

26 May 2023

WCT Holdings

A Soft 1QFY23, Earnings to Pick Up

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We deem WCT's 1QFY23 results within our forecast (but below market expectation), despite it being in the red as we expect a turnaround in the subsequent quarters as progress billings from its RM3.2b outstanding construction orderbook accelerate. Nonetheless, there was marked improvement from its property development and investment units. We maintain our forecasts, TP of RM0.60 and OUTPERFORM call.

Within expectations. Despite a core loss of RM7.7m in 1QFY23 (vs. our full-year net profit forecast of RM35m), we consider the results within our expectation as: (i) the 1Q is seasonally weighed down by the perpetual sukuk distribution (so is 3Q), and (ii) we expect stronger construction profits during the remaining quarters as progress billings from its RM3.2b outstanding orderbook accelerate. However, we regard the results as being below market expectation as the full-year consensus net profit forecast of RM70m (which is double that of ours) does not appear to be achievable.

YoY, 1QFY23 revenue dropped 33% from a high base (inflated by RM214m land sales in the prior year) while bottom line dipped into the red from profit in the absence of gains from land sales (which amounted to RM56m a year ago). Excluding the prior year's land sales and gains, WCT would show an improvement in revenue of RM14m and a narrowing in losses by RM17m driven by stronger property development and investment profits.

YTD, its construction division has yet to secure any new jobs against our RM1b replenishment target (company targets a more aggressive RM3b). However, we maintain our stance that public job roll-outs would be expedited in 2HFY23 post a review by the government. We find its replenishment prospects promising underpinned by: (i) MRT3, (ii) Pan Borneo Sabah, (iii) Subang Airport expansion, and (iii) government hospital jobs.

We maintain our forecast and SoP-TP of RM0.60 anchored by: (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 5).

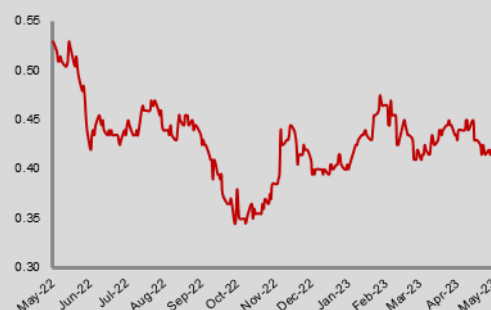
We like WCT for: (i) the improved prospects of the local construction sector with the anticipated roll-out of public projects, and (ii) the rising occupancy and hence rental incomes, profitability and valuations for its malls and hotels as the pandemic comes to an end, thus, making the monetisation of these assets via a REIT more plausible. Maintain **OUTPERFORM**.

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.

OUTPERFORM ↔

Price : RM0.415
Target Price : RM0.600 ↔

Share Price Performance



KLCI 1,402.48
YTD KLCI chg -6.2%
YTD stock price chg 3.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	588.2
Shares Outstanding	1,417.2
52-week range (H)	0.54
52-week range (L)	0.34
3-mth avg daily vol:	2,100,019
Free Float	57%
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)	2022A	2023F	2024F
Turnover	2102	1889	2113
EBIT	234	249	281
PBT	124	129	151
Net Profit	93	83	99
Core PATAMI	49	35	52
Consensus (NP)	46	70	92
Earnings Revision	-	-	-
Core EPS (sen)	6.48	2.52	3.68
Core EPS growth (%)	-427	-61	46
NDPS (sen)	0.5	0.5	0.5
NTA per Share (RM)	2.10	2.12	2.15
PER (x)	6.9	17.9	12.2
Price to NTA (x)	0.21	0.21	0.21
Net Gearing (x)	0.86	0.74	0.60
Return on Asset (%)	0.6	0.4	0.6
Return on Equity (%)	3.1	1.2	1.7
Net Div. Yield (%)	1.1	1.1	1.1

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Result Highlight

FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Revenues	404.6	466.5	-13%	604.7	-33%	404.6	604.7	-33%
OP	42.7	28.0	53%	93.3	-54%	42.7	93.3	-54%
Finance cost	-29.3	-29.1	0%	-27.3	7%	-29.3	-27.3	7%
Associates	1.8	3.8	-52%	2.9	-38%	1.8	2.9	-38%
JV	4.4	13.4	-67%	-7.7	n.a.	4.4	-7.7	n.a.
PBT	19.7	16.1	22%	61.2	-68%	19.7	61.2	-68%
Tax	-4.3	-7.3	-41%	-7.8	-45%	-4.3	-7.8	-45%
Minority interests	0.7	1.2	-37%	-1.2	-38%	0.7	1.2	-38%
Perpetual sukuk	-23.8	0.0	n.a.	24.0	-1%	-23.8	-24.0	-1%
Net Profit (CNP)	-7.7	10.0	-177%	30.6	-125%	-7.7	30.6	-125%
DPS (sen)	0.0	0.5	-100%	0.0	n.a.	0.0	0.0	n.a.
EPS (sen)	-0.5	0.7	-177%	2.2	-125%	-0.5	2.2	-125%
EBIT margin	11%	6%		15%		11%	15%	
PBT margin	4%	2%		9%		4%	9%	
NP margin	4%	2%		9%		4%	9%	
CNP margin	-2%	2%		5%		-2%	5%	
Effective tax	-22%	-45%		-13%		-22%	-13%	

Source: Company, Kenanga Research

Segmental Breakdown

Revenue	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Engineering and Construction	304.3	365.8	-17%	292.2	4%	304.3	292.2	4%
Property Development	48.4	55.0	-12%	268.6	-82%	48.4	268.6	-82%
Property Investment	52.0	45.7	14%	43.9	18%	52.0	43.9	18%
Total	404.6	466.5	-13%	604.7	-33%	404.6	604.7	-33%
Operating Profit								
Engineering and Construction	9.1	13.9	-35%	14.6	-38%	9.1	14.6	-38%
Property Development	6.3	0.9	624%	56.2	-89%	6.3	56.2	-89%
Property Investment	27.4	13.2	107%	22.5	22%	27.4	22.5	22%
Total	42.7	28.0	53%	93.3	-54%	42.7	93.3	-54%
OP margins								
Engineering and Construction	3%	4%		5%		3%	5%	
Property Development	13%	2%		21%		13%	21%	
Property Investment	53%	29%		51%		53%	51%	
Total	11%	6%		15%		11%	15%	

Source: Company, Kenanga Research

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WCT's Sum-of-Parts Valuation			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM m)	NPV of profits (effective) (RM m)
Landbanks			
W City OUG @ KL	61	5,000	35
W City JGCC @ JB	10	5,000	35
Mont Kiara KL	3	798	37
Bukit Tinggi 1,2,3 (Klang)	79	1,000	11
Medini Iskandar, Johor	39	300	14
Inaman Kota Kinabalu	22	0	0
	214	12,098	132
Unbilled Sales (as of March-22)		211	10
Prop development NAV (FY21)			2,510.5
Total RNAV (RM m)			2,651.8
Discount to RNAV			90%
Property development Discounted RNAV			265
Construction*			336
Equity Value of Property Investment			1,030
Perpetual Sukuk at Company Level			-818
SOP			836
Number of shares			1,418
SOP/share (RM)			0.60

*9x FY23F PER

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
GAMUDA BHD	OP	4.08	5.15	26.23%	10,854.0	Y	07/2023	35.0	43.6	7.4%	24.7%	11.2	9.0	1.2	10.4%	50.0	12.3%
IJM CORP BHD	MP	1.53	1.67	9.15%	5,374.7	Y	03/2023	8.6	9.2	26.2%	6.9%	18.0	16.8	0.6	3.8%	6.0	3.9%
KERJAYA PROSPEK GROUP BHD	OP	1.13	1.50	32.74%	1,425.0	Y	12/2023	12.2	14.0	31.0%	14.6%	9.3	8.1	1.3	14.6%	6.0	5.3%
KIMLUN CORP BHD	OP	0.755	1.12	48.34%	266.8	Y	12/2023	12.9	15.6	18.9%	20.5%	6.1	5.0	0.4	6.6%	2.0	2.6%
SUNWAY CONSTRUCTION GROUP BHD	OP	1.62	2.13	31.48%	2,088.8	Y	12/2023	12.6	13.2	19.4%	4.8%	12.8	12.2	3.1	24.9%	5.0	3.1%
WCT HOLDINGS BHD	OP	0.415	0.600	44.58%	588.2	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.5	11.3	0.2	2.7%	0.5	1.2%
Simple Average					20,597.4					12.8%	18.7%	12.9	10.9	0.8	6.5%		4.7%

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

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

☆ 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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