

**AmInvestment Bank****Company report****AmInvestment Bank**

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WCT

(WCTHG MK EQUITY, WCTE.KL)

CONSTRUCTION

24 Aug 2016

*Private Placement Not A Priority Now***HOLD**

(Maintained)

Rationale for report: Company update

Price RM1.59
 Fair Value RM1.66
 52-week High/Low RM1.76/RM1.10

Key Changes

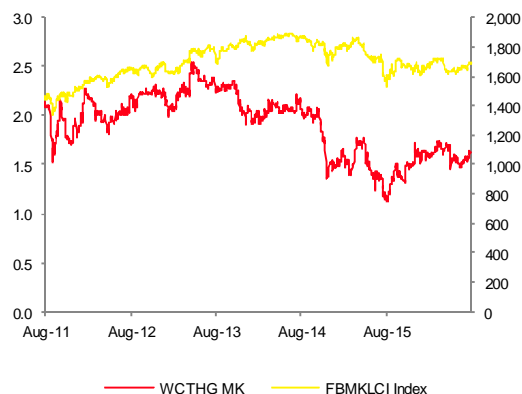
Fair value ⇄
 EPS ⇄

| YE to Dec | FY15 | FY16F | FY17F | FY18F |
|-------------------------------|---------|---------|---------|---------|
| Revenue (RM mil) | 1,667.9 | 2,077.9 | 2,305.3 | 2,424.8 |
| Core net profit (RM mil) | 121.3 | 130.3 | 185.7 | 187.9 |
| FD Core EPS (sen) | 9.6 | 10.2 | 13.5 | 13.6 |
| FD Core EPS growth (%) | 5.9 | 6.5 | 32.4 | 1.0 |
| Consensus Net Profit (RM mil) | - | 141.4 | 170.1 | 194.2 |
| DPS (sen) | 3.0 | 4.0 | 5.0 | 5.0 |
| PE (x) | 16.6 | 15.6 | 11.8 | 11.7 |
| EV/EBITDA (x) | 29.5 | 17.6 | 13.1 | 12.8 |
| Div yield (%) | 1.9 | 2.5 | 3.1 | 3.1 |
| ROE (%) | 9.0 | 4.9 | 6.7 | 6.5 |
| Net Gearing (%) | 79.0 | 77.0 | 72.4 | 67.9 |

Stock and Financial Data

| | |
|------------------------------|--|
| Shares Outstanding (million) | 1,249.2 |
| Market Cap (RMmil) | 1,986.2 |
| Book Value (RM/share) | 2.18 |
| P/BV (x) | 0.7 |
| ROE (%) | 9.0 |
| Net Gearing (%) | 79.0 |
| Major Shareholders | WCT Capital (19.7%) Lembaga Tabung Haji (10.2%) EPF (7.2%) |
| Free Float | 38.5 |
| Avg Daily Value (RMmil) | 2.3 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|-------|-------|
| Absolute (%) | (6.5) | (1.2) | 35.0 |
| Relative (%) | (9.1) | (1.6) | 26.3 |

**Investment Highlights**

- WCT explained during an analysts briefing this morning that the 1HFY16 results released yesterday were not strong as construction profits had yet to pick up significantly. It expects better showing from the unit from 3QFY16, driven by stronger profit recognition from newly secured infrastructure jobs. Construction profits in 1HFY16 came largely from low-margin building jobs, which were not helped by the front-loading of certain M&E costs associated with those jobs too.
- WCT reiterated its guidance for RM2bil job wins in FY16. YTD, it has secured RM523mil (including a 30% share of a RM1.4bil Pan Borneo Highway package). It appeared confident to win Package V204 (viaduct guideway from Bandar Malaysia South Portal to Kamping Muhibbah) of MRT2, we believe worth about RM1bil. If it does not succeed, alternatively, it will pursue Package V207 (viaduct guideway from UPM to Taman Pinggiran Putra).
- In addition, it has submitted bids for two local building jobs worth a total of RM1.5bil. For local highway projects, having lost out in SUKE and DASH, it now puts its hope on additional packages from West Coast Expressway. On the overseas front, WCT expects more tenders for infrastructure projects to be called in Qatar (ahead of the 2022 FIFA World Cup) after the summer months. WCT is keen to bid for the highway projects.
- WCT said that a private placement of new shares is no longer a priority in its on-going de-gearing exercise. It felt that the less than significant amount of proceeds raised did not justify the earnings dilution, given the current depressed share price. Instead, WCT hopes to raise about RM500mil from the disposal of *The Ascent*, a 32-storey Class-A office tower worth RM380mil within the Paradigm development in PJ, as well as an adjacent service apartment block within the same development, and a commercial building in Pandan Indah. The disposal would reduce its net debt and gearing of RM2.15bil and 0.8x as at June 2016 to RM1.65bil and 0.6x. It is still pursuing the listing of Paradigm Mall, PJ, and BBT Shopping Mall, Klang, under a RM1.2bil REIT by 2Q2017. It will only embark on the IPO of its construction unit after the REIT's listing.
- We maintain our forecasts and FV of RM1.66 which is based on a 35% discount to its SOP, in line with our benchmark of 30-40% for property stocks. We value WCT's construction business at 13x forward earnings, in line with our benchmark forward target PE of 13-15x for mid-cap construction stocks. Maintain HOLD.

EXHIBIT 1: RESULTS TABLE

| YE Dec (RMmil) | FY16 1Q | FY16 2Q | QoQ Chg | FY15 6M | FY16 6M | YoY Chg |
|------------------------|--------------|--------------|--------------|--------------|----------------|--------------|
| Turnover | 485.0 | 581.1 | 20% | 773.9 | 1,066.0 | 38% |
| Construction | 378.1 | 503.0 | 33% | 586.1 | 881.1 | 50% |
| Property Development | 92.0 | 61.8 | (33%) | 159.2 | 153.8 | (3%) |
| Property Investment | 14.9 | 16.3 | 9% | 28.7 | 31.1 | 8% |
| EBIT | 52.6 | 43.9 | (17%) | 69.7 | 96.5 | 38% |
| Construction | 26.9 | 19.2 | (29%) | 24.3 | 46.1 | 90% |
| Property Development | 18.3 | 17.6 | (4%) | 33.4 | 35.9 | 7% |
| Property Investment | 7.4 | 7.1 | (5%) | 11.9 | 14.5 | 22% |
| Net inc/(exp) | (13.4) | (12.8) | (5%) | (39.4) | (26.2) | (34%) |
| Associates | 9.2 | 8.5 | (8%) | 13.2 | 17.6 | 34% |
| El | (23.1) | 10.3 | (144%) | 43.1 | (12.9) | (130%) |
| Pretax profit | 25.2 | 49.8 | 98% | 86.5 | 75.0 | (13%) |
| Taxation | (15.1) | (17.8) | 18% | (24.3) | (32.8) | 35% |
| Minority interest | (1.3) | 0.0 | (102%) | 2.0 | (1.3) | (163%) |
| Net profit | 8.8 | 32.1 | 263% | 64.3 | 40.9 | (36%) |
| EPS (sen) | 0.7 | 2.6 | 257% | 6.0 | 3.3 | (45%) |
| Core net profit | 32.0 | 21.8 | (32%) | 21.2 | 53.8 | 154% |
| EBIT margin | 11% | 8% | (3%) | 9% | 9% | 0% |
| Pretax margin | 5% | 9% | 3% | 11% | 7% | (4%) |
| Effective tax rate | 60% | 36% | (24%) | 28% | 44% | 16% |

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: VALUATION TABLE

| Division | Value (RM mil) | (% of SOP) | Method |
|--|-------------------|-------------|--------------|
| Construction Division | 1,213.4 | 0.72 | 30.4 |
| Development properties | 1,803.3 | 1.08 | 45.2 |
| Investment properties | 1,394.4 | 0.83 | 35.0 |
| Future landbank | 600.9 | 0.36 | 15.1 |
| Indian toll concessions | 27.5 | 0.02 | 0.7 |
| Net Debt | (2,069.0) | (1.23) | (51.9) |
| Proceeds from full conversion of convertible instruments | 1,016.7 | 0.61 | 25.5 |
| SOP | 3,987.0 | 2.38 | 100.0 |
| FD No of shares (mil) | 1,677.2 | | |
| SOP/share (RM) | 2.38 | | |
| Fair Value (35% discount to SOP) | 1.66 | | |

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: OUTSTANDING ORDERBOOK

| Project | Outstanding Value (RMmil) |
|---------------------------------------|------------------------------|
| RAPID | 1,095 |
| TRX | 761 |
| Lusail development, Qatar | 642 |
| Internal works | 449 |
| Pan Borneo Highway | 387 |
| West Coast Expressway | 283 |
| My Town Shopping Centre | 193 |
| Commercial/Office, Putrajaya | 166 |
| Police quarters redevelopment, Gombak | 131 |
| Others | 173 |
| Total | 4,280 |

Source: Company

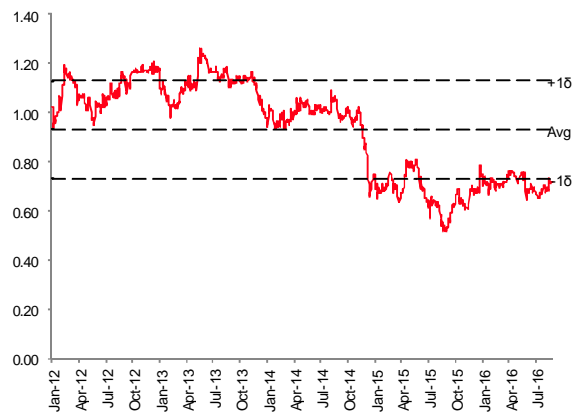
EXHIBIT 4: PB BAND CHART**EXHIBIT 5: PE BAND CHART**

EXHIBIT 6: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY14 | FY15 | FY16F | FY17F | FY18F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,662.2 | 1,667.9 | 2,077.9 | 2,305.3 | 2,424.8 |
| EBITDA | 164.4 | 137.7 | 230.9 | 307.4 | 313.8 |
| Depreciation/Amortisation | (8.2) | (8.1) | (11.1) | (11.0) | (11.4) |
| Operating income (EBIT) | 156.2 | 129.6 | 219.7 | 296.3 | 302.4 |
| Other income & associates | 15.4 | 88.2 | 16.5 | 17.8 | 18.7 |
| Net interest | (43.0) | (44.1) | (66.5) | (66.2) | (65.2) |
| Exceptional items | 20.8 | 97.8 | - | - | - |
| Pretax profit | 149.5 | 271.6 | 169.8 | 247.9 | 255.9 |
| Taxation | (28.5) | (54.9) | (37.9) | (57.7) | (59.5) |
| Minorities/pref dividends | 1.9 | 2.5 | (1.6) | (4.5) | (8.4) |
| Net profit | 122.9 | 219.1 | 130.3 | 185.7 | 187.9 |
| Core net profit | 102.1 | 121.3 | 130.3 | 185.7 | 187.9 |
| Balance Sheet (RMmil, YE 31 Dec) | FY14 | FY15 | FY16F | FY17F | FY18F |
| Fixed assets | 237.4 | 264.4 | 353.2 | 442.2 | 530.7 |
| Intangible assets | - | - | - | - | - |
| Other long-term assets | 3,245.2 | 3,775.5 | 3,792.0 | 3,809.8 | 3,828.5 |
| Total non-current assets | 3,482.6 | 4,039.9 | 4,145.2 | 4,252.0 | 4,359.2 |
| Cash & equivalent | 937.6 | 505.6 | 490.1 | 519.5 | 554.6 |
| Stock | 90.7 | 153.9 | 153.9 | 153.9 | 153.9 |
| Trade debtors | 1,237.2 | 1,442.5 | 1,442.5 | 1,442.5 | 1,442.5 |
| Other current assets | 447.5 | 601.7 | 601.7 | 601.7 | 601.7 |
| Total current assets | 2,713.1 | 2,703.6 | 2,688.2 | 2,717.5 | 2,752.6 |
| Trade creditors | 1,025.0 | 936.3 | 936.3 | 936.3 | 936.3 |
| Short-term borrowings | 578.7 | 501.8 | 501.8 | 501.8 | 501.8 |
| Other current liabilities | 13.2 | 9.2 | 9.2 | 9.2 | 9.2 |
| Total current liabilities | 1,616.9 | 1,447.4 | 1,447.4 | 1,447.4 | 1,447.4 |
| Long-term borrowings | 1,846.4 | 2,072.8 | 2,072.8 | 2,072.8 | 2,072.8 |
| Other long-term liabilities | 451.7 | 565.8 | 565.8 | 565.8 | 565.8 |
| Total long-term liabilities | 2,298.1 | 2,638.7 | 2,638.7 | 2,638.7 | 2,638.7 |
| Shareholders' funds | 2,227.9 | 2,620.6 | 2,708.8 | 2,840.5 | 2,974.4 |
| Minority interests | 52.8 | 36.8 | 38.5 | 42.9 | 51.4 |
| BV/share (RM) | 2.04 | 2.18 | 2.26 | 2.37 | 2.48 |
| Cash Flow (RMmil, YE 31 Dec) | FY14 | FY15 | FY16F | FY17F | FY18F |
| Pretax profit | 149.5 | 271.6 | 169.8 | 247.9 | 255.9 |
| Depreciation/Amortisation | 8.2 | 8.1 | 11.1 | 11.0 | 11.4 |
| Net change in working capital | (47.3) | (608.9) | - | - | - |
| Others | (539.4) | (225.6) | 12.1 | (9.3) | (13.0) |
| Cash flow from operations | (429.0) | (554.9) | 193.0 | 249.6 | 254.3 |
| Capital expenditure | (2.8) | (29.7) | (100.0) | (100.0) | (100.0) |
| Net investments & sale of fixed assets | - | - | - | - | - |
| Others | 101.6 | (106.1) | - | - | - |
| Cash flow from investing | 98.8 | (135.8) | (100.0) | (100.0) | (100.0) |
| Debt raised/(repaid) | (101.7) | 149.6 | - | - | - |
| Equity raised/(repaid) | 0.2 | 107.9 | - | - | - |
| Dividends paid | (49.0) | (61.4) | (42.0) | (54.0) | (54.0) |
| Others | 549.6 | 9.3 | (66.5) | (66.2) | (65.2) |
| Cash flow from financing | 399.1 | 205.4 | (108.5) | (120.3) | (119.2) |
| Net cash flow | 68.9 | (485.3) | (15.5) | 29.4 | 35.1 |
| Net cash/(debt) b/f | 867.5 | 944.5 | 505.6 | 490.1 | 519.5 |
| Net cash/(debt) c/f | 937.6 | 505.6 | 490.1 | 519.5 | 554.6 |
| Key Ratios (YE 31 Dec) | FY14 | FY15 | FY16F | FY17F | FY18F |
| Revenue growth (%) | 0.4 | 0.3 | 24.6 | 10.9 | 5.2 |
| EBITDA growth (%) | (38.2) | (16.3) | 67.7 | 33.1 | 2.1 |
| Pretax margin (%) | 9.0 | 16.3 | 8.2 | 10.8 | 10.6 |
| Net profit margin (%) | 7.4 | 13.1 | 6.3 | 8.1 | 7.7 |
| Interest cover (x) | 3.6 | 2.9 | 3.3 | 4.5 | 4.6 |
| Effective tax rate (%) | 19.1 | 20.2 | 22.3 | 23.3 | 23.3 |
| Dividend payout (%) | 55.5 | 21.9 | 32.3 | 29.1 | 28.8 |
| Debtors turnover (days) | 272 | 316 | 253 | 228 | 217 |
| Stock turnover (days) | 23 | 38 | 41 | 41 | 41 |
| Creditors turnover (days) | 263 | 234 | 247 | 247 | 247 |

Source: Company, AmInvestment Bank Bhd estimates

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