# WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

## Job Replenishment May Soon be Coming

***Maintain* BUY**

***Revised* Target Price: RM0.52**
*(previously RM0.58)*

## KEY INVESTMENT HIGHLIGHTS

- **Core net loss of -RM8.0m in 1QFY23, below expectations**
- **Construction PBT declined -38.0%yoy to RM9.1m**
- **Lower property development PBT of RM6.3m due to land sales in previous corresponding quarter**
- **Improving construction job flows to aid in order book replenishment**
- **Maintain BUY with a revised TP of RM0.52**

**Below expectations.** WCT Holdings Bhd (WCT) suffered a core net loss of -RM8.0m in 1QFY23, as compared to core earnings of RM50.3m in 1QFY22. This came in behind ours and consensus estimates that expected the group to be profitable for the quarter.

**Engineering and construction.** While revenue from the engineering and construction segment grew +4.1%yoy to RM304.3m, the PBT declined -38.0%yoy to RM9.1m where margins dipped from 5.0% to 3.0%.

**Property development.** Revenue from the segment plunged from RM268.6m to RM48.4m while the PBT declined from RM56.2m to RM6.3m. This was mainly due to sale of vacant lands in 1QFY22 amounting to RM214m, which generated a PBT of RM56m.

**Property investment and management.** There was a +18.4%yoy increase in revenue to RM52.0m, which led to a +21.9%yoy increase in PBT to RM27.4m during the quarter on the back of a pickup in business activities. We note that WCT's retail malls are enjoying higher occupancy rates and footfall post-Covid reopening.

**Still behind on new jobs.** There have been no new developments or announcements to suggest that WCT has won any new job this year. The group did not manage to replenish its order book in FY22 and we estimate the outstanding amount to be about RM3.2b currently. About 37% of these outstanding projects are expected to be completed this year, which pushes the need for the group to secure new jobs for further earnings clarity. Recall that the group is targetting a RM3b replenishment target for FY23, which should provide earnings visibility up to FY23.

**Earnings estimates.** We are slashing our FY23E revenue estimate by -10.9% to RM1.87b and our core earnings estimate by -16.9% to RM61.8m. For FY24F, we are revising our top and bottom lines by -19.2% and -5.2% respectively to RM1.97b and RM74.8m.

**Target price.** We are revising our TP to **RM0.52** from RM0.58. This is based on pegging two-year mean PER of 9.9x to the group's FY24F EPS of 5.3sen as we roll forward our valuation to the next financial year.

**Maintain BUY.** We are still optimistic on WCT's prospects, given the expected improvement in construction job flows, which should aid in replenishing its order book that has not seen any new projects since last

| RETURN STATISTICS | |
|---|---|
| Price @ 25th May 2023 (RM) | 0.415 |
| Expected share price return (%) | +25.30 |
| Expected dividend yield (%) | +0.96 |
| **Expected total return (%)** | **+26.26** |

**SHARE PRICE CHART**



| Price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | -5.7 | -4.2 |
| 3 months | -2.4 | -5.3 |
| 12 months | -18.6 | -10.9 |

**INVESTMENT STATISTICS**

| FYE Dec | 2023E | 2024F | 2025F |
|---|---|---|---|
| Revenue | 1,873.34 | 1,967.01 | 2,254.11 |
| Operating Profit | 232.29 | 243.91 | 279.51 |
| Profit Before Tax | 159.23 | 167.20 | 191.60 |
| Core PATAMI | 61.82 | 74.75 | 67.62 |
| Core EPS | 4.4 | 5.3 | 4.8 |
| DPS (sen) | 0.5 | 0.5 | 0.5 |
| Dividend Yield | 1.0% | 1.0% | 1.0% |

**KEY STATISTICS**

| | |
|---|---|
| FBM KLCI | 1,402.48 |
| Issue shares (m) | 1417.24 |
| Estimated free float (%) | 57.01 |
| Market Capitalisation (RM'm) | 588.15 |
| 52-wk price range | RM0.34-RM0.53 |
| 3-mth average daily volume (m) | 2.10 |
| 3-mth average daily value (RM'm) | 0.91 |
| Top Shareholders (%) | |
| Dominion Nexus Sdn Bhd | 18.15 |
| Lim Siew Choon | 7.42 |
| Amanah Saham Nasional Bhd | 5.82 |

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year. Recall that management previously mentioned that the group would realign its focus towards infrastructure projects. And going by news reports, it is said that WCT would be working with Malaysia Airports Holdings Berhad to revamp the Subang Airport. This would be a positive development for the group in terms of order book replenishment and earnings visibility. Considering the factors above and its prospects, we maintain our **BUY** recommendation on **WCT**.

## WCT HOLDINGS BERHAD: 1QFY22 RESULTS SUMMARY

| All in RM'm unless stated otherwise | Quarterly Results | | | | |
|---|---|---|---|---|---|
| **Income Statement** | **1Q23** | **4Q22** | **1Q22** | **QoQ** | **YoY** |
| Revenue | 404.6 | 466.5 | 604.7 | **-13.3%** | **-33.1%** |
| Cost of sales | (339.9) | (459.1) | (487.7) | **26.0%** | **30.3%** |
| Gross profit | 64.7 | 7.3 | 117.0 | **>+100%** | **-44.7%** |
| Operating Expenses | (22.0) | 25.6 | (23.7) | **-185.9%** | **7.2%** |
| Operating Profit | 42.7 | 32.9 | 93.3 | **29.8%** | **-54.2%** |
| Finance Costs | (29.3) | (29.1) | (27.3) | **-0.4%** | **-7.1%** |
| Shares of JV & Assoc. | 6.2 | 28.0 | (4.8) | **-77.7%** | **>+100%** |
| Profit Before Tax | 19.7 | 31.7 | 61.2 | **-37.9%** | **-67.8%** |
| Tax | (4.3) | (7.3) | (7.8) | **40.6%** | **44.7%** |
| Minority Interest | (0.7) | (1.2) | (1.2) | **37.1%** | **38.0%** |
| Perps. | 23.8 | - | 24.0 | **0** | **-0.7%** |
| PATAMI | (7.7) | 25.6 | 30.6 | **<-100%** | **<-100%** |
| Core Profit | (8.0) | 21.9 | 31.0 | **<-100%** | **<-100%** |

## FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Revenue | 1,699.67 | 2,102.41 | 1,873.34 | 1,967.01 | 2,254.11 |
| Gross profit | 121.48 | 259.47 | 281.78 | 250.21 | 266.27 |
| Operating profit | 431.71 | 223.26 | 232.29 | 243.91 | 279.51 |
| Finance cost | (118.13) | (110.11) | (112.40) | (118.02) | (135.25) |
| Profit before tax | 277.88 | 139.73 | 159.23 | 167.20 | 191.60 |
| Tax | (137.91) | 31.55 | (35.03) | (36.78) | (42.15) |
| PATAMI | 97.25 | 127.16 | 61.82 | 74.75 | 67.62 |
| Core PATAMI | (49.39) | 53.60 | 61.82 | 74.75 | 67.62 |

| Balance Sheet (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Fixed assets | 339.8 | 364.3 | 327.9 | 331.1 | 337.8 |
| Intangible assets | 4,567.8 | 4,565.7 | 4,520.0 | 4,565.2 | 4,610.8 |
| **Non-current assets** | **4,907.6** | **4,930.0** | **4,847.9** | **4,896.3** | **4,948.6** |
| Cash | 283.7 | 234.7 | 305.0 | 318.7 | 336.6 |
| Trade debtors | 869.3 | 744.6 | 752.0 | 763.3 | 801.5 |
| **Current assets** | **3,310.4** | **3,338.8** | **3,099.1** | **3,193.3** | **3,402.5** |
| Trade creditors | 703.0 | 794.8 | 636.7 | 686.9 | 795.4 |
| Short-term debt | 1,741.3 | 1,629.8 | 1,548.3 | 1,470.9 | 1,456.0 |
| **Current liabilities** | **2,864.8** | **2,670.0** | **2,185.0** | **2,157.8** | **2,251.4** |
| Long-term debt | 1,097.1 | 1,167.8 | 1,229.7 | 1,294.9 | 1,363.5 |
| **Non-current liabilities** | **1,603.0** | **1,704.8** | **1,795.2** | **1,890.3** | **1,990.5** |
| Share capital | 3,212.8 | 3,212.8 | 3,212.8 | 3,212.8 | 3,212.8 |
| Retained earnings | 1,307.3 | 1,427.4 | 1,489.2 | 1,564.0 | 1,631.6 |
| **Equity** | **3,761.2** | **3,905.0** | **3,966.8** | **4,041.5** | **4,109.2** |

| Cash Flow (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| PBT | **277.9** | **139.7** | **159.2** | **167.2** | **191.6** |
| **Operating cash flow** | **175.3** | **227.3** | **236.4** | **248.2** | **273.0** |
| Capital expenditure | -26.8 | -46.4 | -43.7 | -48.0 | -52.8 |
| **Investing cash flow** | **-55.9** | **-48.9** | **-46.5** | **-51.1** | **-56.2** |
| Debt raised/(repaid) | -118.2 | -40.8 | -56.2 | -55.0 | -65.0 |
| Dividends paid | - | -7.1 | -7.1 | -7.1 | -7.1 |
| **Financing cash flow** | **-347.0** | **-254.4** | **-249.3** | **-244.3** | **-239.4** |
| **Net cash flow** | **-227.6** | **-76.0** | **-59.4** | **-47.2** | **-22.6** |
| **Beginning cash flow** | **469.3** | **222.1** | **167.0** | **107.6** | **60.4** |
| Forex differences | -19.6 | 20.9 | - | - | - |
| **Ending cash flow** | **222.1** | **167.0** | **107.6** | **60.4** | **37.8** |
| **Cash Flow (RM'm)** | **2021A** | **2022A** | **2023E** | **2024F** | **2025F** |
| PBT | **277.9** | **139.7** | **159.2** | **167.2** | **191.6** |

| Profitability Margins | 2021A | 2022A | 2023E | 2024F | 2025F |
|---|---|---|---|---|---|
| Gross profit margin | 7.1% | 12.3% | 15.0% | 12.7% | 11.8% |
| Operating profit margin | 25.4% | 12.0% | 12.4% | 12.4% | 12.4% |
| PBT margin | 16.3% | 8.0% | 8.5% | 8.5% | 8.5% |
| PAT margin | 5.7% | 4.0% | 3.0% | 3.8% | 3.0% |
| Core PAT margin | -2.9% | 2.5% | 3.0% | 3.8% | 3.0% |

*Source: Bloomberg, 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