



AmInvestment Bank

Company report

WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

30 Nov 2022

Dragged by property segment

HOLD

(Maintained)

AmInvestment Bank

Team Coverage

03-2070 2444

Rationale for report: Company result

Price	RM0.43
Fair Value	RM0.39
52-week High/Low	RM0.61/RM0.34

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,699.7	2,616.7	2,772.2	2,364.4
Core net profit (RM mil)	(278.3)	18.8	61.7	61.3
FD Core EPS (sen)	(19.6)	1.3	4.4	4.3
FD Core EPS growth (%)	132.2	(106.8)	227.7	(0.7)
Consensus Net Profit (RM mil)	-	54.3	71.2	94.5
DPS (sen)	0.5	-	-	-
PE (x)	nm	32.4	9.9	10.0
EV/EBITDA (x)	45.4	13.9	10.8	9.7
Div yield (%)	1.2	-	-	-
ROE (%)	3.3	0.6	2.0	2.0
Net Gearing (%)	95.1	90.4	81.9	69.1

Stock and Financial Data

Shares Outstanding (million)	1,418.2
Market Cap (RM mil)	609.8
Book Value (RM/share)	2.11
P/BV (x)	0.2
ROE (%)	3.3
Net Gearing (%)	95.1

Major Shareholders	Dominion Nexus (18.2%) TS Desmond Lim (7.4%) Amanah Saham Nasional (5.8%)
Free Float	68.6
Avg Daily Value (RM mil)	0.9

Price performance	3mth	6mth	12mth
Absolute (%)	-	(15.7)	(23.9)
Relative (%)	1.6	(11.7)	(22.1)



— WCTHG MK — FBMKLCI Index

Investment Highlights

- We maintain HOLD on WCT Holdings (WCT) based on a lower fair value (FV) of RM0.39/share (vs RM0.43/share previously). Our fair value of RM0.39/share is based on a 9x FY23F PE, in line with our benchmark for small-cap construction stocks. There is no FV adjustments for ESG based on our 3-star rating.
- We deem WCT's 9MFY22 core net loss (CNL) of RM27mil to be below expectations vs. our original FY22F CNP of RM51mil and consensus estimate of RM54.3mil. The deviation came from lower than expected property earnings. As such, we slash our earnings estimates by 63% for FY22F, and 14% each for FY23F & FY24F.
- YoY, WCT's CNL shrank 77% YoY to RM27mil in 9MFY22. One-offs in 9MFY22 included gains from the sale of Sungai Buaya land (RM56mil) and reversal of tax provision on a gain from the settlement of arbitration award in relation to the WCT-Meydan suit in the Middle East (RM63mil).
- Excluding the RM49mil reversal of accrued cost from the WCT-Meydan suit in 9MFY21, construction EBIT grew 52% to RM76mil in 9MFY22 from RM50mil in 9MFY21 as revenue improved by 17% to RM1.1bil and core EBIT margin rose 1.8%-point to 6.9%.
- WCT's property development revenue (ex-land disposals) grew 36% to RM183mil in 9MFY22 from RM135mil in 9MFY21. However, the division recorded a loss of RM15mil in 9MFY22 compared to an EBIT of RM9mil in 9MFY21 as most of the properties were sold at lower prices.
- Property investment EBIT expanded 29% YoY to RM73mil in 9MFY22, in tandem with revenue growth of 19% YoY to RM139mil. This was attributed to increased post-pandemic footfalls at the shopping malls.

- Going forward, WCT's challenges include (i) weaker-than-expected recovery of job flows; (ii) eroding profit margins from rising building material costs and labour shortages; and (iii) delays/cost revisions of mega projects.
- WCT is currently trading at a slightly higher FY23F PE of 10x compared to 9x for our benchmark for small-cap construction stocks, with no prospective dividend yields.

EXHIBIT 1: QUARTERLY RESULTS								
FYE 31 Dec, RM mil	3QFY21	2QFY22	3QFY22	QoQ %	YoY %	9MFY21	9MFY22	YoY %
Revenue	451.7	561.2	470.0	(16.2)	4.1	1,331.6	1,635.9	22.9
EBITDA	(3.4)	32.0	67.2	>100.0	>100.0	94.1	142.4	51.3
EBIT	(14.1)	21.7	57.0	>100.0	>100.0	61.7	111.9	81.4
Exceptional Items	38.8	3.8	5.2	36.2	(86.5)	164.3	65.2	(60.3)
PBT	(8.4)	3.1	43.8	>100.0	>100.0	129.5	108.0	(16.6)
Taxation	(4.2)	(8.3)	(8.1)	(2.5)	94.1	(39.5)	(24.2)	(38.8)
Perpetual Sukuk	(24.1)	-	(24.2)	-	0.7	(48.0)	(48.2)	0.3
Minority interest	1.4	0.7	1.0	49.6	(26.4)	4.3	2.9	(32.0)
Net Profit	(35.2)	(4.5)	12.5	>100.0	>100.0	46.3	38.5	(16.7)
Core Net Profit	(74.1)	(8.4)	7.3	>100.0	>100.0	(118.0)	(26.6)	(77.4)
Core EPS (sen)	(5.2)	(0.6)	0.5	>100.0	>100.0	(8.3)	(1.9)	(77.4)
EBITDA Margin	(0.7)	5.7	14.3			7.1	8.7	
EBIT Margin	(3.1)	3.9	12.1			4.6	6.8	
PBT Margin	(1.9)	0.5	9.3			9.7	6.6	
Effective Tax Rate	(49.4)	>100	18.4			30.5	22.4	
Core Net Profit Margin	(16.4)	(1.5)	1.5			(8.9)	(1.6)	

Note: Taxation in 2QFY22 and 9MFY22 is adjusted for reversal of provision for tax on the gain from settlement of arbitration award amounting to RM63mil.
Source: Company

EXHIBIT 2: SEGMENTAL BREAKDOWN								
FYE 31 Dec, RM mil	3QFY21	2QFY22	3QFY22	QoQ %	YoY %	9MFY21	9MFY22	YoY %
Segmental Revenue								
Engineering & Construction	375.0	457.3	351.1	(23.2)	(6.4)	945.1	1,100.6	16.5
Property Development	36.8	55.3	72.6	31.2	97.1	269.5	396.5	47.1
Property Investment	39.9	48.6	46.4	(4.5)	16.1	117.0	138.8	18.6
Segmental EBIT								
Engineering & Construction	17.4	15.1	46.1	>100.0	>100.0	99.0	75.8	(23.4)
Property Development	(6.6)	(11.8)	(3.3)	(71.7)	(49.8)	85.3	41.1	(51.8)
Property Investment	19.0	26.7	24.3	(9.2)	27.9	56.8	73.4	29.3
Segmental EBIT Margins								
Engineering & Construction	4.6	3.3	13.1			10.5	6.9	
Property Development	(18.0)	(21.3)	(4.6)			31.7	10.4	
Property Investment	47.5	55.0	52.3			48.5	52.9	

Source: Company

EXHIBIT 3: PB BAND CHART

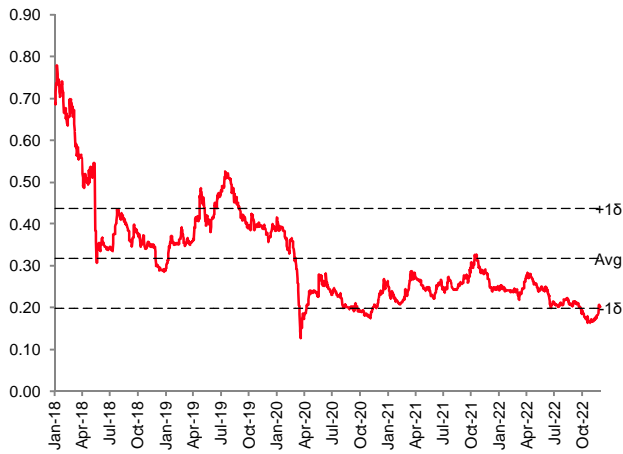


EXHIBIT 4: PE BAND CHART

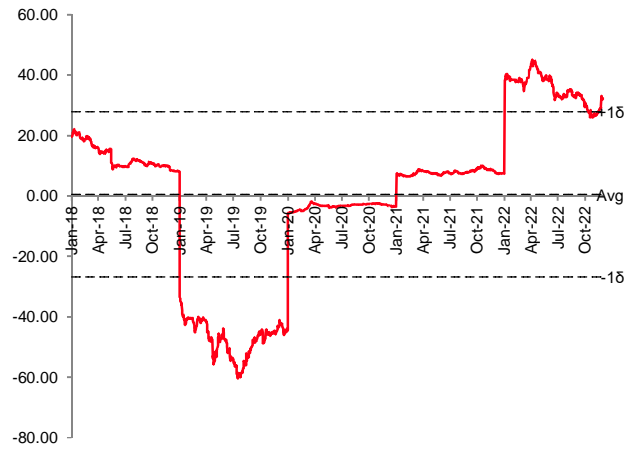


EXHIBIT 5: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★	★		
Work site safety	★	★	★		
Migrant worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★	★	★
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★		
Gender diversity	★	★			

We accord a discount/premium of **-6%, -3%, 0%, +3%** and **+6%** on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	1,704.6	1,699.7	2,616.7	2,772.2	2,364.4
EBITDA	194.8	76.1	239.2	288.5	284.9
Depreciation/Amortisation	(38.0)	(41.8)	(38.2)	(39.2)	(40.3)
Operating income (EBIT)	156.8	34.3	201.0	249.4	244.7
Other income & associates	(112.7)	(34.3)	(2.9)	(1.2)	(2.6)
Net interest	(95.3)	(97.7)	(115.8)	(113.2)	(107.7)
Exceptional items	(93.7)	375.6	-	-	-
Pretax profit	(144.9)	277.9	82.3	135.0	134.4
Taxation	(34.8)	(137.9)	(19.7)	(32.4)	(32.3)
Minorities/pref dividends	(33.9)	(42.7)	(43.7)	(40.9)	(40.9)
Net profit	(213.6)	97.2	18.8	61.7	61.3
Core net profit	(119.9)	(278.3)	18.8	61.7	61.3
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	508.0	504.4	504.4	508.7	506.9
Intangible assets	117.6	110.3	102.4	94.5	86.7
Other long-term assets	4,885.0	4,293.0	4,290.1	4,288.8	4,286.3
Total non-current assets	5,510.7	4,907.6	4,896.9	4,892.0	4,879.9
Cash & equivalent	526.5	283.7	550.9	813.3	1,222.0
Stock	670.7	788.4	1,065.6	1,107.2	996.4
Trade debtors	1,092.5	1,280.4	1,530.9	1,597.4	1,420.2
Other current assets	799.8	968.8	782.3	596.5	417.7
Total current assets	3,089.5	3,321.3	3,929.8	4,114.5	4,056.3
Trade creditors	881.7	784.7	1,230.3	1,281.6	1,083.6
Short-term borrowings	1,244.2	1,769.2	1,846.2	1,879.9	1,913.3
Other current liabilities	264.2	310.8	310.8	310.8	310.8
Total current liabilities	2,390.1	2,864.8	3,387.3	3,472.3	3,307.8
Long-term borrowings	2,033.3	1,357.9	1,416.9	1,442.8	1,468.5
Other long-term liabilities	496.0	245.1	245.1	245.1	245.1
Total long-term liabilities	2,529.3	1,603.0	1,662.0	1,687.9	1,713.6
Shareholders' funds	2,904.8	2,989.8	3,001.5	3,063.2	3,124.5
Minority interests	775.9	771.5	775.9	783.1	790.4
BV/share (RM)	2.05	2.11	2.12	2.16	2.20
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	(144.9)	277.9	82.3	135.0	134.4
Depreciation/Amortisation	38.0	41.8	38.2	39.2	40.3
Net change in working capital	(141.2)	208.4	(82.0)	(56.8)	90.1
Others	266.1	(352.8)	131.3	118.8	113.1
Cash flow from operations	18.0	175.3	169.7	236.1	377.9
Capital expenditure	(16.2)	(26.8)	(31.4)	(33.2)	(28.3)
Net investments & sale of fixed assets	-	-	-	-	-
Others	30.6	(29.1)	-	-	-
Cash flow from investing	14.4	(55.9)	(31.4)	(33.2)	(28.3)
Debt raised/(repaid)	(171.0)	(158.9)	135.9	59.6	59.2
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-	(7.1)	-	-
Others	18.1	(188.1)	-	-	-
Cash flow from financing	(162.5)	(347.0)	128.9	59.6	59.2
Net cash flow	(130.2)	(227.6)	267.2	262.4	408.7
Net cash/(debt) b/f	692.4	555.2	307.9	575.2	837.6
Net cash/(debt) c/f	555.2	307.9	575.2	837.6	1,246.3
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(7.1)	(0.3)	54.0	5.9	(14.7)
EBITDA growth (%)	(14.5)	(60.9)	214.4	20.6	(1.3)
Pretax margin (%)	(8.5)	16.3	3.1	4.9	5.7
Net profit margin (%)	(12.5)	5.7	0.7	2.2	2.6
Interest cover (x)	1.6	0.4	1.7	2.2	2.3
Effective tax rate (%)	24.0	49.6	24.0	24.0	24.0
Dividend payout (%)	nm	729.2	-	-	-
Debtors turnover (days)	149	163	156	156	156
Stock turnover (days)	100	95	98	98	98
Creditors turnover (days)	(186)	(167)	(176)	(176)	(176)

Source: Company, AmlInvestment Bank Bhd estimates

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