



### WCT HOLDINGS BERHAD

**Outperform**

#### DESCRIPTION

Malaysian construction company with core businesses in civil engineering construction, property development and investment and management of properties and concession assets.

**12-Month Target Price** RM1.80  
**Current Price** RM1.59  
**Expected Return** 13%

**Market Sector** Main Construction  
**Bursa Code** 9679  
**Bloomberg Ticker** WCTHG MK  
**Shariah-Compliant** Yes

#### SHARE PRICE CHART



52 Week Range (RM) 1.10-1.78  
 3-Month Average Vol ('000) 2,538.0

#### SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-1.9	18.7	36.1
Relative Returns	-3.1	15.6	30.6

#### KEY STOCK DATA

Market Capitalisation (RMm)	1,897.0
No. of Shares (m)	1,193.1

#### MAJOR SHAREHOLDERS

	%
WCT Capital SB	19.8
Employees Provident Fund	10.2
Lembaga Tabung Haji	8.4

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## Value Creation Through Reorganisation

A recent meeting with the Management revealed that the Group's de-gearing exercise is underway with the proposed listing of its investment assets and construction arm, targeted by end-2016. The de-gearing exercise is in fact already in progress with the recently-proposed JV with UEM Sunrise which is expected to raise RM215m in net proceeds. We understand that the listing of its construction division and investment assets is expected to raise another RM1.3bn, which would pare down the Group's net gearing from 0.6x to 0.4x. All in, the total proceeds from the de-gearing exercise are estimated to be RM1.5bn or RM1.11/share. With the potential value to be unlocked from reorganization, we upgrade WCT from Trading Buy to Outperform with higher TP of RM1.80 from RM1.70 previously based on 10% discount to our SOTP. The arbitration claim of AED1.15bn or c.RM1.3bn would potentially add another RM0.95/share to our SOTP valuations. FY16-17 earnings are adjusted by 11% and 6% respectively to account for higher job replenishment and rental income.

§ **De-gearing exercise.** Apart from monetizing its landbank (via JV with UEM Sunrise), WCT also plans to list its construction division and investment assets. Hence, WCT Holdings will be the holding company owning the landbank and stakes in the new construction company and REIT (Figure 3). We understand that it plans to sell 40% of the c.RM1.5bn construction IPO, potentially yielding RM600m in cash proceeds. As for investment assets, the Group plans to float its BBT Mall in Klang and Paradigm Mall Kelana Jaya with total asset value of RM1.2bn. With 40% ownership, the REIT is projected to raise c.RM720m. Both listings are expected to be completed by end-2016. The Gateway@klia2 mall is excluded from the REIT listing.

§ **Job replenishment momentum to continue.** After a record breaking year in 2015 (c.RM3.1bn worth of jobs secured), WCT is hopeful that it could add another RM2bn in 2016, with RM1.6bn expected locally and the rest from the Middle East. We understand that it will focus on infrastructure jobs which traditionally have higher margins. Among the key jobs eyed are RAPID Pengerang civil works (c.RM300m), TRX infrastructure and buildings (c.RM800m), Kwasa Damansara civil and infrastructure works, KL118 infrastructure, Southern Double Track, Pan Borneo highway, LRT3 and MRT2 rail works. Outstanding orderbook as at Nov 2015 stood at RM5.3bn, with c.RM0.9bn internal works.

#### KEY FORECAST TABLE

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F	CAGR (%)
Revenue	1,655.0	1,662.2	1,671.3	2,245.7	2,495.7	8.6
Operating Profit	302.7	202.4	297.6	297.0	318.0	1.0
Pre-tax Profit	254.2	151.1	223.3	205.1	232.1	(1.8)
Net Profit	197.5	120.5	171.5	158.6	178.1	(2.1)
EPS (Sen)	14.6	8.9	12.7	11.7	13.2	(2.1)
P/E (x)	10.9	17.8	12.5	13.5	12.1	
DPS (Sen)	9.5	1.0	3.0	3.0	4.0	
Dividend Yield (%)	6.0	0.6	1.9	1.9	2.5	

Source: Company, PublicInvest Research estimates

**Property sales.** For FY16, the Group is targeting to sell RM600m worth of properties, with maiden launch of its OUG mixed development project i.e. The Paradigm Gardens City. The first project in OUG is a residential tower, "R2" with an estimated GDV of RM300m or c.RM850psf. WCT might unveil another residential block i.e. "R4" in Q416 if the demand is good. We understand that its 60-acre OUG land will have 8 blocks consisting condominiums, offices and a mall. Tentative NLA for the OUG mall is 1.8m sf with targeted completion in 2019. Elsewhere, we understand that WCT is enlarging its landbank in OUG via a land swap but details are still sketchy at this juncture.

**The Paradigm Mall, JB.** The group's new mall, The Paradigm Mall, JB, is expected to open on 15 Nov, 2016. As for leasing progress, c.50% of its 1.25m sf NLA space has been taken with an average rental of RM7 psf. Key tenants secured so far include SOGO, Village Grocer, H&M and Golden Screen Cinemas. This asset is expected to be injected into its REIT eventually.

**Figure 1: WCT's Sum-Of-The-Parts**

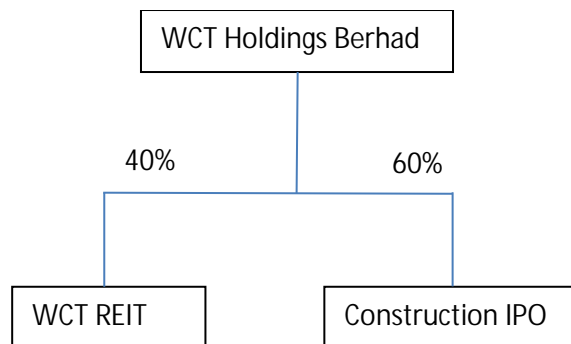
	Attributed Value (RM m)	Value/share (RM)	Comments
Construction	1541.1	1.29	14x P/E
Development projects	1257.9	1.05	30% discount RNAV
Investment properties	1477.7	1.24	Market value
net cash / (debt)	-1906.0	-1.60	
Value / share		2.0	
<b>Target price after 10% holding company discount</b>		<b>1.8</b>	

Source: Company, PublicInvest Research estimates

**Figure 2: Proposed reorganization**

	UEMS JV Nov-15	Construction IPO Q42016	REIT Q42016
Valuation	RM424m	RM1.5bn	RM1.2bn
Proceed	RM215m	~RM600m	RM720m
P&L Gain	RM205	~RM100m	-
Subsequent Net Gearing	0.6x	0.5x	0.4x
Net Stake	50%	60%	40%

Source: Company, PublicInvest Research estimates

**Figure 2: Company Structure Post-reorganization**


**\*WCT Holdings will own the landbank, concessions and the remaining investment assets (plus the arbitration claim of AED1.15bn).**

Source: Company, PublicInvest Research estimates

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F
Revenue	1,655.0	1,662.2	1,671.3	2,245.7	2,495.7
Gross Profit	280.0	233.6	296.6	407.8	463.4
Operating expenses	22.7	-31.2	1.0	-110.8	-145.5
Operating Profit	302.7	202.4	297.6	297.0	318.0
Other Gains / (Losses)	19.2	40.3	33.9	10.7	22.0
Finance Costs	-67.6	-91.5	-108.2	-102.6	-107.8
Pre-tax Profit	254.2	151.1	223.3	205.1	232.1
Income Tax	-64.5	-53.6	-49.2	-55.7	-59.9
Effective Tax Rate (%)	25.4	35.5	22.0	27.2	25.8
Minorities	7.8	1.8	2.8	1.7	7.8
Net Profit	197.5	120.5	171.5	158.6	178.1
<b>Growth</b>					
Revenue (%)	15.4	0.4	0.5	34.4	11.1
Gross Profit (%)	19.4	-16.6	27.0	37.5	13.6
Net Profit	20.9	-39.0	42.3	-7.5	12.3

Source: Company, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Dec (RM m)	2013A	2014A	2015F	2016F	2017F
Property, Plant & Equipment	271.7	237.4	279.0	319.6	361.1
Cash and Cash Equivalents	973.4	950.8	1,348.4	1,029.3	856.5
Receivables	990.8	1,022.2	1,106.9	1,487.3	1,652.9
Other Assets	3,298.8	3,990.7	3,853.6	4,165.1	4,300.3
<b>Total Assets</b>	<b>5,534.6</b>	<b>6,201.1</b>	<b>6,587.9</b>	<b>7,001.3</b>	<b>7,170.7</b>
Payables	842.7	862.1	851.1	1,143.6	1,270.9
Borrowings	1,922.1	2,430.5	2,689.9	2,565.2	2,440.5
Tax payable	41.5	37.8	35.4	35.4	35.4
Other Liabilities	471.9	589.9	636.7	795.0	863.9
<b>Total Liabilities</b>	<b>3,278.3</b>	<b>3,920.4</b>	<b>4,213.0</b>	<b>4,539.2</b>	<b>4,610.7</b>
Shareholders' Equity	2,256.4	2,280.7	2,374.9	2,462.1	2,560.1
<b>Total Equity and Liabilities</b>	<b>5,534.6</b>	<b>6,201.1</b>	<b>6,587.9</b>	<b>7,001.3</b>	<b>7,170.7</b>

Source: Company, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec	2013A	2014A	2015F	2016F	2017F
Book Value Per Share	1.8	1.9	1.9	2.0	2.1
NTA Per Share	1.8	1.9	1.9	2.0	2.1
EPS (Sen)	14.6	8.9	12.7	11.7	13.2
DPS (Sen)	9.5	1.0	3.0	3.0	4.0
Payout Ratio (%)	65.0	11.2	23.6	25.5	30.3
ROA (%)	6.3	3.1	1.9	2.4	2.2
ROE (%)	9.0	5.4	7.4	6.6	7.1

Source: Company, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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