

WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

Claim against WCT and its JV dismissed

KEY INVESTMENT HIGHLIGHTS

- **AED107.7mil (RM121.33mil) claim filed by TSC dismissed**
- **The Arbitral Tribunal's Final Award dismisses TSC's claim against AWCTJV**
- **WCT outstanding construction order book stood at RM5.6billion, which will provide earning visibility for the next three years**
- **Upgrade to BUY from Neutral with an unchanged TP of RM0.88 to take advantage of recent price weakness**

Based on Bursa Announcement dated 12th February 2020, WCT had received from its solicitors in Dubai, the Arbitral Tribunal's Final Award in respect of the Arbitration proceedings. To recap, AWCTJV, which is a joint-venture between Arabtec Construction LLC (ATC) and WCT Bhd (Dubai branch), was awarded a contract to build the Nad Al Sheba Racecourse by Meydan Group LLC back in September 2007 for a contract sum of AED4.6 billion (RM5.18bil). However, Meydan Group cancelled the construction contract in 2008. A year after, a subcontract awarded to Triumph Steel Construction Group (TSC) to undertake certain steel-related works for the racecourse project was terminated. In 2015, Dubai International Arbitration Centre (DIAC) ruled that Meydan's cancellation and purported termination of the contract was unlawful, invalid and of no effect. Then in 2017, WCT's JV with ATC faced a AED107.7mil (RM121.33mil) claim filed by TSC. The Zhejiang-based contractor had filed a request for arbitration naming the WCT Bhd (Dubai branch) and ATC as respondents.

The Arbitral Tribunal's Final Award dismisses TSC's claim against AWCTJV in its entirety and makes the following further ancillary orders:

1. TSC shall be responsible for 70% of the arbitration costs (already paid in full by TSC) while AWCTJV shall be responsible for 30% of the arbitration costs (partially paid by TSC). In this respect:
 - i) AWCTJV to reimburse TSC a sum of AED218,098 (RM24,5705.75) being AWCTJV's portion of the arbitration costs paid by TSC; and
 - ii) AWCTJV to pay the balance of AWCTJV's portion of the arbitration fees amounting to AED378,860 (RM42,6817.67) directly to DIAC;
2. TSC is to bear its own legal costs; and
3. TSC to pay to AWCTJV AED601,208.60 (RM67,7312.08) for AWCTJV's legal costs.

Upgrade to BUY

(Previously NEUTRAL)

Unchanged Target Price: RM0.88

RETURN STATISTICS

Price @ 12 st Feb 2020 (RM)	RM0.68
Expected share price return (%)	+29.24
Expected dividend yield (%)	+1.76
Expected total return (%)	+31.01

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-16.97	-14.72
3 months	-21.26	-20.77
12 months	-13.74	-5.78

KEY STATISTICS

FBM KLCI	1542.94
Syariah compliant	Yes
Issue shares (m)	1408.3
Estimated free float (%)	46.9
Market Capitalisation (RM'm)	965.24
52-wk price range	RM0.68 - RM1.22
Beta vs FBM KLCI (x)	1.3
Monthly velocity (%)	23.8
Monthly volatility (%)	33.1
3-mth average daily volume (m)	1.7
3-mth average daily value (RM'm)	1.42
Top Shareholders (%)	
DOMINION NEXUS SDN	17.89
URUSHARTA JAMAAH SDN	8.59
Employees Provident Fund Board	8.24

Kifni Kamaruddin
 Head, Strategy
smkifni@midf.com.my
 03 -2173 8383

Earnings forecasts unchanged. As of end of September 2019, WCT outstanding construction order book stood at RM5.6 billion, which will provide earning visibility for the next three years. Post announcement, we make no adjustments to our FY19/FY20 forecasts as the dismissed claim have no impact on WCT`s earnings.

Upgrade to BUY with unchanged TP of RM0.88 pegging the FY20EPS at 11x. Moving forward, we understand from WCT that project execution will continue to be their sole focus to ensure sustainability in revenue and profits. We anticipated a better contribution from LRT 3 works on the back of better work progress in 1QFY20. We are upgrading our call recommendation on the stock to **BUY** from **NEUTRAL** previously to take advantage of the recent weakness in its share price. 

INVESTMENT STATISTICS

FYE July	FY16	FY17	FY18	FY19F	FY20F
Revenue	1933.6	1905.8	2333.4	2420.0	2298.0
PBT	122.0	230.6	154.8	164.6	160.9
PATAMI	65.1	154.6	111.8	85.7	110.3
EPS (Sen)	4.6	10.9	8.1	6.2	8.0
EPS Growth (%)	-69.9	137.5	-25.8	-23.4	28.8
PER (x)	19.6	8.2	11.1	14.5	11.3
Dividend (sen)	19.1	1.8	NA	1.1	1.2
Dividend Yield (%)	1.1	1.1	NA	0.80	0.80

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.