

26 November 2021

WCT Holdings Bhd

9MFY21 Below Expectations

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9MFY21 CNL of RM4.1m came below our/consensus expectations due to weaker-than-expected property division which saw a pre-tax loss this quarter due to conversion levies incurred on its inventories. No dividends as expected. YTD replenishment of RM1.12b is deemed in line with our RM1.2b target. Post results, we reduce FY21E/FY22E earnings by 48%/16%. Maintain MP call on slightly lowered TP of RM0.63 (from RM0.64).

Below expectations. 3QFY21 core net loss (CNL) of RM35.2m dragged 9MFY21 into a CNL of RM4.1m – below our/consensus full-year profit expectation of RM65m/RM49m, respectively. The underperformance this quarter stemmed from the weaker-than-expected property division which saw a pre-tax loss this quarter due to conversion levies incurred on its inventory properties. No dividends as expected.

Key details on property sales will only be revealed in a briefing today (26 Nov). For now, we maintain our FY21E sales target of RM550m (recap that it has achieved RM362m sales in 1HFY21).

Highlights. QoQ, 3QFY21 reversed into losses with CNL of RM35.2m mainly due to: (i) weaker property segment from conversion levies, (ii) higher loss at JV, and (iii) RM24m bi-annual perpetual sukuk payment made every 1Q and 3Q.

YoY, despite higher revenue (+15%), 9MFY21 plunged into the red with CNL of RM4.1m against 9MFY20 CNP of RM9.2m due to: (i) higher losses at JV, (ii) higher effective tax rate (+15ppt), and (iii) higher perpetual sukuk payment (+13%).

YTD, WCT has achieved contract replenishments worth RM1.12b – tracking our full-year replenishment of RM1.2b (management's target: RM2b). Despite management's optimistic guidance, we keep our replenishment target unchanged as most sizeable tenders targeted by WCT are government-related jobs which we believe would be deferred to next year. Outstanding order-book stood at c.RM5.0b.

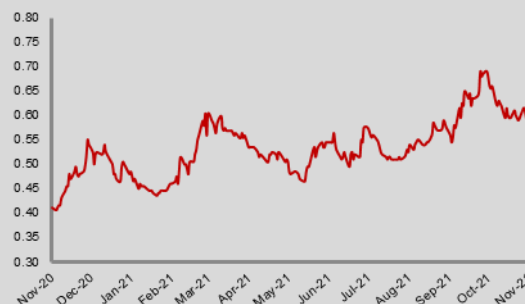
Reduce FY21E/FY22E earnings by 48%/16% to factor in the weaker property contributions post results.

Maintain MP and lower TP to RM0.63 (from RM0.64) based on unchanged FY22E PBV of 0.3x (-1.5SD).

MARKET PERFORM ↔

Price : **RM0.565**
Target Price : **RM0.630** ↓

Share Price Performance



KLCI	1,517.60
YTD KLCI chg	-6.7%
YTD stock price chg	7.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	800.7
Shares Outstanding	1,417.2
52-week range (H)	0.71
52-week range (L)	0.41
3-mth avg daily vol:	5,316,865
Free Float	62%
Beta	1.6

Major Shareholders

Dominion Nexus Sdn Bhd	18.2%
Lim Siew Choon	7.5%
Amanah Saham National	5.8%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1709	1984	2799
EBIT	217	270	386
PBT	50	124	248
Net Profit	16	81	156
Core PATAMI	-18	34	108
Consensus (NP)	n.a.	49	78
Earnings Revision	n.a.	-48%	-16%
Core EPS (sen)	-1.30	2.39	7.69
Core EPS growth (%)	-112	-284	222
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	2.08	2.11	2.18
PER (x)	-43.6	23.6	7.3
Price to NTA (x)	0.3	0.3	0.26
Net Gearing (x)	1.10	1.02	0.90
Return on Asset (%)	-0.2	0.4	1.1
Return on Equity (%)	-0.6	1.1	3.5
Net Div. Yield (%)	0.0	0.0	0.0



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Result Highlight								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenues	451.7	435.6	4%	423.4	7%	1,331.6	1,161.5	15%
Operating profit	29.8	59.2	-50%	71.6	-58%	193.1	166.3	16%
Finance cost	-31.1	-29.0	7%	-29.1	7%	-88.8	-92.7	-4%
Associates	1.3	1.3	5%	3.0	-56%	2.7	9.0	-70%
JV	-8.4	-4.8	77%	-9.2	-8%	-25.5	-12.9	98%
PBT	-8.4	26.7	-132%	36.4	-123%	81.5	69.7	17%
Tax	-4.2	-11.7	-65%	-11.8	-65%	-39.5	-22.7	74%
PAT	-12.6	14.9	-184%	24.6	-151%	42.0	47.0	-11%
Minority interests	-1.4	1.2	-217%	-1.6	-14%	-1.9	-4.8	-61%
Perpetual sukuk	24.1	0.0	n.a.	24.4	-1%	48.0	42.5	13%
Core PATAMI	-35.2	13.7	-357%	1.8	-2017%	-4.1	9.2	-144%
DPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
EPS (sen)	-2.5	1.0	-357%	0.1	-2017%	-0.3	0.7	-144%
EBIT margin	7%	14%		17%		15%	14%	
Pretax margin	-3%	3%		6%		3%	4%	
NP margin	-3%	3%		6%		3%	4%	
CNP margin	-8%	3%		0%		0%	1%	
Effective tax	49%	-44%		-32%		-48%	-33%	

Source: Company, Kenanga Research

Segmental Breakdown								
Revenue	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Engineering and Construction	375.0	339.2	11%	296.6	26%	945.1	803.8	18%
Property Development	36.8	56.1	-34%	86.1	-57%	269.5	229.6	17%
Property Investment	39.9	40.3	-1%	40.7	-2%	117.0	128.1	-9%
Total	451.7	435.6	4%	423.4	7%	1,331.6	1,161.5	15%
Operating Profit								
Engineering and Construction	17.4	25.0	-30%	36.9	-53%	51.0	40.8	25%
Property Development	-6.6	14.7	-145%	14.7	-145%	85.3	64.1	33%
Property Investment	19.0	19.5	-3%	19.9	-5%	56.8	61.4	-8%
Total	29.8	59.2	-50%	71.5	-58%	193.1	166.3	16%
OP margins								
Engineering and Construction	5%	7%		12%		5%	5%	
Property Development	-18%	26%		17%		32%	28%	
Property Investment	47%	48%		49%		49%	48%	
Total	7%	14%		17%		15%	14%	

Source: Company, Kenanga Research

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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	07/2022	12.1	12.0	13.0	0.8	0.8	6.8%	2.1%	2.80	MP	
HOCK SENG LEE BERHAD	0.990	544.0	Y	12/2021	17.1	16.2	10.3	0.7	0.6	4.0%	1.5%	0.950	MP	
IJM CORP BHD	1.79	6,389.3	Y	03/2022	17.7	28.4	22.1	0.7	0.7	10.5%	11.7%	2.00	OP	
KERJAYA PROSPEK GROUP BHD	1.21	1,497.2	Y	12/2021	16.5	15.9	9.5	1.5	1.4	9.1%	2.2%	1.50	OP	
KIMLUN CORP BHD	0.810	286.2	Y	12/2021	18.1	10.0	5.8	0.4	0.4	4.1%	2.1%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.880	425.4	Y	12/2021	N.A.	N.A.	17.6	0.4	0.4	-1.7%	1.1%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.56	2,011.4	Y	12/2021	24.4	22.9	15.8	3.2	3.0	13.3%	2.6%	1.52	MP	
WCT HOLDINGS BHD	0.565	800.7	Y	12/2021	N.A.	23.6	7.3	0.3	0.2	2.6%	0.0%	0.630	MP	
Simple Average					17.6	18.4	12.7	1.0	0.9	6.1%	2.9%			

Source: Bloomberg, Kenanga Research

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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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