

## WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

### Finishing in the Red

#### KEY INVESTMENT HIGHLIGHTS

- Slips deeper into the red in 4QFY23 at -RM245.6m, dragging FY23 core net loss to -RM254.1m
- Bulk of losses due to engineering and construction, suffering from lower margins from, prolongation, higher costs
- Outstanding order book depleted to RM2.72b; almost two years with no job wins
- Maintain NEUTRAL with revised TP of RM0.49

**Below expectations.** WCT Holdings Bhd (WCT) slips deeper into the red in 4QFY23 at -RM245.6m, dragged by losses from its engineering and construction segment. For the cumulative 12-month period of FY23, the group booked a net loss of -RM254.1m as compared to a core net profit of RM53.6m in FY22. This came in below ours and consensus expectations.

**Engineering and construction.** Revenue from the segment declined – 21.8% to RM1.15b in FY23, delivering an operating loss of -RM219.8m as compared to an operating profit of RM47.7m in FY22. The weaker performance was due to slower construction progress and depressed margins due to prolongation and cost escalation for materials and labour. The lower margins resulted in a reversal of profits that would have been accrued on WCT's ongoing projects.

**Property development.** While revenue from property development declined -19.8% to RM362.0m, its operating profit improved +12.5% to RM20.2m as the group actively cleared its unsold completed inventory, which saw a -54.7% reduction from RM380m in 4QFY22 to RM172m in 4QFY23. The group has a total unbilled sale of RM640m.

**Property investment and management.** This segment was earnings anchor for FY23, generating an operating profit of RM121.4m though it came in lower by -22.9% despite a higher revenue of +17.7% to RM217.1m. The higher revenue is attributable to higher occupancy and rental rates in its malls while the lower operating profit was due to a higher fair value gain on investment properties in FY22.

**In need of replenishment.** It has been at least two years that WCT has not secured any new jobs and its order book is depleting every quarter. The outstanding order book is now at RM2.72b and RM355m (13.0%) of these projects are expected to be completed in FY24. Most of the projects are expected to be completed in FY25. The group has been actively bidding for jobs, with a tender book of more than RM12.0b. Management has allocated more resources to secure new jobs, both in Malaysia and overseas.

**Earnings estimates.** We are slashing our FY24E core earnings estimates by -8.0% to RM68.8m due to the lower-than-expected margins from engineering and construction.

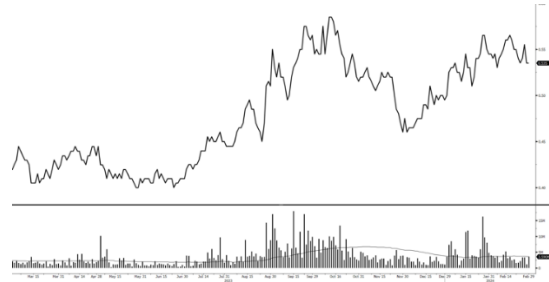
### Maintain NEUTRAL

**Revised Target Price: RM0.49**  
(Previously RM0.52)

#### RETURN STATISTICS

Price @ 29 <sup>th</sup> Feb 2024 (RM)	0.535
Expected share price return (%)	-8.41
Expected dividend yield (%)	+0.00
<b>Expected total return (%)</b>	<b>-8.41</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.8	-4.3
3 months	8.1	8.9
12 months	25.9	18.0

#### INVESTMENT STATISTICS

FYE Dec	2023A	2024E	2025F
Revenue	1,727.3	1,967.0	2,254.1
Operating Profit	(14.7)	243.9	279.5
Profit Before Tax	(177.8)	167.2	191.6
Core PATAMI	(254.1)	68.8	67.6
Core EPS	-17.9	4.9	4.8
DPS (sen)	0	0	0.5
Dividend Yield	-	-	1.0%

#### KEY STATISTICS

FBM KLCI	1,551.44
Issue shares (m)	1417.24
Estimated free float (%)	57.01
Market Capitalisation (RM'm)	758.22
52-wk price range	RM0.4 - RM0.59
3-mth average daily volume (m)	3.66
3-mth average daily value (RM'm)	1.93
Top Shareholders (%)	
Dominion Nexus Sdn Bhd	18.15
Lim Siew Choon	7.42
Amanah Saham Nasional Bhd	5.82

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**Target price.** We revise our **TP** to **RM0.49** from RM0.52, which is based on WCT's FY24F EPS of 4.9 sen pegged to a two-year mean PER of 10x.

**Maintain NEUTRAL.** We are maintaining our **NEUTRAL** recommendation on WCT. Its depleting order book calls for a crucial need for job replenishments. The group's focus on infrastructure projects is in line with the expected civil job rollouts as per Budget 2024 and the Mid-Term Review of the 12<sup>th</sup> Malaysia Plan. We believe that the RM1.3b Subang Airport Regeneration Plan would provide WCT with an immediate boost to its order book, though more clarity is needed on the implementation of the project. In any case where the performance of the construction business becomes weaker, the property development and the group's malls business can be expected to cushion the shortfall.

### WCT HOLDINGS BERHAD: 4QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	Q423	Q323	Q422	QoQ	YoY	12MFY23	12MFY22	YoY
<b>Income Statement</b>								
Revenue	401.7	496.6	466.5	-19.1%	-13.9%	1,727.3	2,102.4	-17.8%
Cost of sales	(544.7)	(438.4)	(459.1)	-24.2%	-18.6%	(1,681.7)	(1,842.9)	8.7%
Gross profit	(143.0)	58.1	7.3	-346.1%	-2049.1%	45.7	259.5	-82.4%
Operating Expenses	(53.2)	(29.3)	25.6	-81.7%	-308.1%	(123.9)	(36.2)	-242.2%
Operating Profit	(196.3)	28.8	32.9	-781.2%	-696.1%	(78.2)	223.3	-135.0%
Finance Costs	(34.4)	(34.6)	(29.1)	0.6%	-18.1%	(129.4)	(110.1)	-17.5%
Shares of JV & Assoc.	4.3	11.8	28.0	-63.9%	-84.7%	29.9	26.6	12.5%
Profit Before Tax	(226.4)	6.0	31.7	-3862.6%	-813.2%	(177.8)	139.7	-227.2%
Tax	(20.6)	4.0	(7.3)	-614.2%	-182.2%	(31.6)	31.5	-200.3%
Minority Interest	(1.0)	(0.7)	(1.2)	-41.1%	11.7%	(3.3)	(4.1)	18.0%
Perps.	0.0	24.3	-	-100.0%	0	48.1	48.2	-0.2%
PATAMI	(245.9)	(13.5)	25.6	-1715.7%	-1059.8%	(254.1)	127.2	-299.9%
Core Profit	(245.6)	(13.5)	21.9	-1718.0%	-1220.6%	(254.1)	53.6	-574.1%

### FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024E	2025F
Revenue	1,699.7	2,102.4	1,727.3	1,967.0	2,254.1
Gross profit	121.5	259.5	45.7	189.2	178.9
Operating profit	431.7	223.3	(14.7)	243.9	279.5
Finance cost	(118.1)	(110.1)	(129.4)	(118.0)	(135.2)
Profit before tax	277.9	139.7	(177.8)	167.2	191.6
Tax	(137.9)	31.5	(31.6)	(36.8)	(42.2)
PATAMI	97.2	127.2	(254.1)	66.9	67.6
Core PATAMI	(49.4)	53.6	(254.1)	66.9	67.6

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>
Fixed assets	339.8	364.3	396.2	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>4,871.9</b>	<b>4,896.3</b>	<b>4,948.6</b>
Cash	283.7	234.7	414.7	318.7	336.6
Trade debtors	869.3	744.6	788.5	763.3	801.5
<b>Current assets</b>	<b>3,310.4</b>	<b>3,338.8</b>	<b>3,775.8</b>	<b>3,231.2</b>	<b>3,440.3</b>
Trade creditors	703.0	794.8	111.9	686.9	795.4
Short-term debt	1,741.3	1,629.8	1,885.5	1,470.9	1,456.0
<b>Current liabilities</b>	<b>2,864.8</b>	<b>2,670.0</b>	<b>3,246.1</b>	<b>2,157.8</b>	<b>2,251.4</b>
Long-term debt	1,097.1	1,167.8	1,207.8	1,294.9	1,363.5
<b>Non-current liabilities</b>	<b>1,603.0</b>	<b>1,704.8</b>	<b>1,714.7</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	1,171.5	1,564.0	1,631.6
<b>Equity</b>	<b>3,761.2</b>	<b>3,905.0</b>	<b>3,686.9</b>	<b>4,079.4</b>	<b>4,147.0</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	139.3	-177.8	167.2	191.6
<b>Operating cash flow</b>	<b>175.3</b>	<b>213.0</b>	<b>134.5</b>	<b>248.2</b>	<b>273.0</b>
Capital expenditure	-26.8	-44.0	-44.9	-48.0	-52.8
<b>Investing cash flow</b>	<b>-55.9</b>	<b>-18.2</b>	<b>-15.1</b>	<b>-51.1</b>	<b>-56.2</b>
Debt raised/(repaid)	-118.2	-40.8	248.1	-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>11.9</b>	<b>-244.3</b>	<b>-239.4</b>
<b>Net cash flow</b>	<b>-227.6</b>	<b>-59.6</b>	<b>131.3</b>	<b>-47.2</b>	<b>-22.6</b>
<b>Beginning cash flow</b>	<b>469.3</b>	<b>222.1</b>	<b>183.4</b>	<b>324.5</b>	<b>277.3</b>
Forex differences	-19.6	20.9	9.8	-	-
<b>Ending cash flow</b>	<b>222.1</b>	<b>183.4</b>	<b>324.5</b>	<b>277.3</b>	<b>254.7</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	139.3	-177.8	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%	2.6%	9.6%	7.9%
Operating profit margin	25.4%	12.0%	-0.9%	12.4%	12.4%
PBT margin	16.3%	8.0%	-10.3%	8.5%	8.5%
PAT margin	5.7%	4.0%	-14.7%	3.4%	3.0%
Core PAT margin	-2.9%	2.5%	-14.7%	3.4%	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