WCT Holdings Bhd

Replenishment Exceeds Expectation

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OUTPERFORM ↔

Price : **RM0.510**

Target Price : **RM0.640** ↔

WCT and China Communications Construction Company (CCCC) in a 60:40 JV has secured a RM899.8m contract from the Malaysian government to undertake the expansion of Sapangar Bay Container Port in Sabah. We were positively surprised as we did not expect any public project roll-outs amidst the pandemic. Also, WCT's YTD wins of RM1.12b have surpassed our RM1b target. Post win, we increase our FY21 order-book replenishment to RM1.2b and consequently increase FY22E earnings by 3% to RM84m. Keep OP with unchanged TP of RM0.64 pegged to 0.3x PBV.

Won RM900m contract to expand Sapangar Bay Container Port. WCT and CCCC in a 60:40 JV has secured a RM899.8m contract from Sabah Economic Development and Investment Authority (on behalf of the Government of Malaysia) to undertake the expansion of Sapangar Bay Container Port. The contract will span 42 months from Sept 2021 to Feb 2025.

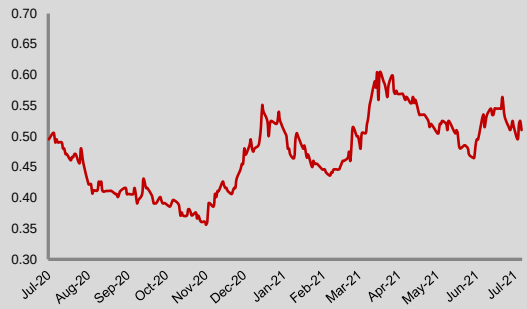
Contract came as a positive surprise for two reasons. First, we had expected public project roll-outs to be held back amidst the height of this pandemic and secondly, WCT's effective win of RM540m (60% stake) brings cumulative YTD replenishment to RM1.12b; surpassing our RM1.0b target (but still within management's RM2b guidance).

Consequent to this contract, we increase our order-book replenishment target by 20% to RM1.2b. We still keep our replenishment below management's RM2.0b guidance because we think the other sizeable tenders targeted by WCT such as the Pan Borneo Sabah and Sabah Sarawak Link Road are unlikely to be awarded this year as the government would likely conserve funds to prioritise pandemic assistance packages. Note that the funds for the Sapangar Bay Port expansion project had been allocated by the federal government since 2016 under the 11th Malaysian Plan.

Earnings outlook. In tandem with the higher FY21E replenishment target of RM1.2b, we increase FY22E earnings by 3% to RM84m. We had assumed an 8% EBIT margin for this newly won contract. Post win, outstanding order-book stood at RM5.7b (3.5x cover).

Maintain OP and TP of RM0.64 based on unchanged FY22E PBV of 0.3x (-1.5SD). At current PBV valuation of 0.23x, we find WCT's valuations appealing in view of an earnings rebound post pandemic.

Share Price Performance



KLCI	1,508.71
YTD KLCI chg	-7.3%
YTD stock price chg	-2.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	722.8
Shares Outstanding	1,417.2
52-week range (H)	0.63
52-week range (L)	0.35
3-mth avg daily vol:	3,831,248
Free Float	50%
Beta	1.6

Major Shareholders

Dominion Nexus Sdn Bhd	18.2%
Amanah Saham National	10.8%
Lim Siew Choon	7.4%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1709	1984	2585
EBIT	217	270	301
PBT	50	155	185
Net Profit	**16**	**112**	**132**
Core PATAMI	**-18**	**65**	**84**
Consensus (NP)	n.a.	61	73
Earnings Revision	n.a.	0%	3%
Core EPS (sen)	-1.30	4.61	5.99
Core EPS growth (%)	-112	-456	30
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	2.08	2.13	2.19
PER (x)	-39.3	11.1	8.5
Price to NTA (x)	0.2	0.2	0.23
Net Gearing (x)	1.10	1.00	0.97
Return on Asset (%)	-0.2	0.7	0.9
Return on Equity (%)	-0.6	2.2	2.7
Net Div. Yield (%)	0.0	0.0	0.0

Income Statement

FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E
Revenue	2333	1794	1709	1984	2585
EBITDA	259	353	240	294	325
Depreciation	-23	-24	-24	-24	-24
EBIT	236	330	217	270	301
Interest Expense	-136	-145	-120	-124	-125
Associates/JV	12	7	-47	9	9
Exceptional Items	0	0	0	0	0
PBT	112	192	50	155	185
Taxation	-71	-45	-34	-42	-53
Net Profit	41	147	16	112	132
MI/Perps	-2	-7	34	48	48
Core PATAMI	44	154	-18	65	84

Balance Sheet

FY Dec (RM'm)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	341	395	379	379	379
Intangibles	0	0	0	0	0
Other FA	4758	5204	5158	5319	5672
Inventories	565	469	466	541	706
Receivables	1870	910	878	720	638
Other CA	793	1278	1212	1269	1580
Cash	578	567	527	755	441
Total Assets	8906	8825	8620	8982	9416
Payables	1490	1049	1070	1243	1620
ST Borrowings	926	1205	1210	1210	1210
Other ST Liabilities	15	165	107	124	160
LT Borrowings	2733	1925	1747	1747	1447
Other LT Liabilities	578	754	782	890	1127
MI/Perps	6	583	776	776	776
Net Assets	3158	3142	2928	2992	3077
Share Capital	3210	3213	3213	3213	3213
Reserves	-52	-70	-285	-220	-136
Shareh. Equity	3158	3142	2928	2992	3077

Cashflow Statement

FY Dec (RM'm)	2018A	2019A	2020A	2021E	2022E
Operating CF	-160	797	85	406	166
Investing CF	-3	-625	137	-6	-6
Financing CF	214	-78	-141	-171	-473
Change in Cash	51	94	81	228	-313
Free Cash Flow	-175	728	87	391	151

Financial Data & Ratios

FY Dec	2018A	2019A	2020A	2021E	2022E
Growth					
Revenue	22%	-23%	-5%	16%	30%
EBITDA	-21%	37%	-32%	22%	11%
EBIT	-25%	40%	-34%	25%	12%
Pre-tax Income	-51%	71%	-74%	212%	19%
Net Income	-73%	255%	-89%	615%	17%
Core Net Income	-72%	254%	-112%	-456%	30%
Profitability					
EBITDA Margin	11%	20%	14%	15%	13%
EBIT Margin	10%	18%	13%	14%	12%
PBT Margin	5%	11%	3%	8%	7%
Net Margin	2%	8%	1%	6%	5%
Core Net Margin	2%	9%	-1%	3%	3%
Effective Tax Rate	-63%	-23%	-68%	-27%	-29%
ROE	1%	5%	-1%	2%	3%
ROA	0%	2%	0%	1%	1%
DuPont Analysis					
Net margin (%)	2%	9%	-1%	3%	3%
Assets Turnover (x)	0.3	0.2	0.2	0.2	0.3
Leverage Factor (x)	2.8	2.8	2.9	3.0	3.1
ROE (%)	1%	5%	-1%	2%	3%
Leverage					
Debt/Asset (x)	0.4	0.4	0.3	0.3	0.3
Debt/Equity (x)	1.2	1.0	1.0	1.0	0.9
Net Debt/(Cash)	3081	2563	2430	2203	2216
Net Debt/Equity (x)	1.0	0.8	1.1	1.0	1.0
Valuations					
Core EPS (sen)	3.1	11.0	-1.3	4.6	6.0
FD Core EPS (sen)	3.1	11.0	-1.3	4.6	6.0
NDPS (sen)	1.7	0.7	0.0	0.0	0.0
BV/share (RM)	2.2	2.2	2.1	2.1	2.2
Core PER (x)	16.5	4.7	-39.3	11.1	8.5
FD Core PER (x)	16.5	4.7	-39.3	11.1	8.5
Net Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
PBV (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	14.3	10.5	15.4	12.6	11.4

Source: Kenanga Research

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE													
GAMUDA BHD	2.88	7,239.0	Y	07/2021	13.6	15.3	12.0	0.8	0.8	5.4%	0.0%	3.75	OP
HOCK SENG LEE BERHAD	0.975	535.8	Y	12/2021	16.8	16.0	10.2	0.7	0.6	4.0%	1.5%	0.950	MP
IJM CORP BHD	1.75	6,312.0	Y	03/2022	17.3	18.8	21.6	0.6	0.6	4.4%	14.9%	2.30	OP
KERJAYA PROSPEK GROUP BHD	1.20	1,484.8	Y	12/2021	16.4	15.8	9.4	1.5	1.4	9.1%	2.3%	1.50	OP
KIMLUN CORP BHD	0.810	286.2	Y	12/2021	18.1	10.0	6.3	0.4	0.4	4.1%	2.1%	1.15	OP
MITRAJAYA HOLDINGS BHD	0.245	201.6	Y	12/2021	20.9	N.A.	N.A.	0.3	0.3	-1.8%	0.0%	0.205	UP
MUHIBBAH ENGINEERING (M) BHD	0.940	454.4	Y	12/2021	N.A.	N.A.	18.8	0.4	0.4	-1.7%	1.1%	1.25	OP
SUNWAY CONSTRUCTION GROUP BHD	1.61	2,075.9	Y	12/2021	25.2	24.0	15.3	3.3	3.1	13.2%	2.5%	1.60	MP
WCT HOLDINGS BHD	0.510	722.8	Y	12/2021	N.A.	11.1	8.5	0.2	0.2	3.6%	0.0%	0.640	OP
Simple Average					**18.3**	**15.9**	**12.8**	**0.9**	**0.9**	**4.5%**	**2.7%**		

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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Published and printed by:

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