

27 July 2016

## WCT Holdings Bhd

### Bags Pan Borneo WPC-09!

By Adrian Ng | [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my)

Yesterday, WCT announced along with their JV-partner KKB (30:70) that they have bagged RM1.3b worth of works for the Pan Borneo highway. We are neutral on the contract award as it is part of our FY16 orderbook replenishment target of RM2.5b with no fresh impact to our FY17-18E earnings. Maintain MARKET PERFORM with an unchanged Target Price of RM1.58.

**Second job for the year.** This contract award of RM1.3b for the upgrading works for Pan-Borneo highway marks the second job wins for WCT. To recap, they bagged RM133.9m worth of jobs in March 2016 for the proposed re-development works of the existing police quarters in Taman Keramat, Selangor.

**Pan-Borneo WPC-09.** The Pan-Borneo work package valued at RM1.3b stretches from Sungai Arip Bridge to Bintulu Airport Junction with a construction period of 51 months commencing from the date of award. Based on WCT's equity stake of 30%, and an assumed pre-tax margin of 8%, we expect the contract to contribute c.RM5.5m to its bottom-line per-annum, which have already been factored into our FY17-18E earnings.

**Forecast.** As mentioned, there are no changes to our FY17-18E earnings as it has already been factored into our order book replenishment target of RM2.5b for FY16. After this Pan-Borneo contract award, we are expecting WCT to be eyeing closely for the upcoming SUKE and DASH highway work packages, which we believe is worth approximately RM350.0m-RM400.0m per package.

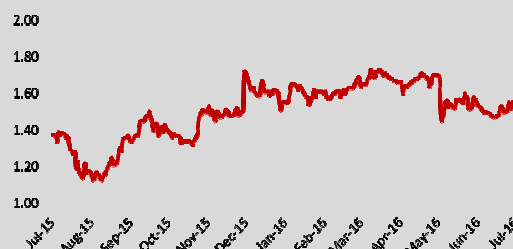
**Outlook.** Currently, WCT has an external outstanding order book of RM4.1b, with an earnings visibility of 2-3 years. In terms of job prospects, managements are maintaining target replenishment target at RM2.0b underpinned by projects such as MRT2, LRT3, Kwasa Damansara, TRX, RAPID, SUKE and DASH highway. However, we expect more job awards to flow in closer to 4Q16.

**Maintain MARKET PERFORM.** We continue to reiterate our MARKET PERFORM call on WCT with an unchanged TP of RM1.58. Our main concern for WCT is still on the possibility of repeated cash calls to address its working capital purposes, particularly when they have debt covenants to meet. To recap, WCT undertook a rights issuance to raise up to RM143.0m last year for working capital purposes.

## MARKET PERFORM ↔

Price: **RM1.58**  
Target Price: **RM1.58** ↔

### Share Price Performance



KLCI	1,661.42
YTD KLCI chg	-1.8%
YTD stock price chg	-1.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	1,973.7
Issued shares	1,249.2
52-week range (H)	1.76
52-week range (L)	1.10
3-mth avg daily vol:	1,520,924
Free Float	63%
Beta	1.1

### Major Shareholders

WCT CAPITAL SDN BHD	19.7%
LEMBAGA TABUNG HAJI	10.3%
EMPLOYEES PROVIDENT	7.3%

### Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,667.9	1,872.9	2,118.2
EBIT	241.2	241.2	281.9
PBT	271.6	178.4	222.8
<b>Net Profit (NP)</b>	<b>219.1</b>	<b>137.1</b>	<b>190.2</b>
<b>Core net profit</b>	<b>49.3</b>	<b>137.1</b>	<b>190.2</b>
Consensus (NP)	n.a.	145.1	173.1
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS	2.9	8.2	11.4
FD EPS (sen)	2.9	8.2	11.4
EPS growth (%)	n.a.	178%	39%
DPS (sen)	4.2	3.3	4.0
NTA/Share (RM)	1.39	1.44	1.52
Basic PER (x)	57.4	20.6	13.9
FD PER (x)	57.4	20.6	13.9
BVPS (RM)	1.39	1.44	1.52
Net Gearing (x)	0.8	0.64	0.66
Dividend Yield (%)	2.5	1.9	2.5



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Table 1: Sum-of-parts valuation

Segment	Stake	Method	Value (RMm)
Construction	100%	12x FY17 PER	1,255.8
Property development	100%	RNAV of 50% discount	542.7
Property investment -excl KLIA2 IC	Various	Book Value	473.9
KLIA2 Integrated complex	70%	DCF	435.9
Highway concession in India	30%	Book Value	128.3
<b>Sub Total</b>			<b>2,836.6</b>
Proceed from warrants (C and D)			688.5
<b>Total</b>			<b>3,525.0</b>
No of FD shares			1,674.6
<b>SOP/share</b>			<b>2.11</b>
<b>Target Price (25% discount)</b>			<b>1.58</b>
<b>Implied Basic PE (x)</b>			<b>10.4</b>
<b>Implied FD PE (x)</b>			<b>13.9</b>

Source: Kenanga Research

## Income Statement

FY Dec (RMm)	2013A	2014A	2015A	2016E	2017E
Revenue	1,651.3	1,654.3	1,667.9	1,872.9	2,118.2
EBITDA	251.4	151.9	241.2	254.1	295.3
Depreciation	-9.9	-8.2	0.0	-12.9	-13.3
Operating Profit	241.5	143.7	241.2	241.2	281.9
Other Income	53.7	0.0	169.8	0.0	0.0
Interest Exp	-39.1	-19.6	-57.8	-86.2	-82.5
Associate	0.0	0.0	88.2	23.4	23.4
Exceptional Items	53.7	0.0	169.8	0.0	0.0
PBT	254.2	149.5	271.6	178.4	222.8
Taxation	-64.5	-28.5	-54.9	-41.0	-32.3
Minority Interest	7.8	1.9	2.5	-0.3	-0.3
Net Profit	197.5	122.9	219.1	137.1	190.2
Core Net Profit	143.8	122.9	49.3	137.1	190.2

## Balance Sheet

FY Dec (RMm)	2013A	2014A	2015A	2016E	2017E
PPE	1,565.0	1,965.0	1,928.8	1,915.9	2,038.4
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other FA	1,298.1	1,513.3	1,513.3	1,513.3	1,513.3
Inventories	380.2	513.9	1,047.7	749.5	830.1
Receivables	706.8	876.6	882.7	970.3	1,075.1
Other CA	545.4	407.4	407.4	407.4	407.4
Cash	973.4	950.8	547.2	690.3	550.6
Total Assets	5,534.6	6,227.0	6,327.0	6,246.6	6,414.9
Payables	298.0	461.5	465.1	502.2	546.5
ST Borrowings	369.1	584.1	584.1	384.1	384.1
Other ST Liability	564.2	594.7	594.7	594.7	594.7
LT Borrowings	1,553.1	1,846.4	1,846.4	1,846.4	1,846.4
Other LT Liability	493.9	453.1	453.1	453.1	453.1
Minorities Int.	52.1	52.8	50.3	50.5	50.9
<b>Net Assets</b>	<b>2,204.3</b>	<b>2,234.4</b>	<b>2,333.3</b>	<b>2,415.5</b>	<b>2,539.1</b>
Share Capital	2,720.2	2,720.4	2,720.4	2,720.4	2,720.4
Reserves	-515.9	-486.0	-387.2	-304.9	-181.3
<b>Total Equity</b>	<b>2,204.3</b>	<b>2,234.4</b>	<b>2,333.3</b>	<b>2,415.5</b>	<b>2,539.1</b>

## Cashflow Statement

FY Dec (RMm)	2013A	2014A	2015A	2016E	2017E
Operating CF	-115.6	-75.8	-261.8	484.1	145.2
Investing CF	-245.8	105.2	36.2	0.0	-135.8
Financing CF	595.8	400.3	-178.0	-341.1	-149.1
Change In Cash	234.4	429.8	-403.6	143.1	-139.7
Free CF	-275.2	-119.3	-170.7	525.1	41.7

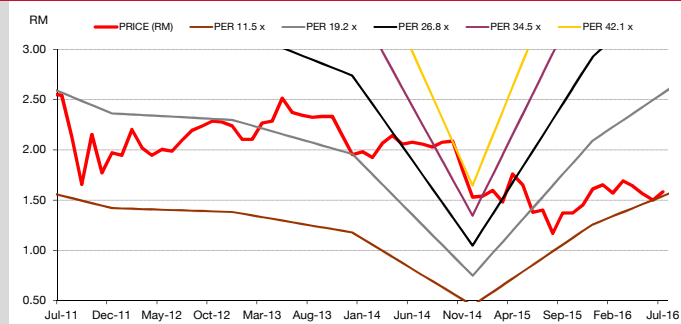
Source: Kenanga Research

## Financial Data &amp; Ratios

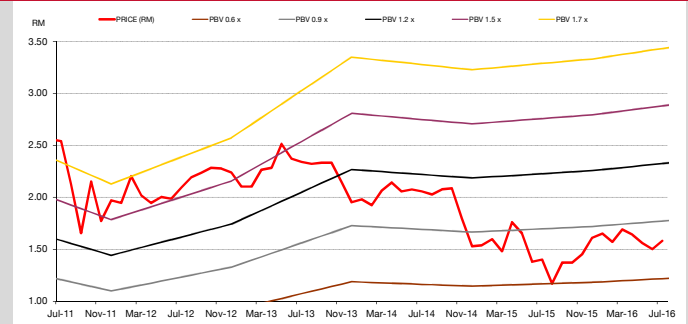
FY Dec (RMm)	2013A	2014A	2015A	2016E	2017E
<b>Growth</b>					
Turnover (%)		0%	1%	12%	13%
EBITDA (%)		-40%	59%	5%	16%
Operating Profit (%)		-40%	68%	0%	17%
PBT (%)		-41%	82%	-34%	25%
Core Net Profit (%)		-15%	-60%	178%	39%
<b>Profitability (%)</b>					
EBITDA Margin	15%	9%	14%	14%	14%
Operating Margin	15%	9%	14%	13%	13%
PBT Margin	15%	9%	16%	10%	11%
Net Margin	9%	7%	3%	7%	9%
Effective Tax Rate	25%	19%	20%	23%	15%
ROA	3%	2%	1%	2%	3%
ROE	7%	6%	2%	6%	7%
<b>DuPont Analysis</b>					
Net Margin (%)	9%	7%	3%	7%	9%
Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Leverage Factor (x)	2.5	2.8	2.7	2.6	2.5
ROE (%)	7%	6%	2%	6%	7%
<b>Leverage</b>					
Debt/Asset (x)	0.5	0.6	0.5	0.5	0.5
Debt/Equity (x)	1.4	1.6	1.5	1.4	1.3
Net Cash/(Debt)	-949	-1,480	-1,883	-1,540	-1,680
Net Debt/Equity (x)	0.4	0.7	0.8	0.6	0.7
<b>Valuations</b>					
Core EPS (sen)	0.0	0.0	2.9	8.2	11.4
DPS (sen)	6.5	1.4	7.2	3.3	4.0
PER (x)	13.4	21.5	12.1	19.3	13.9
Net Div. Yield (%)	4.1	0.9	4.5	2.1	2.5
BVPS	1.3	1.3	1.4	1.4	1.5
P/B (x)	1.2	1.2	1.1	1.1	1.0

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## Fwd PER Band



## Fwd PBV Band



Source: Bloomberg, Kenanga Research

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## Peer Comparison

CORE COVERAGE																
NAME	Price (26/7/16)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.46	356.0	7.5	6.9	6.6	0.1	5.5	0.4	47.5	51.5	54.2	8.4	5.2	0.70	Outperform	-39.87
GAMUDA BHD	4.86	11754.0	16.7	18.0	16.1	2.5	13.5	2.4	687.2	636.8	709.7	-7.3	11.4	4.67	Market Perform	4.29
IJM CORP BHD	3.38	12170.3	24.1	19.0	17.2	2.1	6.8	1.3	499.9	634.2	700.8	26.9	10.5	3.66	Market Perform	0.89
KIMLUN CORP BHD	1.79	538.0	8.4	7.7	6.4	3.4	13.7	1.1	64.4	70.0	83.8	8.7	19.7	2.10	Outperform	29.71
MUHIBBAH ENGINEERING (M) BHD	2.26	1084.7	11.6	11.1	9.9	2.2	9.0	1.0	88.9	92.9	104.9	4.5	12.9	2.53	Outperform	2.26
HOCK SENG LEE BERHAD	1.79	983.6	12.9	12.5	11.0	2.2	10.9	1.4	76.2	78.8	89.2	3.4	13.2	1.79	Market Perform	-5.29
NAIM HOLDINGS BERHAD	1.94	459.7	208.9	18.2	11.5	1.4	1.9	0.3	2.2	25.3	39.8	1050.0	57.3	1.32	Underperform	-21.14
WCT HOLDINGS BHD	1.58	1973.7	53.7	19.3	13.9	2.8	4.3	0.8	49.3	137.1	190.2	178.1	38.7	1.58	Market Perform	-1.86
MMC CORP BHD	2.10	6394.6	53.8	25.4	20.2	0.0	2.7	0.7	118.8	251.6	316.6	111.8	25.8	2.67	Outperform	7.14
MITRAJAYA HOLDINGS BHD	1.40	935.9	12.0	10.0	9.2	3.0	19.5	1.9	87.7	105.8	114.4	20.6	8.1	1.77	Outperform	16.67
SUNWAY CONSTRUCTION GROUP BH	1.66	2146.2	16.9	16.1	14.3	2.2	24.6	4.0	127.2	133.5	149.6	5.0	12.1	1.81	Outperform	18.57
Average			38.8	14.9	12.4											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.25	673.0	-472.7	20.7	12.2	2.6	2.9	0.6	-1.4	32.7	55.3	-2386.4	69.4	n.a.	Not Rated	5.93
PROTASCO	1.64	553.7	8.3	6.7	n.a.	n.a.	n.a.	n.a.	66.2	81.4	n.a.	22.9	n.a.	2.25	Trading Buy	1.86
PINTARAS JAYA	3.60	588.7	11.2	23.9	12.2	4.0	7.1	1.7	51.9	24.3	47.5	-53.2	95.3	4.20	Trading Buy	9.09
GABUNGAN AQRS	1.11	433.4	-43.6	10.3	11.6	1.4	n.a.	n.a.	-9.9	42.0	37.1	-524.8	-11.7	n.a.	Not Rated	33.73
GADANG HOLDINGS	2.49	644.0	6.1	6.7	6.4	2.7	16.7	1.1	94.2	86.4	89.4	-8.2	3.5	2.44	Not Rated	17.45
AZRB	0.65	313.3	13.7	n.a.	n.a.	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	2.36
TRC SYNERGY	0.46	221.0	7.2	11.4	6.6	2.2	5.0	0.6	30.7	19.4	33.3	-36.8	71.4	n.a.	Not Rated	24.32
BINA PURI	0.43	102.9	27.2	7.1	5.9	4.7	n.a.	n.a.	3.3	12.6	15.1	282.3	19.8	n.a.	Not Rated	-1.16
Average			-65.2	13.3	9.2											

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia  
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: [www.kenanga.com.my](http://www.kenanga.com.my)



Chan Ken Yew  
Head of Research