



AmInvestment Bank

Company report

WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

03 April 2018

Acquiring 60% of Subang Skypark for RM44.6mil

HOLD

(Maintained)

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Rationale for report: Company update

Price	RM1.22
Fair Value	RM1.38
52-week High/Low	RM2.48/RM1.22

Key Changes

Fair value	↕
EPS	↔

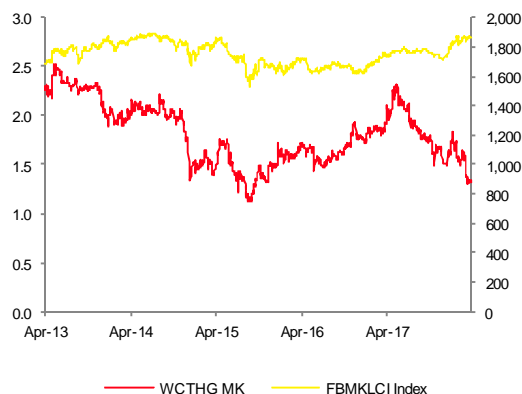
YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	1,905.9	2,752.6	3,247.7	3,113.7
Core net profit (RM mil)	148.5	135.2	179.0	189.4
FD Core EPS (sen)	9.1	8.0	10.6	11.3
FD Core EPS growth (%)	38.6	(12.0)	32.4	5.8
Consensus Net Profit (RM mil)	-	164.1	182.3	200.3
DPS (sen)	3.0	3.0	3.0	3.0
PE (x)	13.3	15.2	11.5	10.8
EV/EBITDA (x)	14.6	16.8	14.0	13.2
Div yield (%)	2.5	2.5	2.5	2.5
ROE (%)	5.2	4.2	5.4	5.5
Net Gearing (%)	87.9	85.9	81.5	76.9

Stock and Financial Data

Shares Outstanding (million)	1,415.4
Market Cap (RMmil)	1,726.8
Book Value (RM/share)	2.31
P/BV (x)	0.5
ROE (%)	5.2
Net Gearing (%)	87.9

Major Shareholders	Tan Sri Desmond Lim (17.5%) EPF (8.1%) Lembaga Tabung Haji (7.1%)
Free Float	38.5
Avg Daily Value (RMmil)	3.8

Price performance	3mth	6mth	12mth
Absolute (%)	(24.2)	(29.9)	(36.4)
Relative (%)	(27.3)	(33.8)	(40.5)



Investment Highlights

- We maintain our forecasts but cut our SOP-based FV by 17% to RM1.38 (Exhibit 1) (from RM1.66) as we increase the discount to its property RNAV to 40% (from 25%) to reflect the prolonged slowdown in the property market. We maintain our HOLD call.
- Confirming news reports in Feb 2018, WCT has proposed to acquire a 60% stake in Subang Skypark Sdn Bhd (Subang Skypark) for RM44.6mil cash. Subang Skypark holds the concession to operate the commercial/retail area, a car park area, a business aviation centre as well as a “hangarage” complex in Subang Skypark Terminal 3, Sultan Abdul Aziz Shah Airport in Subang.
- WCT said that the acquisition allows it to diversify into the business of ground handling for private aviation. WCT also sees development potential in the car park area. It intends to turn it into a mixed commercial project.
- We understand that Subang Skypark is reasonably profitable at the operating level, but its profitability at the net level is insignificant after accounting for interest expense arising from some RM80mil debt.
- We estimate that the acquisition will increase WCT’s net debt and gearing of RM2.76bil and 0.88x as at end-Dec 2017, to RM2.88bil and 0.92x respectively.
- We are at best only neutral on WCT’s latest acquisition. While we see value in the commercial/retail area in Subang Skypark Terminal 3 that may be poised for positive rental reversion backed by rising passenger traffic, and the car park area with development potential, these may take time to realise. On the other hand, the acquisition cost coupled with the consolidation of Subang Skypark’s debt will add further strain on WCT’s balance sheet.
- We maintain our view that WCT’s construction division has turned the corner with the award of key infrastructure projects such as the MRT2, LRT3 and Pan Borneo Highway recently. However, its property division is not spared the downturn in the property market and is weighed down by some RM550mil unsold stock (1.8x its property sales of RM305mil in FY17). WCT could be missing the window to list its matured investment properties under a REIT at good valuations against a backdrop of rising interest rate and surging supply of retail space in the market. All these, coupled with WCT’s proposed placement of new shares of up to 10% of its existing paid-up capital, are likely to cap the upside in WCT’s share price over the near term.

EXHIBIT 1: SOP VALUATION

Property development		
Bandar Bukit Tinggi, Klang	627	120 acres, RM120 psf
Rawang, Selangor	424	608 acres, RM16 psf
Kota Kinabalu, Sabah	48	22 acres, RM50 psf
Medini, Iskandar	507	39 acres, RM300 psf
OUG, Kuala Lumpur	1,053	60 acres, RM400 psf
Johor Bahru, Johor	209	12 acres, RM400 psf
TRX, Kuala Lumpur	22	10% downpayment for acquisition cost of RM223mil
Mont Kiara, KL	80	At acquisition cost
Available for sale	116	7 acres in Bandar Bukit Tinggi, 89 acres in Serendah
RNAV	3,086	
RNAV after discount	1,852	40% discount
Property investment		
Equity in property JVs	503	70%-owned Paradigm development in Petaling Jaya and 70%-owned Gateway@KLIA2
BBT Shopping Mall, Klang	442	NBV
Premiere Hotel, Bandar Bukit Tinggi	77	NBV
	1,022	
Construction		
	1,674	14x FY18F net profit
Net debt	-2,758	As at end-FY17
Proceeds from warrant/ESOS conversion	534	
	2,325	
Enlarged share base (m shares)	1,682	
FV (RM/share)	1.38	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
Package GS02 & GS03, LRT3	1,468
Package V204, MRT2	912
Pan Borneo Sarawak	859
TRX	521
RAPID	513
Lusail development, Qatar	455
Jalan Maarof/Semantan highway	212
West Coast Expressway	196
Johan Setia Depot, LRT3	141
Internal works	121
Police quarters redevelopment, Gombak	91
Others	128
Total	5,617

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

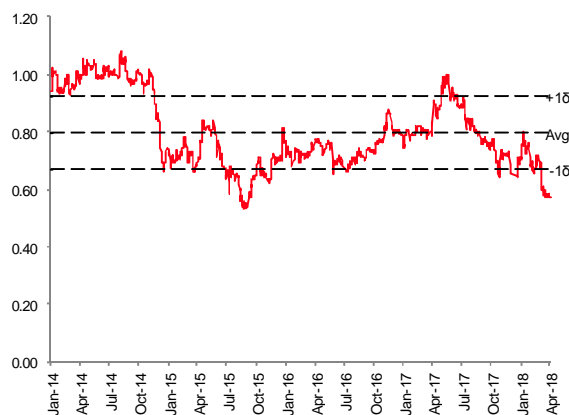


EXHIBIT 4: PE BAND CHART



EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	1,933.6	1,905.9	2,752.6	3,247.7	3,113.7
EBITDA	184.6	306.7	268.3	319.6	336.9
Depreciation/Amortisation	(15.0)	(22.3)	(11.4)	(12.0)	(12.6)
Operating income (EBIT)	169.6	284.4	256.9	307.5	324.3
Other income & associates	30.4	3.2	28.8	28.8	28.8
Net interest	(46.3)	(63.2)	(88.5)	(88.3)	(87.2)
Exceptional items	(31.7)	6.1	-	-	-
Pretax profit	122.0	230.6	197.2	248.1	265.9
Taxation	(56.8)	(78.7)	(53.7)	(59.1)	(66.5)
Minorities/pref dividends	3.2	2.7	(8.3)	(10.0)	(10.0)
Net profit	68.4	154.6	135.2	179.0	189.4
Core net profit	100.1	148.5	135.2	179.0	189.4
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	328.3	338.4	426.9	514.9	602.2
Intangible assets	-	-	-	-	-
Other long-term assets	4,431.2	4,577.9	4,606.7	4,635.5	4,664.3
Total non-current assets	4,759.5	4,916.3	5,033.6	5,150.4	5,266.6
Cash & equivalent	455.1	527.2	510.9	540.6	581.4
Stock	132.0	461.2	461.2	461.2	461.2
Trade debtors	1,351.4	1,895.1	1,895.1	1,895.1	1,895.1
Other current assets	642.4	333.9	333.9	333.9	333.9
Total current assets	2,580.9	3,217.5	3,201.1	3,230.9	3,271.7
Trade creditors	971.7	1,212.7	1,212.7	1,212.7	1,212.7
Short-term borrowings	823.5	1,028.0	1,028.0	1,028.0	1,028.0
Other current liabilities	9.3	7.4	7.4	7.4	7.4
Total current liabilities	1,804.5	2,248.2	2,248.2	2,248.2	2,248.2
Long-term borrowings	2,158.7	2,257.1	2,257.1	2,257.1	2,257.1
Other long-term liabilities	579.2	481.8	481.8	481.8	481.8
Total long-term liabilities	2,737.9	2,738.9	2,738.9	2,738.9	2,738.9
Shareholders' funds	2,764.1	3,138.6	3,231.3	3,367.9	3,514.8
Minority interests	33.9	8.1	16.4	26.4	36.4
BV/share (RM)	2.21	2.31	2.28	2.38	2.48
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	122.0	230.6	197.2	248.1	265.9
Depreciation/Amortisation	15.0	22.3	11.4	12.0	12.6
Net change in working capital	(275.2)	(269.4)	-	-	-
Others	20.6	(2.6)	6.0	(118.5)	(124.8)
Cash flow from operations	(117.6)	(19.1)	214.6	141.6	153.7
Capital expenditure	(276.6)	(36.6)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	38.1	(82.6)	-	-	-
Cash flow from investing	(238.6)	(119.2)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	381.2	285.0	-	-	-
Equity raised/(repaid)	92.6	266.6	-	-	-
Dividends paid	(25.0)	(40.8)	(42.5)	(42.5)	(42.5)
Others	(127.5)	(109.6)	(88.5)	(88.3)	(87.2)
Cash flow from financing	321.3	401.3	(131.0)	(130.8)	(129.6)
Net cash flow	(34.8)	263.0	(16.3)	(89.2)	(75.9)
Net cash/(debt) b/f	398.5	334.7	535.4	519.1	548.8
Net cash/(debt) c/f	381.0	597.7	519.1	429.9	472.9
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	15.9	(1.4)	44.4	18.0	(4.1)
EBITDA growth (%)	25.8	66.2	(12.5)	19.1	5.4
Pretax margin (%)	6.3	12.1	7.2	7.6	8.5
Net profit margin (%)	3.5	8.1	4.9	5.5	6.1
Interest cover (x)	3.7	4.5	2.9	3.5	3.7
Effective tax rate (%)	46.6	34.1	27.2	23.8	25.0
Dividend payout (%)	-	26.4	31.4	23.7	22.4
Debtors turnover (days)	255	363	251	213	222
Stock turnover (days)	27	57	61	52	54
Creditors turnover (days)	258	323	321	321	321

Source: Company, AmInvestment Bank Bhd estimates

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