CIMB

Company Flash Note

Malaysia

May 26, 2016 - 1:52 AM

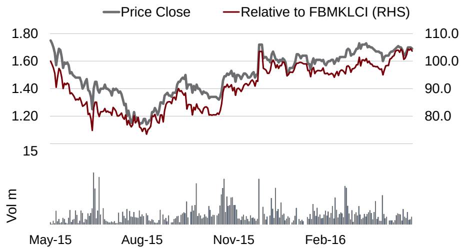
ADD *(no change)*

Consensus ratings: Buy 10 Hold 6 Sell 1

Current price:	RM1.69
Target price:	RM1.91
Previous target:	RM1.91
Up/downside:	13.3%
CIMB / Consensus:	7.0%
Reuters:	WCTE.KL
Bloomberg:	WCTHG MK
Market cap:	US$514.2m
	RM2,110m
Average daily turnover:	US$0.86m
	RM3.47m
Current shares o/s	1,229m
Free float:	61.2%

Key financial forecasts

	Dec-16F	Dec-17F	Dec-18F
Net Profit (RMm)	122.3	136.5	141.6
Core EPS (RM)	0.10	0.11	0.12
Core EPS Growth	(55.9%)	11.6%	3.7%
FD Core P/E (x)	17.77	15.92	15.35
Recurring ROE	4.51%	4.85%	4.98%
P/BV (x)	0.74	0.73	0.73
DPS (RM)	0.040	0.044	0.046
Dividend Yield	2.36%	2.63%	2.73%



Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	1.8	5	-5.6
Relative (%)	6.7	6.7	2.1

Major shareholders	% held
WCT Capital	19.5
Lembaga Tabung Haji	10.1
EPF	9.2

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WCT Holdings

Moving to plan B

- The main surprise from WCT's post-1Q16 results briefing was the delay in construction IPO, while the REIT initiative will be rolled out earlier.
- New route to de-gearing via property asset monetisation and private placement in 3Q16. This could cumulatively raise c.RM500m-800m (US$125m-200m).
- Order book growth driven by highways in medium term. Positive newsflow in 2H16.

Post-1Q16 results briefing

- WCT's results briefing was well attended. There was minimal focus on the results, as guidance on stronger construction pretax margins in 2H16 via flow-through of infra billings was intact. In short, investors are assured of solid construction earnings visibility, backed by its high RM4.4bn (US$1.1bn) order book at end-1Q16. However, WCT's RM600m (US$150m) FY16 property sales target is questionable given the soft market. The main highlights were construction IPO and REIT plans.

Greater conviction on its RM2bn order win target

- There was greater confidence in order wins. The jobs on the radar are predominantly infra works. There was more emphasis on domestic highway jobs, which we suspect will comprise the majority of the group's RM2bn (US$498m) total wins target for this year. A positive surprise was WCT bidding two packages for Dash highway and four packages for SUKE highway. It will also submit tenders for four packages of the Pan-Borneo highway. We believe it will secure at least two sizeable packages in FY16.

Delay in construction IPO to 2Q17, after REIT in 1Q17.

- WCT is deferring its construction IPO from 4Q16 to 2Q17 due to certain unresolved requirements and to sort out administrative issues. This was a slight disappointment, as the IPO was widely expected to come with a special dividend sweetener. The potential RM1.0bn-1.5bn (US$250m-375m) market cap listed company will emerge after the REIT for its two malls. Management now targets 1Q17, instead of 4Q16, for the potential RM1.2bn (US$299m) REIT deal (RM700m-750m proceeds).

Introduced property asset divestment and placement plans

- Management introduced two new plans of action in tear term to address gearing. It is already in advanced talks with several undisclosed buyers to divest selected property assets (buildings and landbank) in the medium term. We suspect that this could raise up to RM500m (US$125m). It has identified more than one key investor for a 5-10% private placement, which aims to raise up to RM100m. This would largely make up for the shortfall in intended proceeds from WCT's Warrant C (30% conversion to date).

Paring down gearing before embarking on new ventures

- Around RM800m total proceeds from the new plans (including land deal with UEM Sunrise) have been earmarked for partial repayment of total borrowings, which stood at RM2.7bn (net gearing of 0.8x) at end-1Q16). WCT targets to gradually pare down net gearing to around 0.6x prior to IPO and REIT in 1H17. We think that net gearing will reduce further to 0.4-0.5x in FY17 but have not imputed this into our forecasts. A stronger balance sheet could pave the way for new concession-type deals.

Overall, in positive transition phase; Retain Add

- We are not taken aback by the change in asset monetisation strategies. Our back-of-envelope calculations show that the planned 5-10% share placement would have negative impact of diluting FY16-17 EPS and RNAV by 3-4% at the most. We conclude that WCT is still in positive transition phase. Share price weakness arising from new strategies would be an opportunity to accumulate ahead of strong job wins. Our target price remains pegged to a 30% RNAV discount. Downside risk is more delays. Job wins in 2H16 are its core catalysts.

Figure 1: New strategies and time line

Corporate moves	Time line	Targeted proceeds (Estimated)
JV with UEM Sunrise (land divestment)	3Q16	RM200-250m
Property asset monetisation (buildings and land bank)	3Q16	RM400-500m
Private placement (5-10%)	3Q16	RM100-150m
WCT REIT	1Q17	RM700-800m
Construction IPO	2Q17	RM500-600m

SOURCES: CIMB, COMPANY REPORTS

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Profit & Loss

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	**1,668**	**2,124**	**2,138**	**2,143**
Gross Profit	**201**	**330**	**342**	**346**
Operating EBITDA	**89**	**114**	**123**	**126**
Depreciation And Amortisation	(8)	(24)	(26)	(28)
Operating EBIT	**81**	**91**	**97**	**98**
Financial Income/(Expense)	(44)	(47)	(47)	(48)
Pretax Income/(Loss) from Assoc.	88	10	11	12
Non-Operating Income/(Expense)	147	154	162	170
Profit Before Tax (pre-EI)	**272**	**209**	**222**	**232**
Exceptional Items	0	0	0	0
Pre-tax Profit	**272**	**209**	**222**	**232**
Taxation	(55)	(47)	(47)	(48)
Exceptional Income - post-tax				
Profit After Tax	**217**	**161**	**176**	**183**
Minority Interests	2	(39)	(39)	(42)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**219**	**122**	**137**	**142**
Recurring Net Profit	277	122	137	142
Fully Diluted Recurring Net Profit	**277**	**122**	**137**	**142**

Balance Sheet

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	524	493	503	514
Total Debtors	1,156	1,107	1,096	1,085
Inventories	154	100	105	110
Total Other Current Assets	864	405	446	490
Total Current Assets	**2,698**	**2,105**	**2,149**	**2,199**
Fixed Assets	288	294	310	327
Total Investments	1,547	1,614	1,621	1,630
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	2,228	2,251	2,296	2,342
Total Non-current Assets	**4,064**	**4,158**	**4,227**	**4,298**
Short-term Debt	520	600	581	564
Current Portion of Long-Term Debt				
Total Creditors	936	929	959	990
Other Current Liabilities	9	9	9	9
Total Current Liabilities	**1,466**	**1,538**	**1,549**	**1,563**
Total Long-term Debt	2,073	1,511	1,586	1,666
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	521	332	332	332
Total Non-current Liabilities	**2,594**	**1,843**	**1,918**	**1,997**
Total Provisions	45	45	45	45
Total Liabilities	**4,105**	**3,425**	**3,512**	**3,605**
Shareholders' Equity	2,621	2,801	2,827	2,854
Minority Interests	37	37	38	38
Total Equity	**2,657**	**2,838**	**2,864**	**2,892**

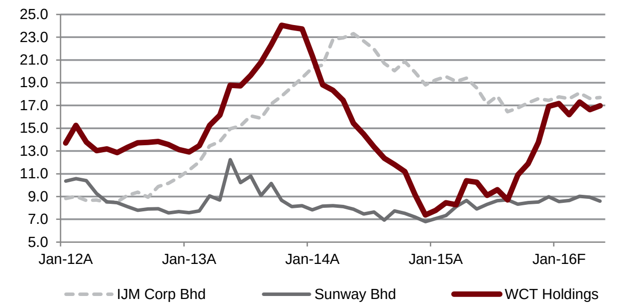
Cash Flow

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	88.7	114.4	122.8	126.4
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(42.1)	(65.6)	(48.2)	(50.7)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	23.3	23.3	23.3	23.3
Net Interest (Paid)/Received	(44.1)	(46.6)	(47.2)	(47.9)
Tax Paid	(54.9)	(47.2)	(46.7)	(48.4)
Cashflow From Operations	**(29.1)**	**(21.7)**	**4.0**	**2.8**
Capex	(49.8)	(50.3)	(50.3)	(50.3)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	102.0	81.6	73.4	66.1
Cash Flow From Investing	**52.2**	**31.3**	**23.1**	**15.8**
Debt Raised/(repaid)	47.9	52.4	57.0	61.7
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(42.5)	(42.5)	(42.5)	(42.5)
Preferred Dividends				
Other Financing Cashflow	(455.1)	(50.9)	(31.7)	(27.7)
Cash Flow From Financing	**(449.6)**	**(41.0)**	**(17.2)**	**(8.5)**
Total Cash Generated	(426.5)	(31.5)	9.9	10.1
Free Cashflow To Equity	**71.0**	**62.0**	**84.1**	**80.2**
Free Cashflow To Firm	**80.9**	**72.7**	**91.6**	**84.6**

Key Ratios

	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	0.3%	27.3%	0.7%	0.2%
Operating EBITDA Growth	(7.4%)	29.0%	7.4%	2.9%
Operating EBITDA Margin	5.32%	5.39%	5.74%	5.90%
Net Cash Per Share (RM)	(1.68)	(1.32)	(1.35)	(1.40)
BVPS (RM)	2.13	2.28	2.30	2.32
Gross Interest Cover	1.40	1.44	1.50	1.48
Effective Tax Rate	20.2%	22.6%	21.0%	20.9%
Net Dividend Payout Ratio	37.1%	66.4%	59.5%	57.4%
Accounts Receivables Days	197.7	156.2	150.0	148.2
Inventory Days	30.42	25.87	20.76	21.80
Accounts Payables Days	201.9	154.4	156.1	162.3
ROIC (%)	1.97%	1.74%	2.17%	2.15%
ROCE (%)	4.80%	5.08%	5.48%	5.59%
Return On Average Assets	3.83%	2.99%	3.32%	3.38%

12-mth Fwd FD P/E (x)



Key Drivers

(RMm)	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Outstanding Orderbook	3,100	2,700	2,300	1,900
Order Book Depletion	1,900	1,900	1,900	1,900
Orderbook Replenishment	2,000	1,500	1,500	1,500
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%, main prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (%, main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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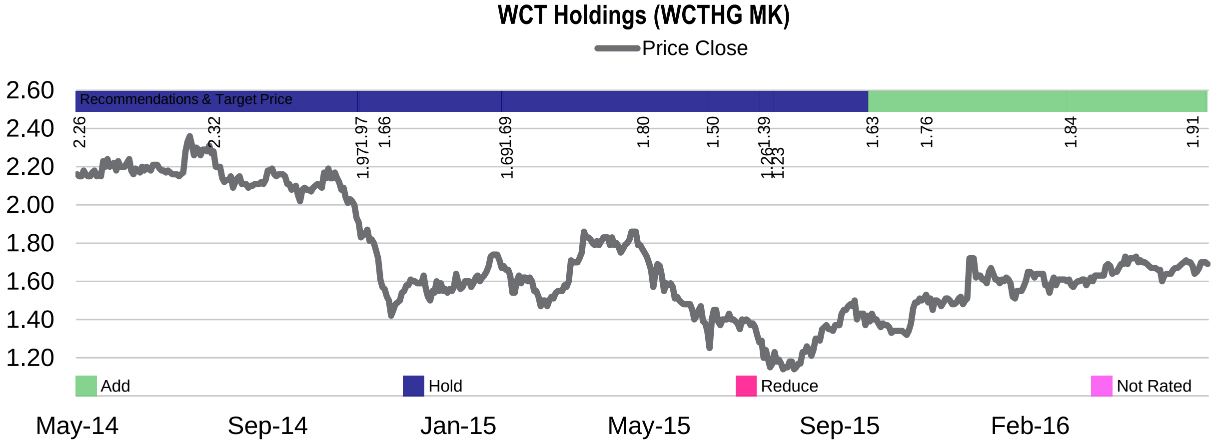
Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2016 1539 companies under coverage for quarter ended on 31 March 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	59.2%	6.9%
Hold	30.9%	3.1%
Reduce	8.7%	0.5%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

AAV – Very Good, 3B, ADVANC – Excellent, 3A, AEONTS – Good, 1, AMATA – Very Good, 2, ANAN – Very Good, 3A, AOT – Very Good, 2, AP - Good, 3A, ASK – Very Good, 3B, ASP – Very Good, 4, BANPU – Very Good, 4, BAY – Very Good, 4, BBL – Very Good, 4, BCH – not available, no progress, BCP - Excellent, 5, BEM – not available, no progress, BDMS – Very Good, 3B, BEAUTY – Good, 2, BEC - Good, 3B, BH - Good, 2, BIGC - Excellent, 3A, BJC – Good, 1, BLA – Very Good, 4, 1, BTS - Excellent, 3A, CBG – Good, 1, CCET – not available, 1, CENTEL – Very Good, 3A, CHG – Good, 3B, CK – Excellent, 3B, COL – Very Good, 3A, CPALL – Good, 3A, CPF – Very Good, 3A, CPN - Excellent, 5, DELTA - Very Good, 3A, DEMCO – Very Good, 3A, DTAC – Excellent, 3A, EA – not available, 3A, ECL – Good, 4, EGCO - Excellent, 4, EPG – not available, 3B, GFPT - Very Good, 3A, GLOBAL – Very Good, 2, GLOW - Good, 3A, GPSC – not available, 3B, GRAMMY - Excellent, 3B, GUNKUL – Very Good, 1, HANA - Excellent, 4, HMPRO - Excellent, 3A, ICHI – Very Good, 3A, INTUCH - Excellent, 4, ITD – Good, 1, IVL - Excellent, 4, JAS – not available, 3A, JASIF – not available, no progress, JUBILE – Good, 3A, KAMART – not available, no progress, KBANK - Excellent, 4, KCE - Excellent, 4, KGI – Good, 4, KKP – Excellent, 4, KSL – Very Good, 2, KTB - Excellent, 4, KTC – Very Good, 3A, LH - Very Good, 3B, LPN – Excellent, 3A, M - Good, 2, MAJOR - Good, 1, MAKRO – Good, 3A, MALEE – not available, 2, MBKET – Good, 2, MC – Very Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT - Excellent, 3A, MTLS – Good, 2, NYT – Good, no progress, OISHI – Very Good, 3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL - Excellent, 4, PTT - Excellent, 5, PTTEP - Excellent, 4, PTTGC - Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART - Excellent, 3B, SAPPE - Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB - Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCN – Good, 1, SCCC - Good, 3A, SIM - Excellent, 3B, SIRI - Good, 1, SPALI - Excellent, 3A, SPRC – not available, no progress, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO - Excellent, 4, TK – Very Good, 3B, TKN – not available, no progress, TMB - Excellent, 4, TPCH – Good, 3B, TOP - Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, UNIQ – not available, 2, VGI – Excellent, 3A, WHA – Good, 3A, WORK – not available, no progress.

Comprises level 1 to 5 as follows:
Level 1: Committed
Level 2: Declared
Level 3: Established (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)
Level 4: Certified
Level 5: Extended.

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Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.