WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

Maintain BUY

Continues to outperform

***Unchanged* Target Price: RM0.86**

KEY INVESTMENT HIGHLIGHTS

- **2QFY22 core earnings tripled to RM56m, 1HFY22 core earnings at RM87m**
- **First half results already exceed both ours and consensus full year estimates**
- **Construction posts +31.5%yoy increase in revenue but earnings declined -11.6% to RM29.7m in 1HFY22**
- **Property investment and management earnings records strong growth of +30%yoy to RM49.2m**
- **Maintain BUY with an unchanged TP of RM0.86, pending earnings call with management**

Above expectations. WCT Holdings Berhad (WCT)'s 2QFY22 core earnings more than tripled to RM56m, while its 1HFY22 marked a return to the black at RM87m, as compared to a loss of RM24.6m in the same period last year. This came in above ours and consensus expectations, already exceeding full year estimates by 0.3% and 35.8% respectively.

Stronger Engineering and Construction numbers. This is still WCT's main revenue contributor, making up 81% of the group's revenue. There was a +31.5%yoy increase in revenue to RM749.5m in 1HFY22, while the operating profit declined -63.6%yoy to RM29.7m. Comparatively, the higher operating profit of RM81.6m in 1HFY21 was due to the RM48m reversal of accrual costs arising from a settlement of arbitration award. Omitting this, the decline would have only been -11.6%yoy.

Property Development. Revenue from this segment grew +39.2%yoy to RM324m in 1HFY22, while operating profit declined -51.7%yoy to RM44.4m. The higher operating profit in the previous period was due to higher profit recognised from disposal of vacant lands of RM76m, as compared to RM56m in the current period.

Property Investment and Management. The pick up in activities that came with the lifting of Covid-9 restrictions led to steady growth in revenue by +19.9% to RM92.4m while operating profit jumped +30% to RM49.2m. We expect business activities at shopping malls and hotels managed by WCT to maintain its positive momentum, aided by the reopening of borders.

Earnings estimates. We revise our top line estimates for FY22E to RM2.27b (previously RM2.17b) and core earnings to RM113.3m (previously RM86.7m) to account for its better than expected results. We are maintaining our FY23-FY25 earnings projections for now, pending guidance from management in a briefing that will be held today.

Target price. Likewise, we are retaining our **TP of RM0.86** pending further guidance, which was ascribed by pegging a PER of 13x to the FY23F EPS of 6.6sen.

Maintain BUY. We are positive on the WCT's earnings outlook on the back of higher level of operations as Malaysia heads towards the transition into the endemic phase. Prospects remains bright with an outstanding construction order book of about RM4.4b, with a

RETURN STATISTICS	
Price @ 30th August 2022 (RM)	**0.43**
Expected share price return (%)	**+100**
Expected dividend yield (%)	**0.00**
Expected total return (%)	**+100**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.1	-2.4
3 months	-4.4	-13.1
12 months	-20.4	-15.7

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	1417.24
Estimated free float (%)	55.36
Market Capitalisation (RM'm)	609.41
52-wk price range	RM0.41 - RM0.71
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	0.00
Monthly volatility (%)	33.08
3-mth average daily volume (m)	0.84
3-mth average daily value (RM'm)	0.38
Top Shareholders (%)	
Dominion Nexus Sdn Bhd	18.15
Lim Siew Choon	7.42
Amanah Saham Nasional Bhd	5.82

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replenishment target of between RM1b and RM2b over the next two years. WCT remains a strong contender and major beneficiary for the continuation of mega infrastructure works, premised on the group's strong track record and vast experience in railway, highway and building projects. The group has also previously indicated interest to tender for one of the MRT3 packages. We opine that it may need strong JV/consortium partners with stronger financial backing so as to increase its chances of winning a tender. The net gearing of WCT currently stands at about 69.3%. All factors considered, we are still maintaining our **BUY** recommendation on WCT.

INVESTMENT STATISTICS

Annual Standardized (All in RM'm, unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue	1,704.6	1,752.6	2,265.90	2,297.9	2,435.7
Cost of sales	(1,421.5)	(1,631.1)	(1,903.53)	(1,930.7)	(2,097.3)
Gross profit	283.1	121.5	362.37	367.2	338.4
Operating Profit	86.0	458.5	271.91	284.9	302.0
Finance Costs	-119.8	-146.3	(135.95)	-137.9	-146.1
Profit Before Tax	-144.9	277.9	181.27	195.3	207.0
Tax	-34.8	-137.8	(39.88)	-43.0	-45.6
PATAMI	-213.6	97.3	113.30	91.9	97.4
Core Profit	-230.8	-48.7	113.30	91.9	97.4
Core EPS (sen)	-16	-3.5	0.080	6.6	6.9
DPS (sen)	0.00	0.00	0.00	0.00	0.00

Source: Company, MIDFR

WCT HOLDINGS BHD: 2QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q222**	**Q122**	**Q221**	**QoQ**	**YoY**	**1H22**	**1H21**	**YoY**
Revenue	561.2	604.7	435.6	**-7%**	**29%**	1,165.9	879.9	**33%**
Cost of sales	(508.1)	(487.7)	(352.9)	**-4%**	**-44%**	(995.8)	(667.5)	**-49%**
Gross profit	53.1	117.0	82.8	**-55%**	**-36%**	170.1	212.4	**-20%**
Operating Expenses	(23.1)	(23.7)	(23.6)	**3%**	**2%**	(46.8)	(1.0)	**-4678%**
Operating Profit	30.0	93.3	59.2	**-68%**	**-49%**	123.3	211.4	**-42%**
Finance Costs	(26.8)	(27.3)	(29.0)	**2%**	**8%**	(54.1)	(57.8)	**6%**
Shares of JV & Assoc.	(0.2)	(4.8)	(3.5)	**97%**	**96%**	(5.0)	(15.7)	**68%**
Profit Before Tax	3.1	61.2	26.7	**-95%**	**-88%**	64.2	138.0	**-53%**
Tax	54.7	(7.8)	(11.7)	**799%**	**566%**	46.9	(35.3)	**233%**
Perps.	0.0	24.0	0.0	**-100%**	**0**	24.0	24.0	**0%**
PATAMI	58.5	30.6	16.1	**91%**	**263%**	89.0	81.5	**9%**
Core Profit	56.0	31.0	16.2	**80%**	**245%**	87.0	(24.6)	**454%**

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology