

COMPANY UPDATE

WCT Holdings (WCTHG MK)

Still A Good Infrastructure Proxy

We hosted WCT for a luncheon together with its senior management personnel. Funds were generally positive on the strategies of the company, particularly on: a) prospects of the construction division, b) REITing of its investment properties, and c) its maiden OUG launch. On arbitration settlement (which we have to include in our valuation), management indicated that the decision is final and foresee a settlement within two years. Maintain BUY. Target: RM2.05, implying 15.8x 2017F PE.

WHAT'S NEW

- We recently hosted WCT Holdings (WCT) for a group luncheon which was well attended by local fund managers and analysts. WCT was represented by its director Mr Kenny Wong, Ms Tai Chee Hoon (Senior Group Accountant), Mr Ng Eng Keat (General Manager) and Mr Ooi Bok Thian (Senior Manager of Tender, Procurement and Budget). Key discussion premised on the recently-won contracts, new job prospects, potential value unlocking of its divisions and key focus of the property development division for 2016.

STOCK IMPACT

- Construction division to focus on infrastructure projects.** In 2015, 75% of new jobs secured were infrastructure related, which is preferred by the group over building jobs given the margin advantage. Moving into 2016, the group has set a RM2b target for new construction orders, which would mainly be infrastructure-related jobs. In the near term, the company expects results for upcoming tenders to be announced, which includes the civil works at RAPID (Pengerang), infrastructure at the Tun Razak Exchange, earthworks at Kwasa Damansara and infrastructure for the KL118, which have a cumulative value of RM2b. We think WCT stands a good chance of securing more RAPID and Kwasa Damansara related jobs as it is already one of the key contractors for the ongoing jobs in these areas.
- Launching of REIT could be done as soon as 1Q16.** The exercise - first revealed by management back in 2014 - is to unlock the value of its investment properties via the REIT avenue. We gather the exercise is making progress, starting with the BBT Mall in Klang and Paradigm Mall Kelana Jaya, both with a combined value of about RM835m. The Gateway@klia2 mall will most likely be excluded from the REIT exercise but it could take on a different route in unlocking value including a separate listing. We currently value WCT's 70% stake of Gateway@klia at RM603m.

KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net turnover	1,672	1,662	1,570	2,307	2,533
EBITDA	269	203	208	286	332
Operating profit	259	193	201	276	318
Net profit (rep./act.)	198	121	92	155	177
Net profit (adj.)	128	92	92	155	177
EPS (sen)	10.0	7.4	6.7	10.8	12.3
PE (x)	16.0	21.7	24.0	14.9	13.1
P/B (x)	0.9	0.9	1.0	0.9	0.9
EV/EBITDA (x)	13.6	18.1	17.6	12.8	11.0
Dividend yield (%)	6.2	1.4	1.4	1.4	1.4
Net margin (%)	11.8	7.3	5.9	6.7	7.0
Net debt/(cash) to equity (%)	40.1	66.4	71.8	70.1	66.0
Interest cover (x)	4.0	3.0	2.6	3.9	4.2
ROE (%)	9.8	5.4	4.1	6.6	7.1
Consensus net profit	-	-	106	151	179
UOBKH/Consensus (x)	-	-	0.87	1.03	0.99

Source: WCT Holdings Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.61
Target Price	RM2.05
Upside	+27.3%

COMPANY DESCRIPTION

Construction company with growing focus in property development.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WCTHG MK
Shares issued (m):	1,192.7
Market cap (RMm):	1,920.2
Market cap (US\$m):	438.7
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

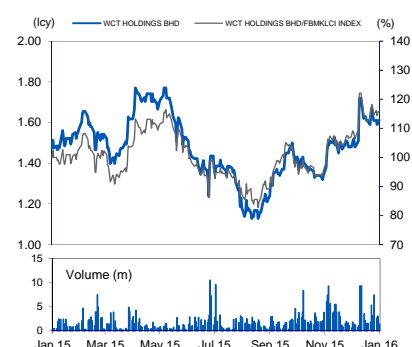
52-week high/low			RM1.77/RM1.13	
1mth	3mth	6mth	1yr	YTD
8.8	12.6	12.1	5.7	0.0

Major Shareholders

	%
WCT Capital	20.1
Lembaga Tabung Haji	10.2
Employees Provident Fund	9.0

FY16 NAV/Share (RM)	1.75
FY16 Net Debt/Share (RM)	1.23

PRICE CHART



Source: Bloomberg

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- **Expect construction margin improvement in 2H16.** Management shared that its strength lies in earthwork jobs given its advantage of speed in mobilising its machines at the key earthwork sites (ie Pengerang and Kwasa Damansara) with efficient cost controls. We expect WCT's construction division's margins to improve, particularly in 2H16 as its ongoing building jobs are completed and the recently-awarded infrastructure related jobs begin contributing.
- **Property to see the maiden launch of OUG development.** The entire development would have three condominiums, a mall, office towers and hotel. We understand that the initial launch for the first residential tower is expected to be done sometime in end-1Q16, offering about 419 units of condominiums with an indicative price of about RM850psf, followed by the launch of a second residential tower, both having combined GDV of RM600m. We believe these initial developments would be well received given their enhanced connectivity, and would greatly support management's sales target of RM600m for 2016.
- **Paradigm Mall Johor Bahru mall set to commence operations in Oct 16,** offering about 1.25m sf in NLA and over 55% in occupancy commitments, with SOGO, GSC, Village Grocer and H&M as key anchor tenants. We have assumed very marginal contribution from this mall in 2016, but expect the mall to contribute about RM30m in pre-tax profit in 2017 (assuming rental rates of RM7psf and a conservative 70% occupancy).
- **Updates on Dubai lawsuit.** Management noted that the decision to award WCT with AED1.15b by the arbitrator is final and cannot be contested or overturned. So far, the claims have been registered with the Dubai Courts back in 4Q15. We understand that management is also open to taking over assets should Meydan not have the liquid funds to settle the dispute with a timeline to fully complete settlement to be up to a maximum of 2 years.

EARNINGS REVISION/RISK

- We maintain our earnings estimates.
- Major risks include execution risk, weaker property sales due to the recent regulatory change, and rising raw material prices.

VALUATION/RECOMMENDATION

- **Maintain BUY with a SOTP-based target price of RM2.05.** Our target price is based on a 10% discount to our SOTP valuation of RM2.26/share and implies 15.8x 2017F PE, slightly above its 10-year historical average PE. We have also factored in a 50% surplus value of RM283m for the Paradigm Mall Johor Bahru, which is under construction and is slated to begin operations in Oct 16.
- We continue to like WCT for its strong turnaround story, particularly after securing the large construction orders, and embarking on asset monetisation strategies which would pare down its gearing. Despite the uncertain timeline, receiving the Dubai arbitration settlement sum will be a key catalyst.

SHARE PRICE CATALYST

- Winning new construction jobs.
- Unlocking value of its investment properties.
- Good take-up for property developments.

SOTP VALUATION

	(RMm)	Basis
Property development	1,067.4	40% discount to RNAV
Construction	1,775.7	Pegged to 13x FY17 profits
Investment property	1,673.6	Based on cap rates of between 6.5%-7%
Less: Net debt @ 2014	(1,690.9)	
Proceeds from warrants	290.5	
Total SOTP value	3,116.3	
FD shares outstanding (m)	1,219.4	
No. of warrants (m)	157.0	
Enlarged share base (m)	1,376.4	
SOTP/share (RM)	2.26	
Target price at a 10% discount to SOTP (RM)	2.05	
Implied 2017F PE (x)	15.8	

Source: UOB Kay Hian

EXTERNAL CONSTRUCTION ORDERBOOK

Project	(RMm)
Overseas (External Jobs)	
Govt Office, Qatar	89
Lusai Development, Qatar	982
Doha Airport	3
Infrastructure (External Jobs)	
RAPID - Common access roads	293
KWASA Land	127
1MDB TRX Infra	755
Pengerang - PetChem works	267
WCE	282
Petrochemical Hub	323
Others	63
Building (External Jobs)	
MyTown Shopping Centre (Cheras)	537
Putrajaya Commercial Office	262
UIO - Local Control building	316
Others	120
Total External Jobs	4,419
Total Internal Jobs	895
Grand Total	5,314

Source: WCT, UOB Kay Hian

TIMELINE OF EVENTS

Event	Timeline
Maiden Launch of OUG Development	1Q16
Launching of WCT REIT exercise	1Q16
Opening of Paradigm Johor Bahru	Oct 16
Arbitration Payment	Up to 2 years

Source: WCT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Net turnover	1,662	1,570	2,307	2,533
EBITDA	203	208	286	332
Deprec. & amort.	10	7	11	14
EBIT	193	201	276	318
Associate contributions	15	19	21	15
Net interest income/(expense)	(67)	(80)	(73)	(79)
Pre-tax profit	151	140	224	254
Tax	(28)	(34)	(54)	(61)
Minorities	(2)	(14)	(15)	(16)
Net profit	121	92	155	177
Net profit (adj.)	92	92	155	177

BALANCE SHEET

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Fixed assets	237	377	520	660
Other LT assets	3,245	3,070	3,091	3,106
Cash/ST investment	951	786	740	741
Other current assets	1,768	1,878	2,383	2,491
Total assets	6,201	6,112	6,734	6,998
ST debt	584	584	584	584
Other current liabilities	1,038	761	1,133	1,251
LT debt	1,846	1,846	1,846	1,846
Other LT liabilities	452	579	704	704
Shareholders' equity	2,228	2,289	2,413	2,559
Minority interest	53	53	53	53
Total liabilities & equity	6,201	6,112	6,734	6,998

CASH FLOW

Year to 31 Dec (RMm)	2014	2015F	2016F	2017F
Operating	(429)	100	134	182
Pre-tax profit	151	140	224	254
Tax	(59)	(34)	(54)	(61)
Deprec. & amort.	10	7	11	14
Associates	0	0	0	0
Working capital changes	(503)	(14)	(46)	(25)
Non-cash items	n.a.	n.a.	n.a.	n.a.
Other operating cashflows	(28)	0	0	0
Investing	99	(150)	(150)	(150)
Capex (growth)	(3)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	102	0	0	0
Financing	399	(31)	(31)	(31)
Dividend payments	(48)	(31)	(31)	(31)
Issue of shares	0	0	0	0
Proceeds from borrowings	498	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(52)	0	0	0
Net cash inflow (outflow)	69	(81)	(46)	1
Beginning cash & cash equivalent	868	868	786	740
Changes due to forex impact	14	0	0	0
Ending cash & cash equivalent	951	786	740	741

KEY METRICS

Year to 31 Dec (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	12.2	13.3	12.4	13.1
Pre-tax margin	9.1	8.9	9.7	10.0
Net margin	7.3	5.9	6.7	7.0
ROA	2.1	1.5	2.4	2.6
ROE	5.4	4.1	6.6	7.1
Growth				
Turnover	(0.6)	(5.6)	46.9	9.8
EBITDA	(24.5)	2.6	37.4	16.0
Pre-tax profit	(40.6)	(7.4)	60.1	13.4
Net profit	(39.0)	(23.6)	68.3	14.2
Net profit (adj.)	(28.1)	(0.1)	68.3	14.2
EPS	(26.1)	(9.4)	61.1	13.2
Leverage				
Debt to total capital	51.6	50.9	49.6	48.2
Debt to equity	109.1	106.2	100.7	95.0
Net debt/(cash) to equity	66.4	71.8	70.1	66.0
Interest cover (x)	3.0	2.6	3.9	4.2

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