

WCT Holdings (BUY ↔; EPS ↔)
INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION
24 August 2016
Price Target : RM2.12 (↔)
Share price : RM1.59
Improving from a low base
Results

- WCT reported 2QFY16 results with revenue of RM581m (+38% YoY, +20% QoQ) and core earnings (after stripping off forex impact) of RM22m (+240% YoY, -32% QoQ). While core earnings surged more than 2-folds YoY from a low base, the QoQ decline was due to lower construction margins.
- Cumulative 1H FY16 core earnings totalled RM54m, increasing 154% YoY given the low base effect in FY15.

Deviation

- 1H core earnings formed 45% of our full year forecast which is within our expectations but below consensus at 38%. We envisage a stronger 2H once orderbook recognition gains further traction.

Dividends

- None declared.

Highlights

- Construction margins swing.** While construction revenue surged 33% QoQ, margins contracted from 7.1% to 3.8%, resulting to a -29% EBIT fall. This is likely attributed to the recognition of its older jobs with lower margins as opposed to newly secured ones. Nonetheless, on a cumulative 1H basis, construction margins expanded slightly YoY from 4.1% to 5.2% on back of a strong 50% topline growth.
- Orderbook towers new highs.** WCT has managed to secure RM521m in new job wins YTD. Coupled with its record contract wins last year at RM3bn, this has propelled its orderbook to a new high of RM4.3bn. This implies a strong over ratio of 3.7x on FY15 construction revenue.

Risks

- WCT's net gearing is high at 81% while earnings delivery lacks consistency from quarter to quarter.

Forecasts

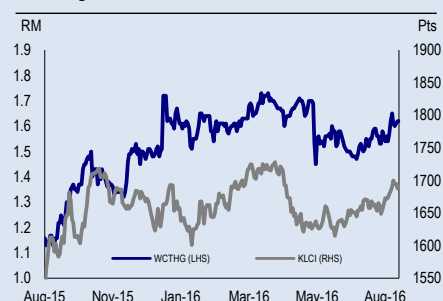
- As the results were inline, we retain our FY16 earnings forecast.
- WCT will host an analyst briefing this morning.

Rating
Maintain BUY, TP: RM2.12
Valuation

- Our SOP based TP of RM2.12 implies FY16 P/E of 22x but this reduces to a more palatable 16x for FY17 once earnings momentum gains further traction.
- WCT is also backed by its landbank which has a net surplus value of RM1.6bn translating to RM1.31/share.

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KLCI	1683.1
Expected share price return	33.3%
Expected dividend return	3.0%
Expected total return	36.4%

Share price

Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,249
Market cap (RM m)	1,986
3-mth avg. volume ('000)	1,480
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	-0.6	-9.4	30.7
Relative	1.0	-9.1	26.3

Major shareholders

WCT Capital	19.7%
Lembaga Tabung Haji	10.2%
Employees Provident Fund	7.2%

Summary Earnings Table

FYE Dec (RM m)	FY15	FY16F	FY17F	FY18F
Revenue	1,668	1,969	2,521	2,676
EBITDA	138	191	255	278
EBIT	130	182	245	268
Profit Before Tax	102	166	229	253
Core PATAMI	50	120	166	184
vs Consensus (%)		(15)	(3)	(6)
Core EPS (sen)	4.0	9.6	13.3	14.7
P/E (x)	40.0	16.5	12.0	10.8
Net DPS (sen)	4.9	4.8	6.6	7.3
Net DY (%)	3.1	3.0	4.2	4.6
BV per share	2.09	2.14	2.20	2.28
P/B (x)	0.8	0.7	0.7	0.7
ROE (%)	2.0	4.6	6.1	6.6
Net Gearing (%)	79.3	75.4	76.9	76.9

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY16	2QFY15	1QFY16	YoY (%)	QoQ (%)	Comments
Revenue	581.1	422.3	485.0	37.6	19.8	Largely driven by construction (YoY: +50%, QoQ: +33%) as execution on its sizable orderbook progresses.
EBIT	43.9	28.9	52.6	51.9	(16.6)	YoY: Higher due to low base effect. QoQ: Lower due to margin compression.
Finance cost	(12.8)	(19.4)	(13.4)	(34.2)	(4.9)	
Associates & JVs	8.5	9.7	9.2	(12.6)	(7.6)	
PBT	39.5	19.1	48.3	106.5	(18.2)	
PAT	21.8	4.3	33.3	406.5	(34.5)	
PATMI - core	21.8	6.4	32.0	240.4	(31.8)	
PATMI - reported	32.1	31.1	8.8	3.3	263.4	Includes forex gains of RM10m.
EPS - core	1.7	0.5	2.6			
EBIT margin	7.5	6.8	10.8			QoQ margin compression as larger proportion of older jobs with low margins was recognised.
PBT margin	6.8	4.5	10.0			

Company, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	6MFY16	6MFY15	YoY (%)	Comments
Revenue	1,066.0	773.9	37.7	Higher due to pick up in orderbook recognition.
EBIT	96.5	69.7	38.4	Inline with topline growth.
Finance cost	(26.2)	(39.4)	(33.5)	
Associates & JVs	17.6	13.2	33.8	
PBT	87.9	43.4	102.3	
PAT	55.0	19.1	187.6	
PATMI - core	53.8	21.2	154.1	Made up 45% of full year forecast.
PATMI - reported	40.9	64.3	(36.4)	Includes forex loss of RM13m.
EPS - core	4.3	1.7		
EBIT margin	9.0	9.0		Higher YoY given low base in FY15.
PBT margin	8.2	5.6		

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Figure #3 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Mid CY17 earnings	120	14	1,675	1.01
Gateway@klia2 based on DCF	237	5.1%	166	0.10
Paradigm Mall based on cap rate	329	7.0%	231	0.14
Premiere Hotel Klang based on DCF	185	8.5%	185	0.11
Undeveloped surplus land value at 70% discount			490	0.30
Cash proceeds from warrants			772	0.47
Sum of Parts (SOP) Value			3,518	2.12

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Financial Projections for WCT Holdings

Balance Sheet

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Cash	951	524	481	325	205
Receivables	2,223	2,365	2,463	2,811	2,908
Inventories	91	154	117	150	158
PPE	236	288	299	310	320
Investment properties	738	883	927	973	1,022
Associates & JVs	528	664	664	664	664
Others	1,461	1,874	2,002	2,081	2,162
Assets	6,227	6,752	6,953	7,314	7,439
Debts	2,431	2,593	2,493	2,443	2,393
Payables	1,461	1,458	1,698	2,025	2,108
Others	49	54	55	56	57
Liabilities	3,940	4,105	4,246	4,524	4,557
Shareholder's equity	2,234	2,610	2,670	2,753	2,845
Minority interest	53	37	37	37	37
Equity	2,287	2,647	2,707	2,790	2,882

Cash Flow Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Profit before taxation	111	102	166	229	253
Depreciation & amortisation	8	8	9	10	10
Changes in working capital	132	(271)	179	(53)	(24)
Taxation	(28)	(55)	(46)	(63)	(70)
Others	(611)	(270)	34	(125)	(128)
CFO	(389)	(486)	343	(3)	41
Net capex	28	(61)	(20)	(20)	(20)
Others	119	(135)	-	-	-
CFI	146	(195)	(20)	(20)	(20)
Changes in borrowings	508	163	(100)	(50)	(50)
Dividends paid	(72)	(61)	(60)	(83)	(92)
Others	(118)	(4)	-	-	-
CFF	319	97	(160)	(133)	(142)
Net cash flow	76	(584)	(43)	(155)	(120)
Forex	1	38	-	-	-
Others	(100)	119	-	-	-
Beginning cash	973	951	524	481	325
Ending cash	951	524	481	325	205

Income Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	1,662	1,668	1,969	2,521	2,676
EBITDA	164	138	191	255	278
EBIT	155	130	182	245	268
Finance cost	(60)	(58)	(48)	(49)	(48)
Associates & JV	15	30	32	33	34
Profit before tax	111	102	166	229	253
Tax	(28)	(55)	(46)	(63)	(70)
Net profit	82	47	120	166	184
Minority interest	2	2	-	-	-
PATMI (core)	84	50	120	166	184
Exceptionals	39	160	-	-	-
PATMI (reported)	123	209	120	166	184

Valuation & Ratios

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Core EPS (sen)	6.7	4.0	9.6	13.3	14.7
P/E (x)	23.6	40.0	16.5	12.0	10.8
EV/EBITDA (x)	25.5	30.3	21.8	16.4	15.0
DPS (sen)	5.8	4.9	4.8	6.6	7.3
Dividend yield	3.6	3.1	3.0	4.2	4.6
BVPS (RM)	1.79	2.09	2.14	2.20	2.28
P/B (x)	0.9	0.8	0.7	0.7	0.7
EBITDA margin	9.8%	8.3%	9.7%	10.1%	10.4%
EBIT margin	9.4%	7.8%	9.2%	9.7%	10.0%
PBT margin	6.7%	6.1%	8.4%	9.1%	9.5%
Net margin	5.1%	3.0%	6.1%	6.6%	6.9%
ROE	3.8%	2.0%	4.6%	6.1%	6.6%
ROA	1.4%	0.8%	1.8%	2.3%	2.5%
Net gearing	66.2%	79.3%	75.4%	76.9%	76.9%

Assumptions

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Contracts secured	993	2,987	1,000	1,000	1,000
Property sales	461	373	350	400	450

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.