

11 January 2016 | Company Visit

## WCT Berhad

### *Catalysts from Concentration Strategy*

#### INVESTMENT HIGHLIGHTS

- WCT's Executive Director provided insights to the company's 3 year strategy for FY16-FY18
- The explanations helped to allay our earlier concern on its business strategy
- WCT's recovery process is ongoing to reduce its debt and increase its operating cash flow
- Altogether, we reiterate our BUY recommendation with a revised TP of RM1.90 per share

*The key takeaways from the visit are as follows:*

**Debt reduction process is ongoing.** WCT has taken measures to reduce its target total debt ratio from 1.06x (RM3.9bn) to 0.5x (RM1.8bn) in their new 3 year business plan. The ongoing measures are (i) cost optimization through capex minimization of engineering machineries by project concentration, (ii) cash injection from the recent sale of Rawang land to UEM-Sunrise for RM200m, and (iii) the proposed listing of Paradigm PJ and Gateway@KLIA2 malls via a REIT structure in Q4FY16 amounting to RM230m. Additionally, in upcoming quarters (i) the proceeds of Lusail project in Qatar (from Q1FY16 to Q2FYE17) amounting to RM903.9m, and (ii) listing of its construction arm with a possible implied valuation of 1.2x which amounts to RM1.2bn (book value RM1.0bn) in Q3FY17, would potentially be major catalysts to reduce its debt further as well as increasing its working capital.

**Cash flow impacted by development expenditure and shortfall from property sales.** From a cash flow perspective, WCT's development expenditure in FY12 amounted to RM133.1m, while in FY13 and FY14 it registered RM446.6m and RM448.6 respectively. The steep increase in development expenditures for FY13/FY14 were due to commencement of property development projects such as Laman Greenville, Skyz Puchong, d'Banyan Residency, Paradigm Residences and 1Medini Residences. However, WCT's financial headroom was reduced further when the property market softened in early FY15 and cash proceeds from property sales fell short of expectation.

WCT's strategy is to decrease its capital expenditure which averaged around RM167.7m for the past 3 years by concentrating its new tenders in its current construction projects such as RAPID Pengerang, TRX, Kwasaland, West Coast Expressway as well as in Qatar. This was evident by the concentration of tender for new work packages for S-1, S-2 and S-4 in Kwasaland, Damansara.

**Maintain BUY**

**Revised Target Price (TP): RM1.90**  
(from RM1.70)

#### RETURN STATS

Price (8 Jan 2016)	RM1.61
Target Price	RM1.90
Expected Share Price Return	18%
Expected Dividend Yield	+2.1%
<b>Expected Total Return</b>	<b>+20.1%</b>

#### STOCK INFO

KLCI	1,657.6
Bursa / Bloomberg	9679/ WCTHG MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1192.5
Par Value (RM)	1.00
Market cap. (RM'm)	1920
Price over NA	0.764
52-wk price Range	RM1.09– RM1.78
Beta (against KLCI)	1.1
3-mth Avg Daily Vol	2.8m
3-mth Avg Daily Value	RM4.13m
Major Shareholders (%)	
WCT Capital	11.3
LTH	10.21
EPF	7.9
KWAP	6.7

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**Concentration strategy...** By applying the strategy of project concentration, WCT could have more advantage over other project bidders due to lower cost of tender from lesser mobilization fee and performance bond. Regularly, the combination of mobilization fee and performance bond range between 10% and 12% of the total contract value.

**...an impetus to clinch more projects.** WCT's total outstanding orderbook is RM2.87bn; underlining sustainable earnings for FY16/FY17. We believe that WCT's orderbook replenishment target of RM1.15bn for FY16 will be met through its concentration strategy. For example, having an existing track record with current project owners (such as Petronas for RAPID Pengerang and IJM for West Coast Expressway) to tender for new work packages related to the current projects. Similarly, regulators such as CIDB, Board of Engineers, Malaysia and Works Ministry also indicated preference for track record of similar projects to avoid the risk of incompleteness, project budget mismanagement and cost overruns.

**Higher earnings estimate.** We revised our FY16/FY17 financial projections by imputing WCT's strategy to (i) decrease debt, (ii) improve its cash flow by minimising capital and development expenditure, and (iii) focusing its effort on project concentration and the uplift of the current value of its R2 and R4 land in OUG which will be launched in Q2FY16.

**Key risks factor.** Challenges to our assumptions would be (i) the failure to obtain cornerstone investors for the proposed listings of its REITs and construction arm, (ii) failure to obtain credit line facilities for project finance due to high debt level, (iii) project cost overruns, and (iv) delays in project implementation.

**Recommendation.** We maintain our **BUY** recommendation with an SOP-based revised **TP** of **RM1.90** per share. 

## **SOP VALUATION**

<b>Segments</b>	<b>Basis</b>	<b>Value (RM'm)</b>	<b>Per share (RM)</b>
Engineering & construction	DCF Valuation (6.5%)	1,881.7	1.06
<b><u>Concessions</u></b>			
Indian Tollways	DCF valuation (WACC: 8%)	117.5	0.07
KLIA2 Gateway Mall	DCF valuation (WACC: 10%)	328.5	0.18
<b><u>Property Development</u></b>			
On-going & undeveloped landbanks	NPV @ 9% of Market Value	1,350.0	0.76
<b><u>Property Investment</u></b>			
AEON BT, Paradigm Mall & Premiere Hotel	DCF valuation (WACC: 9.5%)	1,210.0	0.68
Landbank	Market Value	600.0	0.34
<b>Total SOP</b>		<b>4,887.7</b>	<b>3.09</b>
Net debt		-1,750.6	-0.98
<b>Total SOP</b>			<b>2.10</b>
	<b>Discount @ 10%</b>		-0.211
			<b>1.89</b>
Enlarged share capital (mil)			1,780.0

Source: MIDFR

## INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	1,655.0	1,662.2	1,854.1	2,341.4	1,874.5
EBIT (RM'm)	302.7	202.4	335.6	415.9	383.1
Pre-tax profit (RM'm)	254.2	151.1	256.2	296.7	262.0
Normalised PATAMI (RM'm)	153.8	111.1	197.8	238.0	223.7
FD EPS (sen)	13.7	10.1	16.5	21.6	20.3
EPS growth (%)	-8.2	-26.6	63.4	31.1	-6.0
PER (x)	14.8	18.9	9.8	7.5	7.9
Dividend (sen)	6.8	2.5	4.0	3.3	2.5
Dividend Yield (%)	2.9	1.2	3.5	2.1	1.6

Source: MIDFR

## DAILY PRICE CHART



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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.