

30 May 2024

# WCT Holdings

## Poised for Infrastructure Projects

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**WCT's 1QFY24 results met expectations. Its 1QFY24 core net profit narrowed YoY on improved construction margins. It is poised for better prospects underpinned by the RM3.7b Subang Airport Regeneration Plan coupled with a new wave of public infrastructure projects. We maintain our forecasts, TP of RM0.66 and our OUTPERFORM call.**

WCT reported a core loss of RM3.3m in 1QFY24 against our full-year net profit forecast of RM35.8m and the full-year consensus net profit estimate of RM42.9m. However, we consider the results within expectations as expect strong quarters ahead as construction billings accelerate.

**YoY.** Its 1QFY24 revenue rose 16% mainly driven by higher property revenue (+143%) on higher property sales (+157%). However, construction revenue fell 6% which was due to slower progress billings. Its core loss narrowed to RM3.9m (vs. a core loss of RM7.7m a year ago) on improved construction margins (we believe, after adjustments for work prolongation and escalation in input and labour costs previously).

**QoQ.** Its 1QFY24 revenue grew 16% on the back of 30% increase in construction revenue on higher construction progression. Its core net loss narrowed significantly to RM3.9m from RM245.9m a year ago (weighed down by a lumpy RM209.4m reversal of construction profits owing to work prolongation and escalation in input and labour costs).

**Outlook.** We believe it is poised for a better FY24 on the impending roll-out of various public infrastructure projects such as: (i) MRT3 (RM45b), (ii) Bayan Lepas LRT (RM1b), (iii) Pan Borneo Sabah, (iv) Subang Airport Regeneration plan (RM3.7b), and (v) various government hospitals. As at Mar 2024, its outstanding order book stood at RM2.95b (from RM2.72b three months ago), while its tender book stands at >RM20b currently. Also helping, is the more benign cost environment.

**Forecasts.** Maintained.

**Valuations.** We maintain our SoP-driven TP of RM0.66 (see Page 3) with an unchanged: (i) 10x construction FY25F PER, which is at a discount to 18x we ascribed to mid-sized to large contractors given WCT's much smaller size, and (ii) a 85% discount to its property RNAV, vs. 30%-50% 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).

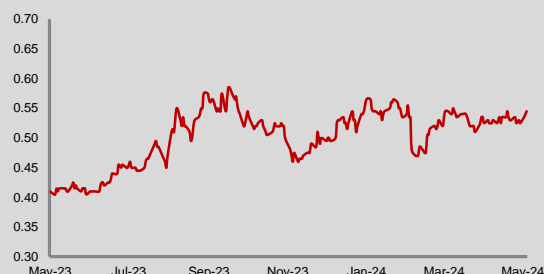
**Investment case.** We like WCT for: (i) the improved prospects of the local construction sector with the anticipated roll-out of public projects, and (ii) the rising occupancy and hence rental incomes, profitability and valuations for its malls and hotels post pandemic, thus, making the monetisation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

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

**OUTPERFORM** ↔

**Price:** RM0.545  
**Target Price:** RM0.66 ↔

### Share Price Performance



KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	10.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	772.4
Shares Outstanding	1,417.2
52-week range (H)	0.60
52-week range (L)	0.41
3-mth avg. daily vol.	3,289,960
Free Float	59%
Beta	1.1

### Major Shareholders

Dominion Nexus Sdn	18.2%
Lim Siew Choon	7.4%
Cimb Group Holdings	5.8%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1727.3	1869.8	1926.2
EBIT	-48.3	256.7	266.8
PBT	-177.8	126.7	136.8
<b>PAT</b>	<b>-209.4</b>	<b>83.4</b>	<b>89.9</b>
<b>Net profit</b>	<b>-254.1</b>	<b>35.8</b>	<b>42.4</b>
Consensus (NP)	-	42.9	54.3
Earnings Revision (%)	-	-	-
EPS (sen)	-17.9	2.5	3.0
EPS Growth (%)	-342.9	-114.1	18.3
NDPS (sen)	-	0.5	0.5
NTA per Share (RM)	2.04	2.06	2.09
PER (x)	-3.0	21.4	18.1
Price to NTA (x)	0.27	0.26	0.26
Net Gearing (x)	1.20	1.14	1.02
ROA (%)	-2.9	0.4	0.5
ROE (%)	-8.8	1.2	1.4
Net Div. Yield (%)	-	0.9	0.9

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Income Statement								
FYE Dec (RM m)	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	467.4	401.7	16%	404.6	16%	467.4	404.6	16%
Operating profit	51.2	-196.3	N/A	42.7	20%	51.2	42.7	20%
Finance cost	-38.3	-34.4	11%	-29.3	31%	-38.3	-29.3	31%
Associates	8.5	4.7	80%	1.8	369%	8.5	1.8	369%
JV	5.7	-0.4	N/A	4.4	28%	5.7	4.4	28%
EI	20.0	0.0	N/A	0.0	N/A	20.0	0.0	N/A
PBT	47.1	-226.4	N/A	19.7	139%	47.1	19.7	139%
Tax	-7.8	-20.6	-62%	-4.3	80%	-7.8	-4.3	80%
PAT	39.3	-246.9	N/A	15.4	155%	39.3	15.4	155%
Minority interests	-0.9	-1.0	-12%	-0.7	23%	-0.9	-0.7	23%
Perpetual sukuk	24.0	0.0	N/A	23.8	1%	24.0	23.8	1%
Net Profit	16.1	-245.9	N/A	-7.7	N/A	16.1	-7.7	N/A
Core Profit	-3.9	-245.9	-98%	-7.7	-50%	-3.9	-7.7	-50%
DPS (sen)	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
EPS (sen)	1.1	-17.4	N/A	-0.5	N/A	1.1	-0.5	N/A
EBIT margin	11%	-49%		11%		11%	11%	
PBT margin	10%	-56%		5%		10%	5%	
Net margin	3%	-61%		-2%		3%	-2%	
Core margin	-1%	-61%		-2%		-1%	-2%	
Effective tax	17%	-9%		22%		17%	22%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
<b>Revenue</b>								
Engineering and Construction	286.6	220.3	30%	304.3	-6%	286.6	304.3	-6%
Property Development	117.8	122.4	-4%	48.4	143%	117.8	48.4	143%
Property Investment	63.0	59.0	7%	52.0	21%	63.0	52.0	21%
<b>Total</b>	<b>467.4</b>	<b>401.7</b>	<b>16%</b>	<b>404.6</b>	<b>16%</b>	<b>467.4</b>	<b>404.6</b>	<b>16%</b>
<b>Operating Profit</b>								
Engineering and Construction	31.3	-237.3	N/A	9.1	246%	31.3	9.1	246%
Property Development	7.9	-4.3	N/A	6.3	25%	7.9	6.3	25%
Property Investment	32.0	45.4	-29%	27.4	17%	32.0	27.4	17%
<b>Total</b>	<b>71.2</b>	<b>-196.3</b>	<b>N/A</b>	<b>42.7</b>	<b>67%</b>	<b>71.2</b>	<b>42.7</b>	<b>67%</b>
<b>Operating margins</b>								
Engineering and Construction	11%	-108%		3%		11%	3%	
Property Development	7%	-4%		13%		7%	13%	
Property Investment	51%	77%		53%		51%	53%	
<b>Total</b>	<b>15%</b>	<b>-49%</b>		<b>11%</b>		<b>15%</b>	<b>11%</b>	

Source: Company, Kenanga Research

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<b>WCT's Sum-of-Parts Valuation</b>			
<b>Project</b>	<b>Remaining Land Bank (acres)</b>	<b>Outstanding GDV (RM m)</b>	<b>NPV of profit (RM m)</b>
<b>Landbanks</b>			
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
	<b>214</b>	<b>12,098</b>	<b>132</b>
<b>Unbilled Sales (as of Dec 2023)</b>		<b>211</b>	<b>640</b>
Prop development NAV (FY21)			<b>2,382.2</b>
Total RNAV (RM m)			<b>3,153.7</b>
Discount to RNAV			85%
<b>Property development Discounted RNAV</b>			<b>473</b>
<b>Construction*</b>			244
<b>Equity Value of Property Investment</b>			<b>1,036</b>
Perpetual Sukuk at Company Level			-820
<b>SOP</b>			933
Number of shares (m)			1,418
<b>SOP/share (RM)</b>			<b>0.66</b>

\*10x FY25F PER

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS 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.
<b>Stocks Under Coverage</b>																	
GAMUDA	OP	6.08	6.70	10.2%	16,842.8	Y	07/2024	40.2	50.6	29.7%	25.8%	16.7	13.4	1.5	10.0%	12.0	2.0%
IJM	OP	2.54	2.77	9.1%	8,905.7	Y	03/2025	13.0	14.4	-8.3%	11.2%	27.9	29.8	0.9	5.2%	8.0	3.1%
KERJAYA	MP	1.81	1.90	5.0%	2,282.5	Y	12/2024	14.2	15.8	33.3%	11.3%	14.9	13.0	1.6	13.0%	10.0	5.5%
KIMLUN	MP	1.35	1.47	8.9%	477.0	Y	12/2024	11.9	14.7	493.0%	23.0%	13.6	11.6	0.6	5.5%	1.0	0.7%
SUNCON	MP	3.20	3.16	-1.3%	4,125.9	Y	12/2024	12.7	16.7	-3.2%	31.1%	25.2	24.1	4.2	17.6%	6.0	1.9%
WCT	OP	0.545	0.660	21.1%	772.4	Y	12/2024	2.5	3.0	-85.9%	18.4%	21.6	14.8	0.3	1.2%	0.5	0.9%
<b>Sector Aggregate</b>					<b>33,406.4</b>					<b>40.3%</b>	<b>21.3%</b>	<b>16.7</b>	<b>13.7</b>	<b>1.2</b>	<b>7.3%</b>		<b>2.4%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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