

WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

Anticipating Stronger Progress Billings

KEY INVESTMENT HIGHLIGHTS

- **Core earnings grew 2.4x in 2QFY24 to RM31.0m; within expectations**
- **Slower construction progress led to -17.0%yoy lower segment PBT of RM11.2m but margins improved from 4.9% to 6.0%**
- **Outstanding order book at RM3.15b; achieved 23.2% of FY24 replenishment target (RM2.0b)**
- **Maintain NEUTRAL with an unchanged TP of RM0.97**

Within expectations. WCT Holdings Bhd (WCT) recorded a core net profit of RM31.0m in 2QFY24, which grew 2.4x stronger year-on-year, on the back of stronger performances across all business segments. After removing c.RM19.0m of accrued cost that was reversed in 1QFY24, 1HFY24 core net profit came in at RM31.4m, which is within our expectations but ahead of consensus at 46.9% and 66.3% respectively of full-year estimates.

Engineering and construction. Revenue for the segment declined -32.0%yoy to RM186.5m during the quarter due to slower construction progress, while pre-tax profit came in -17.0%yoy lower at RM11.2m. There was a notable improvement in margins from 4.9% in 2QFY23 to 6.0% in 2QFY24. We expect stronger progress billings in the coming quarters as the newer projects accelerate.

Property development. Revenue rose +29.9%yoy to RM126.7m, delivering a PBT of RM16.2m, an increase of +67.0%yoy. This was attributable to the higher sales and billing of properties. WCT recorded RM314m of property sales during the quarter, as compared to RM108m in the same quarter last year. Total unbilled sales as at Jun-24 was RM749m while unsold completed inventories remained unchanged from 1QFY24 at RM118m.

Property investment and management. This segment continued to be the group's main bottom line contributor with a quarterly PBT of RM32.2m (+38.2%yoy) on the back of a stronger revenue of RM63.1m (+19.7%yoy). The stronger performance was due to higher occupancy and rental rates for its malls and higher contribution from hotels.

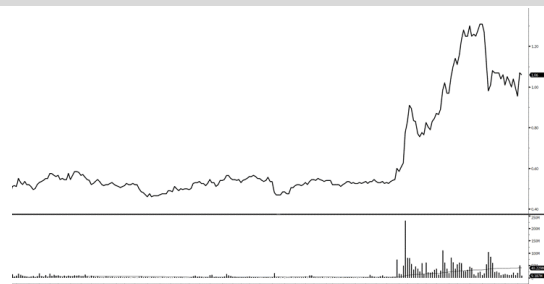
In need of replenishment. The group's outstanding order book stands at RM3.15b, with strong earnings visibility up to FY26. WCT has made some progress this year in terms of jobs replenishment after a two-year hiatus. It secured a RM249.7m contract to construct additional lanes for the North-South Expressway on the stretch from Yong Peng to Senai in Jun-24 and following that in Jul-24, a RM214m project for common infrastructure works and a new vehicular underpass at the Kwasa Damansara Township Development. The group is actively bidding for jobs, with a tender book of more than RM13.0b. Management has allocated more resources in order to secure new jobs, both in Malaysia and overseas. Year-to-date, it has secured RM463.7m of new jobs or

Maintain NEUTRAL
Unchanged Target Price: RM0.97

RETURN STATISTICS

Price @ 27 th Aug 2024 (RM)	1.06
Expected share price return (%)	-8.5
Expected dividend yield (%)	+0.0
Expected total return (%)	-8.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-15.2	-17.2
3 months	21.8	94.1
12 months	125.5	97.2

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	1,967.0	2,254.1	2276.7
Operating Profit	188.8	178.1	182.1
Profit Before Tax	167.2	191.6	195.8
Core PATAMI	66.9	76.6	79.7
Core EPS	4.7	5.4	5.6
DPS (sen)	0	0	0
Dividend Yield	-	-	-

KEY STATISTICS

FBM KLCI	1,652.29
Issue shares (m)	1417.24
Estimated free float (%)	58.73
Market Capitalisation (RM'm)	1,502.27
52-wk price range	RM0.45-RM1.35
3-mth average daily volume (m)	39.56
3-mth average daily value (RM'm)	38.01
Top Shareholders (%)	
Dominion Nexus Sdn Bhd	18.15
Lim Siew Choon	7.42
Amanah Saham Nasional Bhd	5.82


Analyst
Royce Tan Seng Hooi
royce.tan@midf.com.my

03-2173 8461s

23.2% of the RM2.0b replenishment target. We believe future job wins may come from the Penang International Airport (PIA) expansion, Pan Borneo Sabah, other packages for the North-South Expressway expansion and potentially its first data centre project.

Earnings estimates. We maintain our estimates as the results were within expectations.

Target price. We maintain our **TP** at **RM0.97**, derived by pegging its FY25F EPS of 5.4 sen to a PER of 18x, which is +1SD above its 10-year mean.

Maintain NEUTRAL. We are maintaining our **NEUTRAL** recommendation on WCT. While prospects remain bright for the construction sector for WCT to replenish more jobs, the recent rise in its share price by close to +80% since Jun-24, has stretched its valuations for a fair bit. The group had also recently announced its proposal to set up and list a REIT on the Main Market of Bursa Malaysia, which we believe will include its five retail malls. Apart from allowing WCT to unlock the value of its malls, the group will also be able to raise funds to pare down its borrowings. With total borrowings of RM3.10b as at 30th June, the group has a high net gearing of 75.6%. 

WCT HOLDINGS BERHAD: 2QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	2QFY24	1QFY24	2QFY23	QoQ	YoY	1HFY24	1HFY23	YoY
Revenue	376.3	467.4	424.5	-19.5%	-11.3%	843.7	829.1	1.8%
Cost of sales	(299.4)	(378.6)	(358.6)	20.9%	16.5%	(678.1)	(698.6)	2.9%
Gross profit	76.9	88.8	65.8	-13.4%	16.8%	165.7	130.6	26.9%
Operating Expenses	(17.4)	(17.5)	(19.4)	0.9%	10.3%	(34.9)	(41.3)	15.6%
Operating Profit	59.5	71.2	46.5	-16.4%	28.1%	130.8	89.2	46.6%
Finance Costs	(35.9)	(38.3)	(31.1)	6.4%	-15.2%	(74.2)	(60.4)	-22.8%
Shares of JV & Assoc.	14.6	14.1	7.6	3.3%	92.8%	28.7	13.8	>+100%
Profit Before Tax	38.3	28.1	22.9	36.4%	67.0%	66.3	42.6	55.7%
Tax	(8.1)	(4.7)	(10.8)	-75.0%	24.2%	(12.8)	(15.1)	15.1%
Minority Interest	(1.1)	(0.9)	(0.8)	-27.7%	-36.0%	(2.0)	(1.6)	-29.9%
Perps.	0.0	24.0	0.0	-100.0%	0	24.0	23.8	0.9%
PATAMI	31.3	0.3	13.0	>+100%	>+100%	31.6	5.3	>+100%
Core Profit	31.0	0.4	12.9	>+100%	>+100%	31.4	5.0	>+100%

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	2,102.4	1,727.3	1,967.0	2,254.1	2,276.7
Gross profit	259.5	45.7	243.9	279.5	284.6
Operating profit	223.3	(14.7)	188.8	214.1	216.3
Finance cost	(110.1)	(129.4)	(118.0)	(135.2)	(136.6)
Profit before tax	139.7	(177.8)	167.2	191.6	195.8
Tax	31.5	(31.6)	(36.8)	(42.2)	(43.1)
PATAMI	127.2	(254.1)	66.9	76.6	79.7
Core PATAMI	53.6	(254.1)	66.9	76.6	79.7

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	364.3	396.2	331.1	337.8	346.2
Intangible assets	4,565.7	4,520.0	4,565.2	4,610.8	4,726.1
Non-current assets	4,930.0	4,871.9	4,896.3	4,948.6	5,072.3
Cash	234.7	414.7	318.7	336.6	345.0
Trade debtors	744.6	788.5	763.3	801.5	821.5
Current assets	3,338.8	3,775.8	3,231.2	3,440.3	3,618.5
Trade creditors	794.8	111.9	686.9	795.4	815.3
Short-term debt	1,629.8	1,885.5	1,470.9	1,456.0	1,601.6
Current liabilities	2,670.0	3,246.1	2,157.8	2,251.4	2,416.9
Long-term debt	1,167.8	1,207.8	1,294.9	1,363.5	1,431.7
Non-current liabilities	1,704.8	1,714.7	1,890.3	1,990.5	2,058.7
Share capital	3,212.8	3,212.8	3,212.8	3,212.8	3,212.8
Retained earnings	1,427.4	1,171.5	1,564.0	1,631.6	1,699.9
Equity	3,905.0	3,686.9	4,079.4	4,147.0	4,215.3

Cash Flow (RM'm)	2022A	2023E	2024E	2025F	2026F
PBT	139.3	-177.8	-177.8	167.2	195.8
Operating cash flow	213.0	134.5	134.5	248.2	279.8
Capital expenditure	-44.0	-44.9	-44.9	-48.0	-54.1
Investing cash flow	-18.2	-15.1	-15.1	-51.1	-57.5
Debt raised/(repaid)	-40.8	248.1	248.1	-55.0	-65.0
Dividends paid	-7.1	-7.1	-7.1	-7.1	-
Financing cash flow	-254.4	11.9	11.9	-244.3	-246.6
Net cash flow	-59.6	131.3	131.3	-47.2	171.5
Beginning cash flow	222.1	183.4	183.4	324.5	254.7
Forex differences	20.9	9.8	9.8	-	-
Ending cash flow	183.4	324.5	324.5	277.3	426.2

Profitability Margins	2022A	2023E	2024E	2025F	2026F
Gross profit margin	12.3%	2.6%	12.4%	12.4%	12.5%
Operating profit margin	12.0%	-0.9%	9.6%	9.5%	9.5%
PBT margin	8.0%	-10.3%	8.5%	8.5%	8.6%
PAT margin	4.0%	-14.7%	3.4%	3.4%	3.5%
Core PAT margin	2.5%	-14.7%	3.4%	3.4%	3.5%

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