

29 November 2021

# WCT Holdings Bhd

## Overly Optimistic Guidance

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We came away WCT's 3QFY21 post results briefing mildly negative as it was revealed that construction margins for two of its projects have been revised down. To recap, WCT had just revised down margins for all their contracts three quarters ago in 4QFY20. With such high frequency of downward revision in margins, we deduce that management's broad guidance of 6-9% EBIT margins for construction could be overly bullish and we do not discount further downward revision in margins in the future. Case in point, management had been overly optimistic on their construction replenishment and property sales target set out this year – which they missed by a mile. Maintain MP on lowered TP of RM0.62 after downgrading FY21-22E earnings on reduced construction margins.

**A quarter filled with one-offs.** During its quarterly briefing, WCT revealed three items worth RM53m they deemed as one-off items which impacted 3QFY21 earnings such as: (i) downward revision in construction margins for two projects reaching completion leading to an impact of RM21m, (ii) legal and consultant fees of RM21m paid for Meydan's settlement, and (iii) RM11m paid for the conversion of Bumiputera units at a commercial development in Johor. However, there was also RM38m forex gain arising from the Meydan settlement.

**Our new assessment for 3QFY21 core earnings.** Given the high frequency WCT tends to revise its construction margins downwards (last downward revision was in 4QFY20), we choose not to reverse out the RM21m impact from the margins revision to derive our core net profit. After assessing these new figures, **3QFY21 core net loss was actually worse off at RM41m against our CNL of RM35m tabulated last Friday upon results announcement.**

**4Q one-offs.** For the upcoming fourth quarter, management guided that there would be a c.RM152m one-off gain arising from the settlement on Meydan. To recap, Meydan finally agreed to pay WCT AED726.6m (c.RM828m) for the wrongful termination of Nad Al Sheba Dubai Racecourse contract back in 2009. While these gains could be attributed to bumper headline profits, we note that for every 4Q there will also be impairments and write-downs of assets given the low occupancy at WCT's malls and hotels. To recap, in 4QFY20 last year, there was c.RM194m worth of impairments at their subsidiaries and JVs.

**YTD, WCT has achieved contract replenishments worth RM1.12b** –within our full-year replenishment of RM1.2b but below management's RM2b target. Management has guided that more new contracts for the year are unlikely and therefore would miss out on their RM2b target set out in the beginning of the year. As of 3QFY21, outstanding order-book stood at c.RM5.2b.

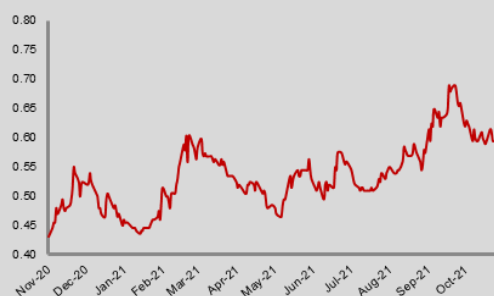
**3QFY21 property sales of RM24m led 9MFY21 sales to RM386m** – within our RM550m target but below management's initial target of RM1.0b. Management have now set a new target of RM480m. As of end-Nov, WCT revealed that YTD property sales are now at RM455m. Meanwhile, unbilled sales stood at RM191m (<1x cover).

Given WCT's volatile construction earnings which are prone to downward adjustment in margins, we downgrade our FY21-22E construction margin assumptions to capture this earnings risks moving forward. Hence, **FY21-22E earnings are lowered by 31-18%**. Note, there is a land sale gain (from Sungai Buaya, Ulu Selangor) worth RM45.5m captured in our FY22E earnings of RM88m. **Consequent to the earnings downgrade, we lower the TP to RM0.620 (from RM0.63). MP maintained.**

## MARKET PERFORM ↔

Price : RM0.565  
Target Price : RM0.620 ↓

### Share Price Performance



KLCI 1,512.22  
YTD KLCI chg -7.1%  
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)	0.43
3-mth avg daily vol:	5,394,524
Free Float	62%
Beta	1.6

### Major Shareholders

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

### Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1709	1984	2799
EBIT	217	256	356
PBT	50	109	217
<b>Net Profit</b>	<b>16</b>	<b>71</b>	<b>136</b>
<b>Core PATAMI</b>	<b>-18</b>	<b>23</b>	<b>88</b>
Consensus (NP)	n.a.	49	78
Earnings Revision	n.a.	-31%	-18%
Core EPS (sen)	-1.30	1.66	6.27
Core EPS growth (%)	-112	-228	279
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	2.08	2.10	2.16
PER (x)	-43.6	34.1	9.0
Price to NTA (x)	0.3	0.3	0.26
Net Gearing (x)	1.10	1.02	0.92
Return on Asset (%)	-0.2	0.3	0.9
Return on Equity (%)	-0.6	0.8	2.9
Net Div. Yield (%)	0.0	0.0	0.0

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	FY Dec	2018A	2019A	2020A	2021E	2022E
Revenue	2333	1794	1709	1984	2799	<b>Growth</b>					
<b>EBITDA</b>	259	353	240	279	379	Revenue	22%	-23%	-5%	16%	41%
Depreciation	-23	-24	-24	-24	-24	EBITDA	-21%	37%	-32%	16%	36%
<b>EBIT</b>	236	330	217	256	356	EBIT	-25%	40%	-34%	18%	39%
Interest Expense	-136	-145	-120	-124	-125	Pre-tax Income	-51%	71%	-74%	120%	99%
Associates/JV	12	7	-47	-23	-13	Net Income	-73%	255%	-89%	351%	92%
Exceptional Items	0	0	0	0	0	Core Net Income	-72%	254%	-112%	-228%	279%
<b>PBT</b>	112	192	50	109	217						
Taxation	-71	-45	-34	-38	-82	<b>Profitability</b>					
<b>Net Profit</b>	41	147	16	71	136	EBITDA Margin	11%	20%	14%	14%	14%
MI/Perps	-2	-7	34	48	48	EBIT Margin	10%	18%	13%	13%	13%
<b>Core PATAMI</b>	44	154	-18	23	88	PBT Margin	5%	11%	3%	5%	8%
						Net Margin	2%	8%	1%	4%	5%
						Core Net Margin	2%	9%	-1%	1%	3%
						Effective Tax Rate	-63%	-23%	-68%	-35%	-38%
						ROE	1%	5%	-1%	1%	3%
						ROA	0%	2%	0%	0%	1%
						<b>DuPont Analysis</b>					
						Net margin (%)	2%	9%	-1%	1%	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	3.2
						ROE (%)	1%	5%	-1%	1%	3%
						<b>Leverage</b>					
						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	2244	2020
						Net Debt/Equity (x)	1.0	0.8	1.1	1.0	0.9
						<b>Valuations</b>					
						Core EPS (sen)	3.1	11.0	-1.3	1.7	6.3
						FD Core EPS (sen)	3.1	11.0	-1.3	1.7	6.3
						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)	18.2	5.2	-43.6	34.1	9.0
						FD Core PER (x)	16.5	18.2	5.2	-43.6	34.1
						Net Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
						PBV (x)	0.3	0.3	0.3	0.3	0.3
						EV/EBITDA (x)	14.7	10.8	15.9	13.7	10.1

Source: 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.			
<b>STOCKS UNDER COVERAGE</b>														
GAMUDA BHD	2.84	7,138.4	Y	07/2022	11.9	11.8	12.9	0.8	0.8	6.8%	2.1%	2.80	MP	
HOCK SENG LEE BERHAD	0.975	535.8	Y	12/2021	16.8	13.4	10.2	0.7	0.6	4.8%	1.5%	0.950	MP	
IJM CORP BHD	1.75	6,246.1	Y	03/2022	17.3	27.8	21.6	0.6	0.6	10.5%	12.0%	2.00	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	0.805	284.5	Y	12/2021	18.0	9.9	5.8	0.4	0.4	4.1%	2.1%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.850	410.9	Y	12/2021	N.A.	N.A.	17.0	0.4	0.3	-1.7%	1.2%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.55	1,998.5	Y	12/2021	24.2	22.8	15.7	3.2	3.0	13.3%	2.6%	1.52	MP	
WCT HOLDINGS BHD	0.565	800.7	Y	12/2021	N.A.	34.0	9.0	0.3	0.2	2.3%	0.0%	0.620	MP	
<b>Simple Average</b>					<b>17.4</b>	<b>19.4</b>	<b>12.7</b>	<b>1.0</b>	<b>0.9</b>	<b>6.2%</b>	<b>3.0%</b>			

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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