

WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

Maintain BUY

Counterclaim over government project in Doha, Qatar dismissed by Arbitral Tribunal

KEY INVESTMENT HIGHLIGHTS

- **WCT's Middle East Regional Office in Doha has received a final award pertaining Arbitration Case from the Court of Arbitration of the International Chamber of Commerce (ICC)**
- **The Group to pay RM153m**
- **Additional provision impacted FY19 earnings**
- **Maintain BUY with revised TP of RM0.64**

Based on Bursa Announcement dated 13 March 2020, WCT's Middle East Regional Office in Doha has received a final award pertaining Arbitration Case from the Court of Arbitration of the International Chamber of Commerce (ICC) - filed by (1) Trans Gulf International Electro-Mechanical WLL (First Claimant), (2) Powermech Engineering WLL (Second Claimant), and (3) Trans Gulf International Electro-Mechanical WLL – Powermech Engineering WLL JV. To recap, in July 2017, the three companies as mentioned above had filed a request for arbitration with the Court of Arbitration of the ICC claiming QAR181.6m (RM214.1m) from WCT. WCT was the main contractor and the claimants were WCT's subcontractors in respect of certain mechanical, electrical and plumbing related works for the Ministry of Interior's Head Quarters Project in Doha, Qatar.

The Group to pay RM153m. Arbitral Tribunal has dismissed the Group's counterclaim and further ordered and awarded a sum of QAR132.5m (equivalent to RM152.6m) in favor of the Claimants, comprising the following:

- 1) Release of Retention sums amounting to QAR39.4m (approximately RM46.3m);
- 2) Return of Performance Bond monies amounting to QAR24.7m (approximately RM29.0m);
- 3) Payment of a sum of QAR61.9m (approximately RM72.7m) being sums claimed and due pursuant to the Subcontract; and
- 4) Late payment interest of QAR6.5m (approximately RM7.6m)

In addition, the Arbitral Tribunal has further ordered that WCTB pays to the Claimants:

- 5) QAR24.0m (approximately RM28.2) in respect of the Claimants' legal, expert and other costs of and incidental to the arbitration proceedings; and
- 6) 6. USD468,830.00 (approximately RM2.0m) in respect of the Arbitration costs as fixed by the ICC.

Adjusted Target Price: RM0.64 (from RM0.88)

RETURN STATISTICS

Price @ 13 st March 2020 (RM)	RM0.42
Expected share price return (%)	+52.18
Expected dividend yield (%)	+2.85
Expected total return (%)	+55.04

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-43.71	-35.35
3 months	-51.15	-43.32
12 months	-47.77	-34.73

KEY STATISTICS

FBM KLCI	1,344.75
Syariah compliant	Yes
Issue shares (m)	1403.49
Estimated free float (%)	48.71
Market Capitalisation (RM'm)	596.48
52-wk price range	RM0.42 - RM1.22
Beta vs FBM KLCI (x)	1.68
Monthly velocity (%)	0.01
Monthly volatility (%)	33.08
3-mth average daily volume (m)	3.20
3-mth average daily value (RM'm)	2.24
Top Shareholders (%)	
DOMINION NEXUS SDN	17.97
URUSHARTA JAMAAH SDN	8.5
Employees Provident Fund Board	6.33

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Impact on 4QFY19 earnings. Post bursa announcement, we note that the additional provision (approximately RM116.0m) has impacted WCT's unaudited financial results for 4QFY19. In 4QFY19, The Group registered a PATAMI of -RM103.97m (>-100%yoy) compared with PATAMI of RM12.5m (>100%yoy) announced in the financial results dated 26th February 2020. As for in FY19, WCT booked a PATAMI of -RM27.6m (>-100%yoy) as opposed to PATAMI of RM88.8m (-16.9%yoy) announced last month.

Maintain BUY with revised TP of RM0.64. We maintain BUY with adjusted TP RM0.64 pegging the FY20EPS to a lower PE of 8x (from 11x) due to weak market sentiment. 

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19	FY20F
Revenue	1933.6	1905.8	2333.4	1794.1	2298.0
PBT	122.0	230.6	154.8	126.6	160.9
PATAMI	65.1	154.6	111.8	88.8	110.3
EPS (Sen)	4.6	10.9	8.1	6.3	8.0
EPS Growth (%)	-69.9	137.5	-25.8	-21.7	26.0
PER (x)	19.6	8.2	11.1	6.6	5.3
Dividend (sen)	19.1	1.8	NA	1.1	1.2
Dividend Yield (%)	1.1	1.1	NA	2.6	2.9

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.