

# WCT Holdings (BUY ↔; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

27 July 2016

Price target: RM2.12 (↔)

Share price: RM1.58

## A slice of Borneo

### News

- **Wins Pan Borneo Highway contract.** The 70:30 JV between KKB Engineering (non-rated) and WCT has been awarded a RM1.3bn contract for the Pan Borneo Highway (PBH) Sarawak from Sg Arip Bridge to Bintulu Airport Junction. Works are to be completed within 51 months from the date of award (i.e. Oct 2020).

### Comments

- **Within expectations.** This contract award is within our expectations as we previously highlighted in our report (dated 27<sup>th</sup> May), that the KKB-WCT JV had tendered for 4 packages of the PBH.
- **Replenishing well.** At a 30% stake in the JV, WCT's share of the PBH job works out to be RM387m. This brings its YTD job wins to RM521m compared to RM3bn secured for the full year FY15. Assuming a burn rate of RM400m in 2Q, we estimate WCT's orderbook to now stand at RM3.8bn. This translates to a healthy cover ratio of 3.3x on FY15 construction revenue.
- **Potential job wins.** Looking ahead, in terms of potential large scale jobs, we understand that WCT has submitted 2 bids for DASH and 4 for SUKE. Each of these packages is estimated to be worth RM1bn with potential awards in 2H16.

### Risks

- Inconsistency in earnings delivery from quarter to quarter.

### Forecasts

- As YTD job wins of RM521m are still within our full year assumption of RM1bn, we retain our earnings forecast.

### Rating

Maintain BUY, TP: RM2.12

- 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

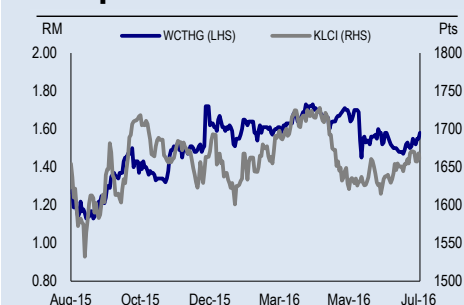
- Our SOP based TP of RM2.12 implies FY16 P/E of 22x but this reduces to 16x in FY17 once earnings kick in. Valuation is also backed by RM1.6bn in net surplus value of its land (RM1.31/share).

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KLCI	1,661.4
Expected share price return	34.2%
Expected dividend return	3.0%
Expected total return	37.2%

### Share price



### Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,249
Market cap (RM m)	1,974
3-mth avg. volume ('000)	1,521
SC Syariah Compliant	Yes

### Price Performance

	1M	3M	12M
Absolute	2.6	-1.3	14.8
Relative	0.9	0.6	18.9

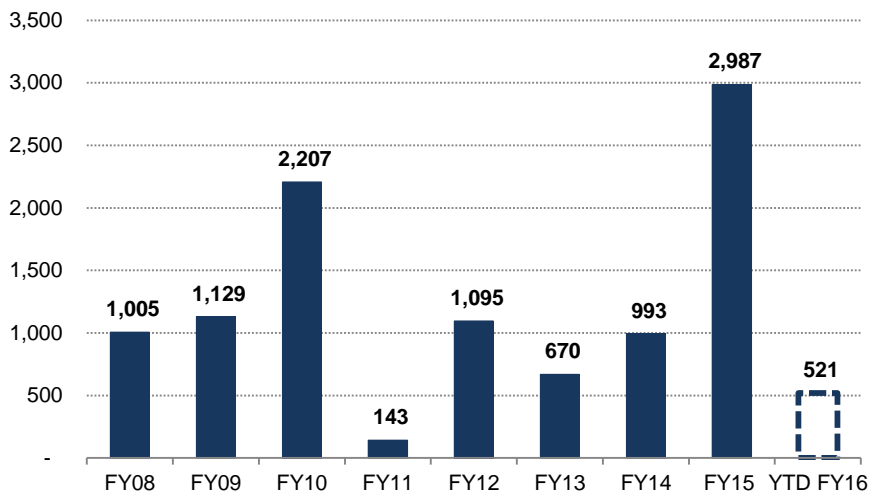
### Major shareholders

WCT Capital	19.7%
Lembaga Tabung Haji	10.3%
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)	39.7	16.4	11.9	10.7
Net DPS (sen)	4.9	4.8	6.6	7.4
Net DY (%)	3.1	3.1	4.2	4.7
BV per share	2.09	2.30	2.37	2.44
P/B (x)	0.8	0.7	0.7	0.6
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 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	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	FY15	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>
Debts	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	FY15	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	FY15	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 & Ratios

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Core EPS (sen)	6.7	4.0	9.6	13.3	14.7
P/E (x)	23.5	39.7	16.4	11.9	10.7
EV/EBITDA (x)	25.6	30.4	21.9	16.4	15.1
DPS (sen)	5.8	4.9	4.8	6.6	7.4
Dividend yield	3.7	3.1	3.1	4.2	4.7
BVPS (RM)	1.79	2.09	2.30	2.37	2.44
P/B (x)	0.9	0.8	0.7	0.7	0.6
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	FY15	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.
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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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