

WCT Holdings (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

1 April 2016

Price target: RM2.15 (↔)

Share price: RM1.69

Lands 1st job win for the year

News

- **Redevelopment of police quarters.** WCT was awarded a RM133.9m contract from MRT Corp to redevelop the existing police quarters at Gombak. The scope of works include demolishing the existing quarters, building 1 block of 20-storey new quarters with 300 units, external infra works and interior works to be completed in 28 months.

Comments

- **Further orderbook boost.** The contract represents WCT's first job win for the year. To recap, WCT managed to amass a record RM3bn in new job wins last year. We estimate its orderbook to currently stand at RM4.3bn, an all-time high. This translates to a healthy cover ratio of 3.3x on FY15 construction revenue.
- **What's in the pipeline?** This year, WCT is gunning for RM2bn in new job wins against our more conservative assumption of RM1bn. 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.

Risks

- Inconsistency in earnings delivery from quarter to quarter.

Forecasts

- As YTD job wins of RM133.9m are still within our full year assumption of RM1bn, we retain our earnings forecast.

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).

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KLCI	1717.6
Expected share price return	27.2%
Expected dividend return	2.4%
Expected total return	29.6%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,248
Market cap (RM m)	2,109
3-mth avg. volume ('000)	2,302
SC Syariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	6.3	5.0	14.6
Relative	3.4	3.4	21.8

Major shareholders

WCT Capital	19.9%
Lembaga Tabung Haji	9.7%
Employees Provident Fund	7.1%

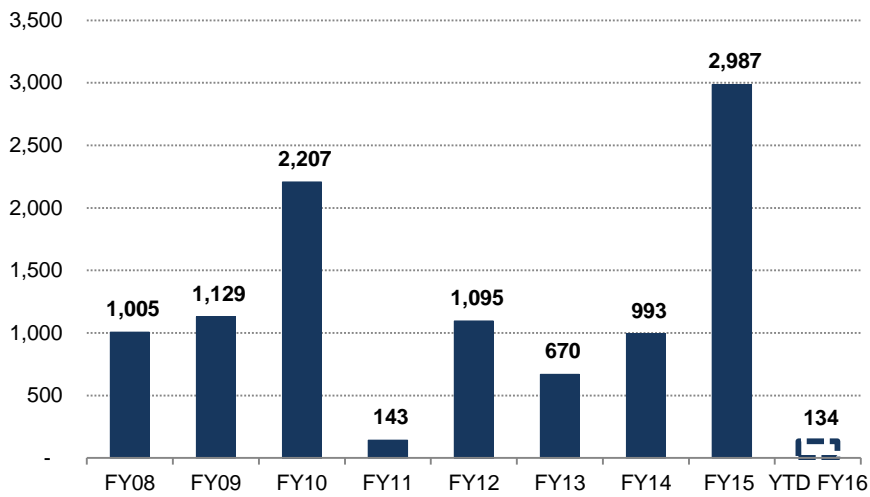
Summary Earnings Table

FYE Dec (RM m)	FY14	FY15	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

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Figure #1 WCT's annual orderbook replenishment (RM m)

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Figure #2 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

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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.
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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.