

Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research

26 Jul 2016

WCT Holdings Bhd (WCTHG MK) : HOLD

Mkt. Cap: US\$473m | **3m Avg. Daily Val:** US\$0.56m

Last Traded Price : RM1.55

Price Target : RM1.55

Shariah Compliant: Yes

Analyst

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Pan Borneo win a positive development but concerns over gearing remain

- **Pan Borneo win boosts YTD wins to RM1bn**
- **Key concerns over high gearing and softer property sales remain**
- **Maintain HOLD rating and TP of RM1.55**

What's New

Pan Borneo win. WCT has clinched a RM1.3bn contract for the Pan Borneo Highway in Sarawak together with its JV partner, KKB Engineering. The package involves work from Sungai Arip Bridge to Bintulu Airport Junction with a tenure of 51 months.

30% equity stake but 70% contract value. Similar to the other West Malaysian players, WCT's interest in the JV is capped at 30%. However, we understand its share of works is 70%, implying a contract value of RM902m, and this will bring its external outstanding orderbook to RM4.7bn. With this win, YTD wins now stand at RM1bn or 50% of its RM2bn order win guidance for FY16F. The indicative EBIT margin guidance is 9% but this could fluctuate depending on steel prices given the high proportion of bridge works. We make no changes to our forecasts which assume RM1.7bn of balance new wins for FY16F prior to this win.

Gearing levels still a concern. While this win is certainly positive and increases the proportion of civil engineering and infrastructure related wins to 79% of its total external orderbook, its high gearing levels remain a key concern. On top of this, its capital commitments are high with the upcoming launches of Paradigm City which has seen a doubling of its plot ratio to 6x. WCT's net gearing as at 31 March 2016 stands at 1.0x (includes borrowings of JVs). It has laid out a detailed plan to address this issue such as asset monetisation, potential private placement and WCT REIT and Construction IPO, but the timing and execution remain fluid. A case in point is the recently aborted JV with UEM/Sunrise for its Rawang land which was supposed to raise RM215m.

Reiterate HOLD rating. We maintain our HOLD rating and SOP-based TP of RM1.55. Other key issues to consider include its optimistic property sales target of RM600m for FY16F (1HFY16 sales at RM183m or 30% of full-year target) while investors hoping for special dividends from its potential construction IPO and REIT will likely be disappointed.

DISCLOSURE

Stock rating definitions

| | | |
|--------------|---|--|
| STRONG BUY | - | > 20% total return over the next 3 months, with identifiable share price catalysts within this time frame |
| BUY | - | > 15% total return over the next 12 months for small caps, >10% for large caps |
| HOLD | - | -10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps |
| FULLY VALUED | - | negative total return > -10% over the next 12 months |
| SELL | - | negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame |

Commonly used abbreviations

| | | |
|--|---------------------------|---|
| Adex = advertising expenditure | EPS = earnings per share | PBT = profit before tax |
| bn = billion | EV = enterprise value | P/B = price / book ratio |
| BV = book value | FCF = free cash flow | P/E = price / earnings ratio |
| CF = cash flow | FV = fair value | PEG = P/E ratio to growth ratio |
| CAGR = compounded annual growth rate | FY = financial year | q-o-q = quarter-on-quarter |
| Capex = capital expenditure | m = million | RM = Ringgit |
| CY = calendar year | M-o-m = month-on-month | ROA = return on assets |
| Div yld = dividend yield | NAV = net assets value | ROE = return on equity |
| DCF = discounted cash flow | NM = not meaningful | TP = target price |
| DDM = dividend discount model | NTA = net tangible assets | trn = trillion |
| DPS = dividend per share | NR = not rated | WACC = weighted average cost of capital |
| EBIT = earnings before interest & tax | p.a. = per annum | y-o-y = year-on-year |
| EBITDA = EBIT before depreciation and amortisation | PAT = profit after tax | YTD = year-to-date |

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