

25 August 2017 | 6MFY17 Results Review

WCT Holdings Berhad

Still Below the Mark


INVESTMENT HIGHLIGHTS

- **Inspid 6MFY17 results**
- **Earnings declined**
- **Maintain earnings forecasts**
- **Nonetheless, we reiterate our SELL recommendation with a TP of RM1.61 per share**

6MFY17 results discouraging. WCT's 6MFY17 earnings of RM54.5m (+32% YoY) went below ours and consensus' expectations at 33.3% and 33.6% of full year estimates respectively adding up to a decreasing revenue of RM856.7m (-20%YoY). The reduction in revenue is impacted by lower contribution from property segment, unwavering admin expenses of RM38.7m (-8.0%YoY) or 28.1% of GP* and finance costs of RM25.7m (-2%YoY) or 18.6% of 6MFY17's GP. Its total liabilities amounted to RM4.5bn hence we doubt that finance costs would taper in upcoming quarters

Earnings declined. Decreasing revenue coupled with finance costs means WCT would have to fight two battles in one go in addition with its direction on the strategy to securitize its assets. We reckon that securitizing its assets i.e. Paradigm Mall, Kelana Jaya and Aeon Bukit Tinggi would be a challenging step due to the suppressed property market. We are not convinced on the plan to securitize the assets as we believe the property would not be able to yield above the average M-REITS yield of 5.8%.

Maintain earnings forecasts. Although WCT's orderbook is c.RM4.3b; we maintain our forecast on the assumption that earnings will still be suppressed in upcoming quarters due longer project timeline such as Pan Borneo Highway and clarity of management's direction.

Recommendation. Nonetheless, we maintain our SELL recommendation with SOP-based TP of RM1.61 per share. 

Maintain SELL

Unchanged Target Price (TP): RM1.61

RETURN STATS	
Price (24 August 2017)	RM1.85
Target Price	RM1.61
Expected Share Price Return	-14.9%
Expected Dividend Yield	+1.1%
Expected Total Return	-13.8%*

*GP=Gross Profit, *Price Run-Up

STOCK INFO	
KLCI	1,775.5
Bursa / Bloomberg	9679/ WCTHG MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1404.9
Market cap. (RM'm)	2599.1
Price over NA	0.83
52-wk price Range	RM1.53– RM2.47
Beta (against KLCI)	1.00
3-mth Avg Daily Vol	1.68m
3-mth Avg Daily Value	RM3.43m
Major Shareholders (%)	
Dominion Nexus	17.6
EPF	8.0
LTH	7.2
KWAP	6.2

SOP VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
Engineering & construction	DCF Valuation (6.5%)	1,533.2	0.86
Concessions			
Indian Tollways	DCF valuation (WACC: 8%)	117.5	0.07
KLIA2 Gateway Mall	DCF valuation (WACC: 10%)	328.5	0.18
Property Development			
On-going & undeveloped landbanks	NPV @ 9% of Market Value	1,350.0	0.76
Property Investment			
AEON BT, Paradigm Mall & Premiere Hotel	DCF valuation (WACC: 9.5%)	1,210.0	0.68
Landbank	Market Value	600.0	0.34
Total SOP		4,539.2	2.89
Net debt		-1,756.3	-0.99
Total SOP			1.91
	Discount @ 15%		0.3
			1.61
Enlarged share capital (mil)			1,780.0

Source: MIDFR

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FYE17	FYE18	FYE19
Revenue	1,854.10	1,933.6	1,874.50	1,750.0	1,600.0
PBT	256.2	122.0	226.8	211.7	196.8
PATAMI	216.6	65.1	163.4	162.6	144.0
FD EPS	18.1	5.5	14.8	9.1	8.1
EPS growth (%)	78.9	-100.3	27	-38.5	-11.0
PER (x)	8.8	-0.3	10.7	23.5	26.4
Dividend (sen)	5	0.0	1.8	1.1	1.1
Dividend Yield (%)	3.5	1.1	1.1	1.9	1.9

Source: MIDFR

DAILY PRICE CHART



Fadhli Dzulkifly
 abdul.fadhli@midf.com.my
 03-2772 8462

Source: Bloomberg, MIDFR

6MFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	2Q17	1Q17	2Q16	QoQ	YoY	6M17	6M16	YoY
Revenue	383.3	473.3	581.0	-19%	-34%	856.7	1066.0	-20%
Gross profit	79.5	58.3	58.5	36%	36%	137.8	125.2	10%
Other income	-4.0	12.7	20.1	-131%	-120%	8.6	6.3	37%
Other expenses	-8.5	-3.6	-7.0	136%	21%	-12.3	-12.0	3%
Admin expenses	-20.6	-18.1	-17.8	14%	16%	-38.7	-35.9	8%
Finance costs	-13.5	-12.2	-12.7	11%	6%	-25.7	-26.2	-2%
Associates	0.8	1.6	1.6	-50%	-50%	2.4	4.2	-43%
JVs	4.9	6.1	6.8	-20%	-28%	11.1	13.3	-17%
PBT	38.4	44.8	49.5	-14%	-22%	83.3	74.9	11%
Taxation	-16.9	-14.1	-17.7	20%	-5%	-31.1	-32.8	-5%
PATAMI	21.4	33.0	32.0	-35%	-33%	54.5	40.8	34%
EPS (sen)	1.6	2.6	2.6	-40%	-40%	4.0	3.31	22%
	2Q17	1Q17	2Q16	+/- ppts	+/- ppts	6M17	6M16	+/- ppts
Gross profit	20.7%	12.3%	10.1%	0.084	0.107	16.1%	11.7%	4.3
Pre-tax margin	10.0%	9.5%	8.5%	0.006	0.015	9.7%	7.0%	2.7
Net profit margin	5.6%	7.0%	5.5%	-0.014	0.001	6.4%	3.8%	2.5
Effective tax rate	44.0%	31.5%	35.8%	0.125	0.083	37.3%	43.8%	-6.5

Source: MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.