

COMPANY UPDATE

WCT Holdings (WCTHG MK)

Construction Division The Bright Spot

WCT's recent post-results briefing revealed that the company may secure more infrastructure construction jobs in 2H16 and better property sales post its recent preview of the maiden tower at Paradigm Garden City. It also revealed it is delaying the opening of its Johor Mall to next year and is still committed to continuing with its de-gearing exercise with a potential REIT launch in 2H16. **Maintain BUY. Target price: RM2.05.**

WHAT'S NEW

- **Recap of 1Q16 results.** WCT Holdings (WCT) reported 1Q16 net profit of RM8.8m (-87.2% qoq, -72.8%yoy) on revenue of RM485.0m (-7.1% qoq, +37.9% yoy). Excluding unrealised forex losses amounting to RM23.1m, core 1Q16 net profit came in at RM32.0m (-15.9% qoq, +>100% yoy), representing 20% and 21% of our and consensus estimates of RM158m and RM150m respectively. We deem the results to be broadly in line as we expect WCT to record stronger quarters subsequently. Strong revenue growth was mainly driven by the construction division, but the quantum of growth was lessened by a weak property division segment.
- Its post-results briefing centred on the outlook of its construction division, new property development launches and its de-gearing exercise. We gather that the company is eyeing several urban highway related construction jobs which is expected to be tendered out by year-end. Aside from that, the company is also committed to continue on its de-gearing exercise with the monetisation of some of its assets, including its investment properties and non-core landbanks.

STOCK IMPACT

- **Eyeing RM2b worth of construction jobs this year, mostly urban highways.** WCT has recently submitted tenders for the Sungai Besi-Ulu Kelang Expressway (SUK) and the Damansara Shah Alam (DASH) expressway, with combined tender values of over RM6b. In addition, the group is also eyeing the remaining packages of the Pan Borneo Highway (PBH), MRT Line 2 and other smaller building jobs. On the overseas front, the company is targeting to secure an additional infrastructure job at the Lusai development in Qatar, worth about RM500m. Tenders for this job has been called for; however contract submission has yet to be done.

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	158	181	188
Net profit (adj.)	91	109	158	181	188
EPS (sen)	7.3	7.8	11.0	12.5	12.9
PE (x)	21.1	19.7	14.0	12.3	11.9
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	19.2	29.8	13.6	11.8	11.3
Dividend yield (%)	1.5	1.3	1.7	1.9	2.0
Net margin (%)	7.1	12.8	6.8	7.2	7.0
Net debt/(cash) to equity (%)	66.4	78.9	69.8	66.6	62.8
Interest cover (x)	3.0	3.0	4.1	4.2	4.3
ROE (%)	5.4	8.8	5.9	6.4	6.3
Consensus net profit	-	-	153	182	197
UOBKH/Consensus (x)	-	-	1.03	1.00	0.95

Source: WCT Holdings Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.54
Target Price	RM2.05
Upside	+33.1%

COMPANY DESCRIPTION

Construction company with growing focus in property development.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WCTHG MK
Shares issued (m):	1,248.5
Market cap (RMm):	1,922.7
Market cap (US\$m):	471.7
3-mth avg daily t'over (US\$m):	0.9

Price Performance (%)

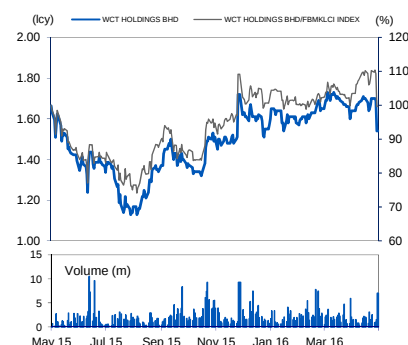
52-week high/low			RM1.73/RM1.13	
1mth	3mth	6mth	1yr	YTD
(3.8)	(2.5)	3.4	(9.5)	(4.3)

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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- **Opening of the Paradigm Mall Johor delayed to 2Q17.** The commencement of the Paradigm Mall Johor Bahru has been delayed to early-2Q17 (from Nov 16) as WCT, together with its anchor tenants, are of the view that consumer sentiment remains soft. Aside from that, WCT would also be adding another 50,000 sf of NLA to the mall at the request of one of the anchor tenants. Nevertheless, committed tenancies for the mall still remain strong, at about 60% of NLA. We make no changes to our earnings estimates as a result of the delayed opening of the mall as we have assumed very marginal contributions (RM1.3m PBT) in 2016.
- **Sticking to its RM600m property sales target.** Ytd, WCT has secured about RM68m in property sales with an additional RM137m in bookings (mainly from the maiden tower at Paradigm Garden City in OUG which has yet to be opened to the public) which represents about 34% of its RM600m sales target. We do not expect this segment of the business to make a strong recovery this year. Nevertheless, decent earnings momentum would be supported by RM551m in unbilled sales, which represents about 2.6x of our 2016 property development revenue estimates.
- **Still committed to continue its de-gearing exercise,** with the unlocking of value of its investment properties via the REIT avenue to be the next move. Presently, WCT owns three investment properties, including a mall in Bandar Bukit Tinggi (Klang), Paradigm Mall Kelana Jaya and Gateway@klia2. Its next move is to monetise the former two properties via the REIT avenue, which we value at RM835m. Upon REITing, we estimate that WCT would be able to recognise a gain of RM241m on top of enjoying the tax shields of operating investment property assets under the REIT structure. The group also plans to monetise some of its other non-core assets which include lands and properties.
- Foreign shareholdings stood at 12.54% as of 29 Apr 16, flat from last quarter of 12.79%.

EARNINGS REVISION/RISK

- We make no changes to our earnings estimates.
- Major risks include execution risk, weaker property sales due to the recent regulatory change, and rising raw material prices.

VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of RM2.05,** based on a 10% discount to our SOTP valuation of RM2.26/share and implying 16x 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 Apr 17. We continue to like WCT for its strong turnaround story, particularly after securing 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

- Securing of new construction jobs.
- Improving property sales.

SOTP VALUATION

	(RMm)
Property development	1,067.4
Construction	1,775.7
Investment property	1,673.6
Less: Net debt	(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

Source: UOB Kay Hian

Potential Job Wins

	(RMm)
Earthworks at Kwasa Damansara	~400
Pan Borneo Highway	1,000
Tun Razak Exchange infra works	~1,000
RAPID related jobs	100-200
LRT3	Prequalified
MRT2	Prequalified
Urban Highway jobs (SUKE/DASH)	1,000-2,000

Source: UOB Kay Hian, WCT

TIMELINE OF EVENTS

	(RMm)
Maiden Launch of OUG Development	2Q16
Launching of WCT REIT exercise	2H16
Opening of Paradigm Johor Bahru	2Q17
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 Investments	179.0	244.4	255.4
Construction Orderbook Replenishment	RM2b	RM1.5b	RM1.5b

Source: 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	264
Tax	(55)	(49)	(57)	(59)
Minorities	(2)	(15)	(16)	(17)
Net profit	214	158	181	188
Net profit (adj.)	109	158	181	188

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	679	672	690
Other current assets	2,174	2,788	2,879	2,929
Total assets	6,762	7,385	7,627	7,847
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	2,743	2,883	3,028
Minority interest	37	37	37	37
Total liabilities & equity	6,762	7,385	7,627	7,847

CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Operating	(555)	340	184	210
Pre-tax profit	272	222	254	264
Tax	(60)	(49)	(57)	(59)
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	(36)	(41)	(42)
Dividend payments	(23)	(36)	(41)	(42)
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)	154	(6)	18
Beginning cash & cash equivalent	944	524	679	672
Changes due to forex impact	65	0	0	0
Ending cash & cash equivalent	524	679	672	690

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	6.8	7.2	7.0
ROA	3.3	2.2	2.4	2.4
ROE	8.8	5.9	6.4	6.3
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	(26.3)	14.8	3.5
Net profit (adj.)	20.1	45.2	14.8	3.5
EPS	6.9	41.1	13.8	3.3
Leverage				
Debt to total capital	49.4	48.3	47.0	45.8
Debt to equity	99.0	94.5	89.9	85.6
Net debt/(cash) to equity	78.9	69.8	66.6	62.8
Interest cover (x)	3.0	4.1	4.2	4.3

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