

**WCT Holdings (BUY ↔; EPS ↑)**
**INDUSTRY: OVERWEIGHT**
**EARNINGS EVALUATION**
**26 May 2016**
**Price Target : RM2.12 (↓)**
**Share price : RM1.69**
**Recovery in motion**
**Results**

- WCT's 1QFY16 results came in with revenue of RM485m (+38% YoY, -7% QoQ) and core earnings of RM32m (+117% YoY, -22% QoQ).

**Deviation**

- 1Q core earnings formed 27% of our full year forecast. While tempting to claim it above expectations, given WCT's past track record of patchy earnings delivery, we regard this to be inline. The results were however, below consensus at 21% of its full year forecast.

**Dividends**

- None declared. Usually in 2Q and 4Q.

**Highlights**

- Margins recovering.** Despite being down 16% QoQ, we are pleased to note that construction revenue surged 51% YoY. Apart from the healthy topline movement, construction EBIT margins expanded to 7.1% from 3.6% in 1QFY15 and 3.7% in 4QFY15. The numerical trends verify our long held postulation that WCT's earnings should stage a strong comeback once execution on its sizable orderbook gains traction.
- Orderbook level at a near high.** While YTD job wins have been pedestal at only RM134m, we do not see this as an issue given that WCT has managed to amass a staggering RM3bn last year. We estimate WCT's orderbook to stand at RM3.9bn as of 1QFY16, implying a healthy 3.4x cover ratio on FY15 construction revenue.

**Risks**

- WCT's net gearing is high at 81% while earnings delivery has in the past, been inconsistent.

**Forecasts**

- As the results were inline, we retain our FY16 earnings forecast. However, we raise our FY17 projection by 10% as we turn more upbeat on its eventual and gradual recovery in construction margins.
- WCT will host an analyst briefing this morning.

**Rating**
**Maintain BUY, TP: RM2.12**

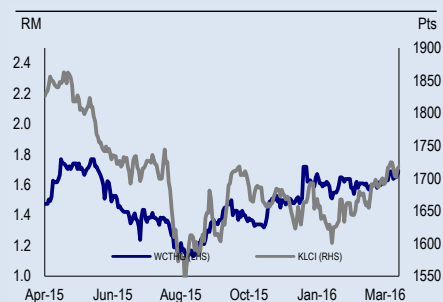
- We envision that WCT will witness a reversal of fortunes this year, underpinned by its sizable orderbook. The impending listings of its REIT and construction arms are tell-tale signs that a positive earnings momentum is forthcoming.

**Valuation**

- All in all, our SOP based TP is relatively unchanged at RM2.12 (slight reduction from RM2.15 after we update our financial model following the release of its Annual Report).
- Our TP implies 22x FY16 P/E but a more palatable 16x for FY17 once its earnings recovery transitions into growth.
- WCT is also backed by its landbank which has a net surplus value of RM1.6bn translating to RM1.31/share.

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KLCI	1631.0
Expected share price return	25.4%
Expected dividend return	2.8%
Expected total return	28.3%

**Share price**

**Information**

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,249
Market cap (RM m)	2,110
3-mth avg. volume ('000)	2,127
SC Shariah-compliant	Yes

**Price Performance**

	1M	3M	12M
Absolute	5.6	7.0	-0.7
Relative	9.6	9.1	7.4

**Major shareholders**

WCT Capital	19.7%
Lembaga Tabung Haji	10.1%
Employees Provident Fund	7.3%

**Summary Earnings Table**

FYE Dec (RM m)	FY15	FY16F	FY17F	FY18F
Revenue	1,668	1,969	2,521	2,676
EBITDA	138	191	255	278
EBIT	130	182	245	268
Profit Before Tax	102	166	229	253
Core PATAMI	50	120	166	184
vs Consensus (%)		(20)	(8)	(9)
Core EPS (sen)	4.0	9.6	13.3	14.7
P/E (x)	42.5	17.5	12.7	11.5
Net DPS (sen)	4.9	4.8	6.6	7.4
Net DY (%)	2.9	2.9	3.9	4.4
BV per share	2.09	2.30	2.37	2.44
P/B (x)	0.8	0.7	0.7	0.7
ROE (%)	2.0	4.4	5.7	6.1
Net Gearing (%)	79.3	62.8	64.6	65.0

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**Figure #1 Quarterly results comparison**

FYE Dec (RM m)	1QFY16	1QFY15	4QFY15	YoY (%)	QoQ (%)	Comments
Revenue	485.0	351.6	522.2	38	(7)	Higher YoY as sizable job wins last year have started to contribute.
EBIT	52.6	40.8	38.2	29	38	
Finance cost	(13.4)	(20.0)	2.9	(33)	(563)	
Associates & JVs	9.2	3.5	15.0	162	(39)	Better contribution from Paradigm and Gateway.
PBT	48.3	24.3	56.1	99	(14)	
PAT	33.3	14.8	40.8	124	(18)	
PATMI - core	32.0	14.8	41.0	117	(22)	1Q made up 27% of our full year forecast.
PATMI - reported	8.8	33.2	68.9	(73)	(87)	
EPS - core	2.6	1.2	3.3			
EBIT margin	10.8	11.6	7.3			Higher construction margins but lower for property.
PBT margin	10.0	6.9	10.8			

Company, HLIB

**Figure #2 SOP valuation for WCT**

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Mid CY17 earnings	120	14	1,675	1.01
Gateway@klia2 based on DCF	237	5.1%	166	0.10
Paradigm Mall based on cap rate	329	7.0%	231	0.14
Premiere Hotel Klang based on DCF	185	8.5%	185	0.11
Undeveloped surplus land value at 70% discount			490	0.30
Cash proceeds from warrants			772	0.47
<b>Sum of Parts (SOP) Value</b>			<b>3,518</b>	<b>2.12</b>

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## Financial Projections for WCT Holdings

## Balance Sheet

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F	FY18F
Cash	951	524	686	531	410
Receivables	2,223	2,365	2,463	2,811	2,908
Inventories	91	154	117	150	158
PPE	236	288	299	310	320
Investment properties	738	883	927	973	1,022
Associates & JVs	528	664	664	664	664
Others	1,461	1,874	2,002	2,081	2,162
<b>Assets</b>	<b>6,227</b>	<b>6,752</b>	<b>7,158</b>	<b>7,520</b>	<b>7,645</b>
Debt	2,431	2,593	2,493	2,443	2,393
Payables	1,461	1,458	1,698	2,025	2,108
Others	49	54	55	56	57
<b>Liabilities</b>	<b>3,940</b>	<b>4,105</b>	<b>4,246</b>	<b>4,524</b>	<b>4,557</b>
Shareholder's equity	2,234	2,610	2,876	2,959	3,050
Minority interest	53	37	37	37	37
<b>Equity</b>	<b>2,287</b>	<b>2,647</b>	<b>2,913</b>	<b>2,996</b>	<b>3,087</b>

## Cash Flow Statement

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F	FY18F
Profit before taxation	111	102	166	229	253
Depreciation & amortisation	8	8	9	10	10
Changes in working capital	132	(271)	179	(53)	(24)
Taxation	(28)	(55)	(46)	(63)	(70)
Others	(611)	(270)	34	(125)	(128)
<b>CFO</b>	<b>(389)</b>	<b>(486)</b>	<b>343</b>	<b>(3)</b>	<b>41</b>
Net capex	28	(61)	(20)	(20)	(20)
Others	119	(135)	-	-	-
<b>CFI</b>	<b>146</b>	<b>(195)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>
Changes in borrowings	508	163	(100)	(50)	(50)
Dividends paid	(72)	(61)	(60)	(83)	(92)
Others	(118)	(4)	-	-	-
<b>CFF</b>	<b>319</b>	<b>97</b>	<b>(160)</b>	<b>(133)</b>	<b>(142)</b>
<b>Net cash flow</b>	<b>76</b>	<b>(584)</b>	<b>162</b>	<b>(155)</b>	<b>(120)</b>
Forex	1	38	-	-	-
Others	(100)	119	-	-	-
Beginning cash	973	951	524	686	531
Ending cash	951	524	686	531	410

## Income Statement

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F	FY18F
<b>Revenue</b>	<b>1,662</b>	<b>1,668</b>	<b>1,969</b>	<b>2,521</b>	<b>2,676</b>
EBITDA	164	138	191	255	278
EBIT	155	130	182	245	268
Finance cost	(60)	(58)	(48)	(49)	(48)
Associates & JV	15	30	32	33	34
<b>Profit before tax</b>	<b>111</b>	<b>102</b>	<b>166</b>	<b>229</b>	<b>253</b>
Tax	(28)	(55)	(46)	(63)	(70)
<b>Net profit</b>	<b>82</b>	<b>47</b>	<b>120</b>	<b>166</b>	<b>184</b>
Minority interest	2	2	-	-	-
<b>PATMI (core)</b>	<b>84</b>	<b>50</b>	<b>120</b>	<b>166</b>	<b>184</b>
Exceptionals	39	160	205	-	-
PATMI (reported)	123	209	326	166	184

## Valuation &amp; Ratios

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F	FY18F
Core EPS (sen)	6.7	4.0	9.6	13.3	14.7
P/E (x)	25.1	42.5	17.5	12.7	11.5
EV/EBITDA (x)	26.4	31.4	22.6	17.0	15.6
DPS (sen)	5.8	4.9	4.8	6.6	7.4
Dividend yield	3.4	2.9	2.9	3.9	4.4
BVPS (RM)	1.79	2.09	2.30	2.37	2.44
P/B (x)	0.9	0.8	0.7	0.7	0.7
EBITDA margin	9.8%	8.3%	9.7%	10.1%	10.4%
EBIT margin	9.4%	7.8%	9.2%	9.7%	10.0%
PBT margin	6.7%	6.1%	8.4%	9.1%	9.5%
Net margin	5.1%	3.0%	6.1%	6.6%	6.9%
ROE	3.8%	2.0%	4.4%	5.7%	6.1%
ROA	1.4%	0.8%	1.7%	2.3%	2.4%
Net gearing	66.2%	79.3%	62.8%	64.6%	65.0%

## Assumptions

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F	FY18F
Contracts secured	993	2,987	1,000	1,000	1,000
Property sales	461	373	350	400	450

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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