

27 November 2018 | 9MFY18 Results Review

WCT Holdings Berhad

Contribution underpinned by E&C

Maintain BUY

Adjusted Target Price(TP): RM1.05
(from: RM1.13)

INVESTMENT HIGHLIGHTS

- The 9MFY18 results came in below our expectation accounting for only 66.6% of our yearly estimate
- The E&C segment underpinned 9MFY18 growth of about +21.0%yoy
- But earnings were weighed down by property segments which experienced low take-up rate of unsold units
- We adjusted our earnings lower to make allowance for the grim outlook in property segment and the group's lower than expected margin
- We recommend a BUY call on the stock with adjusted TP of RM1.05

Below expectations. The cumulative 9MFY18 earnings lagged our expectation accounting for 66.6% of yearly estimate, but within consensus expectation at 75.7%. Notably, total revenue dropped by -17.8% in 3QFY18, attributable to the slowdown in billings from the local and overseas infrastructure projects, coupled with lower sales volumes in the property segment.

Cumulative results in 9MFY18 were largely contributed by 6MFY18 income. We recall that the total revenue in 6MFY18 grew strongly by +41.4%yoy, which contributed about RM82.1m of PATAMI. Accordingly, the 6MFY18 aggregate contributed about 75.8% to 9MFY18 PATAMI.

Engineering and Construction segment (E&C) remained as the backbone to the group's earnings. Notably, E&C represented approximately 80% of the group's revenue, underpinned by its strong order book. Despite the slower recognition of work progress in 3QFY18, the cumulative 9MFY18 earnings has been encouraging, recording a +21.0%yoy growth in operating profit. This was on the back of stronger progress billings in 2QFY18, owing to the local and overseas infrastructure projects.

Revenue in property segment dipped -35.2%yoy in 9MFY18, steered by lower sales volume registered in the period. We noted that the drop was primarily due to low take-up rate of stock units in the Klang Valley and Medini Iskandar region coupled with the absence of new launch during the period. Despite the slowdown, cumulative operating profit was recorded +17.0%yoy higher attributable to land sales exercise.

RETURN STATS	
Price (26 Nov 2018)	RM0.82
Target Price	RM1.05
Expected Share Price Return	+28.0%
Expected Dividend Yield	+0.7%
Expected Total Return	+28.7%

STOCK INFO	
KLCI	1,701.9
Bursa / Bloomberg	9679 / WCTHG MK
Board / Sector	Main/ Construction
Syariah Compliant	Yes
Issued shares (mil)	1,380.6
Market cap. (RM'm)	1,125.2
Price over NA	0.36
52-wk price Range	RM0.69 – RM1.83
Beta (against KLCI)	1.15
3-mth Avg Daily Vol	3.13m
3-mth Avg Daily Value	RM2.72m
Major Shareholders	
Dominion Nexus	17.91%
EPF	8.93%
LTH	8.89%
KWAP	6.15%

Impact to earnings. Given the earnings deviation, we believe adjustment to our earnings estimate is necessary while taking into account the current progress of construction works and low take-up rate of unsold property units. Accordingly, we revised down our earnings estimate by -13.9% for FY18. However, our FY19 forecast is maintained at this juncture, to reflect our stable outlook on earnings recognition.

Recommendation. We peg our FY19EPS to PE of 13.0x (which is within our construction sector's average) to arrive at a new TP of RM1.05 hence provides cushion for hard landing or earnings blip in the future. Notably, WCT is trading at price-to-book ratio of 0.36x, implying an attractive opportunity to increase exposure.

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	2,279.2	2,420.0
PBT	254.2	151.1	256.2	122.0	230.6	182.3	193.6
PATAMI	153.8	111.1	216.6	65.1	154.6	140.6	144.0
FD EPS	11.1	8.0	15.7	4.7	11.2	10.2	10.4
EPS growth (%)	-8.2	-27.8	95.0	-69.9	137.5	-9.1	2.4
PER (x)	7.3	10.1	5.2	17.3	7.3	8.0	7.8
Dividend (sen)	6.8	2.5	5	19.1	1.8	1.1	1.1
Dividend Yield (%)	2.9	1.2	3.5	1.1	1.1	0.7	0.7

Source: Company, MIDF Research

DAILY PRICE CHART



Source: Bloomberg

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9MFY18 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q18	3Q17	2Q18	YoY	QoQ	9M18	9M17	YoY
Revenue	385.8	469.3	669.9	-17.8%	-42.4%	1595.5	1325.0	20.4%
Gross profit	48.5	111.4	123.1	-56.5%	-60.6%	269.2	248.7	8.3%
Other income	57.0	6.0	10.9	853.2%	423.2%	82.1	21.5	282.1%
Other expenses	-8.8	-5.7	-7.7	55.1%	13.9%	-19.0	-13.9	36.2%
Admin expenses	-29.4	-36.0	-29.9	-18.3%	-1.6%	-86.1	-85.5	0.7%
Finance costs	-36.7	-14.3	-29.0	156.6%	26.4%	-90.7	-40.1	126.4%
Associates	1.1	-0.5	-0.9	-323.0%	-227.3%	0.9	1.9	-51.8%
JVs	0.2	4.6	-0.2	-94.5%	-208.3%	-2.9	15.674	-118.2%
PBT	32.1	65.5	41.6	-51.0%	-22.8%	153.6	148.2	3.6%
Taxation	-9.1	-25.2	-24.4	-63.9%	-62.7%	-50.6	-56.2	-10.0%
PATAMI	26.1	40.6	43.7	-35.6%	-40.2%	108.3	94.6	14.4%
EPS (sen)	1.9	2.9	3.1	-34.7%	-39.2%	7.7	6.9	11.6%
	3Q18	3Q17	2Q18	+/- ppts	+/- ppts	9M18	9M17	+/- ppts
Gross profit	12.6%	23.7%	18.4%	-11.2	-5.8	16.9%	18.8%	-1.9
Pre-tax margin	8.3%	14.0%	6.2%	-5.6	2.1	9.6%	11.2%	-1.6
Net profit margin	6.8%	8.6%	6.5%	-1.9	0.2	6.8%	7.1%	-0.4
Effective tax rate	28.4%	38.5%	58.7%	-10.1	-30.3	33.0%	37.9%	-5.0

Source: Company, MIDF Research

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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.