

**WCT Holdings (BUY  $\leftrightarrow$ ; EPS  $\leftrightarrow$ )**
**INDUSTRY: OVERWEIGHT**
**COMPANY INSIGHT**
**25 August 2016**
**Price Target: RM2.12 ( $\leftrightarrow$ )**
**Share price: RM1.60**
**Further improvement ahead**
**Highlights**

- **Results explained.** We attended WCT's 2QFY16 investor's briefing which was hosted by its Executive Director, Kenny Wong. To recap, 1HFY15 core earnings of RM54m (+154% YoY) were within expectations. Construction EBIT margin contracted QoQ from 7.1% to 3.8% due to (i) recognition of up front M&E cost of the My Town Shopping Centre and (ii) lower proportion of infra works recognised which carries higher margins vs building jobs. Effective tax rate for the quarter was exceptionally high at 45% due to capitalised interest cost which is non-tax deductible. Management guides for a stronger 2H once contribution from infra (mostly secured last year) gains further traction.
- **Orderbook remains sizable.** WCT's orderbook remains sizable at RM3.8bn, implying a healthy 3.3x cover on FY15 construction revenue. Management maintains its RM2bn orderbook replenishment target for FY16 (26% achieved) but our target is more conservative at RM1bn. Management shared that it is no longer in the running for the SUKE and DASH highways as they were mostly awarded to smaller unlisted contractors. WCT has bid for 2 building jobs collectively worth RM1.5bn. It has also tendered for the MRT2 package from Bandar Malaysia to Kg Muhibbah (V204) and prequalified for the LRT3. In Qatar, WCT is in the midst of preparing tenders for several highways.
- **Soft property sales.** WCT's unbilled property sales stands at RM529m (1.6x cover on FY15 property revenue). 1H sales came in at RM207m, declining -14% YoY. While management is holding on to its RM600m sales target for FY16, we reckon that our assumption of RM350m (59% achieved) would appear to be more realistic.
- **De-gearing still in focus.** WCT has re-evaluated its de-gearing plans which will now be centred on (i) monetization of its buildings (e.g. The Ascent and Paradigm Service Apartments) which will raise RM500m and (ii) REIT-ing its investment properties with estimated net proceeds of RM720m. The previously mentioned de-gearing plans such as private placement, land sale and listing of its construction arm have been temporarily put on hold.

**Risks**

- Derailing of its de-gearing plans.

**Forecasts**

- No changes to forecast as the results were inline and the briefing yielded no significant surprises.

**Rating**
**Maintain BUY, TP: RM2.12**

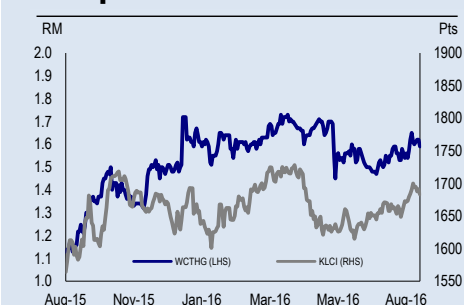
- We expect WCT's earnings to see a reversal of fortunes this year, underpinned by its sizable orderbook. Successful de-gearing is another potential catalyst.

**Valuation**

- Our SOP based TP of RM2.12 implies FY16 P/E of 22x but this reduces to 16x in FY17 once earnings kick in.
- Valuation is also backed by RM1.6bn in net surplus value of its land (RM1.31/share).

**Jeremy Goh, CFA**
[pwgoh@hlib.hongleong.com.my](mailto:pwgoh@hlib.hongleong.com.my)
**(603) 2168 1138**

KLCI	1682.1
Expected share price return	32.5%
Expected dividend return	3.0%
Expected total return	35.5%

**Share price**

**Information**

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,249
Market cap (RM m)	1,999
3-mth avg. volume ('000)	1,500

**Price Performance**

	1M	3M	12M
Absolute	3.2	-5.3	41.7
Relative	2.4	-8.2	31.8

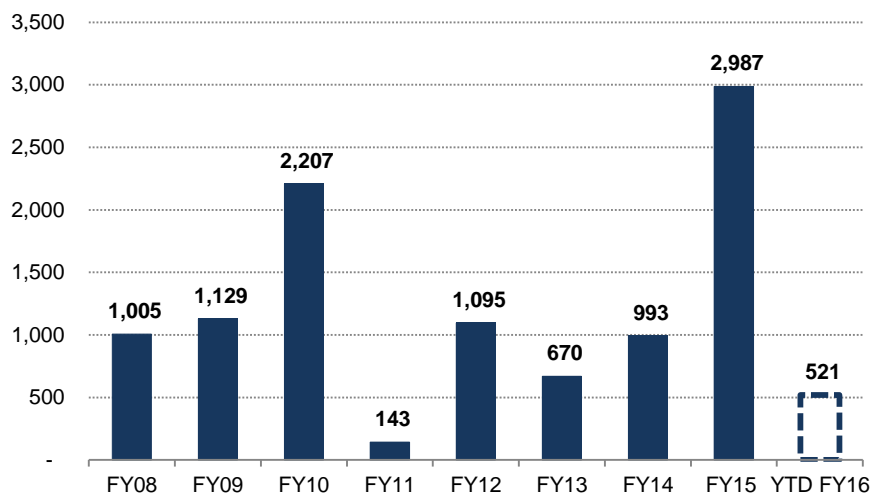
**Major shareholders**

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)	40.3	16.6	12.1	10.9
Net DPS (sen)	4.9	4.8	6.6	7.3
Net DY (%)	3.1	3.0	4.1	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

HLIB

**Figure #1 Annual orderbook replenishment of WCT (RM m)**

Announcements to Bursa

**Figure #2 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
<b>Sum of Parts (SOP) Value</b>			<b>3,518</b>	<b>2.12</b>

HLIB estimates

## 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
<b>Assets</b>	<b>6,227</b>	<b>6,752</b>	<b>6,953</b>	<b>7,314</b>	<b>7,439</b>
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
<b>Liabilities</b>	<b>3,940</b>	<b>4,105</b>	<b>4,246</b>	<b>4,524</b>	<b>4,557</b>
Shareholder's equity	2,234	2,610	2,670	2,753	2,845
Minority interest	53	37	37	37	37
<b>Equity</b>	<b>2,287</b>	<b>2,647</b>	<b>2,707</b>	<b>2,790</b>	<b>2,882</b>

## 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)	(171)	(125)	(128)
<b>CFO</b>	<b>(389)</b>	<b>(486)</b>	<b>137</b>	<b>(3)</b>	<b>41</b>
Net capex	28	(61)	(20)	(20)	(20)
Others	119	(135)	-	-	-
<b>CFI</b>	<b>146</b>	<b>(195)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>
Changes in borrowings	508	163	(100)	(50)	(50)
Dividends paid	(72)	(61)	(60)	(83)	(92)
Others	(118)	(4)	-	-	-
<b>CFF</b>	<b>319</b>	<b>97</b>	<b>(160)</b>	<b>(133)</b>	<b>(142)</b>
<b>Net cash flow</b>	<b>76</b>	<b>(584)</b>	<b>(43)</b>	<b>(155)</b>	<b>(120)</b>
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
<b>Revenue</b>	<b>1,662</b>	<b>1,668</b>	<b>1,969</b>	<b>2,521</b>	<b>2,676</b>
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
<b>Profit before tax</b>	<b>111</b>	<b>102</b>	<b>166</b>	<b>229</b>	<b>253</b>
Tax	(28)	(55)	(46)	(63)	(70)
<b>Net profit</b>	<b>82</b>	<b>47</b>	<b>120</b>	<b>166</b>	<b>184</b>
Minority interest	2	2	-	-	-
<b>PATMI (core)</b>	<b>84</b>	<b>50</b>	<b>120</b>	<b>166</b>	<b>184</b>
Exceptionals	39	160	-	-	-
PATMI (reported)	123	209	120	166	184

## Valuation &amp; 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)	23.8	40.3	16.6	12.1	10.9
EV/EBITDA (x)	25.6	30.4	21.9	16.4	15.1
DPS (sen)	5.8	4.9	4.8	6.6	7.3
Dividend yield	3.6	3.1	3.0	4.1	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

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 25 August 2016, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 25 August 2016, the analyst, Jeremy Goh, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

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

## Industry rating definitions

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