

COMPANY UPDATE

WCT Holdings (WCTHG MK)

Asset Monetisation Still On The Cards

We expect WCT's 1H16 results to be uneventful as billings for infrastructure jobs secured in end-15 would only kick in from 3Q16. Its REIT launch plans are still intact and consultations with authorities are ongoing. As for new contract wins, we expect the outcome of the biddings (in which WCT is participating) for the remaining urban expressway packages (valued at RM500m-600m each) to be out soon. Maintain BUY. Target price: RM2.05.

WHAT'S NEW

- **2H16 results to play significant catch-up.** WCT Holdings (WCT) is due to release 2Q16 results on 23 Aug 16. We foresee flattish yoy earnings growth as we expect contributions from the infrastructure jobs that it had secured in 2H15 to begin its billing cycle only in 2H16.
- **Expect construction margin pick-up to begin in 2H16.** We expect construction margins to progressively improve in 2H16 (to high-single-digit) as billings for the contracts secured late last year (mainly infrastructure jobs) will kick in. The company also expects some cost savings with the sharing of resources and manpower given its key construction jobs are concentrated in three main areas - Pengerang, KL City Centre and Kwasa Damansara.

STOCK IMPACT

- **Monetisation of key assets still on the cards.** Last month, WCT mutually rescinded a JV agreement with UEM Sunrise for a 50% stake in a 608-acre landbank in Serendah, Selangor. While the news came in as a negative surprise, we gather that WCT has entered into talks with other parties on a potential land sale. Aside from its malls, another sizeable investment property is an office tower valued at RM249m (book value for its 70% stake). Assuming the tower is sold at book value, cash proceeds to WCT would be around RM133m.

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)	22.1	20.6	14.6	12.9	12.5
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	19.4	30.1	13.8	11.9	11.4
Dividend yield (%)	1.4	1.3	1.6	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	-	-	143	171	194
UOBKH/Consensus (x)	-	-	1.10	1.06	0.97

Source: WCT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.61
Target Price	RM2.05
Upside	+27.3%

COMPANY DESCRIPTION

Construction company with growing focus in property development.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WCTHG MK
Shares issued (m):	1,249.2
Market cap (RMm):	2,011.1
Market cap (US\$m):	505.3
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

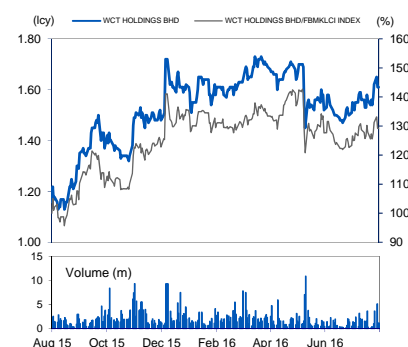
52-week high/low			RM1.73/RM1.13	
1mth	3mth	6mth	1yr	YTD
7.3	(2.4)	0.7	39.6	1.3

Major Shareholders

	%
WCT Capital	19.7
Lembaga Tabung Haji	10.3
Employees Provident Fund	7.3

FY16 NAV/Share (RM)	1.99
FY16 Net Debt/Share (RM)	1.39

PRICE CHART



Source: Bloomberg

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- **REIT launch still on track.** WCT's plan to launch its RM1.3b-1.5b REIT is still ongoing. Currently, it is preparing the documents for consultations with the authorities. The REIT is expected to be listed as soon as 2Q17, which could see WCT raise about RM500m to be mostly used to pare down its gearing. Following the completion of its REIT launch, it would move to prepare for the potential listing of its construction division.
- **Urban highway job contracts to be the focus in the near term.** Ytd, the group has secured two construction jobs - the RM1.3b Pan Borneo Highway job (a 30:70 JV with KKB Engineering) and a RM134m building job from MRT Corp for the redevelopment of the Taman Keramat police quarters. Meanwhile, the group is awaiting tender results for the Sungai Besi-Ulu Klang Elevated Expressway (SUKE) and the Damansara Shah Alam Expressway (DASH), which are expected to come in the next couple of months. WCT has tendered for a few packages for the urban highways, which are valued at RM500m-600m each.
- **Other job prospects include the Tun Razak Exchange link and Kwasa Damansara.** WCT targets to replenish its orderbook by RM2b for 2016 (ytd: RM1.43b). Besides the urban highway jobs, it remains hopeful of other jobs - Kwasa Damansara (worth RM300m-400m) and Tun Razak Exchange link (worth about RM1b).
- **Property sales improving but at a slow pace.** So far, the group has launched about RM500m worth of new properties, driven by Paradigm Garden City, OUG, which has been somewhat successful. Nevertheless, conversion of bookings into sales has been a key hurdle to overcome given banks' tight lending policies. So far, of the RM140m-150m bookings recorded, the group has converted about RM100m (or 67-71%) into sales. For the rest of the year, it expects RM40m-50m bookings to be converted from this project.

EARNINGS REVISION/RISK

- We maintain 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 implies 15.8x 2017F PE, slightly above its 10-year historical average PE. We continue to like WCT for its turnaround story, particularly after securing the large construction orders, and embarking on asset monetisation 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 new construction jobs.
- Better-than-expected 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
Implied 2017F PE (x)	15.8

Source: UOB Kay Hian

POTENTIAL JOB WINS

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

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	1H17
Arbitration Payment	Up to 2 years

Source: UOB Kay Hian, WCT

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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