



AmInvestment Bank

Company report

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WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

CONSTRUCTION

23 Jan 2017

Straight From The New Team

HOLD

(Maintained)

Rationale for report: Company update

Price	RM1.79
Fair Value	RM1.86
52-week High/Low	RM1.98/RM1.41

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	107.2	179.0	187.2
FD Core EPS (sen)	9.6	8.8	13.1	13.6
FD Core EPS growth (%)	5.9	(7.8)	48.5	3.7
Consensus Net Profit (RM mil)	-	118.7	158.0	176.1
DPS (sen)	3.0	4.0	5.0	5.0
PE (x)	18.7	20.3	13.7	13.2
EV/EBITDA (x)	31.3	21.7	14.5	13.7
Div yield (%)	1.6	2.1	2.6	2.6
ROE (%)	9.0	4.0	6.5	6.5
Net Gearing (%)	79.0	78.5	74.2	69.7

Stock and Financial Data

Shares Outstanding (million)	1,249.2
Market Cap (RMmil)	2,236.1
Book Value (RM/share)	2.18
P/BV (x)	0.8
ROE (%)	9.0
Net Gearing (%)	79.0

Major Shareholders	Tan Sri Desmond Lim (19.7%) Lembaga Tabung Haji (10.2%) EPF (7.9%)
Free Float	38.5
Avg Daily Value (RMmil)	7.7

Price performance	3mth	6mth	12mth
Absolute (%)	5.3	15.5	15.5
Relative (%)	5.6	15.0	12.7



Investment Highlights

- We maintain our HOLD call, forecasts and FV of RM1.86 (Exhibit 1), following our recent meeting (in fact, the first) with WCT's new management after the recent takeover by Tan Sri Desmond Lim.
- The key takeaways from our meeting are:
 1. The places for the recently proposed placement of up to 10% new WCT new shares are likely to be "strategic investors";
 2. WCT is disposing of Paradigm Mall and BBT Shopping Mall to a REIT for cash – it is giving up the ownership of the assets entirely and is unlikely to hold any meaningful stake, if at all, in the REIT;
 3. The new management is putting WCT's existing landbank under review - land parcels considered "non-strategic" (those located in the Klang Valley outskirts, including in Klang) will be sold;
 4. The development plan (including timing of launches and product types) for the 60-acre land in OUG, Kuala Lumpur, will be revised to ensure that it will not pose direct competition to the nearby Bukit Jalil City, which is being developed by sister company Malton;
 5. WCT will indeed be turned into the flagship public-listed property development company of Tan Sri Desmond Lim, and Malton and his private business ventures including Pavilion Kuala Lumpur and Pavilion Damansara Heights will eventually be brought into WCT's fold; and
 6. The plan for a separate listing for the construction unit is still intact, but not a priority now.
- We believe the de-gearing exercise via the asset disposal is positive, but at the expense of foregoing prized assets. The consolidation of Malton and Tan Sri Desmond Lim's private business ventures into WCT could potentially double its market capitalisation to above RM4bil, making WCT even more investable.
- However, the devil is in the details. We believe it is too premature to tell if the corporate exercises in the pipeline will be value-enhancing to WCT's existing shareholders, as that depends largely on the structure and pricing of the assets and new shares to be issued pursuant to the corporate exercises.

PLACEMENT OF 10% NEW SHARES

WCT last week announced a proposed placement of up to 125mil new WCT shares, which is equivalent to about 10% of its existing share base, at an indicative issue price of RM1.70/share. We understand that the mandate had already been in place prior to the entrance of the new controlling shareholder.

The RM210mil in net proceeds will be utilised to pare down borrowings, as well as to fund working capital of its construction and property projects. We understand that the new equity will help to improve its gearing ratios, which will in turn help ease pressure on the credit ratings of WCT's various debt instruments.

Based on our estimates, the proceeds will reduce WCT's net debt and gearing of RM2.4bil and 0.88x as at end-3QFY16, to RM2.2bil and 0.75x respectively, while the new shares will dilute its FY17F EPS by 4.9%.

We understand that the target placees will primarily be "strategic investors" who are parties "friendly" to the controlling shareholder. WCT does not rule out the possibility that the new shares may also go to institutional investors, or even the controlling shareholder himself.

DISPOSAL OF MALLS

The new management is of the same view with the previous management that the disposal of shopping malls will be an integral part of WCT's de-gearing exercise. The key difference is the new management advocates an outright sale of the shopping malls (to a buyer/REIT that can offer the best prices), vis-a-vis a partial disposal via the injection of the shopping malls to a new REIT (in exchange for units in the REIT) as proposed by the previous management. WCT hopes to kick start the transaction within the next six months.

Given the common controlling shareholder, the market naturally expects Pavilion REIT to emerge the buyer for WCT's shopping malls, i.e. Paradigm Mall in Petaling Jaya (NBV of RM729mil as at 31 Dec 2015, 70%-owned) and BBT Shopping Mall in Klang (NBV of RM442mil as at 31 Dec 2015, wholly-owned). WCT will leave its third existing mall, i.e. Gateway@KLIA2 as it is due to various title issues.

DISPOSAL OF LAND

The new management is putting WCT's existing landbank under review, and is prepared to part with land parcels that are considered "non-strategic" if the prices are right. These include those located in Klang Valley outskirts such as Bandar Bukit Tinggi in Klang, Rawang and Serendah, which we estimate have a total market value in excess of RM1bil (see Exhibit 1). However, it will retain those in the

heart of the Klang Valley comprising the 60-acre land in OUG and 2-acre plot in TRX.

GOING SLOW ON OUG LAND

Under the new management, WCT's mixed development project on 60-acre prime land in OUG, Kuala Lumpur, will shift to a lower gear. From the standpoint of the controlling shareholder, it makes no sense to put onto the market, at the same time, two multi-billion ringgit integrated property projects in close proximity to each other, and both anchored by a huge retail mall.

Integrated property project Bukit Jalil City (anchored by Pavilion Bukit Jalil shopping mall) developed by sister company Malton is located less than 5km away, and is already in fairly advanced stages of construction.

On the other hand, the new management is mindful of the substantial holding cost for the OUG land. We estimate that the carrying value of the land has ballooned to about RM700mil (from the initial acquisition cost of RM450mil in 2012) after incurring various development costs and settling the conversion premium. We understand that the new management is toying with the idea of launching shop houses on certain parts of the land in order to bring in some immediate cashflow.

WCT TO BECOME LIM'S FLAGSHIP PLC

Consistent with market speculation, controlling shareholder Tan Sri Desmond Lim does have the intention to turn WCT into his flagship public-listed property development company.

We understand that the new management has already started to explore options to bring Tan Sri Desmond Lim's other public-listed company, i.e. Malton, and private business ventures (including upscale integrated property developments Pavilion Kuala Lumpur and Pavilion Damansara Heights) into WCT's fold. We estimate that these entities have a combined equity value of at least RM2bil, which is comparable to WCT's current market capitalisation of RM2.2bil.

A SEPARATE LISTING FOR CONSTRUCTION

The new management said that the plan to list the construction unit is still intact but the priorities would be the asset disposals and the consolidation of Tan Sri Desmond Lim's businesses under WCT.

It believes the division should focus on delivering its order backlog of RM4.8bil (Exhibit 2) at present, as well as improving its overall margins, by pursuing more infrastructure jobs (that are normally more lucrative),

versus building jobs that normally yield razor-thin margins due to intense competition.

For that reason, we believe the market should not jump to the conclusion that outstanding construction works for Pavilion Bukit Jalil and Pavilion Damansara Heights (we estimate at RM5bil) will go automatically to WCT.

The new management is bullish about getting at least one LRT3 viaduct package (we estimate should be worth about RM1bil) – the stretch that cuts through WCT’s “home turf”, i.e. Bandar Bukit Tinggi, Klang, with three stations.

THE DEVIL IN THE DETAILS

We believe *prima facie*, the de-gearing exercise via the disposal of two shopping malls and selected land parcels is positive as it will strengthen WCT’s balance sheet, but at the expense of foregoing prized assets that will otherwise generate future incomes (recurring for the shopping malls) and appreciate in capital values over time.

We estimate that the consolidation of Malton and Tan Sri Desmond Lim’s private business ventures into WCT could potentially double its market capitalisation to above RM4bil, making WCT even more investable with local and foreign institutional investors.

However, as the saying goes – the devil is in the details. We maintain our view that it is premature to tell if the corporate exercises in the pipeline will be value-enhancing to WCT’s existing shareholders, as that depends largely on the structure and pricing of the assets and new shares to be issued pursuant to the corporate exercises. We therefore maintain our HOLD call and FV of RM1.86 based on sum-of-parts valuation (see Exhibit 1).

EXHIBIT 1: SOP VALUATION

Property development		
Bandar Bukit Tinggi, Klang	632	121 acres, RM120 psf
Rawang, Selangor	459	659 acres, RM16 psf
Kota Kinabalu, Sabah	48	22 acres, RM50 psf
Serendah, Selangor	27	39 acres, RM16 psf
Medini, Iskandar	507	39 acres, RM300 psf
OUG, Kuala Lumpur	1,053	60 acres, RM400 psf
Johor Bahru, Johor	209	12 acres, RM400 psf
TRX, Kuala Lumpur	223	2 acres, RM3,100 psf
RNAV	3,159	
RNAV after discount	2,527	20% discount
Property investment		
Equity in property JVs	533	70%- owned Paradigm development in Petaling Jaya and 70%- owned Gateway@KLIA2
BBT Shopping Mall, Klang	442	NBV
Premiere Hotel, Bandar Bukit Tinggi	77	NBV
	1,052	
Construction		
	1,130	13x FY17F net profit
Net debt	-2,390	As at end-3QFY16
Proceeds from warrant/ESOS conversion	814	Outstanding and new warrants
	3,134	
Enlarged share base (m shares)	1,688	
FV (RM/share)	1.86	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDERBOOK

Project	Outstanding Value (RMmil)
RAPID	1,060
Package V204, MRT2	896
TRX	747
Lusails development, Qatar	596
Pan Borneo Highway	387
Internal works	371
West Coast Expressway	280
My Town Shopping Centre	108
Police quarters redevelopment, Gombak	128
Commercial/Office, Putrajaya	88
Others	141
Total	4,802

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

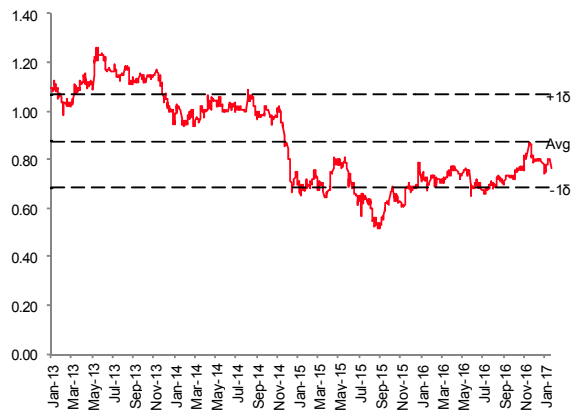


EXHIBIT 4: PE BAND CHART

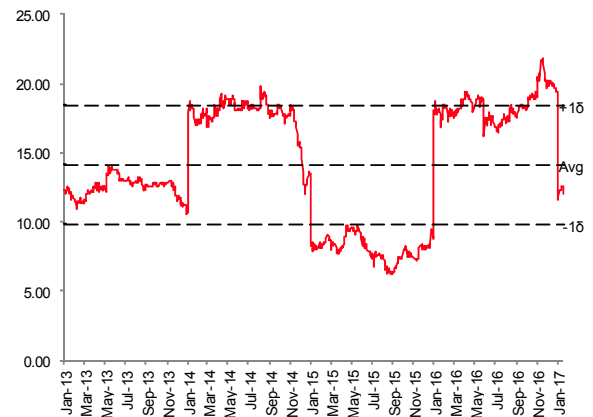


EXHIBIT 5: FINANCIAL DATA

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	199.8	298.4	313.8
Depreciation/Amortisation	(8.2)	(8.1)	(11.1)	(11.0)	(11.4)
Operating income (EBIT)	156.2	129.6	188.6	287.3	302.4
Other income & associates	15.4	88.2	16.5	17.8	18.7
Net interest	(43.0)	(44.1)	(66.8)	(67.1)	(66.2)
Exceptional items	20.8	97.8	-	-	-
Pretax profit	149.5	271.6	138.3	238.0	254.8
Taxation	(28.5)	(54.9)	(30.3)	(55.2)	(59.3)
Minorities/pref dividends	1.9	2.5	(0.8)	(3.7)	(8.4)
Net profit	122.9	219.1	107.2	179.0	187.2
Core net profit	102.1	121.3	107.2	179.0	187.2
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	466.2	488.2	522.5
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	2,664.2	2,686.2	2,720.5
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	2,685.8	2,810.8	2,943.9
Minority interests	52.8	36.8	37.6	41.3	49.7
BV/share (RM)	2.04	2.18	2.24	2.34	2.45
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	149.5	271.6	138.3	238.0	254.8
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)	20.0	(5.9)	(11.7)
Cash flow from operations	(429.0)	(554.9)	169.5	243.1	254.6
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	(66.8)	(67.1)	(66.2)
Cash flow from financing	399.1	205.4	(108.9)	(121.2)	(120.3)
Net cash flow	68.9	(485.3)	(39.4)	22.0	34.3
Net cash/(debt) b/f	867.5	944.5	505.6	466.2	488.2
Net cash/(debt) c/f	937.6	505.6	466.2	488.2	522.5
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)	45.1	49.4	5.2
Pretax margin (%)	9.0	16.3	6.7	10.3	10.5
Net profit margin (%)	7.4	13.1	5.2	7.8	7.7
Interest cover (x)	3.6	2.9	2.8	4.3	4.6
Effective tax rate (%)	19.1	20.2	21.9	23.2	23.3
Dividend payout (%)	55.5	21.9	39.2	30.2	28.9
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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