Corporate Update| Wednesday, 01 March 2023

WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

Maintain BUY

Favouring infra for a shift

***Revised* Target Price: RM0.58**
(previously RM0.57)

KEY INVESTMENT HIGHLIGHTS

- **WCT targets to take on more infrastructure projects (70%) over buildings (30%)**
- **Outstanding order book of RM3.53b, no wins in FY22. RM3b target for FY23**
- **Plans to diversify to Middle East and Borneo Island**
- **Aiming to participate in redevelopment of Subang Airport**
- **Margins from malls to improve in FY23**
- **Maintain BUY with revised TP of RM0.58**

Shift in strategy for FY23. WCT Holdings Bhd is shifting is strategy in FY23 onwards to target more infrastructure projects over buildings, in line with the foreseeable type of jobs that would be rolled out and also due to the higher margins from such projects. As of FY22, the group's outstanding order book comprise 35% local civil and infrastructure projects while local buildings made up 65%. Management intends to realign this to 70% infrastructure and 30% buildings.

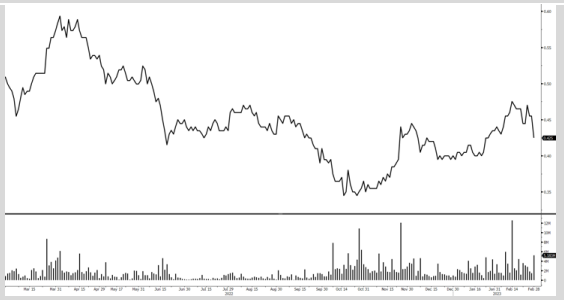
Striving to replenish jobs. This is of course premised on WCT's ability to secure jobs ups it alley. The group has been intensifying its efforts to replenish its order book and now has over RM9b of jobs in its tender book – about RM5b of infrastructure jobs and RM4b of building works. As it did not manage to secure any jobs in FY22, WCT's current outstanding order stood at RM3.53b as at Dec-22. About RM1.48b (42%) of these projects are expected to be completed this year, escalating the urgency to win new jobs. WCT has a target to secure RM3b of new jobs in FY23, or at least 30% of its tender book, which should be able to provide it with earnings visibility up to FY26. Among jobs on its radar are flood mitigation projects, ECRL and MRT3 packages and road projects in Sabah and Sarawak.

Diversifying overseas again. WCT also seeks to diversify overseas, so that its revenue is not overly reliant on jobs from Peninsula Malaysia. It aims to have 15% come from overseas jobs such as in the Middle East and also 20% from the Borneo Island, where it is also seeking jobs in Kalimantan, besides Sabah and Sarawak. Management's decision to tap the Nusantara opportunities make sense due to the proximity as it already has the manpower and machinery in Sarawak as it is currently working on one of the portions of the Pan Borneo Highway. According to management, it would be easy to transfer their equipment over. It is currently exploring opportunities with local players in Kalimantan on teaming up to take on infrastructure works there.

Subang airport redevelopment. WCT is currently in advanced stages of discussion with relevant stakeholders. It is the concession holder of the airport and it hopes to have an active participation role in the redevelopment. It is planning to submit a proposal to the Transport and Finance Ministries by the end of March.

RETURN STATISTICS	
Price @ 28th Feb 2023 (RM)	**0.425**
Expected share price return (%)	**+36.47**
Expected dividend yield (%)	**+0.86**
Expected total return (%)	**+37.33**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.8	8.9
3 months	13.8	9.3
12 months	-10.8	-2.4

KEY STATISTICS	
FBM KLCI	1,454.19
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	RM0.34 - RM0.61
Beta vs FBM KLCI (x)	0.85
3-mth average daily volume (m)	2.48
3-mth average daily value (RM'm)	1.07
Top Shareholders (%)	
Dominion Nexus Sdn Bhd	18.15
Lim Siew Choon	7.42
Amanah Saham Nasional Bhd	5.82

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Malls to deliver better performance. Management also expects stronger performance from its retail malls in FY23 on the back of high occupancy rates and higher footfall post-Covid. Improvement in margins can be expected as WCT has ended its rental rebates to help its tenants tide through the tough times since 2020. As for the gateway@klia2 mall in Sepang, WCT expects a gradual improvement this year as more flights are being added back again.

Earnings estimates. We are raising our FY23E revenue expectations by +2.7% to RM2.36b and core earnings by +4.7% to RM77.9m

Target price. We upgrade our TP slightly to RM0.58, derived by pegging a five-year historical mean PER of 10.8x to the group's FY23F EPS of 5.4 sen.

Maintain BUY. We like WCT's shift in strategy which favours infrastructure projects, allowing them to tap on the various roads and flood mitigation initiatives that were announced during the tabling of Budget 2023. This is also the right timing for the group to strengthen its foothold in East Malaysia as the government remains committed to developing Sabah and Sarawak, which would translate into more jobs. As mentioned above, this will be predicated on WCT's strategy on winning jobs that it bid for. We are positive on WCT's prospects moving forward and maintain our **BUY** recommendation.

INVESTMENT STATISTICS

Annual Standardized (All in RM'm unless otherwise stated)	2020A	2021A	2022A	2023F	2024F
Revenue	1,704.6	1,752.6	2,102.41	2,359.7	2,435.7
Cost of sales	(1,421.5)	(1,631.1)	(1,842.94)	(1,984.5)	(2,097.3)
Gross profit	283.1	121.5	259.47	375.2	338.4
Operating Profit	86.0	458.5	223.26	292.6	279.51
Finance Costs	-119.8	-146.3	(110.11)	(141.6)	-146.1
Profit Before Tax	-144.9	277.9	139.73	200.	207.0
Tax	-34.8	-137.8	31.55	(44.13)	-45.6
PATAMI	-213.6	97.3	127.16	77.87	97.4
Core Profit	-230.8	-48.7	53.60	77.87	78.89
Core EPS	-16	-3.5	3.8	5.4	5.6
DPS (sen)	0.5	0.5	0.5	0.5	10.5

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