

24 May 2018 | 3MFY18 Results Review

## WCT Holdings Berhad

### *Wait-and-See but Opportunity Avails*


#### INVESTMENT HIGHLIGHTS

- **3MFY18 results in-line**
- **Expecting headwinds from project reviews**
- **Adopting a 'wait-and-see' position**
- **Altogether, we adjust our recommendation to Trading Buy with SOP-based TP of RM1.47 per share**

**3MFY18 results inline.** WCT's 3MFY18 PATAMI of RM38.3m (+16% YoY) is in-line with ours and consensus' expectations, meeting 23.5% and 24.0% of full year estimates respectively. Compared to 3MFY17's revenue of RM473.3m, 3MFY18's revenue increased to RM539.7m (+14.0%YoY). The increase in revenue is impacted still by higher progress billings of on-going projects such as LRT3's GS02/03/Depot.

**Expecting headwinds from project reviews.** Moving forward, WCT is expected to face headwinds from the government's policy of reviewing projects such as Tun Razak Exchange and Pan Borneo Highway. As such, we reckon that the projects within its orderbook will face either compression in margin or revision in quantum of awards. WCT's share price has been on the downtrend for the past year. To be fair, the fundamentals of WCT seems to be improving with stabilized earnings for the past 2 (1QFY18; RM38.3m and 4QFY17; RM59.2m) quarters and its 3MFY18' cash of RM457.4m (+30.45%YoY) improved from last corresponding period to alleviate any rising concern over its total debt of RM4.9bn (FY17).

**Adopting a 'wait-and-see' position.** Thus, at this moment we reckon it is fair to adopt a 'wait-and-see' position before reviewing our earnings forecast - pending detailed announcements for projects such as TRX and Pan Borneo Highway. WCT's orderbook is RM4.9bn or 2.8x cover of our FYE18 revenue forecast. The downside risk for FYE19/FYE20 would be lower orderbook replenishment rate for FYE18/FYE19/FYE20 and a potential review of c.RM1.0bn of its current orderbook from TRX and Pan Borneo projects.

**Recommendation.** Altogether, we adjust our recommendation to Trading Buy with SOP-based TP of RM1.47 per share. We are guided by the current fundamentals of the company (PE; 7.0x PBR; 0.3x, EY; 14.2% and NDE; 0.8x). 

***Upgrade to Trading Buy***  
***Unchanged Target Price (TP): RM1.47***

RETURN STATS	
Price (23 May 2018)	RM0.795
Target Price	RM1.47
Expected Share Price Return	+45.9%
Expected Dividend Yield	+1.1%
<b>Expected Total Return</b>	<b>+46.9%</b>

STOCK INFO	
KLCI	1,804.25
Bursa / Bloomberg	9679/ WCTHG MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1406
Market cap. (RM'm)	1118.4
Price over NA	0.35
52-wk price Range	RM0.69– RM2.23
Beta (against KLCI)	1.09
3-mth Avg Daily Vol	10.0m
3-mth Avg Daily Value	RM10.0m
Major Shareholders (%)	
Dominion Nexus	17.6
EPF	8.9
LTH	8.7
ASB	5.6

\*EY; Earnings Yield, NDE; Net Debt to Equity, PER; Price-to-earnings & PBR; Price-to-Book

## SOP VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
Engineering & construction	DCF Valuation (6.5%)	1,533.2	0.86
<b>Concessions</b>			
Indian Tollways	DCF valuation (WACC: 8%)	117.5	0.07
KLIA2 Gateway Mall	DCF valuation (WACC: 10%)	328.5	0.18
<b>Property Development</b>			
On-going & undeveloped landbanks	NPV @ 9% of Market Value	1,350.0	0.76
<b>Property Investment</b>			
AEON BT, Paradigm Mall & Premiere Hotel	DCF valuation (WACC: 9.5%)	1,210.0	0.68
Landbank	Market Value	600.0	0.34
<b>Total SOP</b>		<b>4,539.2</b>	<b>2.88</b>
Net debt		-2,527.0	-1.41
Total SOP			<b>1.47</b>
Enlarged share capital (mil)			1,788.0

Source: MIDFR

## INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16	FY17	FYE18	FYE19
Revenue	1,655.00	1,662.20	1,854.10	1,933.6	1,905.80	1,750.0	1,600.0
PBT	254.2	151.1	256.2	122.0	230.6	211.7	196.8
PATAMI	153.8	111.1	216.6	65.1	154.6	162.6	144.0
FD EPS	13.7	10.1	18.1	5.5	11.29	9.1	8.1
EPS growth (%)	-8.2	-26.6	78.9	-70.6	105.6	-38.5	-11.0
PER (x)	5.8	7.9	4.4	14.5	7.0	8.7	9.8
Dividend (sen)	6.8	2.5	5	0.0	1.8	1.1	1.1
Dividend Yield (%)	2.9	1.2	3.5	1.1	1.1	0.7	0.7

Source: MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## 3MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1Q18	4Q17	1Q17	QoQ	YoY	3M18	3M17	YoY
<b>Revenue</b>	<b>539.7</b>	<b>579.3</b>	<b>473.3</b>	<b>-7%</b>	<b>14%</b>	<b>539.7</b>	<b>473.3</b>	<b>14%</b>
<b>Gross profit</b>	<b>97.6</b>	<b>98.0</b>	<b>58.3</b>	<b>0%</b>	<b>67%</b>	<b>97.6</b>	<b>58.3</b>	<b>67%</b>
Other income	14.1	248.6	12.7	-94%	11%	14.1	12.7	11%
Other expenses	-2.4	-174.9	-3.6	-99%	-33%	-2.4	-3.6	-33%
Admin expenses	-26.7	-29.9	-18.1	-11%	48%	-26.7	-18.1	48%
Finance costs	-25.0	-23.0	-12.2	9%	#REF!	-25.0	-12.2	105%
Associates	0.7	0.4	1.6	75%	-106%	0.7	1.6	-56%
JVs	-2.8	-37.6	6.1	-93%	-275%	-2.8	6.1	-146%
<b>PBT</b>	<b>55.2</b>	<b>81.4</b>	<b>44.8</b>	<b>-32%</b>	<b>23%</b>	<b>55.2</b>	<b>44.8</b>	<b>23%</b>
Taxation	-16.9	-22.1	-14.1	-24%	20%	-16.9	-14.1	20%
<b>PATAMI</b>	<b>38.3</b>	<b>59.2</b>	<b>33.0</b>	<b>-35%</b>	<b>16%</b>	<b>38.3</b>	<b>33.0</b>	<b>16%</b>
EPS (sen)	<b>2.7</b>	<b>4.2</b>	<b>2.6</b>	-35%	4%	<b>2.7</b>	<b>2.6</b>	4%
	<b>1Q18</b>	<b>4Q17</b>	<b>1Q17</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>3M18</b>	<b>3M17</b>	<b>+/- ppts</b>
Gross profit	18.1%	16.9%	12.3%	0.012	0.058	18.1%	12.3%	5.8
Pre-tax margin	10.2%	14.1%	9.5%	-0.038	0.008	10.2%	9.5%	0.8
Net profit margin	7.1%	10.2%	7.0%	-0.031	0.001	7.1%	7.0%	0.1
Effective tax rate	30.6%	27.1%	31.5%	0.035	-0.009	30.6%	31.5%	-0.9

Source: MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.