



AmInvestment Bank

## Company report

## WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

19 Sep 2018

Bags RM1.8bil Pavilion Damansara Heights building job

**HOLD**

(Maintained)

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Rationale for report: Company update

|                  |               |
|------------------|---------------|
| Price            | RM0.85        |
| Fair Value       | RM0.95        |
| 52-week High/Low | RM1.83/RM0.70 |

## Key Changes

|            |   |
|------------|---|
| Fair value | ↑ |
| EPS        | ↑ |

| YE to Dec                                 | FY17    | FY18F   | FY19F   | FY20F   |
|---|---------|---------|---------|---------|
| <a href="#">Click here to enter text.</a> |         |         |         |         |
| Revenue (RM mil)                          | 1,905.9 | 2,603.4 | 2,782.4 | 2,463.4 |
| Core net profit (RM mil)                  | 148.5   | 96.5    | 141.0   | 140.1   |
| FD Core EPS (sen)                         | 10.8    | 6.8     | 9.5     | 9.5     |
| FD Core EPS growth (%)                    | 64.4    | (37.1)  | 39.6    | -       |
| Consensus Net Profit (RM mil)             | -       | 144.7   | 153.9   | 163.9   |
| DPS (sen)                                 | 3.0     | 3.0     | 3.0     | 3.0     |
| PE (x)                                    | 7.8     | 12.4    | 8.9     | 8.9     |
| EV/EBITDA (x)                             | 12.9    | 16.3    | 14.2    | 14.7    |
| Div yield (%)                             | 3.5     | 3.6     | 3.6     | 3.6     |
| ROE (%)                                   | 5.2     | 3.0     | 4.3     | 4.2     |
| Net Gearing (%)                           | 87.9    | 88.1    | 85.7    | 83.5    |

## Stock and Financial Data

|                              |         |
|------------------------------|---------|
| Shares Outstanding (million) | 1,415.4 |
| Market Cap (RMmil)           | 1,196.0 |
| Book Value (RM/share)        | 2.29    |
| P/BV (x)                     | 0.4     |
| ROE (%)                      | 5.2     |
| Net Gearing (%)              | 87.9    |

|                         |  |
|-------------------------|--|
| Major Shareholders      | Tan Sri Desmond Lim(17.5%)<br>EPF(8.1%)<br>Lembaga Tabung Haji(7.1%) |
| Free Float              | 38.5   |
| Avg Daily Value (RMmil) | 7.5  |

| Price performance | 3mth | 6mth   | 12mth  |
|-------------------|------|--------|--------|
| Absolute (%)      | 3.7  | (37.4) | (53.1) |
| Relative (%)      | 2.0  | (34.9) | (53.2) |



## Investment Highlights

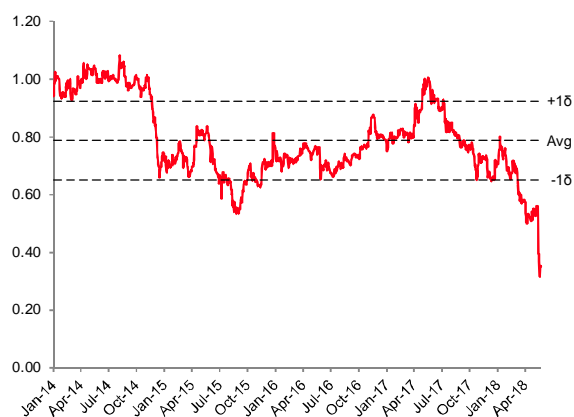
- We raise our FY19-20F net profit forecasts by 4% and 3% respectively, upgrade our FV by 3% to RM0.95 (from RM0.92) but maintain our HOLD call. Our new FV is based on 10x revised FY19F FD EPS, in line with our benchmark forward PE of 10-12x for mid-cap construction stocks.
- WCT has been awarded by sister company Impian Ekspresi Sdn Bhd a RM1,774mil contract for the construction of nine office towers and three service apartment blocks on a podium block comprising retail space and mezzanine floors, lower ground floor and basement car park for Pavilion Damansara Heights. The contract period is 38 months commencing September 2018. The job is considered a recurrent related-party transaction (RRPT) which is covered by a shareholders' mandate obtained during its AGM on 6 June 2018.
- This is the second key construction job WCT has secured in FY18F, boosting its YTD job wins to RM2.3bil and outstanding construction orderbook to RM7.2bil (Exhibit 1). Our earnings upgrade is to reflect a higher construction order book replenishment target of RM2.5bil in FY18F (from RM1.2bil). For FY19-20F, we are keeping our assumption of RM1.2bil worth of new jobs annually.
- We remain cautious on the outlook for the local construction sector. As the government scales back on public projects, local contractors will be competing for a shrinking pool of new jobs in the market. Severe undercutting among the players will result in razor-thin margins for the successful bidders. On the other hand, the introduction of a more transparent public procurement system under the new administration should weed out rent-seekers, paving the way toward healthier competition within the local construction sector. We believe WCT is mitigated by its substantial order backlog that should keep it busy over the next 2-3 years, coupled with its proven ability to compete under an open bidding system.
- Similarly, we are cautious on WCT's other key businesses such as property development (due to the prolonged downturn in the local property market) and property investment (due to the oversupply of retail space in the market, coupled with e-commerce's encroachment onto the brick-and-mortar shopping malls).

**EXHIBIT 1: OUTSTANDING ORDER BOOK**

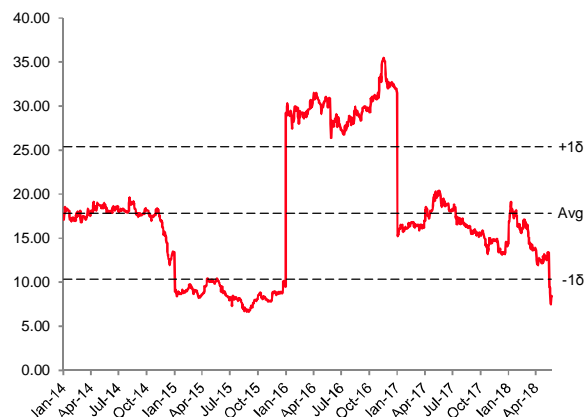
| Project                               | Outstanding Value<br>(RMmil) |
|---------------------------------------|------------------------------|
| Pavilion Damansara Heights            | 1,774                        |
| Package GS02 & GS03, LRT3             | 1,408                        |
| Package V204, MRT2                    | 829                          |
| Pan Borneo Sarawak                    | 799                          |
| Lendlease mall, TRX                   | 555                          |
| Lusail development, Qatar             | 429                          |
| TRX infrastructure works              | 404                          |
| RAPID                                 | 264                          |
| West Coast Expressway                 | 187                          |
| Jalan Maarof/Semantan highway         | 169                          |
| Internal works                        | 147                          |
| Johan Setia Depot, LRT3               | 63                           |
| Police quarters redevelopment, Gombak | 61                           |
| Others                                | 127                          |
| <b>Total</b>                          | <b>7,216</b>                 |

Source: Company, AmInvestment Bank Bhd

**EXHIBIT 2: PB BAND CHART**



**EXHIBIT 3: PE BAND CHART**



## EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec)       | FY16           | FY17           | FY18F          | FY19F          | FY20F          |
|---|----------------|----------------|----------------|----------------|----------------|
| <a href="#">Click here to enter text.</a> |                |                |                |                |                |
| Revenue                                   | 1,933.6        | 1,905.9        | 2,603.4        | 2,782.4        | 2,463.4        |
| EBITDA                                    | 184.6          | 306.7          | 246.6          | 283.0          | 274.4          |
| Depreciation/Amortisation                 | (15.0)         | (22.3)         | (11.4)         | (12.0)         | (12.6)         |
| Operating income (EBIT)                   | 169.6          | 284.4          | 235.1          | 270.9          | 261.8          |
| Other income & associates                 | 30.4           | 3.2            | 28.8           | 28.8           | 28.8           |
| Net interest                              | (46.3)         | (63.2)         | (111.4)        | (90.2)         | (90.4)         |
| <b>Exceptional items</b>                  | <b>(31.7)</b>  | <b>6.1</b>     | -              | -              | -              |
| Pretax profit                             | 122.0          | 230.6          | 152.5          | 209.6          | 200.2          |
| Taxation                                  | (56.8)         | (78.7)         | (47.9)         | (58.6)         | (50.0)         |
| <b>Minorities/pref dividends</b>          | <b>3.2</b>     | <b>2.7</b>     | <b>(8.1)</b>   | <b>(10.0)</b>  | <b>(10.0)</b>  |
| Net profit                                | 68.4           | 154.6          | 96.5           | 141.0          | 140.1          |
| Core net profit                           | 100.1          | 148.5          | 96.5           | 141.0          | 140.1          |
| <b>Balance Sheet (RMmil, YE 31 Dec)</b>   | <b>FY16</b>    | <b>FY17</b>    | <b>FY18F</b>   | <b>FY19F</b>   | <b>FY20F</b>   |
| <a href="#">Click here to enter text.</a> |                |                |                |                |                |
| Fixed assets                              | 328.3          | 338.4          | 426.9          | 514.9          | 602.2          |
| Intangible assets                         | -              | -              | -              | -              | -              |
| <b>Other long-term assets</b>             | <b>4,431.2</b> | <b>4,577.9</b> | <b>4,606.7</b> | <b>4,635.5</b> | <b>4,664.3</b> |
| 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          | 472.0          | 463.7          | 455.2          |
| 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        |
| <b>Other current assets</b>               | <b>642.4</b>   | <b>333.9</b>   | <b>333.9</b>   | <b>333.9</b>   | <b>333.9</b>   |
| Total current assets                      | 2,580.9        | 3,217.5        | 3,162.2        | 3,154.0        | 3,145.5        |
| 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        |
| <b>Other current liabilities</b>          | <b>9.3</b>     | <b>7.4</b>     | <b>7.4</b>     | <b>7.4</b>     | <b>7.4</b>     |
| 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        |
| <b>Other long-term liabilities</b>        | <b>579.2</b>   | <b>481.8</b>   | <b>481.8</b>   | <b>481.8</b>   | <b>481.8</b>   |
| <b>Total long-term liabilities</b>        | <b>2,737.9</b> | <b>2,738.9</b> | <b>2,738.9</b> | <b>2,738.9</b> | <b>2,738.9</b> |
| Shareholders' funds                       | 2,764.1        | 3,138.6        | 3,192.6        | 3,291.1        | 3,388.8        |
| Minority interests                        | 33.9           | 8.1            | 16.2           | 26.2           | 36.2           |
| BV/share (RM)                             | 2.21           | 2.29           | 2.26           | 2.32           | 2.39           |
| <b>Cash Flow (RMmil, YE 31 Dec)</b>       | <b>FY16</b>    | <b>FY17</b>    | <b>FY18F</b>   | <b>FY19F</b>   | <b>FY20F</b>   |
| <a href="#">Click here to enter text.</a> |                |                |                |                |                |
| Pretax profit                             | 122.0          | 230.6          | 152.5          | 209.6          | 200.2          |
| Depreciation/Amortisation                 | 15.0           | 22.3           | 11.4           | 12.0           | 12.6           |
| Net change in working capital             | (275.2)        | (269.4)        | -              | -              | -              |
| <b>Others</b>                             | <b>20.6</b>    | <b>(2.6)</b>   | <b>34.7</b>    | <b>(119.9)</b> | <b>(111.6)</b> |
| Cash flow from operations                 | (117.6)        | (19.1)         | 198.6          | 101.7          | 101.2          |
| Capital expenditure                       | (276.6)        | (36.6)         | (100.0)        | (100.0)        | (100.0)        |
| Net investments & sale of fixed assets    | -              | -              | -              | -              | -              |
| <b>Others</b>                             | <b>38.1</b>    | <b>(82.6)</b>  | -              | -              | -              |
| 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)         |
| <b>Others</b>                             | <b>(127.5)</b> | <b>(109.6)</b> | <b>(111.4)</b> | <b>(90.2)</b>  | <b>(90.4)</b>  |
| <b>Cash flow from financing</b>           | <b>321.3</b>   | <b>401.3</b>   | <b>(153.9)</b> | <b>(132.6)</b> | <b>(132.9)</b> |
| <b>Net cash flow</b>                      | <b>(34.8)</b>  | <b>263.0</b>   | <b>(55.2)</b>  | <b>(130.9)</b> | <b>(131.7)</b> |
| <b>Net cash/(debt) b/f</b>                | <b>398.5</b>   | <b>334.7</b>   | <b>535.4</b>   | <b>480.2</b>   | <b>471.9</b>   |
| Net cash/(debt) c/f                       | 381.0          | 597.7          | 480.2          | 349.3          | 340.2          |
| <b>Key Ratios (YE31 Dec)</b>              | <b>FY16</b>    | <b>FY17</b>    | <b>FY18F</b>   | <b>FY19F</b>   | <b>FY20F</b>   |
| <a href="#">Click here to enter text.</a> |                |                |                |                |                |
| Revenue growth (%)                        | 15.9           | (1.4)          | 36.6           | 6.9            | (11.5)         |
| EBITDA growth (%)                         | 25.8           | 66.2           | (19.6)         | 14.8           | (3.0)          |
| Pretax margin (%)                         | 6.3            | 12.1           | 5.9            | 7.5            | 8.1            |
| Net profit margin (%)                     | 3.5            | 8.1            | 3.7            | 5.1            | 5.7            |
| Interest cover (x)                        | 3.7            | 4.5            | 2.1            | 3.0            | 2.9            |
| Effective tax rate (%)                    | 46.6           | 34.1           | 31.4           | 28.0           | 25.0           |
| Dividend payout (%)                       | -              | 26.4           | 44.0           | 30.1           | 30.3           |
| Debtors turnover (days)                   | 255            | 363            | 266            | 249            | 281            |
| Stock turnover (days)                     | 27             | 57             | 65             | 61             | 68             |
| Creditors turnover (days)                 | 258            | 323            | 321            | 321            | 321            |

Source: Company, AmInvestment Bank Bhd estimates

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