

## COMPANY UPDATE

### WCT Holdings (WCTHG MK)

Construction Earnings To Improve in 2H16

**WCT's 2Q16 results briefing centred on potential orderbook replenishment target, changes to its asset monetisation strategies and the potential rise in property sales. Results for 2H16 should play a bigger role as the company expects progress billings for higher-margin infrastructure jobs to kick in. Maintain BUY with a target price of RM2.05, implying 16x 2017F PE.**

#### WHAT'S NEW

- **Recap of 2Q16 results.** WCT Holdings (WCT) reported 2Q16 net profit of RM32m (+>263% qoq, +3.1% yoy), on revenue of RM581.1m (+19.8% qoq, +37.6% yoy). Excluding unrealised forex gains of RM10.3m, core net profit was RM21.8m (-31.9% qoq, +239.5% yoy), lifting 1H16 core net profit to RM53.7m (+163% yoy), or about 34% and 38% of our and consensus estimates respectively. We deem the results in line as we expect WCT to record stronger subsequent quarters as construction billings will pick up in 2H16 for contracts that were secured in 2H15 begin to contribute.
- **Construction and asset monetisation the key focus.** Its post results briefing centred on the outlook for its construction and property divisions and the progress in its potential asset monetisation exercise. The company is eyeing highway-related construction jobs which are expected to be out for tender by this year-end. As for the unlocking of value for its landbank, the group has yet to identify a suitable partner. Other asset monetisation exercises include the sale of investment properties that are not part of the REIT, including The Ascent office tower and other smaller property assets valued at RM500m collectively.

#### STOCK IMPACT

- **More assets that could be sold.** WCT plans to monetise The Ascent in the near term. The 30-storey office tower is valued at RM249m (based on WCT's 70% stake). Assuming the tower is sold at book value, cash proceeds would be around RM133m. Other potential assets that could be sold include an en bloc sale of a serviced apartment block as well as a commercial building in Pandan Indah which are collectively valued at around RM120m. Assuming these assets are sold, WCT could rake in net cash of up to RM432m, which would bring down its net gearing ratio to 0.63x (from 0.79x).

#### 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	151	175	181
Net profit (adj.)	91	109	151	175	181
EPS (sen)	7.3	7.8	10.6	12.1	12.5
PE (x)	21.9	20.5	15.1	13.2	12.8
P/B (x)	0.9	0.8	0.8	0.8	0.7
EV/EBITDA (x)	19.7	30.4	13.9	12.0	11.5
Dividend yield (%)	1.4	1.3	1.5	1.8	1.9
Net margin (%)	7.1	12.8	6.6	6.9	6.7
Net debt/(cash) to equity (%)	66.4	78.9	70.1	67.2	63.7
Interest cover (x)	3.0	3.0	4.1	4.2	4.3
ROE (%)	5.4	8.8	5.6	6.2	6.1
Consensus net profit	-	-	138	166	188
UOBKH/Consensus (x)	-	-	1.09	1.05	0.96

Source: WCT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.60
Target Price	RM2.05
Upside	+28.1%

#### COMPANY DESCRIPTION

Construction company with a growing focus on property development.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WCTHG MK
Shares issued (m):	1,249.2
Market cap (RMm):	1,998.8
Market cap (US\$m):	494.7
3-mth avg daily t'over (US\$m):	0.6

#### Price Performance (%)

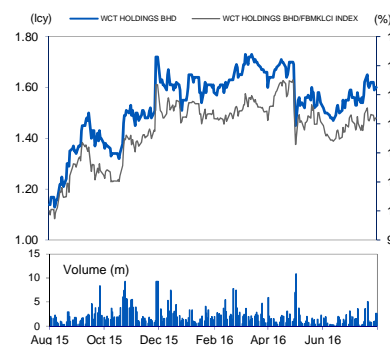
52-week high/low			RM1.73/RM1.13	
1mth	3mth	6mth	1yr	YTD
3.2	(5.9)	0.0	38.1	(0.6)

#### Major Shareholders

	%
WCT Capital	20.1
Lembaga Tabung Haji	10.2
Employees Provident Fund	9.0

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

#### PRICE CHART



Source: Bloomberg

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- **Construction tender book at around RM1.5b.** Presently, the group has a tender book of about RM1.5b, which includes highway-related jobs and a viaduct package from Mass Rapid Transit 2 (MRT2). Bids for the SUKE and DASH Expressway were unsuccessful for most listed contractors, including WCT. As for highway jobs, the group is now aiming for subsequent packages of the West Coast Expressway (WCE), subcontracting works for the Pan Borneo Highway and the Jalan Tun Razak Traffic dispersal scheme, which tenders have begun.
- **Construction earnings supported by a RM3.8b orderbook backlog.** WCT has an outstanding orderbook of about RM3.8b, which are primarily infrastructure-related jobs (accounting for about 62% of outstanding orderbook). Earnings recognition for these jobs are to gain prominence in 2H16 when we expect construction revenue to be strong with higher margins to be recorded.
- **Property sales target of RM600m maintained.** Ytd, WCT has secured about RM207m in property sales, which represent about 35% of its full-year target. Conversion of bookings into sales has been a key hurdle, given the tight lending policies by banks. For the rest of the year, WCT expects RM40m-50m to be converted from the Paradigm Garden City and the potential en bloc sale of a serviced apartment within its Paradigm City Kelana Jaya. We do not expect this segment to make a strong recovery this year, but decent earnings momentum would be supported by RM529m of unbilled sales, which represent about 2.4x our 2016 property development revenue estimate.
- Foreign shareholdings stood at 12.47% as of 29 Jul 16, flat from last quarter's 12.54%.

### EARNINGS REVISION/RISK

- We reduce our 2016-18 net profit estimates by 4.6%, 3.9% and 4.2% respectively as we assume a higher effective tax rate as the group has moved to capitalize its interest costs for its property developments which are not tax deductible.
- We expect 2H16 net profit to be significantly stronger at RM40m-50m per quarter as progress billings for the infrastructure contracts intensify.
- Major risks include execution risk, weaker property sales due to recent regulatory changes, and rising raw material prices.

### VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of RM2.05.** Our target price is 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 large construction orders, and embarking on asset monetisation strategies which would pare down its gearing. Despite the uncertain timeline, receiving the Dubai arbitration settlement sum will be a key catalyst.
- WCT was reported to be planning to raise RM100m via a private placement to cover the shortfall in the conversion of Warrant C. However, we understand that the plan has been temporarily shelved for now as it is confident of raising cash via the RM500m asset sale mentioned above.

### SHARE PRICE CATALYST

- Securing of new construction jobs.
- Rising 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

Source: UOB Kay Hian

### OUTSTANDING CONSTRUCTION ORDERBOOK

	(RMm)
<b>Gulf States</b>	<b>647</b>
Lusail Development Project, Qatar	642
Others	5
<b>Malaysia – Infrastructure</b>	<b>2,353</b>
TRX (Infrastructure & Roadways)	738
Pan Borneo Highway	387
RAPID (Package 14-0401)	314
West Coast Expressway	283
RAPID (Petchem interconnecting)	262
Others	369
<b>Malaysia – Building</b>	<b>814</b>
RAPID	298
My TOWN Shopping Centre	193
Putrajaya Commercial Centre	166
Police quarters at Taman Keramat, Gombak	131
Others	26
<b>TOTAL</b>	<b>3,814</b>

Source: WCT Holdings, UOB Kay Hian

### POTENTIAL ASSET MONETISATION

- Sale of investment properties
  - Valuation: RM500m
  - Proceeds: RM432m
- Launch of WCT Reit
  - Valuation: RM1.2b
  - Proceeds: RM720m

Source: WCT Holdings, UOB Kay Hian

### 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)
<b>Pre-tax profit</b>	<b>272</b>	<b>222</b>	<b>254</b>	<b>263</b>
Tax	(55)	(55)	(64)	(66)
Minorities	(2)	(15)	(16)	(17)
<b>Net profit</b>	<b>214</b>	<b>151</b>	<b>175</b>	<b>181</b>
Net profit (adj.)	109	151	175	181

### 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	673	662	675
Other current assets	2,174	2,788	2,879	2,929
<b>Total assets</b>	<b>6,762</b>	<b>7,380</b>	<b>7,617</b>	<b>7,832</b>
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	2,738	2,873	3,013
Minority interest	37	37	37	37
<b>Total liabilities &amp; equity</b>	<b>6,762</b>	<b>7,380</b>	<b>7,617</b>	<b>7,832</b>

### CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
<b>Operating</b>	<b>(555)</b>	<b>333</b>	<b>178</b>	<b>204</b>
Pre-tax profit	272	222	254	263
Tax	(60)	(55)	(64)	(66)
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
<b>Investing</b>	<b>(136)</b>	<b>(150)</b>	<b>(150)</b>	<b>(150)</b>
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
<b>Financing</b>	<b>205</b>	<b>(34)</b>	<b>(39)</b>	<b>(41)</b>
Dividend payments	(23)	(34)	(39)	(41)
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
<b>Net cash inflow (outflow)</b>	<b>(485)</b>	<b>149</b>	<b>(11)</b>	<b>13</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>944</b>	<b>524</b>	<b>673</b>	<b>662</b>
Changes due to forex impact	65	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>524</b>	<b>673</b>	<b>662</b>	<b>675</b>

### KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
<b>Profitability</b>				
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	6.6	6.9	6.7
ROA	3.3	2.1	2.3	2.3
ROE	8.8	5.6	6.2	6.1
<b>Growth</b>				
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)	14.6	3.6
Net profit	80.2	(29.4)	15.6	3.5
Net profit (adj.)	20.1	39.0	15.6	3.5
EPS	6.9	35.5	14.5	3.3
<b>Leverage</b>				
Debt to total capital	49.4	48.3	47.1	46.0
Debt to equity	99.0	94.7	90.3	86.1
Net debt/(cash) to equity	78.9	70.1	67.2	63.7
Interest cover (x)	3.0	4.1	4.2	4.3

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