WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

Maintain BUY

Lacking job replenishments

***Unchanged* Target Price: RM0.57**

KEY INVESTMENT HIGHLIGHTS

- **3QFY22 core earnings rebounded to RM7.5m**
- **9MFY22 core earnings at RM31.7m, below ours and consensus estimates**
- **Construction records PBT of RM46.1m for the quarter, margins improve from 4.6% to 13.1%**
- **Property investment and management earnings remains resilient with PBT growth of +27.9%yoy to RM24.3m**
- **Maintain BUY with an unchanged TP of RM0.57, pending earnings call with management**

Below expectations. WCT Holdings Berhad (WCT) registered a core net profit of RM7.5m in 3QFY22, rebounding from a core net loss of -RM75.1m in the same quarter last year. For the cumulative 9MFY22, the group's core earnings rebounded into the black at RM31.7m as compared -RM99.7m in 9MFY21. However, this was below ours and consensus expectations, making up 62.8% and 58.4% of full-year estimates respectively.

Stronger engineering and construction numbers. Revenue from the segment declined -6.4%yoy for the quarter to RM351.1m, but operating profit grew 2.6 times to RM46.1m, giving it a sizeable increase in margins from 4.6% to 13.1%. On a year-to-date basis, PBT actually rose +48.5%yoy to RM75.8m after stripping off a RM48m reversal of accrual in the same period last year.

Property development. Revenue from this segment doubled to RM72.6m for the quarter while its operating losses halved to -RM3.3m. Year-to-date, operating profit also halved to RM41.1m, which the group attributed to lower profit recognised from disposal of vacant lands of RM56m as compared to RM76m in the same period last year.

Property investment and management. Business activities continued picking up with the relaxation of Covid-19 restrictions, giving the segment a +27.9%yoy increase in operating profit to RM24.3m for the quarter, on the back of a +16.1%yoy increase in revenue to RM46.4m. We believe most of its malls are now close to full occupancy rate and we expect the segment to maintain its positive momentum.

Yet to replenish order book in FY22? We estimate that WCT's outstanding order book should be north of RM3.5b. As no announcements were made within the quarter, we believe the group has yet to secure any new jobs this year, which may weigh on its earnings visibility moving forward.

Earnings estimates. We are maintaining our earnings projections for now pending further guidance from management in post-earnings briefing today.

Target price. Likewise, we are retaining our TP of RM0.57 which was derived by pegging a five-year historical mean PER of 10.8x to the group's FY23F EPS of 5.3 sen.

RETURN STATISTICS	
Price @ 29th Nov 2022 (RM)	**0.43**
Expected share price return (%)	**+32.6**
Expected dividend yield (%)	**0.0**
Expected total return (%)	**+32.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	21.1	18.7
3 months	4.9	1.6
12 months	-23.9	-22.1

KEY STATISTICS	
FBM KLCI	1,476.96
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	RM0.34 - RM0.61
Beta vs FBM KLCI (x)	0.75
3-mth average daily volume (m)	2.25
3-mth average daily value (RM'm)	0.85
Top Shareholders (%)	
Dominion Nexus Sdn Bhd	18.15
Lim Siew Choon	7.42
Amanah Saham Nasional Bhd	5.82

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Maintain BUY. We like that WCT's construction profit margins are improving but we are concerned over its non-progress in order book replenishment this year. The group has a rather extensive portfolio building government buildings, hospitals and infrastructures, which makes it a strong contender for the rollout of such projects by the new administration. We maintain 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	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 (sen)	-16	-3.5	3.6	5.3	5.6
DPS (sen)	0.00	0.00	0.00	0.00	0.00

Source: Company, MIDFR

WCT HOLDINGS BHD: 3QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q322**	**Q222**	**Q321**	**QoQ**	**YoY**	**9M22**	**9M21**	**YoY**
Revenue	470.0	561.2	451.7	**-16%**	**4%**	1,635.9	1,331.6	**23%**
Cost of sales	(388.0)	(508.1)	(409.7)	**24%**	**5%**	(1,383.8)	(1,077.2)	**-28%**
Gross profit	82.0	53.1	42.1	**54%**	**95%**	252.1	254.4	**-1%**
Operating Expenses	(15.0)	(23.1)	(12.3)	**35%**	**-22%**	(61.8)	(13.3)	**-365%**
Operating Profit	67.0	30.0	29.8	**123%**	**125%**	190.3	241.1	**-21%**
Finance Costs	(26.8)	(26.8)	(31.1)	**0%**	**14%**	(81.0)	(88.8)	**9%**
Shares of JV & Assoc.	3.6	(0.2)	(7.1)	**2477%**	**150%**	(1.4)	(22.8)	**94%**
Profit Before Tax	43.8	3.1	(8.4)	**1324%**	**620%**	108.0	129.5	**-17%**
Tax	(8.1)	54.7	(4.2)	**-115%**	**-94%**	38.8	(39.5)	**198%**
Perps.	(1.0)	(0.7)	(1.4)	**-50%**	**26%**	(2.9)	(4.3)	**32%**
PATAMI	24.2	0.0	24.1	**0**	**1%**	48.2	48.0	**0%**
Core Profit	12.5	58.5	(35.2)	**-79%**	**135%**	101.5	46.3	**119%**

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