

27 July 2016 | Corporate Update

WCT Holdings Berhad

Pan Borneo Package Award Kicks In

INVESTMENT HIGHLIGHTS

- **Media has reported that KKB-WCT JV clinched a Pan Borneo highway construction package of RM1.29bn**
- **Job scope concentrates on civil works which includes heavy geotechnics such as piling, earthworks and paving**
- **Orderbook increased by +9% to RM4.8bn**
- **We maintain our BUY recommendation with an adjusted TP of RM1.82 per share.**

RM1.29bn Pan Borneo job in hand. KKB-WCT JV (a joint venture with KKB Berhad) was awarded a Pan Borneo highway construction package from Lebu Raya Borneo Utara Sdn Bhd which is the project delivery partner for the highway. The KKB-WCT JV is 70% controlled by KKB Berhad and 30% by WCT Holdings Berhad.

Scope. Civil engineering works includes heavy geotechnics such as piling, earthworks, paving and road furniture for duration of 51 months. The construction package is from Sg. Arip Bridge in Balinggian to Bintulu Airport with a distance of c.106 km.

Orderbook increased by +9%. The contract was within our job replenishment assumptions with the effective orderbook increased by +9% from RM4.43bn to RM4.82bn. We are comforted further by WCT's expertise in highway engineering and KKB's forte in building bridges despite the size, scale and engineering challenges in constructing and upgrading the R3 Jabatan Kerja Raya (JKR) standard road to R5 standard in Sarawak's central hinterland.

Impact on earnings. We make no changes to our FYE16 and FYE17 earnings forecasts. As stated in above, the award is within our replenishment target as we have reasoned in our previous report (27.05.16) and factored the 30% shareholdings in the JV company on the back of 9.0% marginal assumption for the job.

Recommendation. Hence, we reaffirm our BUY recommendation with an adjusted SOP-based TP of RM1.82 per share with a relatively moderate implied PER of 12x (in comparison to mid-cap peer range of 12-14x PER).

Maintain BUY


Adjusted Target Price (TP): RM1.82
(previously RM1.79)

RETURN STATS

Price (27 July 2016)	RM1.58
Target Price	RM1.82
Expected Share Price Return	+14.7%
Expected Dividend Yield	+1.1%
Expected Total Return	+15.8%

STOCK INFO

KLCI	1,661.42
Bursa / Bloomberg	9679 / WCTHG MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	1249.2
Par Value (RM)	1.00
Market cap. (RM'm)	1973
Price over NA	0.735
52-wk price Range	RM1.09 – RM1.76
Beta (against KLCI)	1.07
3-mth Avg Daily Vol	1.56m
3-mth Avg Daily Value	RM2.47
Major Shareholders (%)	
WCT Capital Sdn. Bhd.	19.7
LTH	10.33
EPF	7.3

Our View. The KKB-WCT package is part of Phase 1 which passes through the coastlines of central Sarawak from Balinggian to Bintulu. We reckon that even though the distance from Sungai Arip, Balinggian to Bintulu is only c.106km, but the cost per/km of RM12.1m is fair due the soil condition of central Sarawak coastlines which is highly acidic, peaty coupled with luxuriant vegetation. Furthermore, the coastal and riverine alluvial soil condition would normally require vibro replacements due to high water table due to peaty condition. Additionally, the work would involve upgrade of an existing road and construction of a parallel carriageway simultaneously. Recall that the Pan Borneo Highway is estimated to cover 2,239km with estimated cost of c.RM30bn, in which almost half (RM14.2bn) will be allocated to Sarawak. 

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	1,655.0	1,662.2	1,854.1	1,940.0	1,874.5
EBIT (RM'm)	302.7	202.4	335.6	191.4	347.9
Pre-tax profit (RM'm)	254.2	151.1	256.2	172.2	226.8
Normalised PATAMI (RM'm)	153.8	111.1	216.6	128.6	163.4
FD EPS (sen)	13.7	10.1	18.1	11.7	14.8
EPS growth (%)	-8.2	-26.6	78.9	-35.3	27.0
PER (x)	14.8	18.9	8.8	13.4	10.5
Dividend (sen)	6.8	2.5	5.0	1.8	1.8
Dividend Yield (%)	2.9	1.2	3.5	1.1	1.2

Source: MIDFR

SOP VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
Engineering & construction	DCF Valuation (6.5%)	1,881.7	1.08
<u>Concessions</u>			
Indian Tollways	DCF valuation (WACC: 8%)	117.5	0.07
KLIA2 Gateway Mall	DCF valuation (WACC: 10%)	328.5	0.18
<u>Property Development</u>			
On-going & undeveloped landbanks	NPV @ 9% of Market Value	1,350.0	0.76
<u>Property Investment</u>			
AEON BT, Paradigm Mall & Premiere Hotel	DCF valuation (WACC: 9.5%)	1,210.0	0.68
Landbank	Market Value	600.0	0.34
Total SOP		4,887.7	3.09
Net debt		-1,756.3	-0.99
Total SOP			2.10
Discount @ 15%			0.315
			1.82
Enlarged share capital (mil)			1,780.0

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.