.m.	(29.4)	n.m.	57.2	16.9	238%
Property investment & management^	25.1	23.8	5%	45.8	-45%	110.2	126.4	-13%
Unallocated	2.1	1.2	75%	5.8	-64%	4.1	5.3	-23%
	48.5	48.7	0%	38.9	24%	271.6	287.6	-6%
Finance costs	(31.5)	(37.3)	-16%	(38.7)	-19%	(145.0)	(138.9)	4%
Total	17.0	11.4	49%	0.3	5912%	126.6	148.7	-15%
Pretax Profit Margin								
Engineering & Construction^	0.8%	10.0%		2.8%		8.0%	7.5%	
Property development^	13.0%	-3.3%		-98.1%		16.5%	6.6%	
Property investment & management^	47.5%	49.2%		71.1%		54.2%	64.4%	
Total	3.7%	3.1%		0.0%		7.1%	6.5%	

^ incl share of associates & JVs results

Source: Company, Kenanga Research

Sum-of-parts valuation

Segment	Value (RMm)	Valuation Basis
Engineering & Construction	817.6	P/E of 10.1x (at -0.5SD below 3-year mean)
Property development	960.3	
Property investment & management	1,309.7	P/BV of 0.45x (-0.5SD below mean) with inventory adjustment
Net cash / (debt) at holding company	(2,033.4)	
Aggregate valuation	1,054.2	P/BV of 0.8x
No of shares (m)	1,403.5	
RNAV per share (RM)	0.75	

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.59	9,021.0	Y	07/2020	33.5%	9.7%	-25.2%	-19.3%	11.0	14.7	18.3	1.1	1.1	7.3%	3.3%	4.70	OP
GEORGE KENT (MALAYSIA) BHD	0.870	464.1	Y	01/2020	-22.2%	10.1%	-43.0%	18.0%	6.2	10.9	9.2	1.0	1.0	9.0%	4.6%	0.970	MP
HOCK SENG LEE BERHAD	1.34	736.4	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.7	11.1	9.4	1.0	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.04	7,404.1	Y	03/2020	4.9%	8.6%	-32.6%	13.9%	17.7	26.3	23.1	0.8	0.7	2.8%	1.5%	2.15	MP
KERJAYA PROSPEK GROUP BHD	1.27	1,563.8	Y	12/2020	33.7%	18.8%	12.6%	20.6%	10.4	9.3	7.7	1.4	1.8	14.0%	2.6%	1.50	OP
KIMLUN CORP BHD	1.08	367.0	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	5.7	5.8	5.7	0.5	0.5	9.0%	4.0%	1.65	OP
MITRAJAYA HOLDINGS BHD	0.265	233.5	Y	12/2019	-32.5%	-7.8%	-288.2%	-80.7%	5.3	N.A.	N.A.	0.3	0.3	-11.3%	0.0%	0.110	UP
MUHIBBAH ENGINEERING (M) BHD	1.70	821.9	Y	12/2019	9.9%	-3.4%	-21.4%	28.5%	5.7	7.2	5.6	0.7	0.7	9.8%	3.0%	2.35	OP
SUNWAY CONSTRUCTION GROUP BHD	1.90	2,449.8	Y	12/2020	42.9%	3.9%	30.4%	4.0%	19.1	14.6	14.0	4.1	3.7	26.6%	3.8%	2.15	OP
WCT HOLDINGS BHD	0.710	996.5	Y	12/2019	0.8%	-0.2%	-29.6%	4.5%	7.9	11.4	10.8	0.2	0.3	3.0%	0.0%	0.750	MP
Simple Average					10.1%	6.4%	-35.9%	2.5%	10.3	12.1	11.2	1.1	1.1	8.1%	N.A.		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.330	196.8	Y	06/2020	N.A.	N.A.	N.A.	N.A.	13.4	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.080	30.5	Y	06/2020	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.1	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRs BHD	1.01	498.4	Y	12/2019	-9.3%	58.2%	-17.7%	53.5%	8.1	9.9	0.0	1.0	1.1	11.3%	4.2%	1.62	BUY
GADANG HOLDINGS BHD	0.6595	433.2	Y	05/2020	3.8%	0.1%	33.9%	14.2%	9.8	7.3	0.0	0.5	0.5	7.6%	1.3%	0.687	NEUTRAL
JAKS RESOURCES BHD	1.45	944.1	Y	12/2019	80.6%	-50.3%	683.9%	-42.4%	61.5	7.8	0.0	1.0	1.0	15.0%	0.0%	1.10	NEUTRAL
MUDAJAYA GROUP BHD	0.460	271.3	N	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.8	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	3.10	514.2	Y	06/2020	41.6%	2.6%	107.5%	3.1%	19.7	9.5	0.1	1.6	1.5	16.4%	6.7%	3.88	NEUTRAL
PESONA METRO HOLDINGS	0.200	139.0	Y	12/2019	12.1%	2.9%	165.4%	6.8%	16.8	6.3	0.0	0.7	N.A.	11.7%	5.0%	0.290	BUY
PROTASCO BHD	0.360	174.6	Y	12/2019	-8.8%	3.2%	463.0%	14.1%	N.A.	16.8	0.0	0.5	0.5	3.2%	3.6%	0.315	NEUTRAL
TRC SYNERGY BHD	0.375	180.2	Y	12/2019	11.2%	13.4%	27.1%	16.6%	8.6	6.8	0.0	0.4	N.A.	8.8%	4.8%	0.500	NEUTRAL

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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