

Pavilion secured

WCT Holdings has secured the RM1.77bn Pavilion Damansara Heights-Parcel 1 project. This contract will increase its order book to a high RM7.22bn, equivalent to 5.2x FY17 construction revenue. However, the potential cut in contract value for its MRT2 and LRT3 work packages could reduce its order book. We cut our earnings forecasts by 1-5% for FY18-20E to reflect higher working-capital requirements, but raise our RNAV/share estimate to RM1.85 from RM1.70 previously to reflect a higher construction division valuation. Based on the same 50% discount to RNAV, we raise our TP to RM0.92 from RM0.85. Maintain HOLD call.

Awarded Pavilion Damansara Heights contract

WCT has accepted a letter of award from Impian Ekspresi Sdn Bhd (a company related to its Executive Chairman Tan Sri Desmond Lim) for the construction of Pavilion Damansara Heights-Parcel 1, comprising 9 office blocks, 3 serviced apartment blocks on a podium block comprising retail space, mezzanine and lower ground floors, and basement carparks. The contract sum is approximately RM1.774bn and works are expected to commence in September 2018 and be completed in 38 months.

Large order book

The new RM1.77bn Pavilion Damansara contract will lift its current outstanding order book of RM5.44bn to a high of RM7.22bn, equivalent to 5.2x FY17 construction revenue. The RM2.33bn of new contracts secured year to date has exceeded our assumption of RM0.5bn in FY18E. The Pavilion contract is expected to boost FY19-20E EPS by 3-4%. However, we believe higher working-capital requirements due to slow property sales will increase net interest expense, prompting us to cut our EPS forecasts by 1-5% for FY18-20E.

Downside risk on MRT2 and LRT3 contract values

We understand that the government is looking to reduce the construction costs for the MRT2 and LRT3 projects. WCT's work packages for these 2 projects have a remaining value of RM2.3bn, comprising 32% of its order book. Hence, there is downside risk to earnings if the contract value is reduced for WCT's MRT2 and LRT3 contracts.

Maintain HOLD

We remain concerned with WCT's high net gearing of 0.98x and the delays in executing its de-gearing plans, ie, proposed private placement of new shares and listing of WCT REIT. We reiterate our HOLD call on WCT with a higher TP of RM0.92, based on a 50% discount to RNAV.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	1,933.6	1,905.9	2,326.7	2,457.0	2,808.4
EBITDA (RMm)	163.1	283.0	267.1	297.5	344.8
Pretax profit (RMm)	122.0	230.6	212.5	229.1	283.3
Net profit (RMm)	68.4	154.6	156.6	163.3	203.9
EPS (sen)	5.2	10.0	10.2	10.6	13.0
PER (x)	17.9	9.3	9.2	8.8	7.1
Core net profit (RMm)	84.8	150.7	156.6	163.3	202.9
Core EPS (sen)	4.4	8.4	10.2	10.6	13.0
Core EPS growth (%)	(19.5)	90.3	20.7	4.0	22.6
Core PER (x)	21.0	11.0	9.2	8.8	7.2
Net DPS (sen)	1.3	3.0	3.0	3.0	3.0
Dividend Yield (%)	1.3	3.2	3.2	3.2	3.2
EV/EBITDA (x)	20.3	11.5	12.5	11.6	9.5
Chg in core EPS (%)			(5.0)	(2.4)	(1.1)
Affin/Consensus (x)			1.1	1.1	1.2

Source: Company, Bloomberg, Affin Hwang forecasts

Company Update

WCT Holdings

WCTHG MK
Sector: Construction

RM0.93 @ 18 September 2018

HOLD (maintain)

Downside 1%

Price Target: RM0.92

Previous Target: RM0.85



Price Performance

	1M	3M	12M
Absolute	-2.1%	14.8%	-46.2%
Rel to KLCI	-2.6%	11.6%	-46.5%

Stock Data

Issued shares (m)	1,382
Mkt cap	1,285/311
Avg daily vol - 6mth	9.8
52-wk range (RM)	0.78-1.8
Est free float	49%
BV per share (RM)	2.27
P/BV (x)	0.4
Net cash/(debt)	(3,077)
ROE (2018E)	4.9%
Derivatives	Yes
(Warr 15/20, WP RM0.13, EP RM2.08)	
Shariah Compliant	Yes

Key Shareholders

Dominion Nexus Sdn Bhd	17.9%
LTH	8.9%
EPF	8.0%
KWAP	6.1%

Source: Affin, Company, Bloomberg

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Fig 1: Construction order book

Project	Expected completion	Value (RMm)
Local civil & infrastructure works		
RAPID roads, civil & infrastructure works	2018	200
TRX infrastructure & roadways	2019	404
Pan Borneo Highway (Sg Arip Bridge to Bintulu Airport Junction)	2020	799
MRT2 V204 & S204 work packages	2022	829
West Coast Expressway (Section 3)	2019	187
LRT3 TD1 package (Johan Setia depot)	2018	63
LRT3 GS03 & GS02 guideways, stations & associated works	2020	1,408
Elevated Highway (Sprint/Jalan Maarof to Jalan Semantan)	2020	169
Others		111
		4,170
Local building works		
Police Quarters, Taman Keramat	2018	61
RAPID utilities, interconnecting and off site facilities & building	2018	64
TRX - Lendlease Mall Package TP02 (superstructure)	2020	555
Pavilion Damansara Heights-Parcel 1 (offices, serviced apartments, mall)	2021	1,774
Others		16
		2,470
Overseas civil & infrastructure works		
Lusail property development infrastructure, Qatar	2019	429
		429
Internal property works		
		147
Total order book		7,216

Source: Affin Hwang estimates, company

Raise RNAV and TP; maintain HOLD call

We raise our RNAV/share estimate to RM1.85 from RM1.70 to reflect a higher construction division valuation. We increase our construction sustainable earnings assumption to RM80m from RM60m previously given the expansion in its order book. Based on the same PER of 12x, we raise our construction division valuation to RM960m from RM720m previously. Applying the same 50% discount to RNAV, we raise our target price to RM0.92 from RM0.85 previously. Maintain our HOLD call on WCT.

Key risks

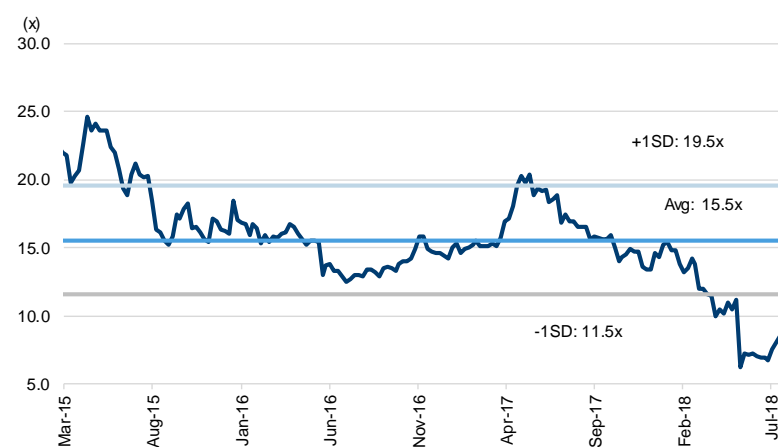
Key upside risk is a property sales rebound. Key downside risk is if its debt restructuring is delayed, leading to possible debt rating downgrade.

Fig 2: Changes in RNAV and target price

Segment	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 12x sustainable earnings of RM80m	100	960	720	33
Property devt @ RNAV	100	1,904	1,904	0
BBT mall @ NBV	100	442	442	0
Paradigm mall @ NBV	70	510	510	0
gateway@klia2 @ NBV	70	420	420	0
Other investment properties	100	1,152	1,152	0
Indian toll roads	30	135	135	0
Net cash/(debt)		(2,968)	(2,968)	0
RNAV		2,556	2,316	10
No. of shares (m shrs)		1,415	1,415	0
RNAV/share (RM)		1.81	1.64	10
New shares from warrants conversion (m)		237	237	0
Fully-diluted no. of shares (m)		1,652	1,652	0
Fully-diluted RNAV/share (RM)		1.85	1.70	9
Target price at 50% discount to RNAV/share		0.92	0.85	9

Source: Affin Hwang estimates

Fig 3: 12-month forward core PER valuation



Source: Affin Hwang estimates, Bloomberg

Fig 4: 12-month forward Price/book



Source: Affin Hwang estimates, Bloomberg

Fig 5: Construction sector peer comparison

Company Name	Rating	Share Pr	TP	Mkt Cap	Year end	Core PE (x)		Core EPS growth (%)		EV/EBITDA (x)	P/BV (x)	ROE (%)		Div Yield (%)		Sh Pr discount to RNAV	TP discount to RNAV
		(RM)	(RM)	(RMb)		CY18E	CY19E	CY18E	CY19E	CY18E	CY18E	CY18E	CY19E	FY18E	FY19E		
UM CORP	BUY	1.77	2.45	6.4	Mar	13.8	12.3	11.9	11.9	10.0	0.5	4.3	4.5	4.2	3.4	37	10
GAMUDA	HOLD	3.42	3.42	8.4	Jul	13.5	13.7	0.3	(1.6)	13.8	1.3	10.7	9.9	3.5	3.5	22	20
MRCB	BUY	0.72	0.88	3.1	Dec	30.9	22.7	(49.5)	36.4	23.9	0.6	4.5	6.2	2.4	2.4	54	40
WCT	HOLD	0.93	0.92	1.3	Dec	9.2	8.8	20.7	4.0	12.5	0.4	4.9	4.9	3.2	3.2	50	50
SUNWAY CONSTRUCTION	BUY	1.76	2.45	2.3	Dec	14.1	12.2	19.0	16.1	7.9	3.6	25.8	25.9	4.0	4.0	35	10
GABUNGAN AQRS	BUY	1.16	1.60	0.6	Dec	10.2	6.7	58.5	52.2	5.8	1.4	17.5	18.4	1.7	2.6	45	30
WZ SATU	HOLD	0.32	0.30	0.2	Aug	40.6	9.8	(66.0)	>100	(0.6)	0.5	0.9	5.5	4.8	6.3	37	10
PINTARAS	HOLD	2.39	2.41	0.4	Jun	18.7	10.9	(10.5)	58.5	6.1	1.2	6.7	11.4	8.4	8.4	NA	NA
HSS ENGINEERING	BUY	0.96	1.18	0.5	Dec	20.2	18.7	1.6	8.5	11.7	1.6	7.9	8.3	0.8	2.5	NA	NA
Average				23.2		13.5	12.2	1.1	10.5	12.5	1.3	6.0	7.1	3.7	4.0	40	24

Source: Affin Hwang estimates, Bloomberg; note: share price as at 18 September 2018

WCT - FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Revenue	1,933.6	1,905.9	2,326.7	2,457.0	2,808.4
Operating expenses	(1,770.5)	(1,622.9)	(2,059.5)	(2,159.5)	(2,463.5)
EBITDA	163.1	283.0	267.1	297.5	344.8
Depreciation	(15.0)	(22.3)	(22.5)	(22.8)	(23.0)
EBIT	148.2	260.7	244.6	274.7	321.8
Net int income/(expense)	(40.1)	(37.2)	(49.6)	(65.4)	(61.5)
Associates' contribution	1.0	(19.6)	17.5	19.9	22.0
Exceptional gain/(loss)	12.9	26.8	0.0	0.0	1.0
Pretax profit	122.0	230.6	212.5	229.1	283.3
Tax	(56.8)	(78.7)	(47.7)	(56.7)	(70.5)
Minority interest	3.2	2.7	(8.2)	(9.2)	(9.0)
Net profit	68.4	154.6	156.6	163.3	203.9
Core net profit	84.8	150.7	156.6	163.3	202.9

Balance Sheet Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Fixed assets	2,890.5	3,486.8	3,514.2	3,541.4	3,567.4
Other long term assets	1,869.0	1,429.5	1,442.6	1,457.5	1,473.0
Total non-current assets	4,759.5	4,916.3	4,956.8	4,999.0	5,040.4
Cash and equivalents	455.1	527.2	77.6	21.7	227.1
Stocks	765.0	708.5	1,090.4	809.2	1,362.1
Debtors	833.0	1,367.7	1,318.9	1,652.7	1,436.1
Other current assets	527.8	614.1	530.8	530.8	530.8
Total current assets	2,580.9	3,217.5	3,017.6	3,014.5	3,556.1
Creditors	784.7	959.6	1,169.9	1,078.8	1,491.5
Short term borrowings	823.5	1,028.0	520.4	520.4	520.4
Other current liabilities	196.3	260.6	260.6	260.6	260.6
Total current liabilities	1,804.5	2,248.2	1,950.8	1,859.8	2,272.5
Long term borrowings	2,158.7	2,257.1	2,272.8	2,272.8	2,272.8
Other long term liabilities	579.2	481.8	481.8	481.8	481.8
Total long term liabilities	2,737.9	2,738.9	2,754.6	2,754.6	2,754.6
Shareholders' Funds	2,764.1	3,138.6	3,252.8	3,373.6	3,535.0
Minority interests	33.9	8.1	16.3	25.5	34.4

Cash Flow Statement

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
EBIT	148.2	260.7	244.6	274.7	321.8
Depreciation & amortisation	15.0	22.3	22.5	22.8	23.0
Working capital changes	(275.2)	(269.4)	(122.8)	(143.8)	76.4
Cash tax paid	(41.5)	(54.9)	(47.7)	(56.7)	(70.5)
Others	(10.4)	(40.0)	(32.1)	(45.5)	(37.5)
Cashflow from operation	(163.9)	(81.4)	64.6	51.5	313.3
Capex	(276.6)	(241.8)	(50.0)	(50.0)	(49.0)
Disposal/(purchases)	0.0	0.0	0.0	0.0	1.0
Others	38.1	122.6	16.0	2.6	8.6
Cash flow from investing	(238.6)	(119.2)	(34.0)	(47.4)	(39.4)
Debt raised/(repaid)	0.0	0.0	200.0	0.0	0.0
Equity raised/(repaid)	91.2	266.6	0.0	0.0	1.0
Net interest income/(exp)	(126.0)	(149.4)	(65.6)	(68.0)	(68.0)
Dividends paid	(25.0)	0.0	(42.5)	(42.5)	(42.5)
Others	382.5	284.0	0.0	0.0	1.0
Cash flow from financing	322.6	401.3	92.0	(110.5)	(108.5)
Free Cash Flow	(440.6)	(323.1)	14.6	1.5	265.3

Source: Affin Hwang estimates, company

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2016	2017	2018E	2019E	2020E
Growth					
Revenue (%)	15.9	(1.4)	22.1	5.6	14.3
EBITDA (%)	29.0	73.5	(5.6)	11.3	15.9
Core net profit (%)	17.3	77.6	4.0	4.3	24.2
Profitability					
EBITDA margin (%)	8.4	14.8	11.5	12.1	12.3
PBT margin (%)	6.3	12.1	9.1	9.3	10.1
Net profit margin (%)	3.5	8.1	6.7	6.6	7.3
Effective tax rate (%)	46.6	34.1	22.4	24.7	24.9
ROA (%)	1.0	2.0	1.9	2.0	2.5
Core ROE (%)	3.2	5.1	4.9	4.9	5.9
ROCE (%)	3.0	4.7	4.1	4.5	5.3
Dividend payout ratio (%)	22.9	27.5	27.1	26.0	20.8
Liquidity					
Current ratio (x)	1.4	1.4	1.5	1.6	1.6
Op. cash flow (RMm)	(163.9)	(81.4)	64.6	51.5	313.3
Free cashflow (RMm)	(440.6)	(323.1)	14.6	1.5	265.3
FCF/share (sen)	(35.2)	(22.8)	1.0	0.1	18.7
Asset management					
Debtors turnover (days)	157.2	261.9	206.9	245.5	186.7
Stock turnover (days)	144.4	135.7	171.1	120.2	177.0
Creditors turnover (days)	148.1	183.8	183.5	160.3	193.8
Capital structure					
Net gearing (%)	91.4	87.9	83.5	82.2	72.6
Interest cover (x)	2.7	4.5	4.1	4.4	5.1

Quarterly Profit & Loss

FYE 31 Dec (RMm)	2Q17	3Q17	4Q17	1Q18	2Q18
Revenue	382.8	469.8	579.4	539.8	669.9
Operating expenses	(328.5)	(366.4)	(459.4)	(459.8)	(574.4)
EBITDA	54.3	72.4	120.0	80.0	95.5
Depreciation	(3.4)	(3.4)	(12.7)	(2.4)	(7.2)
EBIT	50.9	69.0	107.3	77.6	88.3
Net int income/(expense)	(2.3)	(6.3)	(14.6)	(19.6)	(23.6)
Associates' contribution	5.8	4.0	(37.2)	(2.2)	(1.2)
Exceptional items	0.0	(1.7)	26.7	0.8	3.4
Pretax profit	38.2	65.8	81.5	55.3	66.2
Tax	(16.9)	(25.3)	(22.3)	(17.0)	(24.5)
Minority interest	(0.0)	0.3	0.1	0.1	2.1
Net profit	21.2	40.8	59.3	38.4	43.8
Core net profit	37.4	41.7	33.3	38.9	41.1
Margins (%)					
EBITDA	14.2	15.4	20.7	14.8	14.3
PBT	10.0	14.0	14.1	10.2	9.9
Net profit	5.5	8.7	10.2	7.1	6.5

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