

28 August 2018

WCT Holdings Bhd

1H18 Results Inline

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1H18 CNP of RM80.0m is within expectations, accounting for 54%/51% of our/consensus' full-year estimates. No dividend declared, as expected. No changes to FY18-19E earnings. Maintain OUTPERFORM with an unchanged SoP-driven Target Price of RM1.35.

In line. 1H18 CNP of RM80.0m is within expectations, accounting for 54%/51% of our/consensus' full-year estimates. No dividend declared, as expected.

Results highlight. 1H18 CNP of grew 7%, YoY. The improvement was attributable to several factors; (i) revenue growth of 41% backed by construction and property investment divisions, which registered revenue growth of 50% and 177%, respectively, (ii) improvement in construction operating margins by 3ppt to 11% as most of its on-going local projects picked up pace, and (iii) sharp improvements in property development margins to 25% (+12ppt) arising from the contribution of land sale. On QoQ basis, 2Q18 CNP was flattish (+1%) despite revenue growth of 24% due to higher effective tax rate of 37% vis-à-vis 31% in 1Q18.

Outlook. Its outstanding order-book currently stands at c.RM4.5b providing earnings visibility for the next 2.5-3.0 years and we expect its performance to see further improvement after the impairment on its Middle East project. 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.

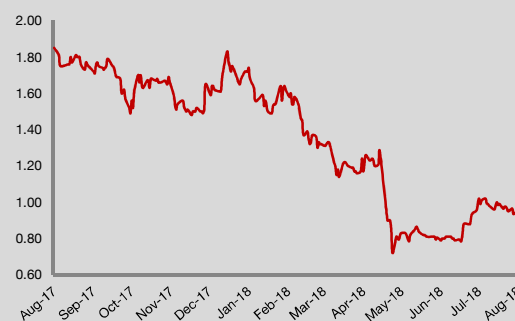
Maintain OUTPERFORM. We reiterate OUTPERFORM on WCT but with an unchanged SoP-driven Target Price of RM1.35 as we continue to see improvement in the company's prospects, i.e. (i) securing more local construction jobs, (ii) re-pricing strategy to clear property inventories, and (iii) de-gearing plans through land disposal in the near term. Our current TP implies FY18E PER of 11.3x, right below the big boys' range of 12.0-14.0x.

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

OUTPERFORM ↔

Price : **RM0.920**
Target Price : **RM1.35** ↔

Share Price Performance



KLCI	1,811.60
YTD KLCI chg	0.8%
YTD stock price chg	-43.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	1,272.3
Shares Outstanding	1,382.9
52-week range (H)	1.84
52-week range (L)	0.70
3-mth avg daily vol:	9,058,122
Free Float	65%
Beta	0.9

Major Shareholders

Dominion Nexus Sdn Bhd	17.9%
Lembaga Tabung Haji	8.9%
Employees Provident Fund Board	7.9%

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.	155.4	162.3
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)	12.5	9.7	8.5
FD Core PER (x)	14.4	11.2	9.8
BVPS (RM)	1.61	1.69	1.78
Net Gearing (x)	0.8	0.7	0.7
Dividend Yield (%)	3.3	0.0	0.0

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Result Highlight								
	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
FYE Dec (RM'm)								
Turnover	669.9	539.8	24%	383.3	75%	1,209.7	856.7	41%
EBIT	92.8	83.9	11%	62.5	49%	176.7	116.1	52%
Interest inc/(exp)	-29.0	-25.1	16%	-13.5	114%	-54.1	-25.8	110%
Associates/JV	-1.2	-2.2	-45%	5.8	-120%	-3.3	13.5	-125%
Admin/Others	-27.5	-29.2	-6%	-29.3	-6%	-56.7	-51.0	11%
Exceptional items	4.2	0.0	n.m.	0.0	n.m.	4.2	0.0	n.m.
Forex gain/(loss)	-0.7	-1.4	-50%	-16.2	-96%	-2.0	-20.5	-90%
Pretax profit	66.2	55.3	20%	38.5	72%	121.5	83.3	46%
Taxation	-24.5	-17.0	44%	-17.0	44%	-41.5	-31.1	33%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	41.7	38.3	9%	21.5	94%	80.0	52.2	53%
Minority interest	2.1	0.1	n.m.	0.0	n.m.	2.2	2.4	-7%
PATAMI	43.8	38.4	14%	21.5	104%	82.2	54.6	51%
Core PATAMI	40.2	39.8	1%	37.7	7%	80.0	75.1	7%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	14%	16%		16%		15%	14%	
Pretax margin	10%	10%		10%		10%	10%	
NP margin	10%	10%		10%		10%	10%	
CNP margin	6%	7%		10%		7%	9%	
EPS (sen)	3.1	2.7		1.6		5.8	4.1	
Core EPS(sen)	2.8	2.8		2.8		5.7	5.7	
BV/share (RM)	2.2	2.2		2.3		2.2	2.3	
Net gearing (x)	0.98	0.95		0.86		1.0	0.9	
Effective tax	37%	31%		44%		34%	37%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
External Revenue								
Construction	485.9	445.8	9%	236.8	105%	931.8	620.2	50%
Property Development	136.9	55.5	147%	130.9	5%	192.4	205.7	-6%
Property Investment	47.1	38.4	22%	15.6	201%	85.5	30.9	177%
EBIT Segmentation								
Construction	39.1	59.2	-34%	22.4	74%	98.2	52.5	87%
Property Development	38.7	8.5	355%	15.0	159%	47.2	26.4	79%
Property Investment	18.6	14.9	25%	8.8	111%	33.5	16.7	101%
EBIT margins								
Construction	8%	13%		9%		11%	8%	
Property Development	28%	15%		11%		25%	13%	
Property Investment	40%	39%		56%		39%	54%	

Source: Company, Kenanga Research

Sum-of-parts valuation			
Segment	Stake	Method	Value (RMm)
Construction	100%	10x FY19 PER	1,582.1
Property development	100%	RNAV of 70% discount	379.0
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			2,999.2
Proceeds placement & Warrants E			740.5
Total			3,739.7
No of FD shares			1,789.6
SOP/share			2.09
Target Price (35% discount)			1.35
Implied Basic FY19E PER (x)			11.3
Implied FD FY19E PER (x)			14.3

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	0.895	699.0	N	12/2018	1.8%	-5.7%	14.1%	-2.2%	10.1	8.8	9.0	0.7	0.6	7.8%	2.0%	0.720	UP
GAMUDA BHD	3.85	9,502.0	Y	07/2018	20.0%	5.0%	14.9%	7.4%	13.6	11.8	11.0	1.3	1.2	10.4%	3.6%	4.30	OP
GEORGE KENT (MALAYSIA) BHD	1.22	680.5	Y	01/2019	21.8%	6.4%	13.3%	4.4%	3.7	3.2	3.1	1.1	1.0	32.0%	7.2%	2.20	OP
HOCK SENG LEE BERHAD	1.43	785.8	Y	12/2018	18.0%	18.6%	31.4%	17.7%	16.9	12.9	10.9	1.1	1.0	8.1%	1.5%	1.30	UP
IJM CORP BHD	1.90	6,898.7	Y	03/2019	11.9%	1.8%	16.3%	8.0%	16.6	14.3	13.3	0.7	0.7	4.9%	2.8%	2.20	OP
KERJAYA PROSPEK GROUP BHD	1.44	1,788.4	Y	12/2018	32.9%	7.9%	22.8%	8.6%	6.5	5.3	4.9	1.0	0.9	17.6%	2.2%	1.60	MP
KIMLUN CORP BHD	1.46	484.5	Y	12/2018	-3.2%	9.0%	-0.3%	2.9%	6.5	6.5	6.3	0.8	0.7	11.3%	3.7%	1.80	OP
MITRAJAYA HOLDINGS BHD	0.495	443.3	Y	12/2018	-3.6%	-6.6%	19.9%	-12.9%	6.6	5.5	6.3	0.7	0.5	10.7%	4.0%	0.475	MP
MUHIBBAH ENGINEERING (M) BHD	3.13	1,505.2	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	12.2	9.6	8.9	1.5	1.3	14.8%	2.6%	4.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.90	2,455.3	Y	12/2018	11.9%	13.2%	11.6%	17.4%	18.4	16.5	14.0	4.4	4.0	25.6%	3.7%	1.80	UP
WCT HOLDINGS BHD	0.920	1,272.3	Y	12/2018	20.8%	13.9%	28.4%	14.6%	14.4	11.2	9.8	0.6	0.5	5.0%	0.0%	1.35	OP
Simple Average					9.8%	6.3%	18.3%	6.6%	11.4	9.6	8.9	1.3	1.1	13.5%	3.0%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.465	247.2	Y	12/2018	N.A.	N.A.	N.A.	N.A.	8.5	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.240	70.3	Y	12/2018	N.A.	N.A.	N.A.	N.A.	22.7	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	N.A.
GABUNGAN AQRS BHD	1.16	554.0	Y	12/2018	74.5%	17.0%	49.7%	31.1%	11.5	7.7	0.0	1.2	1.4	15.9%	3.9%	1.89	BUY
GADANG HOLDINGS BHD	0.730	483.1	Y	05/2019	19.0%	13.4%	10.0%	0.9%	5.1	4.6	0.0	0.7	0.6	13.7%	4.1%	1.00	BUY
JAKS RESOURCES BHD	0.975	532.3	Y	12/2018	90.5%	-22.4%	-38.5%	6.7%	4.2	6.8	0.0	0.7	0.7	10.7%	0.0%	1.60	BUY
MUDAJAYA GROUP BHD	0.515	303.8	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
PINTARAS JAYA BHD	2.50	414.7	Y	06/2018	-41.5%	49.6%	-47.4%	43.3%	11.4	21.7	0.1	1.2	1.3	5.8%	8.0%	2.57	NEUTRAL
PESONA METRO HOLDINGS	0.315	218.9	Y	12/2018	20.4%	7.9%	-26.4%	53.5%	11.4	15.5	0.0	1.2	1.1	8.2%	4.1%	0.290	SELL
PROTASCO BHD	0.510	252.4	Y	12/2018	3.8%	11.1%	10.6%	16.3%	9.0	8.1	0.0	0.7	0.6	7.7%	6.9%	0.540	SELL
TRC SYNERGY BHD	0.515	247.5	Y	12/2018	17.2%	15.4%	16.7%	29.6%	8.2	7.0	0.0	0.6	0.6	8.4%	3.9%	0.515	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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