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Thursday, May 26, 2016

WCT Holdings Berhad

“Earnings Growth to Persist”

Results Review

- Actual vs. expectations.** WCT Holdings Bhd (WCT) recorded 1Q16 net profit of RM9 million that dropped by 73% y-o-y impacted by higher forex losses of RM23 million. After stripping this, WCT 1Q16 core net profit touched RM32 million (+125% y-o-y), slightly in line with ours and consensus estimates respectively, accounting 21% of both sides full year net profit forecast. As expected, the improvement in 1Q16 net profit performance was caused by better-than-expected core EBIT contribution from construction segment (+199% y-o-y), offsetting lower EBIT contribution from property development segment (-28% y-o-y).
- Dividend.** No dividend was declared during the quarter.
- Top line vs Bottom line.** WCT posted a higher revenue of RM485 million (+38% y-o-y) in 1Q16 lifted by strong contribution from construction segment which rose to RM378 million (+51% y-o-y) in tandem with higher-than-expected progress billings during the period. Bottom line wise, WCT core EBIT fell to RM53 million (-32% y-o-y) in 1Q16 hammered by the drop in property development segment's EBIT margin to 20% as compared against 1Q15 EBIT margin at 29% due to the weaker property market sentiment during the period.
- Construction outlook.** WCT has secured a new contract from MRT Corp in March 2016 worth approximately RM134 million for the redevelopment of the existing Police Quarters in Bandar Ulu Klang, Selangor which is to be completed by 4Q2018. Moving forward, WCT is aiming to replenish its construction orderbook further from some potential projects including RAPID as well as work packages from LRT3, KVMRT2, Pan Borneo Highway

BUY (TP: RM1.93)

Current Price (RM)	RM1.69
New Target Price (RM)	RM1.93
Previous Target Price (RM)	RM1.63
Previous Recommend.	HOLD
Upside To Target Price	14%
Dividend Yield (FY17)	4%

Stock Code

Bloomberg	WCTHG MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	1,249
Market Cap (RM mn)	2,123
YTD Chg In Share Price	6%
Beta (x)	1.10
52-week Hi/Low (RM)	1.76 1.10
3M Average Volume (shrs)	2.18mn
Estimated Free Float	44%

Major Shareholders

WCT Capital	20%
LTH	10%
EPF	7%

and Kwasa Damansara land. WCT's external orderbook currently stands at RM4.4 billion which could last the group until FY18.

- **Property outlook.** WCT is targeting to achieve RM600 million property sales in FY16 (FY15: RM373 million) backed by several new launches including Paradigm Garden City (GDV: RM450 million). Besides, WCT had entered into a conditional subscription and shareholders agreement (SSA) with UEM Sunrise (UEMS) to jointly develop 608.63 acre of freehold land in Bandar Serendah, Ulu Selangor. WCT is anticipated to leverage on strong UEMS' expertise in property development especially in Klang Valley and expected to undertake a mixed development project in Bandar Serendah area with GDV of RM3.0 billion.
- **Change to forecast.** We maintain our earnings forecast as 1Q16 results are within our expectation. Hence, FY16 and FY17 earnings are forecast to jump by 22% y-o-y and 10% y-o-y respectively driven by i) higher work progress from local construction project and ii) steady contribution from property investment division.
- **Valuation & recommendation.** We value WCT at RM1.93 based on 14x PER (25% premium to average last 3-year PER of 11x) and the stock is a **BUY**. Key re-rating catalyst on the stock includes i) strong prospect of construction sector in Malaysia and ii) potential acquisition of landbank in Iskandar Malaysia in the near term.

Table 1: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
IJM CORP	Mar	3.48	19	21	17.4	17.1	1.4	1.3	11	2	4.20	Buy
GAMUDA	Jul	4.76	27	31	17.9	15.7	1.7	1.6	10	2	5.94	Buy
WCT	Dec	1.69	11	13	15.8	12.7	0.8	0.8	9	1	1.93	Buy
SCGB	Dec	1.54	11	12	15.3	13.3	3.9	3.3	33	2	1.92	Buy
BENALEC	Jun	0.51	7	9	8.2	6.2	0.7	0.3	0	1	NR	NR
CREST BUILDER	Dec	0.92	8	NA	10.2	NA	NA	NA	8	4	NR	NR
EVERSENDAL	Dec	0.68	9	9	8.4	8.6	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.77	20	23	9.0	8.0	1.1	1.0	16	2	NR	NR
MRCB	Dec	1.17	5	6	26.6	20.8	1.1	1.1	16	2	NR	NR
AZRB	Dec	0.72	NA	NA	NA	NA	NA	NA	6	3	NR	NR
YTL CORP	Jun	1.60	13	14	12.4	11.5	1.1	1.0	7	6	NR	NR
Average					14.1	12.7	1.4	1.2	11	3		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,672	1,662	1,578	2,210	2,431
EBIT	303	203	158	243	280
PBT	254	151	95	210	238
Net profit	198	121	63	155	170
EPS (sen)	18	11	5	13	14
PBT margin	15%	9%	6%	10%	10%
Net profit margin	12%	7%	4%	7%	7%
PER (x)	12.8	15.2	28.4	13.1	11.9
P/BV (x)	1.1	0.8	0.7	0.8	0.8
DPS (sen)	7	6	6	6	6
Dividend yield	4%	4%	4%	4%	4%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

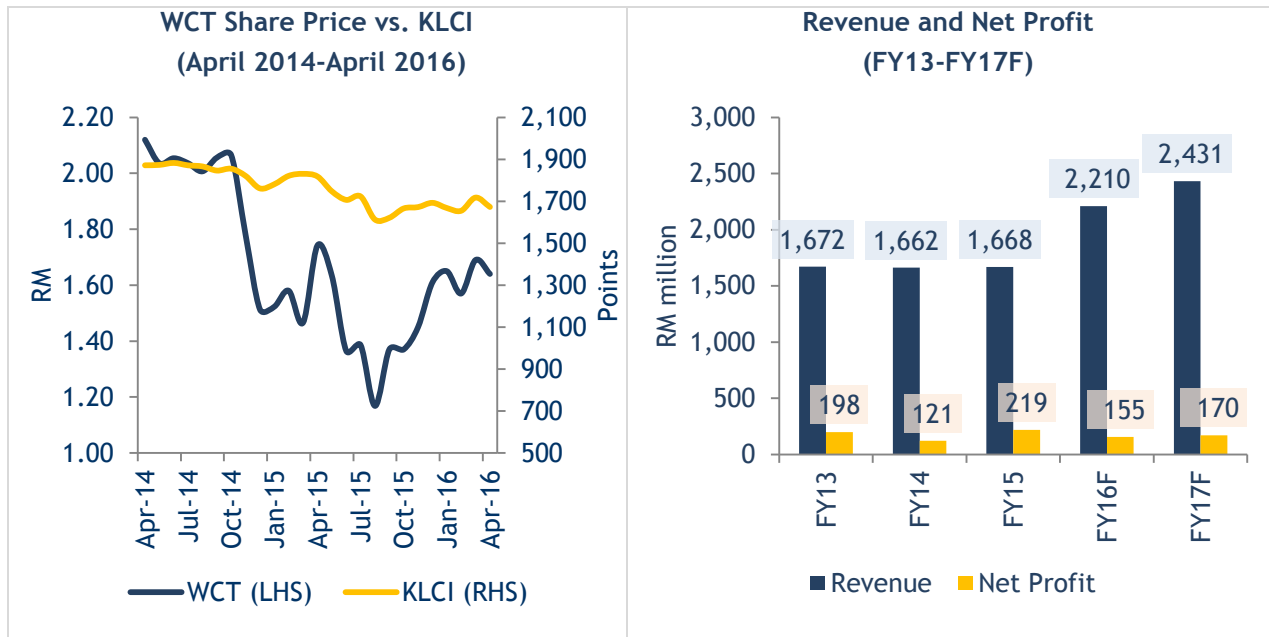
YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	352	522	485	-7%	38%	352	485	38%
EBIT	59	8	29	260%	-50%	59	29	-50%
Net Interest	(20)	3	(13)	-565%	-33%	(20)	(13)	-33%
PBT	43	84	25	-70%	-41%	43	25	-41%
Taxation	(9.5)	(15)	(15)	-2%	59%	(9.5)	(15)	59%
Net profit	33	69	9	-87%	-73%	33	9	-73%
EPS (sen)	3	6	1	-88%	-76%	3	1	-76%
EBIT margin	17%	2%	6%			17%	6%	
PBT margin	12%	16%	5%			12%	5%	
Net profit margin	9%	13%	2%			9%	2%	
Effective tax rate	22%	18%	60%			22%	60%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
<u>Revenue</u>								
Construction	250	451	378	-16%	51%	250	378	51%
Property Development	87	54	92	70%	5%	87	92	5%
Property Investment	14	17	15	-12%	3%	14	15	3%
<u>EBIT</u>								
Construction	27	-19	4	-120%	-86%	27	4	-86%
Property Development	26	11	18	72%	-28%	26	18	-28%
Property Investment	6	17	7	-55%	19%	6	7	19%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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