February 29, 2016

Maybank IB Research

WCT Holdings (WCTHG MK)

Strong job wins prospect

BUY

Share Price	MYR 1.58
12m Price Target	MYR 2.30 (+46%)
Previous Price Target	*MYR 2.30*

Construction

Malaysia

Remain upbeat on the stock

Friday's analyst briefing reiterated our upbeat view on WCT on strong construction job win prospect and improved earnings delivery in 2016. There is upside to our conservative 2016 job win estimate. Our earnings forecasts are unchanged. Maintain BUY on WCT as potential earnings recovery and corporate exercises would re-rate the stock.

2015 core results still outperformed

Management has clarified that 4Q15 reported net profit included several exceptionals. These included MYR58m fair value gains of The Ascent, new office at Paradigm mall which boosted its 4Q15 JV contribution. Excluding all exceptionals, 2015 core net profit of MYR129m (+15% YoY) was above expectation as core JV contribution doubled in 2015 due to lower depreciation at Gateway@KLIA2 following head lease extension.

Strong job win prospect

Following its strong job win of MYR3.3b in 2015, prospect for replenishment of its solid orderbook of MYR4.1b remains robust with potential awards from infrastructure projects and major transit-oriented developments. As for its property division, sales achieved in 2015 of MYR373m were below management's target of MYR584m. WCT is planning MYR1b worth of new property launch in 2016 including the Paradigm Garden City@OUG that is expected to boost its property sales.

Upside to earnings

In 2016, both reported and operational earnings are expected to improve on gains from its recent Serendah land disposal (~MYR215m) and higher construction outstanding orderbook respectively. There is also upside to our earnings estimates as we imputed MYR1b job win and MYR400m property sales in 2016, below management's targets of MYR2b and MYR600m respectively. We however maintain our earnings forecasts for now. Maintain BUY on WCT as potential earnings recovery and corporate exercises would re-rate the stock. Our TP is SOP-based.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,662	1,668	2,250	2,401	2,343
EBITDA	147	146	242	257	265
Core net profit	112	129	135	147	151
Core EPS (sen)	10.3	11.3	11.2	12.2	12.6
Core EPS growth (%)	(44.9)	9.6	(0.4)	8.7	3.1
Net DPS (sen)	6.2	4.2	4.2	4.2	4.2
Core P/E (x)	15.4	14.0	14.1	12.9	12.6
P/BV (x)	0.8	0.7	0.7	0.7	0.6
Net dividend yield (%)	3.9	2.6	2.6	2.6	2.6
ROAE (%)	5.1	5.3	5.1	5.3	5.3
ROAA (%)	1.9	2.0	1.9	2.0	2.0
EV/EBITDA (x)	21.6	27.1	16.3	15.6	15.1
Net debt/equity (%)	66.4	78.9	73.9	73.6	69.2
Consensus net profit	-	-	151	164	na
MKE vs. Consensus (%)	-	-	(10.8)	(10.7)	na

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Company description

WCT engages in engineering and construction, property development and property investments.

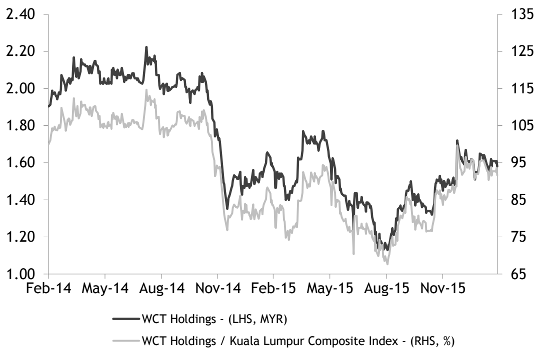
Statistics

Shariah status	Yes
52w high/low (MYR)	1.77/1.13
3m avg turnover (USDm)	0.8
Free float (%)	77.5
Issued shares (m)	1,229
Market capitalisation	MYR1.9B
	USD461M

Major shareholders:

WCT Capital	17.3%
Lembaga Tabung Haji	9.0%
Employees Provident Fund	7.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	6	0
Relative to index (%)	(0)	7	9

Source: FactSet

One-off adjustments in 4Q15

Management clarified that 4Q15 reported net profit of MYR219m (+78% YoY) included several one-off adjustments.

i) MYR58m fair value gain adjustment of The Ascent, its newly opened office at Paradigm Kelana Jaya.

ii) MYR30m reversal of forex gains as the receivables from its arbitration award was reclassified as long term receivables. Therefore, the forex changes should have balance sheet impact only and not affect its profit and loss statement.

iii) MYR20m recapitalised finance cost on land acquisition that was previously not capitalised following discussions with its auditors.

iv) MYR8-10m of provisions made at its construction division for variation costs.

Therefore, after we exclude the 2015 one-offs comprising total MYR92m forex gains, MYR58m fair value gain and MYR60m loss from provisions made by the construction division, 2015 core net profit was MYR129m (+15% YoY). It was still above our estimate, making up 132% of our full-year forecast.

Strong job win prospect

WCT's strong job win momentum in 2015 could persist into 2016 with several major projects expected to dish out more jobs soon. The upcoming awards include the Kwasa Damansara Land infrastructure works worth ~MYR300m. WCT was also pre-qualified for the Pan Borneo Highway Sarawak work package that could be awarded in Mar 2015. With its experience from ongoing TRX work packages, it is eyeing TRX's external infrastructure works which could consist of the MYR900m Jalan Tun Razak traffic dispersal project. Management also guided that RAPID could call for tender for more infrastructure work packages soon.

Furthermore, WCT is also tendering for the other key highway works including DASH, SUKE, WCE and DUKE. It was also pre-qualified for both KVMRT 2 and KVLRT 3 where the work packages are expected to be awarded in mid-2016. Meanwhile, it will continue to pursue for job opportunities in the Middle East.

Management's job win target for 2016 of MYR2b is above our MYR1b estimate, signifying potential upside to our earnings forecasts. WCT's outstanding orderbook was at MYR4.1b as of end-Dec 2015.

Highlights in tables and charts

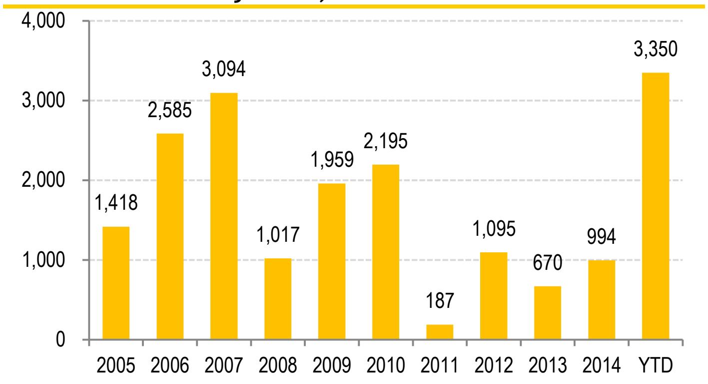
WCT: Outstanding construction order book, details

	Contract value (MYRm)		Outstanding (MYRm)			
	Total	WCT's shr	at Mar '15	at Jun '15	at Sep '15	at Dec '15
OVERSEAS						
Government Admin Office, Qatar *	1,360	1,360	256	261	89	85
New Doha Intl Airport, Qatar	3,270	1,600	2	2	3	2
Lusails Development project, Qatar #	1,200	868	868	879	982	868
Total overseas (A)			**1,126**	**1,142**	**1,074**	**955**
DOMESTIC (external)						
Civil engineering & infrastructure						
PLUS widening (Nilai-Seremban) @	391	391	129	92	56	50
Tun Razak Exchange %	169	169	29	19	5	0
RAPID infra works ^	342	342	327	314	293	276
Infrastructure works of Kwasa Land#	127	127		127	127	120
TRX - Lifestyle Quarter #	70	70		70	70	52
TRX - Infrastructure works #	755	755		755	755	754
RAPID - Petchem interconnecting #	267	267			267	267
West Coast Expressway #	283	283			282	283
PCC for UIO of RAPID, Pengerang #	323	323				322
Others			2	2	2	2
Sub-total			**487**	**1379**	**1857**	**2126**
Building						
MITI HQ, Mukim Batu, KL @	300.5	300.5	58	33	14	9
KK Medical Centre & Riverson @	331	331	41	36	34	24
Putrajaya Commercial Office %	315	315	271	268	262	239
IKEA shopping mall Jalan Cochrane ^	652	652	628	587	537	469
UIO, RAPID, Pengerang #	316	316			316	316
Others			33	2	2	
Sub-total			**1031**	**926**	**1165**	**1057**
Total Domestic (external) (B)			**1,518**	**2,305**	**3,022**	**3,183**
TOTAL EXTERNAL (C=A+B)			**2,644**	**3,447**	**4,096**	**4,138**
INTERNAL: Paradigm & others (D)			**1,011**	**946**	**895**	**700**
TOTAL (C+D)			**3,655**	**4,393**	**4,991**	**4,838**

** New in 2010; @ New in 2012; % New in 2013; ^ New in 2014 ; # New in 2015*

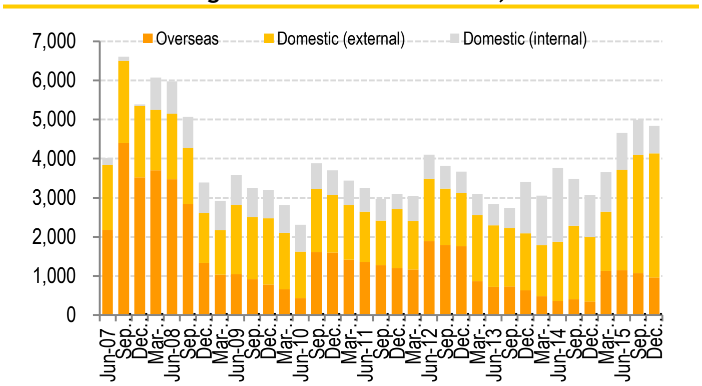
Sources: Company, Maybank KE

WCT: Construction job win, MYR3.3b in 2015



Sources: Company, Maybank KE

WCT: Outstanding construction order book, MYR4.1b



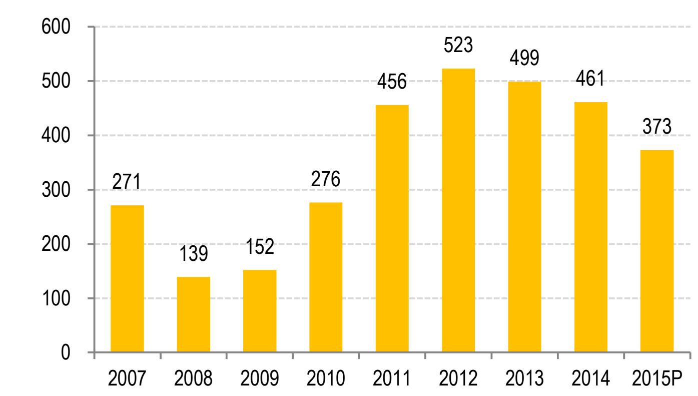
Sources: Company, Maybank KE

WCT: Property development projects

	GDV	Stake	Total sales to date	Sales in 2011	Sales in 2012	Sales in 2013	Sales in 2014	Sales in 2015	Billings to date	Unrecognised @ Dec '15
	(MYR m)	(%)	(MYR m)	(MYR m)	(MYR m)	(MYR m)	(MYR m)	(MYR m)	(MYR m)	(MYR m)
Integrated township										
Bandar Bukit Tinggi 1	2,201	100	1,120	26	4	12	1	-1	1,123	0
Bandar Bukit Tinggi 2	3,065	100	1,499	38	14	120	204	175	1,565	270
Bandar Parklands	4,476	100	1,196	315	186	166	27	75	1233	49
Rawang, Selangor #	2,800	100	-	-	-	-				
Luxury homes										
D'Banyan Residency	269	100	258	77	3	21	5		260	3
Laman Greenville, Klang *	712	100	86	-	-	-	74	61	107	82
Inanam, KK, Sabah @	200	100	-	-	-	-				-
Retail & commercial										
The Paradigm, Kelana J	516	70	-	-	-	-	39	25	50	47
Medini Business District *	3,000	100	-	-	-	-				
Skyz Jelutong	161	100	11	-	-	-	17	12	9	22
A60 - Medini North @	1,500	100	-	-	-	-				
Jln Skudai, Johor @	1,500	100	-	-	-	-				
High-rise homes										
1Medini	930	70	496	-	316	180	290	8	381	126
DPN Land, HCMC	500	100	-	-	-	-				-
Industrial										
Bdr Serendah, Selangor #	189	100	-	-	-	-				-
Mixed										
OUG, Old Klang Rd @	6,300	100	-	-	-	-				-
Vietnam										
Platinum Plaza	1,000	67	-	-	-	-				-
Total		**-**	**4,666**	**456**	**523**	**499**	**657**	**355**	**4,728**	**599**

** New in 2010; # New in 2011; @ New in 2012; Sources: Company, Maybank KE*

WCT: Yearly property sales



Source: Company, Maybank KE

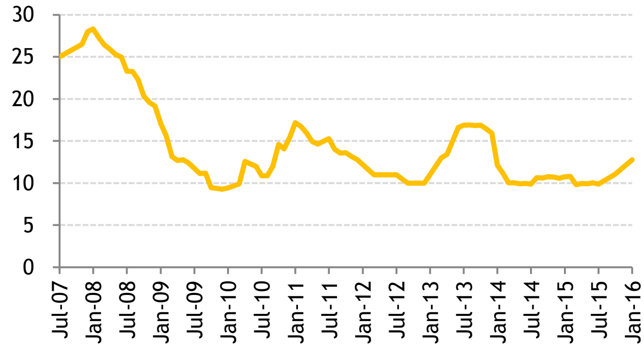
WCT: Land bank

Location	Total acres	Bal acres	GDV (MYRm)	Devt type
BBT, Klang	1,336	113	5,309	Township
Medini Business Dist, Johor #	20.8	20.8	3,000	Mixed commercial
Bdr Serendah, S'gor *	39	39	189	Industrial
Rawang, Selangor *	659	659	2,800	Township
OUG, OKR, KL @	57	57	6,300	Mixed
Lot A60, Zone A, Medini @	18	18	1,500	Mixed
Inanam, KK, Sabah @	22	22	200	Luxury homes
Jln Skudai, Johor @	12	12	1,500	Mixed commercial
Total	**2,164**	**941**	**20,798**	

*# New in 2010; * New in 2011; @ New in 2012*

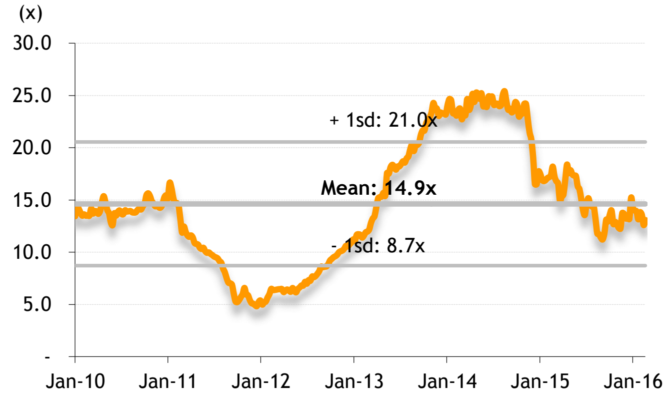
Source: Company, Maybank KE

Foreign shareholding was at 12.79% as of 29 Jan 2015



Sources: Company, Maybank KE

1-yr forward PE



Sources: Bloomberg, Maybank KE

WCT's Sum-Of-Parts valuation

	FY16 net profit (MYR m)	*PER target (x)*	*WCT's stake*	*Value (MYR m)*	
Construction	65.8	12.0	100.0%	789.8	12x 2015 PER
Property investment	27.3	12.0	100.0%	327.3	12x 2015 PER
		DCF value	*WCT's stake*	*Value*	
Property development		1,511.0	100.0%	604.4	60% discount on RNAV
Gateway@KLIA2 concession		393.3	70.0%	275.3	DCF

Total SOP				**1,996.8**	
Cash proceeds from warrants				1,180.3	

Fully Diluted (FD) SOP				**3,114.9**	
				=======	
SOP/sh (MYR)				**1.66**	
FD SOP/sh (MYR)				**1.77**	
FD SOP/sh (MYR) - Rounded				**1.80**	
Add: 50% of MYR1.2b arbitration claim				0.50	
Final TP				**2.30**	
Number of shares				*1,200.5*	
FD number of shares				*1,757.7*	

Source: Maybank KE

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	14.3	8.3	14.1	12.9	12.6
Core P/E (x)	15.4	14.0	14.1	12.9	12.6
P/BV (x)	0.8	0.7	0.7	0.7	0.6
P/NTA (x)	0.8	0.7	0.7	0.7	0.6
Net dividend yield (%)	3.9	2.6	2.6	2.6	2.6
FCF yield (%)	nm	nm	6.2	3.4	5.2
EV/EBITDA (x)	21.6	27.1	16.3	15.6	15.1
EV/EBIT (x)	22.9	28.7	16.9	16.2	15.7
INCOME STATEMENT (MYR m)					
Revenue	1,662.2	1,667.9	2,250.2	2,400.5	2,342.6
Gross profit	225.4	192.7	262.4	280.0	272.6
EBITDA	147.5	145.7	242.0	256.9	264.9
Depreciation	(8.2)	(8.1)	(8.5)	(8.9)	(9.3)
EBIT	139.3	137.6	233.5	248.0	255.6
Net interest income /(exp)	(27.1)	(44.1)	(75.7)	(74.2)	(75.0)
Associates & JV	15.4	88.2	25.3	28.0	30.0
Exceptionals	23.5	89.8	0.0	0.0	0.0
Pretax profit	151.1	271.6	183.1	201.9	210.6
Income tax	(28.5)	(54.9)	(41.9)	(46.0)	(47.8)
Minorities	(2.1)	2.5	(6.4)	(9.4)	(11.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	120.5	219.1	134.8	146.5	151.1
Core net profit	112.3	129.3	134.8	146.5	151.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	950.8	524.3	494.0	332.2	249.9
Accounts receivable	1,022.2	1,155.9	1,672.3	1,784.0	1,740.9
Inventory	90.7	153.9	110.0	117.3	114.5
Property, Plant & Equip (net)	237.4	288.4	429.9	571.0	711.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	527.7	664.0	673.7	683.9	694.6
Other assets	3,372.2	3,975.6	3,975.6	3,975.6	3,975.6
Total assets	**6,201.1**	**6,762.1**	**7,355.5**	**7,463.9**	**7,487.1**
ST interest bearing debt	584.1	520.4	420.4	320.4	220.4
Accounts payable	1,025.0	936.3	1,538.7	1,641.5	1,601.9
LT interest bearing debt	1,846.4	2,072.8	2,072.8	2,072.8	2,072.8
Other liabilities	465.0	575.0	575.0	575.0	575.0
Total Liabilities	**3,920.4**	**4,104.7**	**4,607.0**	**4,609.8**	**4,470.2**
Shareholders Equity	2,227.9	2,620.6	2,705.2	2,801.6	2,952.7
Minority Interest	52.8	36.8	43.2	52.6	64.2
Total shareholder equity	**2,280.7**	**2,657.4**	**2,748.4**	**2,854.1**	**3,016.9**
Total liabilities and equity	**6,201.1**	**6,762.1**	**7,355.5**	**7,463.9**	**7,487.1**
CASH FLOW (MYR m)					
Pretax profit	151.1	271.6	183.1	201.9	210.6
Depreciation & amortisation	8.2	8.1	8.5	8.9	9.3
Adj net interest (income)/exp	27.1	44.1	75.7	74.2	75.0
Change in working capital	(586.9)	(823.6)	41.9	(24.7)	1.1
Cash taxes paid	(28.5)	(54.9)	(41.9)	(46.0)	(47.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(429.0)	(554.9)	267.3	214.2	248.1
Capex	(71.2)	(59.1)	(150.0)	(150.0)	(150.0)
Free cash flow	(500.2)	(613.9)	117.3	64.2	98.1
Dividends paid	(48.8)	(50.2)	(50.2)	(50.2)	0.0
Equity raised / (purchased)	(50.4)	0.0	0.0	0.0	0.0
Change in Debt	498.3	162.7	(100.0)	(100.0)	(100.0)
Other invest/financing cash flow	170.0	16.1	(75.7)	(74.2)	(75.0)
Net cash flow	68.9	(485.3)	(108.6)	(160.2)	(76.8)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	0.4	0.3	34.9	6.7	(2.4)
EBITDA growth	(47.8)	(1.2)	66.1	6.2	3.1
EBIT growth	(48.9)	(1.2)	69.7	6.2	3.1
Pretax growth	(40.6)	79.7	(32.6)	10.3	4.3
Reported net profit growth	(39.0)	81.8	(38.5)	8.7	3.1
Core net profit growth	(44.0)	15.1	4.3	8.7	3.1
Profitability ratios (%)					
EBITDA margin	8.9	8.7	10.8	10.7	11.3
EBIT margin	8.4	8.2	10.4	10.3	10.9
Pretax profit margin	9.1	16.3	8.1	8.4	9.0
Payout ratio	56.2	21.9	37.2	34.2	33.2
DuPont analysis					
Net profit margin (%)	7.3	13.1	6.0	6.1	6.4
Revenue/Assets (x)	0.3	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.8	2.6	2.7	2.7	2.5
ROAE (%)	5.1	5.3	5.1	5.3	5.3
ROAA (%)	1.9	2.0	1.9	2.0	2.0
Liquidity & Efficiency					
Cash conversion cycle	15.5	25.6	26.0	8.5	9.0
Days receivable outstanding	228.6	235.1	226.2	259.2	270.8
Days inventory outstanding	20.8	29.8	23.9	19.3	20.2
Days payables outstanding	234.0	239.3	224.1	270.0	282.0
Dividend cover (x)	1.8	4.6	2.7	2.9	3.0
Current ratio (x)	1.7	1.8	1.6	1.6	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.6	1.7
Net debt/equity (%)	66.4	78.9	73.9	73.6	69.2
Net interest cover (x)	5.1	3.1	3.1	3.3	3.4
Debt/EBITDA (x)	16.5	17.8	10.3	9.3	8.7
Capex/revenue (%)	4.3	3.5	6.7	6.2	6.4
Net debt/ (net cash)	1,479.7	2,068.9	1,999.2	2,061.1	2,043.4

Source: Company; Maybank

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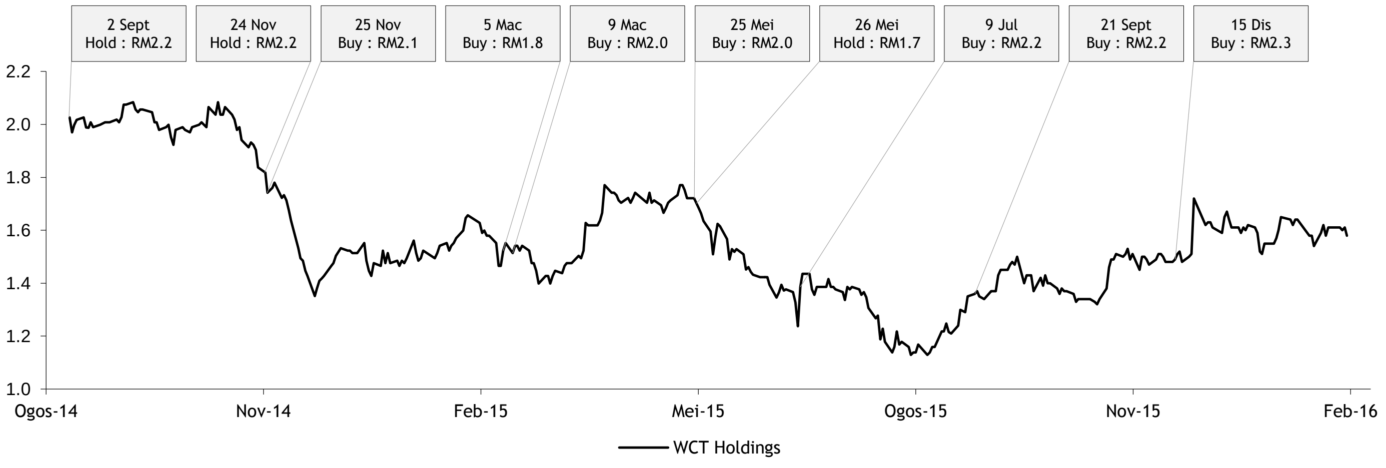
Historical recommendations and target price: WCT Holdings (WCTHG MK)



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