



AmInvestment Bank

Company report

AmInvestment Bank

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WCT

(WCTHG MK EQUITY, WCTE.KL)

CONSTRUCTION

24 Aug 2016

Weaker-Than-Expected Earnings Recovery In 1HFY16

HOLD

(Maintained)

Rationale for report: Company result

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

Key Changes

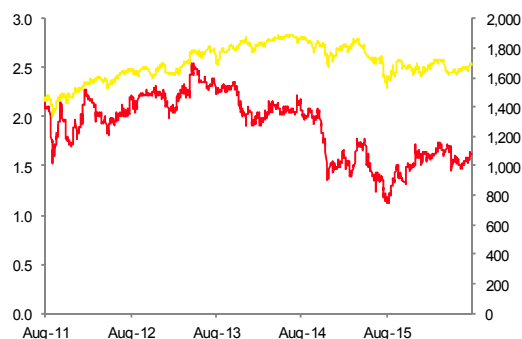
Fair value 
EPS 

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



— WCTHG MK — FBMKLCI Index

Investment Highlights

- WCT's 1HFY16 core net profit of RM53.8mil (excluding RM12.9mil forex losses) came in below expectations at only 32% of our full-year forecast and 38% of the full-year market consensus. We believe that it took a longer time before earnings from newly secured jobs could actually show up in the numbers due to various issues.
- WCT has already benefited from the booming local construction sector, as evidenced in its RM4.8bil outstanding construction order backlog (Exhibit 3) - which is the highest in recent years. The orderbook comprises, among others, work packages for RAPID, TRX, Kwasa Damansara, West Coast Expressway and the Pan Borneo Highway.
- While WCT does not have extensive experience in rail projects, given the sheer scale of the MRT2 project, we believe that there will be enough viaduct packages to go around for big players including WCT. It is also eyeing work packages from LRT3.
- The key concern for WCT now is a stretched balance sheet. As at 30 June 2016, its net debt and gearing stood at RM2.15bil and 0.81x, largely due to debt-fuelled land acquisitions in recent years. This excludes about RM1bil debts at Paradigm Mall, PJ and Gateway Mall at KLIA2, both 70%-owned but not consolidated as they are regarded as JVs for accounting purposes.
- We take comfort that WCT is addressing the issue with: 1) the proposed part divestment of its construction unit and investment properties via IPOs, and ii) a private placement of new WCT shares of up to 10% of its paid-up capital.
- We cut our FY16F net profit forecast by 21% but raise our FV by 2% to RM1.66 (from RM1.62) as we roll forward our valuation base year to FY17F (from FY16F) based on an unchanged 35% discount to its SOP, in line with our benchmark of 30-40% for property stocks. We value WCT's construction business at unchanged 13x forward earnings, in line with our benchmark forward target PE of 13-15x for large-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%
EI	(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, AmlInvestment Bank Bhd

EXHIBIT 2: VALUATION TABLE

Division	Value (RM mil) (RM/share)		(% of SOP)	Method
Construction Division	1,213.4	0.72	30.4	13x FY17F construction net profit
Development properties	1,803.3	1.08	45.2	NPV @ 9%/market value of land
Investment properties	1,394.4	0.83	35.0	Market value
Future landbank	600.9	0.36	15.1	Market value
Indian toll concessions	27.5	0.02	0.7	DCF at WACC of 9.2%
Net Debt	(2,069.0)	(1.23)	(51.9)	As at 31 December 2015
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, AmlInvestment Bank Bhd

EXHIBIT 3: OUTSTANDING ORDERBOOK

Project	Outstanding Value (RMmil)
RAPID	1,155
TRX	785
Lusail development, Qatar	732
Internal works	580
Pan Borneo Highway	387
MyTown Shopping Centre	308
West Coast Expressway	283
Commercial/Office, Putrajaya	203
Police quarters redevelopment, Gombak	134
Others	225
Total	4,792

Source: Company

EXHIBIT 4: PB BAND CHART

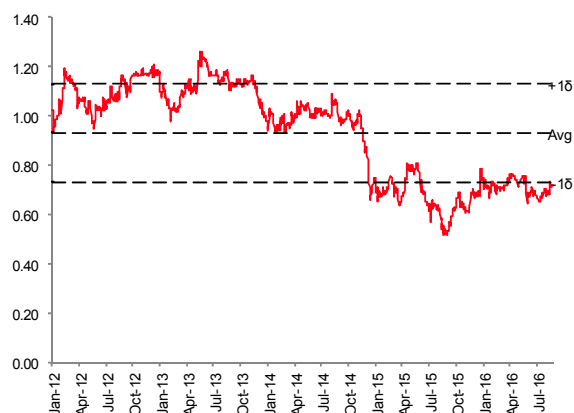


EXHIBIT 5: PE BAND CHART



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, AmlInvestment Bank Bhd estimates

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