



Outthink. Outperform.

Lifted by forex gain

WCT's FY15 result was a positive surprise mainly due to unrealized forex and property revaluation gains. Core net profit fell 33% YoY due to lower construction (excluding forex gain impact) and property earnings. We expect core earnings growth of 10% YoY in FY16E. Good prospects to expand its order book and unlock values via the potential listing of its construction arm and property investment assets. We reiterate our BUY call with RM1.82 target price, based on 20% discount to RNAV.

Above expectations

WCT reported net profit of RM219m (+82% YoY) in FY15 compared to consensus forecast of RM105m and our estimate of RM152m. We were surprised mainly by the RM58m revaluation gain on its Ascent Paradigm office tower, which was recognized as joint venture earnings. But net profit fell 10% QoQ in 4Q15 due to the accounting adjustment for the Meydan Racecourse receivables resulting in a forex loss.

Boosted by forex gains

Construction operating profit jumped 49% YoY in FY15, mainly on unrealized forex gains while property development (-6% YoY) and property investment earnings declined (-7% YoY). Lower progress billings and weak property sales led to weaker property-development earnings. WCT chalked up property sales of RM373m in FY15 with unrecognized sales at RM572m. An outstanding construction order book of RM5.3bn (RM0.9bn internal projects) with more high-margin infrastructure works will support core earnings growth, equivalent to 4.1x FY15 construction revenue.

Earnings cut

We cut our fully-diluted EPS forecast by 7-11% for FY16-17E to reflect lower property sales of RM500m in FY16E and RM816m in FY17E. The higher net debt in led us to trim our target price to RM1.82 from RM1.84 previously. The new contracts value secured of RM3.4bn has improved earnings visibility, while prospect to replenish its order book are good. WCT has been pre-qualified to bid for the Klang Valley MRT Line 2, RAPID, Tun Razak Exchange and Kwasa Damansara projects.

Still a BUY

We maintain our **BUY** rating and 12-month target price of RM1.82. Key downside risks are weak property sales and potential forex losses.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,662.2	1,667.9	2,399.0	3,118.7	3,200.4
EBITDA (RMm)	161.8	126.4	255.4	335.4	393.2
Pretax profit (RMm)	149.5	271.6	391.8	266.3	328.1
Net profit (RMm)	122.9	219.1	342.7	196.5	242.9
EPS (sen)	9.6	13.9	22.5	14.4	17.7
PER (x)	16.7	11.6	7.2	11.2	9.1
Core net profit (RMm)	99.5	72.3	137.4	196.5	242.9
Core EPS (sen)	8.0	5.5	9.7	14.4	17.7
Core EPS growth (%)	(8.9)	(31.2)	75.8	49.4	22.4
Core PER (x)	20.1	29.3	16.7	11.2	9.1
Net DPS (sen)	6.2	6.0	6.0	8.0	8.0
Dividend Yield (%)	3.9	3.7	3.7	5.0	5.0
EV/EBITDA (x)	20.3	31.7	16.2	13.5	10.6
Chg in EPS (%)			(6.6)	(10.5)	NA
Affin/Consensus (x)			2.2	1.1	NA

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results note

WCT Holdings

WCTHG MK

Sector: Construction & Infra

RM1.61 @ 25 February 2016

BUY (maintain)

Upside: 14%

Price Target: RM1.82

Previous Target: RM1.84



Price Performance

	1M	3M	12M
Absolute	+3.9%	+5.2%	+0.7%
Rel to KLCI	+1.8%	+6.9%	+10.3%

Stock Data

Issued shares (m)	1,201.2
Mkt cap (RMm)/(US\$m)	1,933.9/457.4
Avg daily vol - 6mth (m)	2.2
52-wk range (RM)	1.10-1.78
Est free float	36.7%
BV per share (RM)	2.11
P/BV (x)	0.76
Net cash/ (debt) (RMm) (4Q15)	(2,069)
ROE (2016E)	12.5%
Derivatives	Yes
(Warr 11/16, WP RM0.035, EP RM2.04)	
(Warr 12/17, WP RM0.12, EP RM2.25)	
Shariah Compliant	Yes

Top 3 Key Shareholders

WCT Capital	19.7%
Lembaga Tabung Haji	10.1%
EPF Board	7.2%

Source: Affin Hwang, Bloomberg

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Fig 1: Result comparison

FYE 31 Dec (RMm)	4Q15	% QoQ	% YoY	FY15	% YoY	FY15 Comment
Revenue	522.2	40.4	62.0	1,667.9	0.3	Flat YoY for FY15 as higher construction revenue was offset by lower property revenue. QoQ jump was mainly driven by higher construction revenue as new projects kick off.
Operating costs	(487.9)	45.2	41.2	(1,541.5)	0.6	
EBITDA	34.3	(4.0)	(248.7)	126.4	(2.3)	
<i>EBITDA margin (%)</i>	6.6	NAppts	13.7ppts	7.6	(0.2)ppts	Higher construction profit margin but lower property investment profit margin.
Depreciation	(2.5)	33.2	37.5	(8.1)	(1.5)	
EBIT	31.8	NA	(227.8)	118.4	(2.4)	
Interest expense	2.9	NA	NA	(57.8)	(13.3)	
Interest income	7.1	(5.9)	(82.9)	34.0	(50.7)	
Associates	73.0	>100.0	>100.0	88.2	473.4	RM58m property revaluation gain captured under its joint venture company.
Forex gain/(loss)	(30.0)	(138.1)	(198.8)	91.8	NA	Gain from translation of receivables in Middle East due to weaker Ringgit. But adjustment to take out Meydan Racecourse receivables led to a forex loss in 4Q15.
Exceptional gain/(loss)	(0.7)	>100.0	NA	(3.1)	(81.8)	
Pretax profit	84.1	(16.7)	408.8	271.6	79.7	
Core pretax	56.8	156.8	NA	124.8	(10.2)	
Tax	(15.4)	0.8	NA	(54.9)	92.9	
<i>Tax rate (%)</i>	18.3	3.2ppts	19.5ppts	20.2	1.4ppts	
Minority interests	0.2	(11.6)	(93.8)	2.5	(218.1)	
Net profit	68.9	(19.8)	239.8	219.1	81.8	Above expectation due to revaluation gain.
EPS (sen)	5.8	(22.3)	211.9	19.2	74.7	
Core net profit	41.6	486.0	6,021.8	72.3	(33.3)	Above expectation. Excludes forex and property revaluation gains.

Source: Affin Hwang estimates, company

Fig 2: Segmental operating profit breakdown

FYE 31 Dec (RMm)	4Q14	3Q15	4Q15	% QoQ	% YoY	FY15	% YoY	4Q14
Construction	7.3	91.4	(19.2)	45.8	14.4	139.6	48.7	7.3
Property development	13.7	24.9	10.6	(69.2)	(979.8)	68.9	(6.2)	13.7
Property investment	15.1	3.9	16.7	(9.6)	(268.5)	32.5	(7.0)	15.1
Total	36.1	120.2	8.1	(9.7)	(118.1)	241.1	19.1	36.1

Source: Affin Hwang estimates, company

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	4Q14	3Q15	4Q15	ppt QoQ	ppt YoY	FY15	ppt YoY	4Q14
Construction	2.8	37.9	(4.2)	NA	NA	10.9	3.2	2.8
Property development	30.1	21.6	19.6	(2.0)	(10.5)	21.0	2.2	30.1
Others	96.6	25.2	98.4	73.1	1.8	53.2	(5.2)	96.6
Total	11.2	32.3	1.6	(30.8)	(9.7)	14.5	2.3	11.2

Source: Affin Hwang estimates, company

Fig 4: New RNAV and target price

Segments	Stake (%)	RNAV	% of RNAV
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Securities

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		(RMm)	(excl net debt)
Construction @ PE 14x avg earnings of RM70m	100	1,400	31
Property devt @ RNAV	100	2,055	45
BBT mall @ DCF at 9% disc rate	100	377	8
Paradigm mall @ Capital value at 7% cap rate	70	356	8
gateway@klia2 @ DCF at 9% disc rate	70	243	5
Indian toll roads	15.4-30	130	3
Net cash/(debt)		(2,069)	
RNAV		2,492	
No. of shares (m shrs)		1,201	
RNAV/share (RM)		2.08	
New shares from warrants conversion (m)		557	
Fully-diluted no. of shares (m)		1,758	
Fully-diluted RNAV/share (RM)		2.02	
Target price at 20% discount to RNAV/share		1.82	

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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