

28 August 2019

WCT Holdings Bhd

Broadly Within

By Adrian Ng | adrian.ng@kenanga.com.my

1H19 CNP of RM62.7m makes up 57%/60% of our/consensus full-year estimates. However, we deem the performance as within our/consensus expectations as we are expecting subsequent quarters to track its 2Q19 performance. No dividends declared, as expected. No changes to FY19-20E earnings. Maintain UP with an unchanged SoP-driven TP of RM0.815.

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Results' highlight. 1H19 CNP fell 22% amid a decline in revenue (-20%) due to slower billings from both its construction and property development divisions which revenue came down by 22% and 29%, respectively. Positively, its property investment division registered a decent revenue growth of 20% due to the contribution from Paradigm JB coupled with higher rentals from Aeon Bukit Tinggi. QoQ, its 2Q19 CNP fell sharply by 42% due to: i) weaker revenue (-13%), and ii) absence of land sale recognition which took place in 1Q19.

Outlook. In a separate announcement, WCT announced that they have secured a letter of intent for the construction works for another building in Pavilion Damansara Heights (PDH), totalling to RM1.0b which is well within our replenishment assumptions of RM1.5b. To recap, WCT secured their first PDH project last year with a contract value of RM1.7b. We believe that WCT would be able to convert its letter of intent into a project award in the near term, bringing its outstanding order-book to c.RM7.0b with 2.5-3.0year visibility.

Estimates maintained. Post results, there are no changes to our FY19-20E earnings for now.

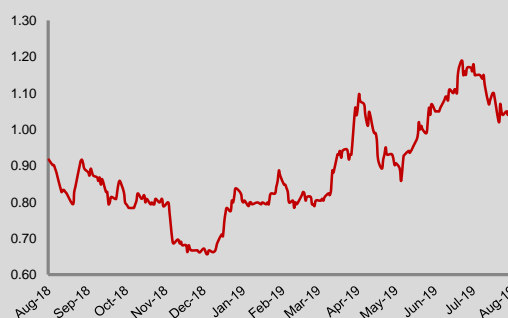
Maintain UNDERPERFORM with an unchanged SoP-driven Target Price of RM0.815, as we believe potential positives for the stock is already priced in. Our current TP implies FY20E PER of 8.7x, within our ascribed multiple range of 6-11x for contractors. Its implied multiple of 8.0x is at the lower-end of the band, mainly due to our more conservative view on its property division on account of the weak market sentiment.

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

UNDERPERFORM ↔

Price : **RM0.990**
Target Price : **RM0.815** ↔

Share Price Performance



KLCI	1,590.84
YTD KLCI chg	-5.9%
YTD stock price chg	49.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK EQUITY
Market Cap (RM m)	1,395.8
Shares Outstanding	1,409.9
52-week range (H)	1.22
52-week range (L)	0.65
3-mth avg daily vol:	4,149,632
Free Float	64%
Beta	1.3

Major Shareholders

Dominion Nexus Sdn Bhd	17.9%
Employees Provident Fund Board	9.5%
Urusharta Jamaah Sdn Bhd	8.6%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2333	2482	2832
EBIT	340	276	304
PBT	155	145	173
Net Profit	112	110	131
Core PATAMI	128	110	131
Consensus (NP)	N.A.	105	113
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	9.1	7.8	9.3
Core EPS growth (%)	12%	-14%	19%
NDPS (sen)	1.7	0.0	0.0
NTA per Share (RM)	2.3	2.4	2.5
Price to NTA (x)	0.4	0.4	0.4
PER (x)	10.9	12.6	10.6
Debt-to-Equity ratio (x)	1.0	1.0	0.9
Return on Asset (%)	2%	1%	2%
Return on Equity (%)	3%	3%	4%
Net Div. Yield (%)	1.7%	0.0%	0.0%

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Result Highlight								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
FYE Dec (RM'm)								
Turnover	450.1	514.6	-13%	669.9	-33%	964.8	1,209.7	-20%
EBIT	69.2	96.6	-28%	92.8	-26%	165.7	176.7	-6%
Interest inc/(exp)	-38.3	-37.9	1%	-29.0	32%	-76.2	-54.1	41%
Associates/JV	7.7	0.6	1104%	-1.2	n.m.	8.4	-3.3	n.m.
Admin/Others	-22.4	-37.9	-41%	-37.7	-41%	-60.3	-66.9	-10%
Exceptional items	0.0	0.0	n.m.	4.2	n.m.	0.0	4.2	n.m.
Forex gain/(loss)	-0.4	0.7	n.m.	-0.7	-46%	0.4	-2.0	n.m.
Pretax profit	38.2	60.0	-36%	66.2	-42%	98.2	121.5	-19%
Taxation	-16.7	-21.2	-21%	-24.5	-32%	-37.9	-41.5	-9%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	21.5	38.8	-45%	41.7	-48%	60.3	80.0	-25%
Minority interest	1.2	1.5	-20%	2.1	-42%	2.7	2.2	24%
PATAMI	22.7	40.3	-44%	43.8	-48%	63.0	82.2	-23%
Core PATAMI	23.1	39.6	-42%	40.2	-43%	62.7	80.0	-22%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	15.4%	18.8%		13.9%		17.2%	14.6%	
Pretax margin	8.5%	11.7%		9.9%		10.2%	10.0%	
NP margin	8.5%	11.7%		9.9%		10.2%	10.0%	
CNP margin	5.1%	7.7%		6.0%		6.5%	6.6%	
EPS (sen)	1.6	2.9		3.1		4.6	5.8	
Core EPS(sen)	1.7	2.9		2.8		4.5	5.7	
BV/share (RM)	2.3	2.3		2.2		2.3	2.2	
Net gearing (x)	0.98	0.99		0.98		1.0	1.0	
Effective tax	44%	35%		37%		39%	34%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
External Revenue								
Construction	347.8	377.7	-8%	485.9	-28%	725.6	931.8	-22%
Property Development	51.7	85.3	-39%	136.9	-62%	137.0	192.4	-29%
Property Investment	50.6	51.6	-2%	47.1	7%	102.2	85.5	20%
EBIT Segmentation								
Construction	38.2	33.1	16%	39.1	-2%	71.3	98.2	-27%
Property Development	8.0	36.9	-78%	38.7	-79%	44.9	47.2	-5%
Property Investment	22.6	27.3	-18%	18.6	21%	49.9	33.5	49%
EBIT margins								
Construction	11%	9%		8%		10%	11%	
Property Development	15%	43%		28%		33%	25%	
Property Investment	45%	53%		40%		49%	39%	

Source: Company, Kenanga Research

Sum-of-parts valuation		
SoP	Valuation/Discount	Value (RM'm)
Construction	8.0	793.9
Property		1020.2
Property investment		1147.5
Sub-total		2961.7
Property RNAV Discount	80%	-816.2
Property investment Discount	35%	-401.6
Total		1743.9
Shares Outstanding (m)		1406.9
SOP/share (RM)		1.25
Target Price (35% Discount)		0.815
Implied FY20E PER (x)		8.7

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																	
GAMUDA BHD	3.63	8,976.3	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	10.9	13.2	15.3	1.2	1.1	8.7%	3.3%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.06	570.9	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.6	9.8	7.1	1.2	1.1	11.9%	3.4%	1.15	MP
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.8	11.2	9.5	1.0	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.30	8,347.7	Y	03/2020	22.8%	2.0%	11.0%	2.2%	20.0	18.0	17.6	0.9	0.8	4.7%	2.2%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.41	1,738.4	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.7	11.3	11.1	1.8	1.6	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.28	434.9	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.8	6.9	6.7	0.6	0.6	9.0%	3.4%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.280	249.1	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	5.6	9.5	10.7	0.3	0.3	3.3%	5.4%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.56	1,237.4	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.6	7.8	7.5	1.1	1.0	13.4%	2.8%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.00	2,578.7	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.5	21.1	16.5	4.3	3.9	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	0.990	1,395.8	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	10.9	12.6	10.6	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					5.9%	4.6%	-6.5%	8.9%	11.4	12.2	11.3	1.3	1.2	9.7%	2.7%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.395	236.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	16.1	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.125	47.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	91.6	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.26	621.7	Y	12/2019	19.3%	37.9%	15.5%	36.2%	10.2	8.8	0.0	1.3	1.3	15.1%	4.6%	1.80	BUY
GADANG HOLDINGS BHD	0.725	527.8	Y	05/2020	7.4%	11.6%	45.5%	12.3%	12.1	8.3	0.0	0.7	N.A.	9.5%	2.1%	0.783	SELL
JAKS RESOURCES BHD	0.760	488.8	Y	12/2019	68.9%	-47.0%	655.6%	-21.2%	32.3	4.3	0.0	0.5	0.5	13.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.285	168.1	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.0	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.95	489.3	Y	06/2019	223.5%	-1.7%	135.7%	-6.4%	31.5	13.4	0.1	1.6	1.5	11.4%	5.5%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.230	159.8	Y	12/2019	12.1%	9.5%	165.4%	13.7%	19.4	7.3	0.0	1.0	N.A.	11.7%	4.3%	0.310	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.6	0.0	0.4	0.4	3.6%	5.4%	0.240	SELL
TRC SYNERGY BHD	0.540	259.5	Y	12/2019	15.8%	23.6%	70.8%	29.9%	12.4	7.3	0.0	0.6	0.6	8.5%	5.9%	0.750	BUY

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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Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

