

## WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

### Crucial Need for New Jobs

#### KEY INVESTMENT HIGHLIGHTS

- Core net profit of RM5m in 1HFY23, below expectations
- Construction operating profit declined -10.5%yoy to RM13.5m in 2QFY23 due to slower progress as projects approach final stages
- Outstanding order book stands at RM3.13bm with earnings visibility up to FY24, with no new jobs since FY22
- Improving construction job flows to aid in order book replenishment
- Downgrade to NEUTRAL with unchanged TP of RM0.52

**Below expectations.** WCT Holdings Bhd (WCT) recorded a revenue of RM424.5m for the 2QFY23, a decline of -24.4%yoy while its core net profit came in at RM12.9m, rebounding from a core net loss of -RM6.8m a year ago. For the cumulative 1HFY23, the group's core net profit declined -79.5%yoy to RM5.0m. This is behind ours and consensus estimates, making up 8.1% and 7.2% of full year expectations respectively.

**Engineering and construction.** Revenue from the segment declined -40.0%yoy to RM274.3m in 2QFY23 while its operating profit declined -10.5%yoy to RM13.5m. Despite that, margins have improved to 4.9% from 3.3% a year ago. The lower revenue and operating profit came on the back of slower pace of construction progress, especially those in the final stages.

**Property development.** Property development revenue grew +76.2%yoy to RM97.5m for the quarter, registering an operating profit of RM9.7m, an improvement over an operating loss of -RM11.8m in the same quarter last year. It has RM322m of total unbilled sales as at Jun-23 and RM305m unsold completed inventories.

**Property investment and management.** Revenue from the segment rose +8.5%yoy during the quarter to RM52.7m, while its operating profit declined -12.7%yoy to RM23.3m. For the cumulative period however, operating profit rose +3.1%yoy to RM50.7m, attributable to higher occupancy and rental rates for WCT's malls and hotels.

**No new jobs in sight.** It has been a dry spell for WCT, which has yet to secure any new jobs this year. It also did not manage to win any new projects in FY22. Its outstanding order book level as at Jun-23 was RM3.13b, broken down into local buildings (65%) and local civil and infrastructure (35%). Earnings visibility from these is up to FY24. There is a crucial need for new jobs as 37.9% of these jobs are expected to be completed by the end of FY23. The group's tender book stands at RM10.6b.

**Earnings estimates.** We are slashing our FY23E core earnings estimates by -20.3% to RM49.3m while we keep our FY24 and FY25 earnings intact.

## Downgrade to NEUTRAL

(Previously BUY)

**Unchanged Target Price: RM0.52**

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> Aug 2023 (RM)	0.515
Expected share price return (%)	+0.97
Expected dividend yield (%)	+0.96
<b>Expected total return (%)</b>	<b>+1.93</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	14.4	14.1
3 months	25.6	22.1
12 months	19.8	24.5

#### INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	1,873.3	1,967.0	2,254.1
Operating Profit	232.3	243.9	279.5
Profit Before Tax	159.2	167.2	191.6
Core PATAMI	49.3	74.8	67.6
Core EPS	3.5	5.3	4.8
DPS (sen)	0.5	0.5	0.5
Dividend Yield	1.0%	1.0%	1.0%

#### KEY STATISTICS


FBM KLCI	1,454.44
Issue shares (m)	1417.24
Estimated free float (%)	57.01
Market Capitalisation (RM'm)	729.88
52-wk price range	RM0.34-RM0.52
3-mth average daily volume (m)	2.55
3-mth average daily value (RM'm)	1.16
Top Shareholders (%)	
Dominion Nexus Sdn Bhd	18.15
Lim Siew Choon	7.42
CIMB Group Holdings Bhd	6.72

#### Analyst

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**Target price.** We maintain our TP of RM0.52, which is based on WCT's FY24F EPS of 5.3 sen pegged to a two-year mean PER of 9.9x.

**Downgrade to NEUTRAL.** We are downgrading our recommendation to **NEUTRAL** from **BUY** due to the recent run up in its share price, which is close to our TP of RM0.52. While the construction sector is expected to pick up pace with the expectations of infrastructure project rollouts by the government, concerns remain as the group has yet to secure any new jobs in 1.5 years. As management shifts its strategy to focus on infrastructure projects, we believe this would be an opportune time for it to replenish its order book. 

### WCT HOLDINGS BERHAD: 2QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	Q223	Q123	Q222	QoQ	YoY	6MFY23	6MFY22	YoY
<b>Income Statement</b>								
Revenue	424.5	404.6	561.2	4.9%	-24.4%	829.1	1,165.9	-28.9%
Cost of sales	(358.6)	(339.9)	(508.1)	-5.5%	29.4%	(698.6)	(995.8)	29.8%
Gross profit	65.8	64.7	53.1	1.7%	24.0%	130.6	170.1	-23.2%
Operating Expenses	(19.4)	(22.0)	(23.1)	12.0%	16.1%	(41.3)	(46.8)	11.6%
Operating Profit	46.5	42.7	30.0	8.8%	54.8%	89.2	123.3	-27.7%
Finance Costs	(31.1)	(29.3)	(26.8)	-6.4%	-16.2%	(60.4)	(54.1)	-11.6%
Shares of JV & Assoc.	7.6	6.2	(0.2)	21.3%	5147.3%	13.8	(5.0)	378.8%
Profit Before Tax	22.9	19.7	3.1	16.3%	645.6%	42.6	64.2	-33.7%
Tax	(10.8)	(4.3)	54.7	-148.3%	-119.6%	(15.1)	46.9	-132.2%
Minority Interest	(0.8)	(0.7)	(0.7)	-15.3%	-22.7%	(1.6)	(1.9)	15.6%
Perps.	0.0	23.8	0.0	-100.0%	0	23.8	24.0	-0.7%
PATAMI	13.0	(7.7)	58.5	269.2%	-77.8%	5.3	89.0	-94.0%
Core Profit	12.9	(8.0)	(6.8)	262.2%	289.4%	5.0	24.2	-79.5%

### FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,699.7	2,102.4	1,873.3	1,967.0	2,254.1
Gross profit	121.5	259.5	281.8	250.2	266.3
Operating profit	431.7	223.3	232.3	243.9	279.5
Finance cost	(118.1)	(110.1)	(112.4)	(118.0)	(135.2)
Profit before tax	277.9	139.7	159.2	167.2	191.6
Tax	(137.9)	31.5	(35.0)	(36.8)	(42.2)
PATAMI	97.2	127.2	49.3	74.8	67.6
Core PATAMI	(49.4)	53.6	49.3	74.8	67.6

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Fixed assets	339.8	364.3	327.9	331.1	337.8
Intangible assets	4,567.8	4,565.7	4,520.0	4,565.2	4,610.8
<b>Non-current assets</b>	<b>4,907.6</b>	<b>4,930.0</b>	<b>4,847.9</b>	<b>4,896.3</b>	<b>4,948.6</b>
Cash	283.7	234.7	305.0	318.7	336.6
Trade debtors	869.3	744.6	752.0	763.3	801.5
<b>Current assets</b>	<b>3,310.4</b>	<b>3,338.8</b>	<b>3,099.1</b>	<b>3,193.3</b>	<b>3,402.5</b>
Trade creditors	703.0	794.8	636.7	686.9	795.4
Short-term debt	1,741.3	1,629.8	1,548.3	1,470.9	1,456.0
<b>Current liabilities</b>	<b>2,864.8</b>	<b>2,670.0</b>	<b>2,185.0</b>	<b>2,157.8</b>	<b>2,251.4</b>
Long-term debt	1,097.1	1,167.8	1,229.7	1,294.9	1,363.5
<b>Non-current liabilities</b>	<b>1,603.0</b>	<b>1,704.8</b>	<b>1,795.2</b>	<b>1,890.3</b>	<b>1,990.5</b>
Share capital	3,212.8	3,212.8	3,212.8	3,212.8	3,212.8
Retained earnings	1,307.3	1,427.4	1,489.2	1,564.0	1,631.6
<b>Equity</b>	<b>3,761.2</b>	<b>3,905.0</b>	<b>3,966.8</b>	<b>4,041.5</b>	<b>4,109.2</b>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PBT	277.9	139.7	159.2	167.2	191.6
<b>Operating cash flow</b>	<b>175.3</b>	<b>227.3</b>	<b>236.4</b>	<b>248.2</b>	<b>273.0</b>
Capital expenditure	-26.8	-46.4	-43.7	-48.0	-52.8
<b>Investing cash flow</b>	<b>-55.9</b>	<b>-48.9</b>	<b>-46.5</b>	<b>-51.1</b>	<b>-56.2</b>
Debt raised/(repaid)	-118.2	-40.8	-56.2	-55.0	-65.0
Dividends paid	-	-7.1	-7.1	-7.1	-7.1
<b>Financing cash flow</b>	<b>-347.0</b>	<b>-254.4</b>	<b>-249.3</b>	<b>-244.3</b>	<b>-239.4</b>
<b>Net cash flow</b>	<b>-227.6</b>	<b>-76.0</b>	<b>-59.4</b>	<b>-47.2</b>	<b>-22.6</b>
<b>Beginning cash flow</b>	<b>469.3</b>	<b>222.1</b>	<b>167.0</b>	<b>107.6</b>	<b>60.4</b>
Forex differences	-19.6	20.9	-	-	-
<b>Ending cash flow</b>	<b>222.1</b>	<b>167.0</b>	<b>107.6</b>	<b>60.4</b>	<b>37.8</b>
<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PBT	277.9	139.7	159.2	167.2	191.6

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Gross profit margin	7.1%	12.3%	15.0%	12.7%	11.8%
Operating profit margin	25.4%	12.0%	12.4%	12.4%	12.4%
PBT margin	16.3%	8.0%	8.5%	8.5%	8.5%
PAT margin	5.7%	4.0%	2.6%	3.8%	3.0%
Core PAT margin	-2.9%	2.5%	2.6%	3.8%	3.0%

Source: Bloomberg, 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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology