

Company Flash Note

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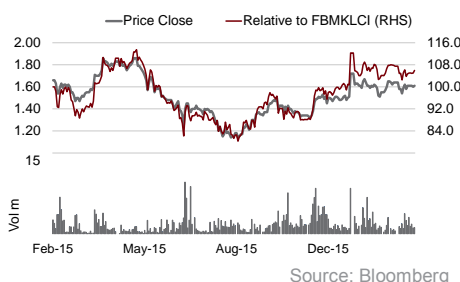
February 26, 2016 - 5:12 PM

ADD (no change)

Current price:	RM1.61
Target price:	RM1.84
Previous target:	RM1.84
Up/downside:	14.5%
Reuters:	WCTE.KL
Bloomberg:	WCTHG MK
Market cap:	US\$457.8m
	RM1,934m
Average daily turnover:	US\$0.71m
	RM3.05m
Current shares o/s	1,229m
Free float:	61.2%

Key financial forecasts

	Dec-16F	Dec-17F	Dec-18F
Net Profit (RMm)	122.3	136.5	141.6
Core EPS (RM)	0.10	0.11	0.12
Core EPS Growth	(55.9%)	11.6%	3.7%
FD Core P/E (x)	16.92	15.16	14.62
Recurring ROE	4.51%	4.85%	4.98%
P/BV (x)	0.71	0.70	0.69
DPS (RM)	0.040	0.044	0.046
Dividend Yield	2.47%	2.76%	2.86%



Price performance	1M	3M	12M
Absolute (%)	3.9	5.2	-4.2
Relative (%)	1.9	6.8	4.5

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WCT Holdings

Eventful year with upside potential

- Post 4Q results briefing re-emphasized management's conviction to execute planned corporate moves to unlock value via REIT and construction IPOs.
- Positive tone on job win prospects sustained; 2016 success rate could exceed 2015's.
- More infra wins, IPO deal and REIT are key potential catalysts. Add rating retained.

Management is focused to execute construction IPO and REIT.

- During the post-results briefing by ED Kenny Wong, we observed management's greater conviction to pursue asset monetization moves this year. This should ultimately translate to further reduction in net gearing to around the targeted 0.3-0.4x vs about 0.7x as at end FY15. Finalization with the SC to initiate the IPO for WCT's pure construction arm is underway. Also, the planned RM1.2bn REIT exercise of two of three of its operating malls is also going ahead in 4Q16 at the earliest.

Floating its construction arm in 4Q16

- Management reaffirmed recent press reports about the potential listing of the group's pure construction division in 4Q16. We estimate the IPO could be looking at around RM1.1-1.5bn market cap size assuming a listing P/E of 11-14x broadly in line with Sunway Construction's IPO last year. This is likely based on a base-case net profit of c.RM100-115m, going by the RM140m construction EBIT achieved in FY15. We believe approval from the Securities Commission (SC) could be in the cards soon.

Several job win potentials, upside to margins

- We compile a best-case total wins of up to RM3bn (RM2bn: WCT's target, RM1.5bn CIMB) if WCT succeeds in all of its submitted tenders. Major jobs are Kwasa Land infra works, TRX civil infra works, Pan-Borneo highway, RAPID infra, and highways. Indications were that 7% FY15 construction EBIT margin should be sustainable, with room for upside. At least 50% of the RM4.2bn external order book comprises higher-margin infra/civil contracts, largely at less than 30-40% progress milestones.

Indication of upside

- We retain our RM1.5bn total wins assumption for FY16. Our back-of-the-envelope sensitivity calculation shows that every additional RM500m contract secured on top of our figures would raise FY17-18F EPS by 4-5% and target price by not more than 5% based on a construction EBIT margin of 8%. Arguably, further upside to RNAV does not factor in the estimated potential combined net proceeds of RM1.5bn from the soon completing 50% land sale/JV deal with UEM Sunrise, Construction IPO and REIT.

Event-driven year to overshadow tough property scene

- Management introduced its base-case property sales target of RM600m for FY16, which is a prudent target, in our view, considering current market conditions. Nevertheless, it also foresees some bright spots in 2H16 and has lined up launch plans for the new mixed development Paradigm Garden City in OUG as early as Mar/Apr. This is positive, but we believe the highlight for WCT in 2016 will be more event-driven, focused on the construction comeback and monetization of property investment assets.

Catalysts potentially in store, maintain Add

- Overall, there were no major surprises during the briefing, but we were overall positive on management's efforts to further address investors' past concerns on the group's gearing level and the need for greater job win visibility. Our target price remains pegged to a 30% RNAV discount. Job wins potential from 2Q16, formalization of IPO and REIT deals are key potential catalysts. We reiterate our Add rating.

Figure 1: Potential events in 2016 as likely catalysts

Estimated Time line	Events	Benefit(s)
2Q16	: Formalisation of construction IPO for 4Q16	Unlocking value & paring down gearing
2Q16	: Formalisation of REIT exercise for 4Q16	Unlocking value & paring down gearing
Mar/Apr	: Launch of Paradigm Garden City phase 1	Supporting RM600m sales target in FY16
2Q/3Q16	: Revival of 2016 job wins - Kwasa Land infra	Further upside to higher-margin infra jobs
2Q/3Q16	: Maiden award of MRT 2 kicks off	WCT is prequalified for c.RM1bn job
Mid 2016	: Pan Borneo highway awards commence	WCT has tendered with a Sarawak contractor
2H16	: TRX infra, RAPID and LRT 3 could be awarded	WCT has either tendered or prequalified

SOURCES: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	1,668	2,124	2,138	2,143
Gross Profit	201	330	342	346
Operating EBITDA	89	114	123	126
Depreciation And Amortisation	(8)	(24)	(26)	(28)
Operating EBIT	81	91	97	98
Financial Income/(Expense)	(44)	(47)	(47)	(48)
Pretax Income/(Loss) from Assoc.	88	10	11	12
Non-Operating Income/(Expense)	147	154	162	170
Profit Before Tax (pre-EI)	272	209	222	232
Exceptional Items	0	0	0	0
Pre-tax Profit	272	209	222	232
Taxation	(55)	(47)	(47)	(48)
Exceptional Income - post-tax				
Profit After Tax	217	161	176	183
Minority Interests	2	(39)	(39)	(42)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	219	122	137	142
Recurring Net Profit	277	122	137	142
Fully Diluted Recurring Net Profit	277	122	137	142

Balance Sheet

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	524	493	503	514
Total Debtors	1,156	1,107	1,096	1,085
Inventories	154	100	105	110
Total Other Current Assets	864	405	446	490
Total Current Assets	2,698	2,105	2,149	2,199
Fixed Assets	288	294	310	327
Total Investments	1,547	1,614	1,621	1,630
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	2,228	2,251	2,296	2,342
Total Non-current Assets	4,064	4,158	4,227	4,298
Short-term Debt	520	600	581	564
Current Portion of Long-Term Debt				
Total Creditors	936	929	959	990
Other Current Liabilities	9	9	9	9
Total Current Liabilities	1,466	1,538	1,549	1,563
Total Long-term Debt	2,073	1,511	1,586	1,666
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	521	332	332	332
Total Non-current Liabilities	2,594	1,843	1,918	1,997
Total Provisions	45	45	45	45
Total Liabilities	4,105	3,425	3,512	3,605
Shareholders' Equity	2,621	2,801	2,827	2,854
Minority Interests	37	37	38	38
Total Equity	2,657	2,838	2,864	2,892

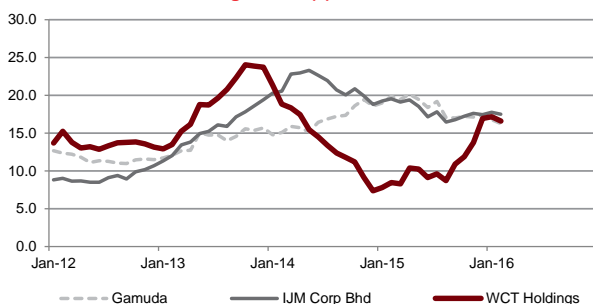
Cash Flow

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	88.7	114.4	122.8	126.4
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(42.1)	(65.6)	(48.2)	(50.7)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	23.3	23.3	23.3	23.3
Net Interest (Paid)/Received	(44.1)	(46.6)	(47.2)	(47.9)
Tax Paid	(54.9)	(47.2)	(46.7)	(48.4)
Cashflow From Operations	(29.1)	(21.7)	4.0	2.8
Capex	(49.8)	(50.3)	(50.3)	(50.3)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	102.0	81.6	73.4	66.1
Cash Flow From Investing	52.2	31.3	23.1	15.8
Debt Raised/(repaid)	47.9	52.4	57.0	61.7
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(42.5)	(42.5)	(42.5)	(42.5)
Preferred Dividends				
Other Financing Cashflow	(455.1)	(50.9)	(31.7)	(27.7)
Cash Flow From Financing	(449.6)	(41.0)	(17.2)	(8.5)
Total Cash Generated	(426.5)	(31.5)	9.9	10.1
Free Cashflow To Equity	71.0	62.0	84.1	80.2
Free Cashflow To Firm	80.9	72.7	91.6	84.6

Key Ratios

	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	0.3%	27.3%	0.7%	0.2%
Operating EBITDA Growth	(7.4%)	29.0%	7.4%	2.9%
Operating EBITDA Margin	5.32%	5.39%	5.74%	5.90%
Net Cash Per Share (RM)	(1.68)	(1.32)	(1.35)	(1.40)
BVPS (RM)	2.13	2.28	2.30	2.32
Gross Interest Cover	1.40	1.44	1.50	1.48
Effective Tax Rate	20.2%	22.6%	21.0%	20.9%
Net Dividend Payout Ratio	37.1%	66.4%	59.5%	57.4%
Accounts Receivables Days	197.7	156.2	150.0	148.2
Inventory Days	30.42	25.87	20.76	21.80
Accounts Payables Days	201.9	154.4	156.1	162.3
ROIC (%)	1.97%	1.74%	2.17%	2.15%
ROCE (%)	4.80%	5.08%	5.48%	5.59%
Return On Average Assets	3.83%	2.99%	3.32%	3.38%

12-month Forward Rolling FD P/E (x)



Key Drivers

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Outstanding Orderbook	3,100	2,700	2,300	1,900
Order Book Depletion	1,900	1,900	1,900	1,900
Orderbook Replenishment	2,000	1,500	1,500	1,500
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% main prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A

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Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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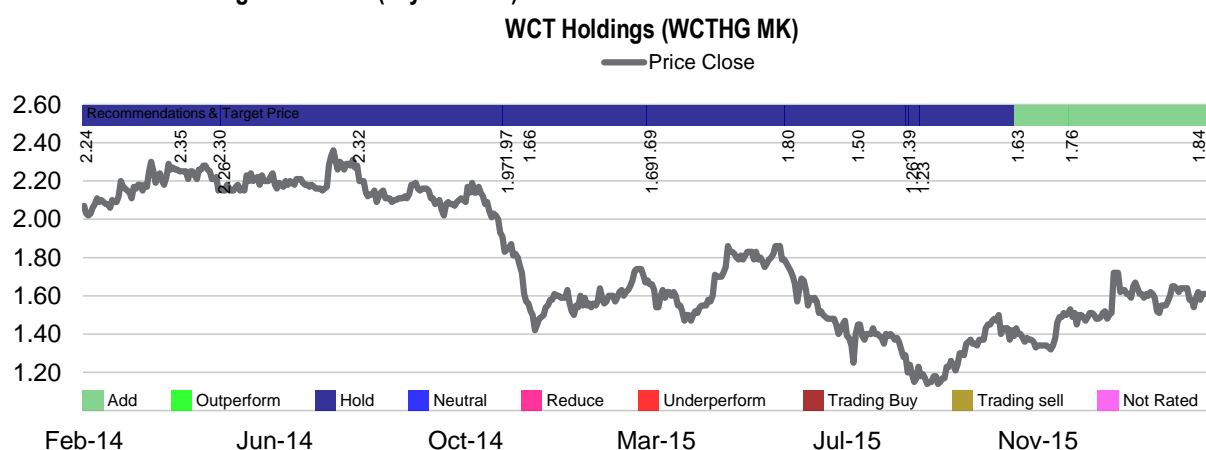
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2015

1536 companies under coverage for quarter ended on 31 December 2015

	Rating Distribution (%)	Investment Banking clients (%)
Add	58.8%	9.3%
Hold	31.5%	4.0%
Reduce	8.5%	0.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

AAV – Very Good, 3B, ADVANC – Excellent, 3A, AEONTS – Good, 1, AMATA – Very Good, 2, ANAN – Very Good, 3A, AOT – Very Good, 2, AP – Good, 3A, ASK – Very Good, 3B, ASP – Very Good, 4, BANPU – Very Good, 4, BAY – Very Good, 4, BBL – Very Good, 4, BCH – not available, no progress, BCP – Excellent, 5, BDMS – Very Good, 3B, BEAUTY – Good, 2, BEC – Good, 3B, BECL – Very Good, 3B, BH – Good, 2, BIGC – Excellent, 3A, BJC – Good, 1, BLA – Very Good, 4, BMCL – Very Good, 1, BTS – Excellent, 3A, CBG – Good, 1, CCET – not available, 1, CENTEL – Very Good, 3A, CHG – Good, 3B, CK – Excellent, 3B, COL – Very Good, 3A, CPALL – Good, 3A, CPF – Very Good, 3A, CPN – Excellent, 5, DELTA – Very Good, 3A, DEMCO – Very Good, 3A, DTAC – Excellent, 3A, EA – not available, 3A, ECL – Good, 4, EGCO – Excellent, 4, EPG – not available, 3B, GFPT – Very Good, 3A, GLOBAL – Very Good, 2, GLOW – Good, 3A, GRAMMY – Excellent, 3B, GUNKUL – Very Good, 1, HANA – Excellent, 4, HEMRAJ – Very Good, 2, HMPRO – Excellent, 3A, ICHI – Very Good, 3A, INTUCH – Excellent, 4, ITD – Good, 1, IVL – Excellent, 4, JAS – not available, 3A, JASIF – not available, no progress, JUBILE – Good, 3A, KAMART – not available, no progress, KBANK – Excellent, 4, KCE – Excellent, 4, KGI – Good, 4, KKP – Excellent, 4, KSL – Very Good, 2, KTB – Excellent, 4, KTC – Very Good, 3A, LH – Very Good, 3B, LPN – Excellent, 3A, M – Good, 2, MAJOR – Good, 1, MAKRO – Good, 3A, MBKET – Good, 2, MC – Very Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT – Excellent, 3A, MTLs – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL – Excellent, 4, PTT – Excellent, 5, PTTEP – Excellent, 4, PTTGC – Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART – Excellent, 3B, SAPPE – Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB – Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCN – Good, 1, SCCC – Good, 3A, SIM – Excellent, 3B, SIRI – Good, 1, SPALI – Excellent, 3A, SPRC – not available, no progress, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO – Excellent, 4, TK – Very Good, 3B, TMB – Excellent, 4, TPCH – Good, 3B, TOP – Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, VGI – Excellent, 3A, WHA – Good, 3A, WORK – not available, no progress.

Comprises level 1 to 5 as follows:

Level 1: Committed

Level 2: Declared

Level 3: Established (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)

Level 4: Certified

Level 5: Extended.

CIMB Recommendation Framework
Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

**Prior to December 2013 CIMB recommendation framework for stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange were based on a stock's total return relative to the relevant benchmarks total return. Outperform: expected to exceed by 5% or more over the next 12 months. Neutral: expected to be within +/-5% over the next 12 months. Underperform: expected to be below by 5% or more over the next 12 months. Trading Buy: expected to exceed by 3% or more over the next 3 months. Trading Sell: expected to be below by 3% or more over the next 3 months. For stocks listed on Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Outperform: Expected positive total returns of 10% or more over the next 12 months. Neutral: Expected total returns of between -10% and +10% over the next 12 months. Underperform: Expected negative total returns of 10% or more over the next 12 months. Trading Buy: Expected positive total returns of 10% or more over the next 3 months. Trading Sell: Expected negative total returns of 10% or more over the next 3 months.*