

WCT Holdings

Picking Up the Pieces

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All WCT's business segments are in recovery mode post the pandemic, especially its retail malls which are poised for positive rental reversions. While the FY22F new job target of RM1b seems to be a tall order now, the prospects for its construction division in FY23 are certainly a lot more promising. Meanwhile, its property division is poised for a return to the black in FY23F driven by new launches with better margins. We maintain our forecasts, TP of RM0.46 and MARKET PERFORM call.

We came away from WCT's post-3QFY22 results briefing with better clarity over its immediate prospects. The key takeaways are as follows:

1. WCT revealed that its 9MFY22 property sales came in at RM382m, in line with our FY22 target of RM550m (vs. the company internal target of RM600m). WCT will continue to clear its low-margin inventories which stood at RM365m as at end-3QFY22 (down by 28% from RM506m at the start of the year).

Upon fully clearing out these low-margin properties and augmented by sales from new launches that command better margins (i.e. Maple Residences at OUG, Kuala Lumpur), we anticipate quarterly losses from the property segment to narrow and eventually revert to the black in FY23 with a small profit (as the segment will still be weighed down by hefty financing cost). Meanwhile, its unbilled sales stood at RM303m as at end-3QFY22 and WCT intends to put onto the market some RM2.75b worth of new launches over the next two years.

2. WCT explained that the extraordinary strong construction operating margin of 13% in 3QFY22 (vs. its typical guidance of 5-8%) was mainly due to the recognition of variation orders worth RM40m from on-going projects.

It conceded that the chances of it meeting its RM1b job win target for FY22 are slim, having secured none YTD. Originally planned for this year, certain public projects at best will only come through in 1QCY23 such as: (i) a hospital construction, and (ii) a flood mitigation project earmarked in Budget 2022. For FY23, WCT is eyeing: (i) the MRT3 CMC301 package (of which it had submitted a bid with a Bumiputera JV partner (c.RM3b), (ii) work packages from the Pan Borneo Highway Sabah, and (iii) various government hospital jobs.

3. With improving footfall and tenant sales. WCT expects positive rental reversions at its mall, i.e. Paradigm Petaling Jaya and Gateway@klia2 which should boost its numbers from 1QFY23 onwards.
4. Likewise, hotels under its stable, i.e. Le Meridien, Petaling Jaya (formerly known as New World Hotel) and Premiere Hotel, Klang, have registered increased occupancy rates. Nonetheless, they are likely to remain in the red (albeit with narrowing losses) due to the intense competition. It has set a breakeven target for these hotels in the next 2-3 years. Meanwhile, WCT will be opening a new 200-room hotel known as Hyatt House at its Paradigm Johor Bahru mall in 2QFY23.

MARKET PERFORM ↔

Price: **RM0.43**
Target Price: **RM0.46** ↔

Share Price Performance



KLCI	1,488.80
YTD KLCI chg	-5.0%
YTD stock price chg	-15.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	609.4
Shares Outstanding	1,417.2
52-week range (H)	0.61
52-week range (L)	0.34
3-mth avg daily vol:	2,299,720
Free Float	55%
Beta	0.8

Major Shareholders

Dominion Nexus Sdn Bhd	18.2%
Lim Siew Choon	7.4%
Amanah Saham Nasional	5.8%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	1753	2127	1831
EBIT	301	261	249
PBT	155	152	129
Net Profit	17	96	83
Core PATAMI	-28	49	35
Consensus (NP)	n.a.	54	71
Earnings Revision	n.a.	+104%	+40%
Core EPS (sen)	-1.98	3.46	2.51
Core EPS growth (%)	53	-274	-27
NDPS (sen)	0.5	0.0	0.0
NTA per Share (RM)	2.06	2.10	2.12
PER (x)	-21.7	12.4	17.1
Price to NTA (x)	0.21	0.20	0.20
Net Gearing (x)	0.99	0.88	0.75
Return on Asset (%)	-0.3	0.6	0.4
Return on Equity (%)	-1.0	1.6	1.2
Net Div. Yield (%)	1.2	0.0	0.0

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We maintain our forecasts, FY22F construction job win assumption of RM500m and property sales assumption of RM550m. We also keep our SoP-based TP of RM0.46 based on: (i) a 9x construction PER, at the lower end of our coverage's PER range of 9-18x given its historically thin margins on poor budgeting, and (ii) a 90% discount to its property RNAV, vs. 60-65% ascribed on peers to reflect the low realisability of WCT's GDV. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

We like WCT for: (i) the improved prospects of the local construction sector with the much anticipated rollout of public projects post the recent 15th General Election, especially the MRT3 project, and (ii) the rising occupancy and hence rental incomes, profitability and valuations for its malls and hotels as the pandemic comes to an end, making the monetisation of these assets via a REIT more plausible. However, we are mindful of its huge debt level (with a net gearing of 1.15x) which will continue to erode its profitability, especially under a higher interest rate environment. Maintain **MARKET PERFORM**.

Risks to our call include: (i) a prolonged slow property market, (ii) sustained weak flows of construction jobs from both the public and private sectors, (iii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iv) rising cost of building materials.

Sum-of-Parts Valuations				
Project		Remaining Land Bank	GDV left (RM m)	NPV of profits (effective)
Landbanks				
W City OUG @ KL	100%	61	5000	35
W City JGCC @ JB	100%	10	5000	35
Mont Kiara KL	100%	3	798	37
Bukit Tinggi 1,2,3 (Klang)	100%	79	1000	11
Medini Iskandar, Johor	100%	39	300	14
Inaman Kota Kinabalu	100%	22	0	0
		214	12098	132
Unbilled Sales (as of March-22)	100%		211	10
Prop development and Investment NAV (FY21)				2,921.7
Total RNAV (RM m)				3,063.0
Discount to RNAV				90%
Property development and Investment Discounted RNAV				306
Construction		9x FY23 PER		336
SOP				642
Number of shares				1,406
SOP/share				0.46
BV/share (1 yr Fwd)				2.08
EPS (1yr Fwd)				0.02
ROE				0.80%
Implied PBV (x)				0.21

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
GAMUDA BHD	OP	3.98	5.15	29.40%	10,312.5	Y	07/2023	35.0	43.6	7.4%	24.7%	10.9	8.8	1.2	10.4%	50.0	12.6%
IJM CORP BHD	MP	1.60	1.68	5.00%	5,621.3	Y	03/2023	8.6	9.2	26.2%	6.9%	18.8	17.6	0.6	3.8%	6.0	3.8%
KERJAYA PROSPEK GROUP BHD	OP	1.15	1.50	30.43%	1,450.2	Y	12/2022	9.3	12.2	19.1%	30.9%	10.5	9.4	1.3	11.2%	4.5	3.9%
KIMLUN CORP BHD	OP	0.760	1.10	44.74%	268.6	Y	12/2022	7.9	12.7	2600.0%	59.3%	9.9	6.2	0.4	4.0%	1.5	2.0%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.48	1.60	8.11%	1,908.3	Y	12/2022	9.8	9.8	0.4%	-0.8%	15.0	15.1	2.8	19.4%	5.0	3.4%
WCT HOLDINGS BHD	MP	0.430	0.460	6.98%	609.4	Y	12/2022	3.5	2.5	75.0%	-28.6%	12.4	17.1	0.2	3.1%	0.0	0.0%
Simple Average								12.4	15.0	454.7%	15.4%	12.9	12.4	1.1	8.6%		4.3%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	☆
	Corporate Social Responsibility	★	★	☆
	Management/Workforce Diversity	★	★	★
	Accessibility & Transparency	★	★	☆
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	★
	OVERALL	★	★	★
SPECIFIC	Migrant Worker Welfare	★	★	★
	Waste Disposal/Pollution Control	★	★	★
	Work Site Safety	★	★	★
	Environmentally Friendly Construction Technology	★	★	★
	Supply Chain Auditing	★	★	★
	Energy Efficiency	★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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