

COMPANY UPDATE

WCT Holdings (WCTHG MK)

An Action-packed Year

Our post-results analysis reaffirms WCT as a top sector pick. Topics discussed during the briefing were: a) prospects of the construction division in 2016, b) property development launch strategies, and c) potential of unlocking of the value of its investment properties. We think 2016 could again be another record year in terms of job wins for infra jobs after a RM3.5b win in 2015. Earnings wise, we estimate WCT to deliver 3-year earnings CAGR of 19%, driven by its ongoing construction jobs and future development launches. Maintain BUY. Target price: RM2.05.

WHAT'S NEW

- Recap of 2015 results.** WCT Holdings (WCT) reported core net profit of RM38m on revenues of RM522m for 4Q15. Cumulatively, core 2015 net profit came in at RM109m, accounting for 110% of our full-year estimates. Key earnings growth driver for this quarter was the construction and investment properties division.
- Both construction and property development to be focus.** The group hosted its analysts' briefing where discussions were focused on: a) the construction division's prospects for 2016 after closing 2015 with a 10-year high outstanding orderbook, b) strategies for its property development and the maiden launch of Paradigm Garden City (OUG), and c) plans to unlock value of two of its investment properties via the REIT avenue (particularly the BBT Mall in Klang and Paradigm Kelana Jaya).

STOCK IMPACT

- Restructuring to see positive impact on the company.** We expect WCT to deliver a 3-year earnings growth CAGR of 19%, primarily driven by its ongoing infrastructure construction jobs, ramp-up in property development activities and the opening of its new mall in Johor Bahru. Other potential restructuring efforts include: a) the unlocking of value of its investment properties via the REIT avenue (valued at RM835m), which could also see some interest and tax shields, b) strategic land sales, and c) a potential de-merger of one of its key business arms could see its net gearing drop to below 0.5x (from 0.7x). While listing of the construction arm could unlock value, investors do not favour listing of the division due to concerns that WCT Holding's value would be reduced to that of a holding company.

KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	1,662	1,668	2,307	2,533	2,684
EBITDA	201	130	284	329	344
Operating profit	191	122	276	317	329
Net profit (rep./act.)	119	214	156	177	184
Net profit (adj.)	91	109	156	177	184
EPS (sen)	7.3	7.8	10.9	12.3	12.7
PE (x)	21.7	20.3	14.5	12.9	12.5
P/B (x)	0.9	0.8	0.8	0.8	0.7
EV/EBITDA (x)	19.1	29.6	13.6	11.7	11.2
Dividend yield (%)	1.4	1.3	1.6	1.8	1.9
Net margin (%)	7.1	12.8	6.7	7.0	6.8
Net debt/(cash) to equity (%)	66.4	78.9	69.9	66.9	63.3
Interest cover (x)	3.0	3.0	4.1	4.2	4.3
ROE (%)	5.4	8.8	5.8	6.3	6.2
Consensus net profit	-	-	150	178	147
UOBKH/Consensus (x)	-	-	1.04	1.00	1.25

Source: WCT Holdings Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.58
Target Price	RM2.05
Upside	+29.7%

COMPANY DESCRIPTION

Construction company with growing focus in property development.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WCTHG MK
Shares issued (m):	1,201.2
Market cap (RMm):	1,897.9
Market cap (US\$m):	450.5
3-mth avg daily t'over (US\$m):	0.8

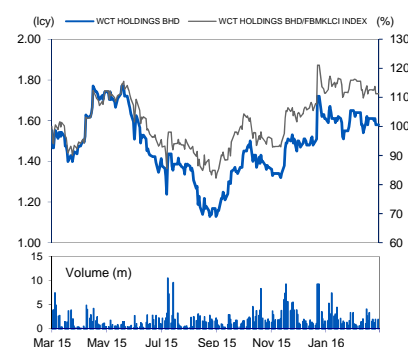
Price Performance (%)

52-week high/low		RM1.77/RM1.13		
1mth	3mth	6mth	1yr	YTD
1.9	6.0	38.8	0.0	(1.9)

Major Shareholders

	%
WCT Capital	20.1
Lembaga Tabung Haji	10.2
Employees Provident Fund	9.0
FY16 NAV/Share (RM)	1.99
FY16 Net Debt/Share (RM)	1.39

PRICE CHART



Source: Bloomberg

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- **Plenty of job prospects.** WCT is targeting to replenish its orderbook by an additional RM2b for 2016, with its primary focus on infrastructure-related jobs. Based on WCT's timeline, it expects results for Kwasa Damansara, Pan Borneo Highway and additional jobs at Tun Razak Exchange to be announced in the near term. We gather that these three jobs are collectively valued at about RM2.6b and results could be out soon. We believe that WCT stands a higher chance of securing the Kwasa Damansara and TRX jobs given its current presence in these locations.
- **Closes 2015 with RM3.5b of new job wins.** This surpasses its earlier guidance of RM1.5b. Infrastructure-related jobs (which carry higher margins of about 9%) dominated the new job wins, accounting for 70% of total value. Jobs that were secured last year are concentrated in three locations: a) the Tun Razak exchange, b) the RAPID hub in Pengerang, and c) Kwasa Damansara. We understand that being concentrated in a few locations gives a lot of cost benefits for the group as project teams and machineries are easily shared, allowing for better operational and cost efficiencies.
- **Expect construction margin improvement in 2H16.** Management shared that its strength lies in earthwork jobs given its speed advantage in mobilising its machineries at the key earthwork sites (ie Pengerang and Kwasa Damansara) with efficient cost control. We expect WCT's construction division's margins to improve (to the high single-digit levels), particularly in 2H16 as its ongoing building jobs are completed and the recently-awarded infrastructure related jobs begin contributing. The company also expects some cost savings with the sharing of resources and manpower given its key construction jobs are concentrated in three main areas - Pengerang, KL City Centre and Kwasa Damansara
- **Maiden launch of OUG development to support 2016 property sales.** WCT is targeting its maiden launch sometime at the end of 1Q16, which would offer about 419 units of condominiums with an indicative price of between RM800-RM850psf (GDV: RM480m). Following that, the second phase is targeted to be launched towards year-end, offering a total of 940 units with a total GDV of RM600m. For 2016, the group is targeting to sell about RM600m of properties vs RM373m in 2015.
- **Paradigm Mall Johor Bahru to officially open in Nov 16.** This will offer about 1.25m sf in NLA and over 55% in occupancy commitments, with SOGO, GSC, Village Grocer and H&M as key anchor tenants. We understand that GSC's entry to Paradigm Mall Johor Bahru would be a maiden entry for the group in Johor and would be the largest cineplex operated by the group. We have assumed very marginal contribution from this mall in 2016, but expect the mall to contribute about RM30m in pre-tax profit in 2017 (assuming rental rates of RM7psf and a conservative 70% occupancy)

EARNINGS REVISION/RISK

- We maintain our earnings forecasts, and note that the company may deliver earnings above of our and consensus projections this year.
- Major risks include execution risk, weaker property sales due to the recent regulatory change, and rising raw material prices.

VALUATION/RECOMMENDATION

- **Maintain BUY with a SOTP-based target price of RM2.05.** Our target price is based on a 10% discount to our SOTP valuation of RM2.26/share and implies 15.8x 2017F PE, slightly above its 10-year historical average PE. We have also factored in a 50% surplus value of RM283m for the Paradigm Mall Johor Bahru, which is under construction and is slated to begin operations in Nov 16.
- We continue to like WCT for its strong turnaround story, particularly after securing the large construction orders, and embarking on asset monetisation strategies which would pare down its gearing. Despite the uncertain timeline, receiving the Dubai arbitration settlement sum will be a key catalyst.

SHARE PRICE CATALYST

- Winning new construction jobs.

SOTP VALUATION

	(RMm)
Property development	1,067.4
Construction	1,775.7
Investment property	1,673.6
Less: Net debt @ 2014	(1,690.9)
Proceeds from warrants	290.5
Total SOTP value	3,116.3
FD shares outstanding (m)	1,219.4
No. of warrants (m)	157.0
Enlarged share base (m)	1,376.4
SOTP/share (RM)	2.26
Target price at a 10% discount to SOTP (RM)	2.05
Implied 2017F PE (x)	15.8

Source: UOB Kay Hian

Potential Job Wins

	(RMm)
Earthworks at Kwasa Damansara	~300-600
Pan Borneo Highway	1,000
Tun Razak Exchange infra works	~1,000
RAPID related jobs	100-200
LRT3	Prequalified
MRT2	Prequalified

Source: UOB Kay Hian, WCT

TIMELINE OF EVENTS

	(RMm)
Maiden Launch of OUG Development	1Q16
Launching of WCT REIT exercise	1Q16
Opening of Paradigm Johor Bahru	Nov 16
Arbitration Payment	Up to 2 years

Source: UOB Kay Hian, WCT

REVENUE BREAKDOWN AND ASSUMPTIONS

	2016F	2017F	2018F
Revenue	2,306.5	2,533.5	2,684.4
Construction	1,911.4	1,995.4	2,276.7
Property	216.1	293.7	152.3
Property	179.0	244.4	255.4
Investments			
Construction	RM2b	RM1.5b	RM1.5b
Orderbook			
Replenishment			

Source: UOB Kay Hian

DE-GEARING STRATEGIES

Timeline	Nov 16	4Q16	4Q16
Initiative	UEMS JV	Constructi on IPO	REIT
Valuation	RM424m	RM1.5b	RM1.2b
Proceeds	RM215m	~RM500m	RM720m
Subsequent Net Gearing	0.6x	0.5x	0.4x

Source: WCT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Net turnover	1,668	2,307	2,533	2,684
EBITDA	130	284	329	344
Deprec. & amort.	8	8	12	15
EBIT	122	276	317	329
Associate contributions	88	15	15	15
Net interest income/(expense)	(44)	(69)	(78)	(81)
Pre-tax profit	272	222	254	263
Tax	(55)	(51)	(61)	(63)
Minorities	(2)	(15)	(16)	(17)
Net profit	214	156	177	184
Net profit (adj.)	109	156	177	184

BALANCE SHEET

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Fixed assets	288	430	572	710
Other LT assets	3,776	3,489	3,504	3,519
Cash/ST investment	524	677	667	682
Other current assets	2,174	2,788	2,879	2,929
Total assets	6,762	7,384	7,622	7,840
ST debt	520	520	520	520
Other current liabilities	946	1,309	1,410	1,485
LT debt	2,073	2,073	2,073	2,073
Other LT liabilities	566	704	704	704
Shareholders' equity	2,621	2,741	2,878	3,020
Minority interest	37	37	37	37
Total liabilities & equity	6,762	7,384	7,622	7,840

CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Operating	(555)	338	181	206
Pre-tax profit	272	222	254	263
Tax	(60)	(51)	(61)	(63)
Deprec. & amort.	8	8	12	15
Associates	0	0	0	0
Working capital changes	(531)	158	(24)	(9)
Non-cash items	0	n.a.	n.a.	n.a.
Other operating cashflows	(243)	0	0	0
Investing	(136)	(150)	(150)	(150)
Capex (growth)	(30)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(106)	0	0	0
Financing	205	(35)	(40)	(41)
Dividend payments	(23)	(35)	(40)	(41)
Issue of shares	108	0	0	0
Proceeds from borrowings	142	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(22)	0	0	0
Net cash inflow (outflow)	(485)	153	(9)	15
Beginning cash & cash equivalent	944	524	677	667
Changes due to forex impact	65	0	0	0
Ending cash & cash equivalent	524	677	667	682

KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
Profitability				
EBITDA margin	7.8	12.3	13.0	12.8
Pre-tax margin	16.3	9.6	10.0	9.8
Net margin	12.8	6.7	7.0	6.8
ROA	3.3	2.2	2.4	2.4
ROE	8.8	5.8	6.3	6.2
Growth				
Turnover	0.3	38.3	9.8	6.0
EBITDA	(35.4)	118.5	15.8	4.6
Pre-tax profit	81.7	(18.4)	14.7	3.7
Net profit	80.2	(27.3)	13.9	3.5
Net profit (adj.)	20.1	43.1	13.9	3.5
EPS	6.9	39.2	13.0	3.3
Leverage				
Debt to total capital	49.4	48.3	47.1	45.9
Debt to equity	99.0	94.6	90.1	85.9
Net debt/(cash) to equity	78.9	69.9	66.9	63.3
Interest cover (x)	3.0	4.1	4.2	4.3

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