

WCT Holdings Bhd

9M18 Results In Line

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9M18 CNP of RM105.3m is within expectations, accounting for 72% each of our/consensus' full-year estimates. No dividend declared, as expected. No changes to FY18-19E earnings. Maintain OUTPERFORM on its improving outlook with an unchanged SoP-driven Target Price of RM1.20.

In line. 9M18 CNP of RM105.3m is within expectations, accounting for 72% each of our/consensus' full-year estimates, respectively. No dividend declared, as expected.

Results highlight. Its 9M18 revenue registered an impressive growth of 20%, YoY, coupled with marginal improvements in operating margin of +0.8ppt to 15.2%. However, its CNP of RM105.3m (after stripping off forex loss of RM4.7m, and disposal gain of RM7.7m) declined by 9% because of: (i) substantial increase in financing cost (+126%) due to the commencement of operation for Paradigm JB, and (ii) loss contribution from associate/joint-venture of RM1.9m vis-à-vis profit contribution of RM17.6m back in 9M17. **QoQ**, its 3Q18 CNP registered a sharp decrease of 37% underpinned by the drop in revenue of 42%. The sudden drop in revenue is attributable to all its divisions with its property development division registering the sharpest decline (-76%), followed by its construction division (-37%) and property investment (-2%). The decline in property revenue was mainly due to slower property sales, while its construction division registered slower billings from both local and overseas infrastructure projects.

Outlook. Its outstanding order-book currently stands at c.RM7.0b providing earnings visibility for the next 2.5-3.0 years. To recap, they recently bagged RM1.8b worth of construction works for Pavilion Damansara over 38 months. As for its property division, we believe that management's focus remains on clearing unsold completed property stocks that stand at c.RM600.0m collectively through a re-pricing strategy. That aside, we also expect more land disposals in the near term as part of their de-gearing exercise.

Estimates maintained. Post results, no changes to our FY18-19E earnings for now. However, we might look to review our estimates post briefing.

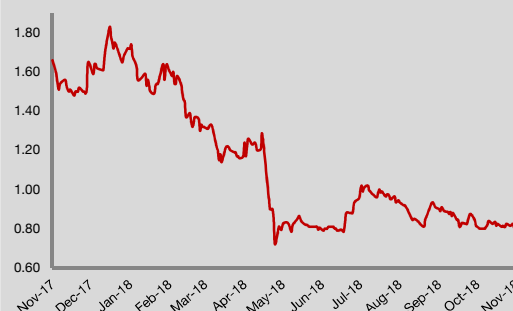
Maintain OUTPERFORM with an unchanged SoP-driven Target Price of RM1.20 back by improving outlook, especially its construction division, coupled with management's relentless effort in their de-gearing exercise. Our current TP implies FY19E PER of 10.1x, or just slightly below the highest multiple of 11.0x we ascribed in the sector which is right below KLCON index's 5-year -1SD levels.

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

OUTPERFORM ↔

Price : RM0.815
Target Price : RM1.20 ↔

Share Price Performance



KLCI	1,701.99
YTD KLCI chg	-5.3%
YTD stock price chg	-49.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	1,125.2
Shares Outstanding	1,380.6
52-week range (H)	1.83
52-week range (L)	0.70
3-mth avg daily vol:	3,145,780
Free Float	64%
Beta	1.2

Major Shareholders

Dominion Nexus Sdn Bhd	17.9%
Employees Provident Fund Board	8.9%
Lembaga Tabung Haji	8.9%

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.	146.2	160.1
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)	11.1	8.6	7.5
FD Core PER (x)	12.8	9.9	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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Result Highlight								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
FYE Dec (RM'm)								
Turnover	385.8	669.9	-42%	469.8	-18%	1,595.5	1,326.5	20%
EBIT	66.5	92.8	-28%	75.3	-12%	243.2	191.4	27%
Interest inc/(exp)	-36.7	-29.0	26%	-14.3	157%	-90.7	-40.1	126%
Associates/JV	1.4	-1.2	-218%	4.0	-65%	-1.9	17.6	-111%
Admin/Others	-29.4	-27.5	7%	-38.8	-24%	-86.1	-89.8	-4%
Exceptional items	3.5	4.2	-18%	0.0	n.m.	7.7	0.0	n.m.
Forex gain/(loss)	-2.6	-0.7	287%	0.7	-455%	-4.7	-19.8	-76%
Pretax profit	32.1	66.2	-51%	65.8	-51%	153.6	149.2	3%
Taxation	-9.1	-24.5	-63%	-25.3	-64%	-50.6	-56.4	-10%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	23.0	41.7	-45%	40.5	-43%	103.0	92.7	11%
Minority interest	3.1	2.1	50%	0.3	1094%	5.3	2.6	103%
PATAMI	26.1	43.8	-40%	40.8	-36%	108.3	95.3	14%
Core PATAMI	25.3	40.2	-37%	40.0	-37%	105.3	115.1	-9%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	17.2%	13.9%		16.0%		15.2%	14.4%	
Pretax margin	8.3%	9.9%		14.0%		9.6%	11.2%	
NP margin	8.3%	9.9%		14.0%		9.6%	11.2%	
CNP margin	6.6%	6.0%		8.5%		6.6%	8.7%	
EPS (sen)	1.8	3.1		3.0		7.7	7.0	
Core EPS(sen)	1.8	2.8		3.0		7.4	8.5	
BV/share (RM)	2.2	2.2		2.3		2.2	2.3	
Net gearing (x)	1.00	0.98		0.87		1.0	0.9	
Effective tax	28%	37%		38%		33%	38%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
External Revenue								
Construction	306.9	485.9	-37%	308.2	0%	1,238.7	928.4	33%
Property Development	32.6	136.9	-76%	142.9	-77%	225.0	348.6	-35%
Property Investment	46.3	47.1	-2%	18.7	148%	131.8	49.5	166%
EBIT Segmentation								
Construction	22.5	39.1	-42%	47.1	-52%	120.8	99.6	21%
Property Development	7.6	38.7	-80%	21.6	-65%	54.8	48.0	14%
Property Investment	37.2	18.6	100%	7.4	402%	70.7	24.1	193%
EBIT margins								
Construction	7%	8%		15%		10%	11%	
Property Development	23%	28%		15%		24%	14%	
Property Investment	80%	40%		40%		54%	49%	

Source: Company, Kenanga Research

Sum-of-parts valuation			
Segment	Stake	Method	Value (RMm)
Construction	100%	8x FY19 PER	1,265.7
Property development	100%	RNAV of 70% discount	355.3
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			2,659.1
Proceeds placement & Warrants E			740.5
Total			3,399.5
No of FD shares			1,789.6
SOP/share			1.90
Target Price (35% discount)			1.20
Implied Basic FY19E PER (x)			10.1
Implied FD FY19E PER (x)			12.7

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																	
EVERSENDAL CORP BHD	0.630	492.0	N	12/2018	-4.1%	-4.3%	2.1%	1.0%	7.8	7.7	7.6	0.8	0.5	8.0%	0.0%	0.665	UP
GAMUDA BHD	2.44	6,022.0	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	7.4	10.2	10.1	0.8	0.8	7.7%	4.9%	3.35	OP
GEORGE KENT (MALAYSIA) BHD	1.03	569.7	Y	01/2019	-5.2%	4.2%	-35.1%	7.0%	4.2	6.5	6.1	1.2	1.1	17.5%	5.3%	1.20	MP
HOCK SENG LEE BERHAD	1.33	730.9	Y	12/2018	18.0%	18.6%	31.4%	17.7%	15.7	12.0	10.2	1.0	0.9	8.1%	1.7%	1.30	MP
IJM CORP BHD	1.82	6,605.2	Y	03/2019	10.1%	4.7%	9.8%	9.8%	16.1	14.6	13.3	0.7	0.7	4.7%	2.7%	1.85	MP
KERJAYA PROSPEK GROUP BHD	1.26	1,559.4	Y	12/2018	32.9%	7.9%	16.9%	6.1%	12.6	10.8	10.1	1.9	1.7	16.8%	2.4%	1.40	OP
KIMLUN CORP BHD	1.15	381.7	Y	12/2018	-9.5%	6.5%	-14.1%	7.4%	5.4	6.3	5.8	0.6	0.6	9.5%	4.0%	1.40	OP
MITRAJAYA HOLDINGS BHD	0.340	301.3	Y	12/2018	-16.4%	-9.9%	-28.5%	7.4%	4.3	6.0	5.6	0.4	0.4	6.8%	5.9%	0.360	MP
MUHIBBAH ENGINEERING (M) BHD	2.83	1,362.9	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.1	8.6	8.1	1.4	1.2	14.8%	2.9%	4.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.52	1,964.2	Y	12/2018	11.6%	1.4%	3.7%	-3.1%	14.7	14.2	14.7	3.6	3.3	24.0%	4.6%	1.30	UP
WCT HOLDINGS BHD	0.815	1,125.2	Y	12/2018	20.8%	13.9%	28.4%	14.6%	12.8	9.9	8.7	0.5	0.5	5.0%	0.0%	1.20	OP
Simple Average					1.2%	4.5%	1.4%	6.9%	10.2	9.7	9.1	1.2	1.1	11.2%	3.1%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.345	183.4	Y	12/2018	N.A.	N.A.	N.A.	N.A.	6.3	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.195	66.1	Y	12/2018	N.A.	N.A.	N.A.	N.A.	21.3	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	0.915	437.0	Y	12/2018	64.4%	19.4%	48.0%	30.5%	9.1	6.1	0.0	0.9	1.1	17.2%	5.5%	1.73	BUY
GADANG HOLDINGS BHD	0.600	397.0	Y	05/2019	12.7%	11.4%	-4.3%	-2.9%	4.1	4.3	0.0	0.5	0.5	10.5%	4.7%	0.775	BUY
JAKS RESOURCES BHD	0.730	398.5	Y	12/2018	90.5%	-17.2%	-41.3%	8.7%	3.1	5.4	0.0	0.5	0.5	10.6%	0.0%	1.42	BUY
MUDAJAYA GROUP BHD	0.365	215.3	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.47	409.7	Y	06/2019	68.1%	26.5%	73.3%	25.1%	26.4	15.2	0.1	1.3	1.3	8.2%	8.2%	2.45	NEUTRAL
PESONA METRO HOLDINGS	0.210	145.9	Y	12/2018	22.0%	19.3%	-25.9%	74.3%	7.6	10.3	0.0	0.8	0.8	8.3%	6.2%	0.300	BUY
PROTASCO BHD	0.345	170.7	Y	12/2018	-8.7%	7.3%	-56.6%	87.1%	6.1	14.0	0.0	0.5	0.4	3.1%	4.6%	0.425	SELL
TRC SYNERGY BHD	0.580	278.7	Y	12/2018	10.0%	15.2%	-7.0%	35.9%	9.2	9.9	0.0	0.7	0.6	6.7%	3.4%	0.490	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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