Corporate Update | Friday, 02 September 2022

WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

Maintain BUY

Taking a step back

***Revised* Target Price: RM0.57**
(previously RM0.86)

KEY INVESTMENT HIGHLIGHTS

- **Removed one-off tax provision reversal of RM62.8m, 1HFY22 core earnings of RM24.2m below expectations**
- **Outstanding order book at RM4.1b, no wins yet for FY22; tender book stands at RM9b**
- **Property progress billings to accelerate but losses expected**
- **RM2.74b of property launches deferred to FY23**
- **Occupancy rate at malls to grow in 3QFY22**
- **FY22 core earnings estimates slashed to RM50.5m**
- **Maintain BUY with revised TP of RM0.57**

Reversal of tax provision. WCT Holdings Berhad (WCT)'s bottom line figure for the 1HFY22 included a one-off tax provision reversal of RM62.8m, arising from an arbitration settlement. Removing this, the group's core earnings for the period was actually RM24.2m, which was below expectations, making up 27.9% of our full year estimates and 37.8% of consensus' full year estimates.

No job wins yet in FY22. WCT's outstanding order book stood at RM4.09b as at June 30, providing earnings visibility until FY24 but the group has yet to secure any new jobs this year. Tender book level currently stands at over RM9b, comprising RM5b of civil and infrastructure jobs and RM4b of building works. WCT indicated that it is ready to submit its tender for package CMC301 for the MRT3, which is expected to be for 6km of elevated works, of which our estimates point to about RM2.79b. Management guided that the value of the tender is roughly RM3b and that it will be going in with a Bumiputra partner.

Property development to remain in the red. Management guided that it still expects losses from the property development division in 2HFY22. Though progress billings are expected to accelerate, it would be insufficient to lift the division's bottom line back to the black. For 2QFY22, the division posted a loss of RM11.8m. WCT has revised its property sales target lower from RM1b to RM600m, due to deferments of a few project launches due to the current market sentiments, uncertainties in raw material prices, interest rate revisions and labour shortage. The deferments will involve Pavilion Mont Kiara, W City OUG and W City JGCC, with an estimated gross development value (GDV) of RM2.74b. The only project that was launched this year was the 181-unit Adenia Apartments in Klang. Management's focus for 2HFY22 will to be to clear its completed inventories, the balance of which are 501 units with a net development value of RM433m. Some 49% of these units are in the Klang Valley and the other 51% are located in Johor. In terms of land bank for future development, WCT has 214 acres as at June 30, broken down into 189 acres for mixed development and 25 acres for residential development.

A good quarter for malls. The occupancy rate of WCT's retail malls remains steady and management is expecting this to grow in 3QFY22 as it recorded an increase in sign ups among retailers over the past two months. The Bukit Tinggi Shopping Centre is now at 100% occupancy rate; Paradigm Mall PJ (97%); Paradigm Mall JB (88%);

RETURN STATISTICS	
Price @ 1st Sept 2022 (RM)	**0.455**
Expected share price return (%)	**+25.3**
Expected dividend yield (%)	**0.0**
Expected total return (%)	**+25.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.1	-1.1
3 months	1.1	-6.1
12 months	-15.7	-9.6

KEY STATISTICS	
FBM KLCI	1,491.95
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)	644.84
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)	0.82
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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gateway@klia2 (82%) and Subang SkyPark (79%). Footfalls at malls have improved, though still slightly below 2019 levels but management has noticed that the average basket size of mall visitors have risen above 2019 levels. Sales observed at and gateway@klia2 and Subang SkyPark have also doubled. Management expects this trend to persist, mainly due to additional flights that will be added by mid-Sept. Recall that the property investment and management division's 1HFY22 revenue grew +19.9% to RM92.4m while operating profit jumped +30% to RM49.2m.

Earnings estimates. We are slashing our FY22 core earnings estimate to RM50.51m (previously RM113.3m) to take into account the expected losses from the property development division and the absence of construction job wins. Our FY23F-FY24F core earnings estimates are also revised to RM74.3m-RM78.9m.

Target price. In line with the revision in earnings estimates, we lower our **TP** to **RM0.57** (previously RM0.86), which was derived by pegging a five-year historical mean PER of 10.8x to the group's FY23F EPS of 5.3 sen.

Maintain BUY. We still remain positive on WCT's prospects as it 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. While it is not that rosy on the property development side, we like that its property investment and management division has improved to pre-pandemic levels, standing in to fill the earnings gap and potentially give WCT's bottom line a boost in the near future. We maintain our **BUY** recommendation on WCT.

INVESTMENT STATISTICS

Annual Standardized (All in RM'm unless otherwise stated)	2020A	2021A	2022F	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	249.25	263.37	279.51
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	50.51	74.34	78.89
Core EPS	-16	-3.5	3.6	5.3	5.6
DPS	0.00	0.00	0.00	0.00	0.00

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