



WCT HOLDINGS BERHAD

Neutral

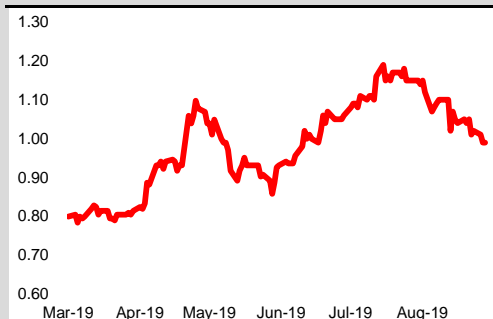
DESCRIPTION

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 RM0.91
 Current Price RM0.99
 Expected Return +8.1%

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

SHARE PRICE CHART



52 Week Range (RM) 0.65 -1.22
 3-Month Average Vol ('000) 4,149.6

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-13.9	11.0	18.1
Relative Returns	-10.8	17.1	28.3

KEY STOCK DATA

Market Capitalisation (RMm)	1,395.8
No. of Shares (m)	1,409.9

MAJOR SHAREHOLDERS

	%
Tan Sri Desmond Lim	17.9
Employee Provident Fund	9.4
Urusharta Jamaah SB	8.6
Kumpulan Wang Persaraan	6.1
Permodalan Nasional Bhd	5.7

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Within Expectations

WCT Holdings (WCT) reported lower 2QFY19 core net profit of RM22.9m (-42.4% YoY) in tandem with a 32.8% decline in revenue to RM450.1m. The Group subsequently reported a lower core net profit of RM62.4m (-19.3% YTD) in 1HFY19, attributable to weaker recognition from the construction and property development divisions which saw YTD drops of 22.1% and 28.8% respectively at the topline. The results were in line with our estimates however, though it was above consensus, accounting for 47.8% and 59.1% respectively of full year forecasts. On a separate note, WCT has accepted a Letter of Intent from Jendela Mayang SB for the construction and completion of Pavilion Damansara Heights Development - Parcel 2 worth approx. RM1bn. We are not surprised by the contract win as it is in line with management focus on building projects. No change to our earnings forecasts as we have already factored in an RM1bn job replenishment target for FY19. Our TP of RM0.91 (30% discount to our SOTP valuations) is unchanged, with **Neutral** call also retained.

§ **Lower construction and property contribution.** Revenue contribution from the construction arm dropped by 22.1% YTD mainly due to near-completion of some of the 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). In line with the lower revenue, segment profits slipped by 27.4% YTD. WCT also reported lower revenue recognition by 28.8% YTD from its property development segment which is mainly attributable to an absence of undeveloped land sales. Operating profit for this segment slipped 4.9% YTD.

§ **RM1bn project in hand.** On a separate note, WCT has accepted a Letter of Intent from Jendela Mayang SB for the construction and completion of Pavilion Damansara Heights Development - Parcel 2 worth approx. RM1bn. The scope of works encompasses the completion of 1 block of 32-storey office and hotel comprising retail space, mezzanine floors and works to lower ground floor and basement car park, 2 blocks of residential tower, hard and soft landscape works and external works, including road and drainage, water reticulation, sewerage and a MRT link bridge.

The contract is still subject to further negotiations and finalization by both parties. We are not surprised by the contract win as it is in line with management focus on building projects. No changes are made to our forecast as we have factored in an RM1bn job replenishment target for FY19. This project is expected to yield about 10% margin at the gross profit level.

KEY FORECAST TABLE

FYE Dec (RM m)	2017F	2018A	2019F	2020F	2021F	CAGR (%)
Revenue	2,004.9	2,333.4	2,297.9	2,329.0	2,365.4	(1.3)
Operating Profit	401.6	323.5	247.3	252.0	258.4	(0.1)
Pre-tax Profit	318.8	154.8	161.4	170.6	181.6	1.1
Net Profit	228.2	111.8	130.4	137.4	145.8	5.6
Core Net Profit	224.2	133.8	130.4	137.4	145.8	5.6
EPS (Sen)	16.7	8.0	9.7	10.2	10.8	5.6
P/E (x)	5.9	12.4	10.2	9.7	9.2	
DPS (Sen)	3.0	0.0	2.0	2.0	2.0	
Dividend Yield (%)	3.0	0.0	2.0	2.0	2.0	

Source: Company, PublicInvest Research estimates

**Table 1: Results Summary**

<u>FYE Dec</u> <u>(RM m)</u>	<u>2Q19</u>	<u>2Q18</u>	<u>1Q19</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>YTD</u> <u>FY19</u>	<u>YTD</u> <u>FY18</u>	<u>YTD</u> <u>chg</u> <u>(%)</u>
Revenue	450.1	669.9	514.6	-12.5	-32.8	964.8	1209.7	-20.2
Cost of sales	-351.3	-542.0	-395.7	-11.2	-35.2	-747.0	-979.3	-23.7
Gross profit	98.8	127.9	118.9	-16.9	-22.8	217.7	230.3	-5.5
Other income	10.7	10.9	14.7	-26.7	-1.9	25.4	25.1	1.3
Other expenses	-40.7	-41.0	-36.3	12.2	-0.6	-77.1	-73.5	4.8
Operating profit	68.8	97.9	97.3	-29.3	-29.7	166.1	181.9	-8.7
Finance costs	-38.3	-32.2	-37.9	1.0	19.1	-76.2	-60.4	26.2
Share of results of associates & JV	7.7	-1.2	0.6	1104.1	-718.9	8.4	-3.5	-341.0
Pre-tax profit	38.2	64.5	60.0	-36.4	-40.8	98.2	118.0	-16.8
Tax	-16.7	-24.1	-21.2	-21.2	-30.7	-37.9	-40.7	-6.9
Net profit	21.5	40.4	38.8	-44.6	-46.8	60.3	77.3	-22.0
Minority interest	1.2	2.1	1.5	-19.7	-42.4	2.7	2.2	24.3
PATAMI	22.7	42.5	40.3	-43.7	-46.5	63.0	79.5	-20.7
<i>Exceptional items</i>	0.2	-2.7	-0.8	-124.7	-107.1	-0.6	-2.2	-73.1
Core net profit	22.9	39.7	39.5	-42.1	-42.4	62.4	77.3	-19.3
EPS	1.6	3.0	2.9	-44.2	-45.7	4.6	5.6	-19.0
Margins (%):								
Gross profit	21.9	19.1	23.1			22.6	19.0	
Pre-tax profit	8.5	9.6	11.7			10.2	9.8	
Core net profit	5.1	5.9	7.7			6.5	6.4	

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2017A	2018A	2019F	2020F	2021F
Revenue	2,004.9	2,333.4	2,297.9	2,329.0	2,365.4
Gross Profit	408.3	377.4	330.8	375.1	420.7
Operating expenses	-287.2	-304.8	-83.5	-123.2	-162.3
Operating Profit	401.6	323.5	247.3	252.0	258.4
Other Gains / (Losses)	-19.6	-33.0	17.8	18.4	18.9
Finance Costs	-63.1	-135.7	-103.8	-99.8	-95.7
Pre-tax Profit	318.8	154.8	161.4	170.6	181.6
Income Tax	-93.3	-104.7	-38.7	-40.9	-43.6
Effective Tax Rate (%)	29.3	67.7	24.0	24.0	24.0
Minorities	2.7	61.6	7.8	7.8	7.8
Net Profit	228.2	111.8	130.4	137.4	145.8
Growth					
Revenue (%)	15.9	16.4	-1.5	1.4	1.6
Gross Profit (%)	-19.5	-7.5	-12.3	13.4	12.1
Net Profit	-67.3	-51.0	16.7	5.4	6.1

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2017F	2018A	2019F	2020F	2021F
Property, Plant & Equipment	341.0	365.2	451.1	498.8	546.4
Cash and Cash Equivalents	527.2	400.9	744.8	673.4	694.8
Receivables	1,526.5	2,480.3	1,521.9	1,542.4	1,566.5
Other Assets	5,785.0	5,467.2	4,198.2	4,213.0	4,230.6
Total Assets	8,179.7	8,713.6	6,916.0	6,927.6	7,038.3
Payables	1,671.2	1,669.4	1,170.1	1,186.0	1,204.5
Borrowings	3,285.2	3,659.1	2,261.7	2,172.3	2,083.0
Tax payable	7.5	12.6	35.4	35.4	35.4
Other Liabilities	69.6	206.0	809.4	817.9	828.0
Total Liabilities	5,033.5	5,547.1	4,276.6	4,211.6	4,150.8
Shareholders' Equity	3,146.1	3,166.5	2,639.3	2,715.9	2,887.5
Total Equity and Liabilities	8,179.7	8,713.6	6,916.0	6,927.6	7,038.3

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2017F	2018A	2019F	2020F	2021F
Book Value Per Share	2.3	2.3	1.9	2.0	2.1
NTA Per Share	5.9	6.2	5.0	5.0	5.1
EPS (Sen)	16.7	8.0	9.7	10.2	10.8
DPS (Sen)	2.0	0.0	2.0	2.0	2.0
Payout Ratio (%)	23.0	0.0	20.7	19.7	18.5
ROA (%)	2.8	1.4	1.9	2.0	2.1
ROE (%)	7.3	3.6	4.9	5.1	5.0

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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Published and printed by:
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