WCT Holdings (BUY ←→; EPS ←→)

INDUSTRY: OVERWEIGHT
COMPANY INSIGHT

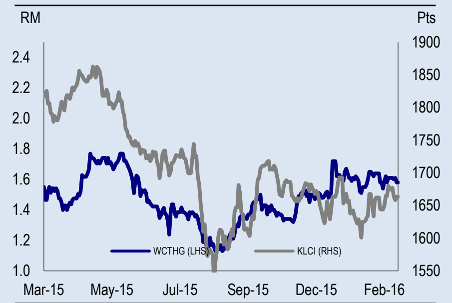
29 February 2016
Price Target: RM2.15 (←→)
Share price: RM1.58

At a turnaround point

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my
(603) 2168 1138

KLCI	1663.4
Expected share price return	41.4%
Expected dividend return	2.6%
Expected total return	44.1%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,201
Market cap (RM m)	1,898
3-mth avg. volume ('000)	2,092

Price Performance	1M	3M	12M
Absolute	-7.9	4.8	-3.8
Relative	-4.0	9.5	9.5

Major shareholders

WCT Capital	19.7%
Lembaga Tabung Haji	10.1%
Employees Provident Fund	7.2%

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F
Revenue	1,662	1,668	2,111	2,482
EBITDA	193	156	239	284
EBIT	184	149	231	275
Profit Before Tax	140	122	165	208
Core PATAMI	113	69	119	151
vs Consensus (%)			(22)	(17)
Core EPS (sen)	9.4	5.8	9.9	12.5
P/E (x)	17.0	27.7	16.1	12.7
Net DPS (sen)	6.0	4.2	4.0	5.0
Net DY (%)	3.8	2.6	2.5	3.1
BV per share	1.86	2.18	2.11	2.19
P/B (x)	0.9	0.7	0.8	0.7
ROE (%)	5.1	2.9	4.6	5.8
Net Gearing (%)	66.2	78.9	64.7	65.9

HLIB

Highlights

- **Interest capitalisation explained.** Last Friday, we attended WCT's 4QFY15 investor's briefing which was hosted by its Executive Director, Kenny Wong. To recap, FY15 core earnings of RM69m (-37% YoY) was above expectations. This was largely due the finance cost reversal from prior quarters amounting to RM20m in 4Q. The reversal resulted from a change in accounting policy where WCT can now capitalise finance cost for debts associated with its landbank.
- **Sizable orderbook...** WCT's orderbook stands at a record RM4.1bn, translating to a healthy cover ratio of 3.2x on FY15 construction revenue. This follows from superior job wins of RM3bn last year, an all-time high.
- **…with more to come.** For FY16, WCT is gunning for RM2bn in new job wins. Over the near term, it is eyeing on an infra package for Kwasa D'sara (RM300m) which should be out anytime soon. Via a JV with KKB Engineering (Not Rated), WCT is one of the 17 prequalified consortiums for the 10 packages of the Sarawak Pan Borneo (RM16bn). Apart from that, WCT is also targeting for (i) external infra works at TRX, (ii) smaller RAPID packages and (iii) highway jobs such as WCE, DASH and SUKE. It has also been prequalified for the LRT3 (RM9bn), MRT2 (RM28bn) and KL118 infra works.
- **Challenging property outlook.** FY15 property sales of RM373m fell 19% YoY with unbilled sales at RM599m (1.8x cover on FY15 property revenue). WCT is targeting for RM600m worth of property sales this year. In March, it will be launching a condo block (GDV: RM480m) at the Paradigm Garden City, OUG with indicative pricing at RM800-850psf. We reckon that WCT's sales target could prove to be an uphill task and retain our lower assumption of RM400m.
- **De-gearing plans laid out.** In efforts to reduce its net gearing (currently at 79%), WCT will embark on the following (i) dispose 50% of its Serendah land stake (ii) listing its construction arm and (iii) monetising its investment assets via a REIT. These initiatives are expected to generate net proceeds of RM1.5bn and reduce its net gearing to 40%.

Risks

- Inconsistency in earnings delivery from quarter to quarter.

Forecasts

- No changes to forecast. While finance cost will reduce due to capitalisation, this will eventually come at the expense of lower property margins.

Rating

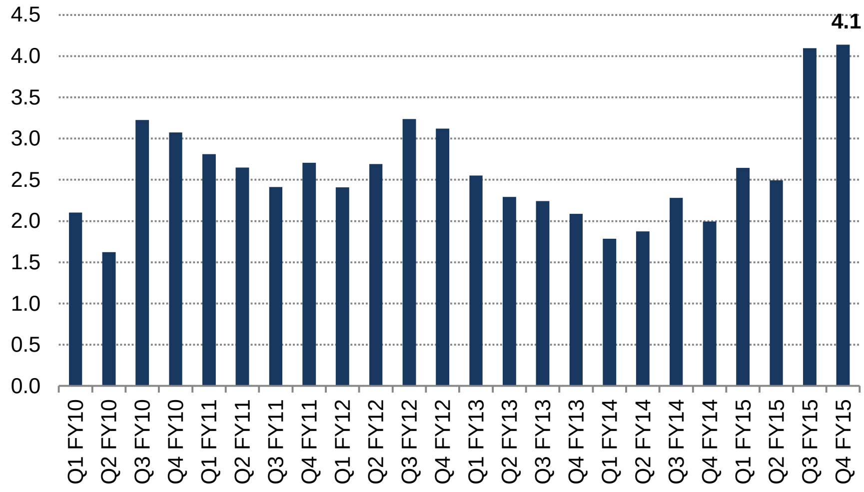
Maintain BUY, TP: RM2.15

- We expect WCT's earnings to see a reversal of fortunes this year, underpinned by its mammoth orderbook. The impending listings of its REIT and construction arm are tell-tale signs that a positive earnings momentum is forthcoming.

Valuation

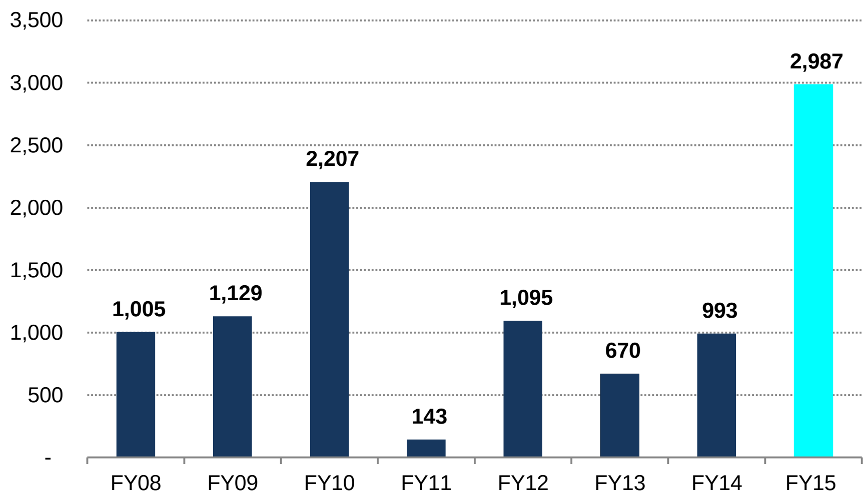
- Our SOP based TP of RM2.15 implies FY16 P/E of 22x but this reduces to 17x in FY17 once earnings kick in. Valuation is also backed by RM1.7bn in net surplus value of its land (RM1.39/share).

Figure #1 Orderbook now at a record high (RM bn)



Company

Figure #2 Annual orderbook replenishment of WCT (RM m)



Announcements to Bursa

Figure #3 De-gearing plans of WCT (RM m)

De-Gearing initiatives	Timeline	Valuation	Proceeds	P&L Gain
Sale of 50% stake in Serendah land to UEMS	Nov-15	424	215	205
Listing of construction arm	4Q16	1,500	600	100
REIT-ing of investment properties	4Q16	1,200	720	n.a.
Total proceeds raised			**1,535**	

Announcements to Bursa

Figure #4 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Mid CY17 earnings	127	14	1,775	1.01
Gateway@klia2 based on DCF	237	5.1%	166	0.09
Paradigm Mall based on cap rate	329	7.0%	231	0.13
Premiere Hotel Klang based on DCF	185	8.5%	185	0.10
Undeveloped surplus land value at 75% discount			417	0.24
Cash proceeds from warrants			1,021	0.58
Sum of Parts (SOP) Value			**3,794**	**2.15**

HLIB estimates

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 29 February 2016, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 29 February 2016, the analyst, Jeremy Goh, who prepared this report, has interest in the following securities covered in this report:
(a) -.

Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
Level 23, Menara HLA
No. 3, Jalan Kia Peng
50450 Kuala Lumpur
Tel 603 2168 1168 / 603 2710 1168
Fax 603 2161 3880

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.