

# WCT Holdings (BUY ↔; EPS ↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

11 December 2017

Price target: RM2.29 (↔)

Share price: RM1.51

## Adding to job wins

### News

- **Wins road contract.** WCT announced that it has been awarded a RM211.5m road contract from DBKL. The job involves the construction of an elevated access road from Jln Maarof to Jln Semantan along the SPRINT Highway and rectifying the road entrance to Pusat Bandar Damansara. The contract duration is for 30 months.

### Comments

- **Orderbook scales new highs.** With this contract in the bag, WCT's YTD job wins now stand at RM1.9bn. This is close to management's full year guidance of RM2bn. We estimate its orderbook to now stand at a new high of RM5.9bn, translating to a cover of 4x on FY16 construction revenue.
- **What's in the pipeline?** In the near term, WCT is hopeful to secure a building job within the TRX area. For FY18, management guides for an orderbook replenishment of RM2bn on back of existing tenders of RM5bn. Potential jobs include the ECRL, Pan Borneo Sabah and developments from sister-cos Malton and Pavilion Group (RM1.5bn).

### Risks

- Derailment of its de-gearing plans.

### Forecasts

- Although YTD job wins of RM1.9bn has exceeded our full year assumption of RM1.6bn, we leave our forecast unchanged as we take a conservative stance.

### Rating

**Maintain BUY, TP: RM2.29**

- Albeit with a cautious stance, we are turning positive on WCT given its results recovery and de-gearing plans that has been laid out by its new top management.

### Valuation

- Our unchanged SOP based TP of RM2.29 implies FY17-18 P/E of 22.4x and 20.1x respectively.
- While the implied P/E valuations at our TP appear steep, one must bear in mind that WCT has a significant surplus land value (i.e. market value less BV), backing 77% of its market capitalisation.

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KLCI	1,721.3
Expected share price return	51.7%
Expected dividend return	1.7%
Expected total return	53.4%

### Share Price



### Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,407
Market cap (RM m)	2,124
3-mth avg. volume ('000)	2,469
SC Syariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-10.1	-16.6	-15.1
Relative	-9.0	-13.6	-19.1

### Major shareholders

Dominion Nexus Sdn Bhd	17.5%
Employees Provident Fund	8.2%
Lembaga Tabung Haji	7.9%

### Summary Earnings Table

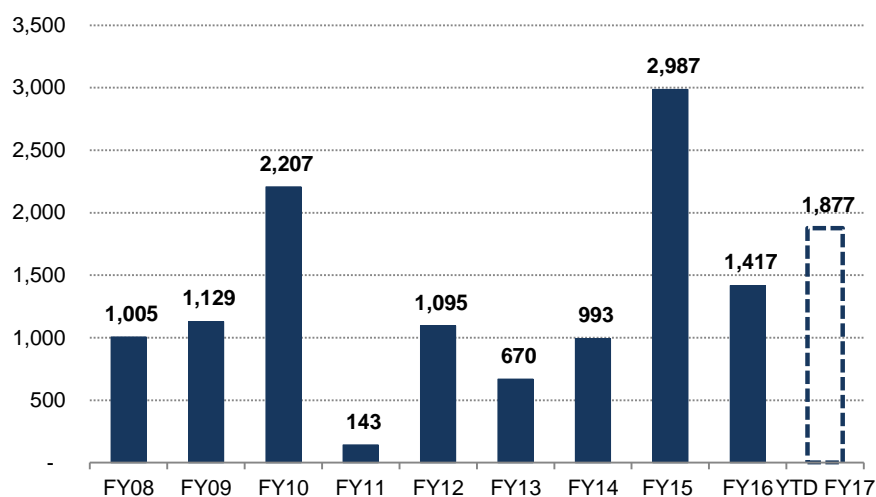
FYE Dec (RM m)	FY16	FY17E	FY18F	FY19F
Revenue	1,934	2,062	2,502	2,757
EBITDA	185	221	242	270
EBIT	170	206	228	255
Profit Before Tax	154	187	210	239
Core PATAMI	100	144	161	182
vs Consensus (%)		(2)	(5)	(1)
Core EPS (sen)	7.1	10.3	11.4	13.0
P/E (x)	21.2	14.7	13.2	11.7
Net DPS (sen)	-	2.6	2.9	3.2
Net DY (%)	-	1.7	1.9	2.1
BV per share	1.96	2.05	2.14	2.23
P/B (x)	0.8	0.7	0.7	0.7
ROE (%)	3.7	5.1	5.5	5.9
Net Gearing (%)	91.4	86.3	84.1	81.2

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**Figure #1 SOP valuation for WCT**

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY18 earnings (ex. JV)	138	14	1,925	1.02
Gateway@klia2 based on DCF	237	5.1%	166	0.09
Paradigm Mall based on cap rate	434	6.0%	304	0.16
Premiere Hotel Klang based on DCF	203	8.0%	203	0.11
Undeveloped surplus land value at 50% discount			817	0.43
Cash proceeds from warrants and placement			923	0.49
<b>Sum of Parts (SOP) Value</b>			<b>4,338</b>	<b>2.29</b>

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**Figure #2 WCT's annual orderbook replenishment (RM m)**

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## Financial Projections for WCT Holdings

### Balance Sheet

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	524	455	443	354	282
Receivables	2,365	2,549	2,654	2,907	3,054
Inventories	154	132	134	164	180
PPE	288	328	339	350	360
Investment properties	883	1,125	1,181	1,240	1,302
Associates & JVs	664	651	651	651	651
Others	1,874	2,100	2,157	2,215	2,275
<b>Assets</b>	<b>6,752</b>	<b>7,340</b>	<b>7,559</b>	<b>7,880</b>	<b>8,104</b>
Debts	2,593	2,982	2,932	2,882	2,832
Payables	1,458	1,510	1,662	1,910	2,045
Others	54	50	51	52	53
<b>Liabilities</b>	<b>4,105</b>	<b>4,542</b>	<b>4,645</b>	<b>4,845</b>	<b>4,930</b>
Shareholder's equity	2,610	2,764	2,885	3,005	3,142
Minority interest	37	34	29	30	32
<b>Equity</b>	<b>2,647</b>	<b>2,798</b>	<b>2,914</b>	<b>3,036</b>	<b>3,174</b>

### Cash Flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	102	154	187	210	239
Depreciation & amortisation	8	15	14	15	15
Changes in working capital	(271)	118	45	(34)	(28)
Taxation	(55)	(57)	(43)	(49)	(57)
Others	(270)	(394)	(104)	(115)	(120)
<b>CFO</b>	<b>(486)</b>	<b>(164)</b>	<b>99</b>	<b>26</b>	<b>49</b>
Net capex	(61)	(55)	(25)	(25)	(25)
Others	(135)	(229)	-	-	-
<b>CFI</b>	<b>(195)</b>	<b>(284)</b>	<b>(25)</b>	<b>(25)</b>	<b>(25)</b>
Changes in borrowings	163	389	(50)	(50)	(50)
Dividends paid	(61)	-	(36)	(40)	(46)
Others	(4)	(66)	-	-	-
<b>CFF</b>	<b>97</b>	<b>323</b>	<b>(86)</b>	<b>(90)</b>	<b>(96)</b>
<b>Net cash flow</b>	<b>(584)</b>	<b>(125)</b>	<b>(12)</b>	<b>(89)</b>	<b>(71)</b>
Forex	38	17	-	-	-
Others	119	39	-	-	-
Beginning cash	951	524	455	443	354
Ending cash	524	455	443	354	282

### Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
<b>Revenue</b>	<b>1,668</b>	<b>1,934</b>	<b>2,062</b>	<b>2,502</b>	<b>2,757</b>
EBITDA	138	185	221	242	270
EBIT	130	170	206	228	255
Finance cost	(58)	(46)	(50)	(49)	(49)
Associates & JV	30	30	31	32	32
<b>Profit before tax</b>	<b>102</b>	<b>154</b>	<b>187</b>	<b>210</b>	<b>239</b>
Tax	(55)	(57)	(43)	(49)	(57)
<b>Net profit</b>	<b>47</b>	<b>97</b>	<b>144</b>	<b>161</b>	<b>182</b>
Minority interest	2	3	-	-	-
<b>PATMI (core)</b>	<b>50</b>	<b>100</b>	<b>144</b>	<b>161</b>	<b>182</b>
Exceptionals	160	(32)	-	-	-
PATMI (reported)	209	68	144	161	182

### Valuation & Ratios

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	3.5	7.1	10.3	11.4	13.0
P/E (x)	42.8	21.2	14.7	13.2	11.7
EV/EBITDA (x)	35.1	26.2	21.9	19.9	17.9
DPS (sen)	4.4	-	2.6	2.9	3.2
Dividend yield	2.9%	0.0%	1.7%	1.9%	2.1%
BVPS (RM)	1.86	1.96	2.05	2.14	2.23
P/B (x)	0.8	0.8	0.7	0.7	0.7
EBITDA margin	8.3%	9.5%	10.7%	9.7%	9.8%
EBIT margin	7.8%	8.8%	10.0%	9.1%	9.3%
PBT margin	6.1%	7.9%	9.1%	8.4%	8.7%
Net margin	3.0%	5.2%	7.0%	6.4%	6.6%
ROE	2.0%	3.7%	5.1%	5.5%	5.9%
ROA	0.8%	1.4%	1.9%	2.1%	2.3%
Net gearing	79.3%	91.4%	86.3%	84.1%	81.2%

### Assumptions

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Contracts secured	2,987	1,417	1,600	1,000	1,000
Property sales	373	281	350	400	500

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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