



WCT HOLDINGS BERHAD

Neutral

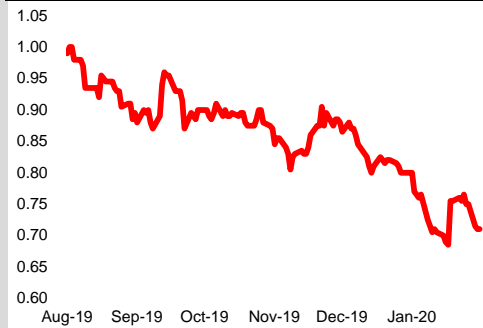
DESCRIPTION

Malaysian construction company with core businesses in civil engineering construction, property development and investment and management of properties and concession assets.

12-Month Target Price	RM0.78
Current Price	RM0.71
Expected Return	+9.8%

Market Sector	Main Construction
Bursa Code	9679
Bloomberg Ticker	WCTHG MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	0.69 -1.22
3-Month Average Vol ('000)	2,339.8

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-11.3	-18.9	-30.4
Relative Returns	-6.6	-13.6	-24.8

KEY STOCK DATA

Market Capitalisation (RMm)	996.5
No. of Shares (m)	1,403.5

MAJOR SHAREHOLDERS

	%
Tan Sri Desmond Lim	18.0
Urusharta Jamaah SB	8.6
Employee Provident Fund	7.1
Kumpulan Wang Persaraan	6.2
Permodalan Nasional Bhd	5.8

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Helped By Land Sale

WCT Holdings (WCT) reported a higher 4QFY19 core net profit of RM66.6m (>100.0% YoY) mainly supported by the sale of undeveloped land which contributed to a gain of RM44m being reported at the pre-tax profit line. For the full-year FY19, the Group's core net profit increased to RM164.5m (+29.7% YoY) despite the lower RM1.8bn (-21.9% YoY) topline, attributable to weaker recognition from the construction division which saw cumulative revenue declining by 32.6% YoY. FY19 net profit was also supported by lower tax charge of 35.3% against 69.6% in FY18. The results are above our and consensus estimates however, accounting for 126.1% and 137.4% of full-year estimates. Our FY20-21 earnings estimates are left unchanged nonetheless, with the Group's near-term outlook less exciting given the slower progress on its main segment i.e. construction as well as on its de-gearing exercise which could limit its potential growth. The Group also has not secured any significant projects since last year. Award of the Phase 2 Pavilion Damansara project is taking longer than expected to finalize, hence its orderbook depleting to RM5bn. All said, we adjust our TP lower to RM0.78 (from RM0.91 previously) as we lowered our PER parameter coupled with an additional 10% discount to the valuation. Our **Neutral** call is retained.

§ **Results highlights.** The Group reported higher 4Q core net profit of RM66.6m (>100% YoY) mainly supported by the sale of undeveloped land which contributed to a gain of RM44m, bringing the YTD gain on land sales to RM91m being recognized at the pre-tax profit lines respectively. Performance of the Group's key contributor is less encouraging given the slower progress on its project milestones and billings mainly due to completion of some infrastructure projects such as a RAPID project package and the LRT 3 depot, while other on-going projects have yet to reach optimal levels of progress (ie. MRT 2, LRT 3, Pavilion Damansara and PNB 118).

§ **Challenging on all fronts.** The Group has not secured any significant projects since last year hence its orderbook depleting to c. RM5bn from >RM6.4bn in early FY19. The Group's "in-the-pocket" project i.e. Phase 2 Pavilion Damansara project worth RM1bn is taking longer-than-expected to finalize, which we think may be due to the current oversupply conditions that is holding back the project expansion. Though RM5bn balance orderbook appears relatively healthy, construction progress could longer than anticipated especially from its key projects such as LRT3 whereby the full structure and costs have yet to be determined. WCT's outstanding orderbook for the LRT3 package stands at RM1.33bn, translating to 24% of total orderbook.

KEY FORECAST TABLE

FYE Dec (RM m)	2018A	2019	2020F	2021F	2022F	CAGR (%)
Revenue	2,296.7	1,794.1	2,329.0	2,365.4	2,396.6	0.7
Operating Profit	320.6	308.7	252.0	258.4	263.1	(5.0)
Pre-tax Profit	148.7	126.6	170.6	181.6	190.6	5.3
Net Profit	106.8	88.8	137.4	145.8	152.6	8.1
Core Net Profit	126.8	164.5	137.4	145.8	152.6	8.1
EPS (Sen)	7.6	6.4	9.7	10.3	10.8	7.9
P/E (x)	9.3	11.1	7.3	6.9	6.6	
DPS (Sen)	0.0	0.0	0.0	0.0	0.0	
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec</u> <u>(RM m)</u>	<u>4Q19</u>	<u>4Q18</u>	<u>3Q19</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>FY19</u>	<u>FY18</u>	<u>YTD</u> <u>chg</u> <u>(%)</u>
Revenue	461.0	701.2	368.3	25.2	-34.3	1794.1	2296.7	-21.9
Cost of sales	-329.5	-609.2	-275.1	19.8	-45.9	-1351.7	-1921.0	-29.6
Gross profit	131.5	92.1	93.2	41.1	42.9	442.4	375.7	17.7
Other income	15.6	168.7	15.7	-0.6	-90.8	56.7	250.8	-77.4
Other expenses	-58.7	-190.9	-54.7	7.4	-69.3	-190.4	-306.0	-37.8
Operating profit	88.4	69.8	54.2	63.1	26.6	308.7	320.6	-3.7
Finance costs	-31.5	-38.7	-37.3	-15.6	-18.6	-145.0	-138.9	4.4
Share of results of associates & JV	-39.9	-30.9	-5.5	620.5	29.3	-37.1	-33.0	12.3
Pre-tax profit	17.0	0.3	11.4	49.2	5912.4	126.6	148.7	-14.9
Tax	-7.0	-54.1	0.2	-3885.4	-87.0	-44.7	-103.5	-56.8
Net profit	10.0	-53.8	11.6	-13.6	-118.6	81.9	45.2	81.2
Minority interest	2.5	56.3	1.7	42.4	-95.6	6.9	61.6	-88.8
PATAMI	12.5	2.5	13.3	-6.3	393.8	88.8	106.8	-16.9
<i>Exceptional items</i>	54.1	0.3	22.1	144.6	19024.0	75.7	19.9	279.4
Core net profit	66.6	2.8	35.4	87.9	2268.7	164.5	126.8	29.7
EPS	0.9	0.2	1.0	-6.3	394.4	6.4	7.6	-15.8
Margins (%):								
Gross profit	28.5	13.1	25.3			24.7	16.4	
Pre-tax profit	3.7	0.0	3.1			7.1	6.5	
Core net profit	14.4	0.4	9.6			9.2	5.5	

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Revenue	2,296.7	1,794.1	2,329.0	2,365.4	2,396.6
Gross Profit	375.7	442.4	375.1	420.7	426.2
Operating expenses	-304.8	-190.4	-123.2	-162.3	-163.2
Operating Profit	-306.0	308.7	252.0	258.4	263.1
Other Gains / (Losses)	250.8	56.7	18.4	18.9	19.5
Finance Costs	-138.9	-145.0	-99.8	-95.7	-92.0
Pre-tax Profit	148.7	126.6	170.6	181.6	190.6
Income Tax	-103.5	-44.7	-40.9	-43.6	-45.7
Effective Tax Rate (%)	69.6	35.3	24.0	24.0	24.0
Minorities	61.6	6.9	7.8	7.8	7.8
Net Profit	106.8	88.8	137.4	145.8	152.6
Growth					
Revenue (%)	16.4	-21.9	29.8	1.6	1.3
Gross Profit (%)	-7.5	17.7	-15.2	12.1	1.3
Net Profit	-51.0	-16.8	54.7	6.1	6.1

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Property, Plant & Equipment	366.9	344.8	498.8	546.4	594.0
Cash and Cash Equivalents	400.9	646.4	673.4	694.8	694.8
Receivables	1,558.5	1,545.5	1,542.4	1,566.5	1,587.2
Other Assets	6,352.8	6,245.0	4,213.0	4,230.6	4,230.6
Total Assets	8,679.1	8,781.7	6,927.6	7,038.3	7,123.5
Payables	1,381.9	1,148.2	1,186.0	1,204.5	1,220.4
Borrowings	3,659.1	3,130.8	2,172.3	2,083.0	2,083.0
Tax payable	14.4	5.1	35.4	35.4	35.4
Other Liabilities	450.8	660.9	817.9	828.0	828.0
Total Liabilities	5,506.2	4,945.0	4,211.6	4,150.8	4,175.0
Shareholders' Equity	3,172.9	3,836.7	2,715.9	2,887.5	2,948.5
Total Equity and Liabilities	8,679.1	8,781.7	6,927.6	7,038.3	7,123.5

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	2.3	2.7	2.0	2.1	2.1
NTA Per Share	6.1	6.2	5.0	5.1	5.2
EPS (Sen)	7.6	6.4	10.2	10.8	10.8
DPS (Sen)	0.0	0.0	2.0	2.0	3.0
Payout Ratio (%)	0.0	0.0	19.7	18.5	27.7
ROA (%)	1.5	1.9	2.0	2.1	2.1
ROE (%)	4.0	4.3	5.1	5.0	5.2

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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