

# WCT Holdings (HOLD ↔; EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

19 January 2017

Price target: RM1.97 (↓)

Share price: RM1.88

## Fund raising via placement

### News

- **Proposes private placement.** WCT announced that it will be undertaking a placement of up to 125m new shares, representing c.10% of its existing share base (ex. treasury shares).
- **Utilisation of proceeds.** Based on its assumed indicative issue price of RM1.70 (9.6% discount to yesterday's close of RM1.88), the placement will raise RM212.5m. This will be utilised for repayment of borrowings (RM80m), working capital (RM130m) and placement related expenses (RM2.5m).

### Comments

- **Not entirely surprising.** Prior to the changes in WCT's major shareholders last year, management guided that it was likely to embark on a placement exercise as part of its de-gearing plans.
- **Little room for more debt.** As of 3QFY16, WCT's net gearing stood at 88%. Given this high level, we feel that its funding is constrained to equity sources rather than debt. The funds will be needed for working capital related to some of its newly secured sizable jobs such as the MRT2 (RM896m), Pan Borneo Highway (RM389m), several packages at RAPID and development cost for Paradigm Mall JB, Lead Residence Klang and Waltz Residence KL.
- **Impact to net gearing.** Based on our estimates, the placement is expected to reduce WCT's net gearing from 88% (3QFY16) to 75% on a proforma basis.

### Risks

- The key risks are its inconsistency in earnings delivery from quarter to quarter and high net gearing (88%).

### Forecasts

- We leave our forecast unchanged for now pending more clarity on the timeline for the completion of the placement exercise (submission to Bursa within 3 months and completion within 6 months of approval).
- As an indication, assuming the placement is completed this year, the full year impact to FY18 EPS would be a 7% dilution. While EPS would be diluted by the 10% placement, this is partially offset by some interest savings (estimated at RM4m) following some debt repayment from the proceeds.

### Rating

**Maintain HOLD, TP: RM1.97**

- Contrary to earlier expectations, management's guidance on WCT's new strategic direction seemed to be a status quo rather than a value creating change following the changes in its major shareholders in Nov 2016. As such, we fail to see an eventual near term re-rating with an unchanged strategic direction coupled with continued results inconsistency.

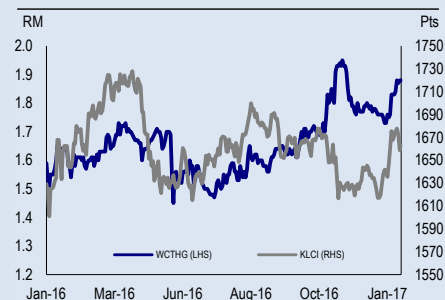
### Valuation

- Our SOP based TP is lowered slightly from RM1.99 to RM1.97 as we factor dilution from the placement which is partially offset by the cash infusion from its proceeds. This implies FY17-18 P/E of 17x and 14.6x respectively.

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KLCI	1665.0
Expected share price return	4.8%
Expected dividend return	2.1%
Expected total return	6.9%

### Share price



### Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,254
Market cap (RM m)	2,357
3-mth avg. volume ('000)	4,073
SC Syariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	6.2	9.3	18.2
Relative	4.3	9.5	15.7

### Major shareholders

Tan Sri Desmond Lim	19.6%
Lembaga Tabung Haji	9.9%
Employees Provident Fund	8.0%

### Summary Earnings Table

FYE Dec (RM m)	FY15A	FY16E	FY17F	FY18F
Revenue	1,668	1,969	2,521	2,676
EBITDA	138	163	226	258
EBIT	130	153	217	248
Profit Before Tax	102	137	200	233
Core PATAMI	50	100	145	169
vs Consensus (%)		(16)	(8)	(4)
Core EPS (sen)	4.0	7.9	11.6	13.5
P/E (x)	47.5	23.7	16.2	13.9
Net DPS (sen)	4.9	4.0	5.8	6.7
Net DY (%)	2.6	2.1	3.1	3.6
BV per share	2.08	2.12	2.18	2.25
P/B (x)	0.9	0.9	0.9	0.8
ROE (%)	2.0	3.8	5.4	6.1
Net Gearing (%)	79.3	75.4	77.6	78.2

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**Figure #1 Impact to net gearing**

Impact to net gearing	RM m
Cash and bank balances	379
ST debt	(587)
LT debt	(2,182)
Net cash/ (debt)	(2,390)
Add: Proceeds from placement	213
<b>Proforma net cash/ (debt) after placement</b>	<b>(2,178)</b>
Current shareholder's equity (3QFY16)	2,708
<b>Current net gearing</b>	<b>-88%</b>
Proforma shareholder's equity post placement	2,921
<b>Proforma net gearing post placement</b>	<b>-75%</b>

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**Figure #2 SOP valuation for WCT**

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY17 earnings	121	12	1,457	0.82
Gateway@klia2 based on DCF	237	5.1%	166	0.09
Paradigm Mall based on cap rate	329	7.0%	231	0.13
Premiere Hotel Klang based on DCF	185	8.5%	185	0.10
Undeveloped surplus land value at 70% discount			490	0.28
Cash proceeds from warrants and placement			984	0.55
<b>Sum of Parts (SOP) Value</b>			<b>3,513</b>	<b>1.97</b>

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## Financial Projections for WCT Holdings

### Balance Sheet

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Cash	951	524	488	322	189
Receivables	2,223	2,365	2,463	2,811	2,908
Inventories	91	154	119	152	160
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>6,962</b>	<b>7,313</b>	<b>7,425</b>
Debts	2,431	2,593	2,493	2,443	2,393
Payables	1,461	1,458	1,718	2,045	2,121
Others	49	54	55	56	57
<b>Liabilities</b>	<b>3,940</b>	<b>4,105</b>	<b>4,265</b>	<b>4,544</b>	<b>4,571</b>
Shareholder's equity	2,234	2,610	2,660	2,733	2,817
Minority interest	53	37	37	37	37
<b>Equity</b>	<b>2,287</b>	<b>2,647</b>	<b>2,697</b>	<b>2,769</b>	<b>2,854</b>

### Cash Flow Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Profit before taxation	111	102	137	200	233
Depreciation & amortisation	8	8	9	10	10
Changes in working capital	132	(271)	196	(54)	(29)
Taxation	(28)	(55)	(38)	(55)	(64)
Others	(611)	(270)	(171)	(125)	(128)
<b>CFO</b>	<b>(389)</b>	<b>(486)</b>	<b>134</b>	<b>(23)</b>	<b>22</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)	(50)	(73)	(85)
Others	(118)	(4)	-	-	-
<b>CFF</b>	<b>319</b>	<b>97</b>	<b>(150)</b>	<b>(123)</b>	<b>(135)</b>
<b>Net cash flow</b>	<b>76</b>	<b>(584)</b>	<b>(36)</b>	<b>(166)</b>	<b>(133)</b>
Forex	1	38	-	-	-
Others	(100)	119	-	-	-
Beginning cash	973	951	524	488	322
Ending cash	951	524	488	322	189

### 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	163	226	258
EBIT	155	130	153	217	248
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>137</b>	<b>200</b>	<b>233</b>
Tax	(28)	(55)	(38)	(55)	(64)
<b>Net profit</b>	<b>82</b>	<b>47</b>	<b>100</b>	<b>145</b>	<b>169</b>
Minority interest	2	2	-	-	-
<b>PATMI (core)</b>	<b>84</b>	<b>50</b>	<b>100</b>	<b>145</b>	<b>169</b>
Exceptionals	39	160	-	-	-
PATMI (reported)	123	209	100	145	169

### Valuation & Ratios

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Core EPS (sen)	6.7	4.0	7.9	11.6	13.5
P/E (x)	28.0	47.5	23.7	16.2	13.9
EV/EBITDA (x)	29.2	34.7	29.4	21.2	18.6
DPS (sen)	5.8	4.9	4.0	5.8	6.7
Dividend yield	3.1	2.6	2.1	3.1	3.6
BVPS (RM)	1.78	2.08	2.12	2.18	2.25
P/B (x)	1.1	0.9	0.9	0.9	0.8
EBITDA margin	9.8%	8.3%	8.3%	9.0%	9.6%
EBIT margin	9.4%	7.8%	7.8%	8.6%	9.3%
PBT margin	6.7%	6.1%	7.0%	7.9%	8.7%
Net margin	5.1%	3.0%	5.1%	5.8%	6.3%
ROE	3.8%	2.0%	3.8%	5.4%	6.1%
ROA	1.4%	0.8%	1.5%	2.0%	2.3%
Net gearing	66.2%	79.3%	75.4%	77.6%	78.2%

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