



AmInvestment Bank

Company report

Joshua Ng

ng-chin-yuing@ambankgroup.com

03-2036 2293

WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

CONSTRUCTION

24 Feb 2017

FY16 core net profit jumps 89%

HOLD

(Maintained)

Rationale for report: Company results

Price RM1.91
Fair Value RM1.80
52-week High/Low RM1.98/RM1.41

Key Changes

Fair value
EPS



YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	1,933.6	2,069.2	2,086.9	2,272.2
Core net profit (RM mil)	100.1	118.3	130.0	154.2
FD Core EPS (sen)	8.1	9.2	9.8	11.2
FD Core EPS growth (%)	45.4	12.5	7.4	14.2
Consensus Net Profit (RM mil)	-	116.7	157.3	176.1
DPS (sen)	-	2.0	2.0	2.0
PE (x)	23.4	20.8	19.4	17.0
EV/EBITDA (x)	26.6	19.8	18.3	16.3
Div yield (%)	-	1.0	1.0	1.0
ROE (%)	2.5	4.2	4.5	5.1
Net Gearing (%)	91.4	88.4	84.7	79.8

Stock and Financial Data

Shares Outstanding (million) 1,249.2
Market Cap (RMmil) 2,386.0
Book Value (RM/share) 2.21
P/BV (x) 0.9
ROE (%) 2.5
Net Gearing (%) 91.4

Major Shareholders Tan Sri Desmond Lim (19.7%)
Lembaga Tabung Haji (10.2%)
EPF (7.9%)
Free Float 38.5
Avg Daily Value (RMmil) 4.6

Price performance	3mth	6mth	12mth
Absolute (%)	3.2	20.1	18.6
Relative (%)	(1.2)	18.6	16.7



Investment Highlights

- We cut our FY17F and FY18F forecasts by 34% and 31% and trim our FV by 3% to RM1.80 (from RM1.86) (Exhibit 2) but maintain our HOLD call, following WCT's FY16 results with a core net profit of RM100.1mil which missed our forecast and the consensus estimates by 7% and 16% respectively. We believe the key variance against our forecast came from the lower-than-expected construction margins realised. Nonetheless, WCT's FY16 core net profit still jumped 89% from a washout a year ago (on the back a depleting construction order book).
- Our earnings cuts are largely to reflect lower construction margins and softer property development profits in the absence of major new launches.
- We gathered from a recent meeting with WCT's new management that: (1) the placees 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 parting with prized assets. The consolidation of Malton and 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.

EXHIBIT 1: RESULTS TABLE

YE Dec (RMmil)	FY16 1Q	FY16 2Q	FY16 3Q	FY16 4Q	QoQ Chg	FY15 12M	FY16 12M	YoY Chg
Turnover	485.0	581.1	414.4	453.2	9%	1,667.9	1,933.6	16%
Construction	378.1	503.0	313.9	373.7	19%	1,278.3	1,568.7	23%
Property Development	92.0	61.8	85.5	63.8	-25%	328.6	303.2	-8%
Property Investment	14.9	16.3	15.0	15.6	4%	61.1	61.8	1%
EBIT	52.6	43.9	31.8	41.3	30%	138.7	169.6	22%
Construction	26.9	19.2	(2.8)	15.8	-663%	37.2	59.1	59%
Property Development	18.3	17.6	28.4	18.9	-34%	69.0	83.1	21%
Property Investment	7.4	7.1	6.2	6.6	6%	32.5	27.4	-16%
Net inc/(exp)	(13.4)	(12.8)	(7.3)	(12.8)	77%	(57.8)	(46.3)	-20%
Associates	9.2	8.5	7.2	5.6	-23%	24.5	30.4	24%
EI	(23.1)	10.3	3.9	(22.7)	nm	156.4	(31.7)	nm
Pretax profit	25.2	49.8	35.6	11.4	-68%	261.8	122.0	-53%
Taxation	(15.1)	(17.8)	(10.8)	(13.2)	23%	(54.9)	(56.8)	3%
Minority interest	(1.3)	0.0	(0.9)	5.4	nm	2.5	3.2	nm
Net profit	8.8	32.1	24.0	3.5	-85%	209.4	68.4	-67%
EPS (sen)	0.7	2.6	1.9	0.3	-85%	18.4	5.5	-70%
Core net profit	32.0	21.8	20.1	26.2	30%	52.9	100.1	89%
EBIT margin	11%	8%	8%	9%	1%	8%	9%	0%
Pretax margin	5%	9%	9%	3%	(6%)	16%	6%	(9%)
Effective tax rate	60%	36%	30%	116%	86%	21%	47%	26%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: 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	2,369	25% discount
Property investment		
Equity in property JVs	503	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
	1,022	
Construction	1,357	13x FY17F net profit
Net debt	-2,527	As at end- FY16
Proceeds from warrant/ESOS conversion	814	Outstanding and new warrants
	3,035	
Enlarged share base (m shares)	1,688	
FV (RM/share)	1.80	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: 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 4: PB BAND CHART



EXHIBIT 5: PE BAND CHART

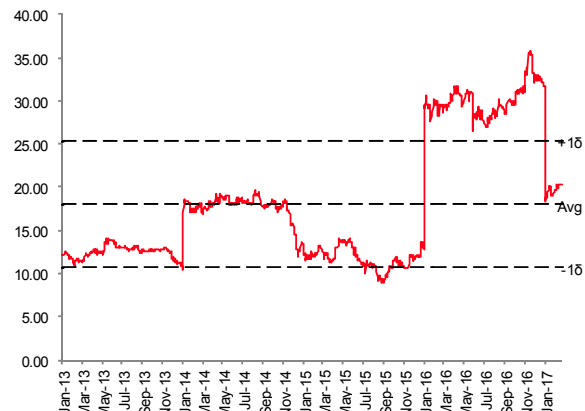


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,667.9	1,933.6	2,069.2	2,086.9	2,272.2
EBITDA	92.8	184.6	247.9	267.5	297.8
Depreciation/Amortisation	(8.1)	(15.0)	(11.0)	(11.4)	(12.0)
Operating income (EBIT)	84.7	169.6	236.8	256.0	285.8
Other income & associates	24.5	30.4	17.8	18.7	19.6
Net interest	(57.8)	(46.3)	(80.9)	(80.8)	(80.0)
Exceptional items	156.4	(31.7)	-	-	-
Pretax profit	207.9	122.0	173.7	193.9	225.4
Taxation	(54.9)	(56.8)	(51.8)	(55.6)	(61.1)
Minorities/pref dividends	2.5	3.2	(3.6)	(8.3)	(10.0)
Net profit	155.4	68.4	118.3	130.0	154.2
Core net profit	(1.0)	100.1	118.3	130.0	154.2
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	288.4	328.3	417.2	505.8	593.8
Intangible assets	-	-	-	-	-
Other long-term assets	3,900.4	4,380.1	4,397.9	4,416.5	4,436.1
Total non-current assets	4,188.8	4,708.4	4,815.1	4,922.3	5,029.8
Cash & equivalent	523.8	455.1	451.4	463.6	501.4
Stock	153.9	132.0	132.0	132.0	132.0
Trade debtors	1,292.8	1,352.3	1,352.3	1,352.3	1,352.3
Other current assets	592.6	700.8	700.8	700.8	700.8
Total current assets	2,563.0	2,640.1	2,636.4	2,648.6	2,686.4
Trade creditors	936.8	980.8	980.8	980.8	980.8
Short-term borrowings	520.4	823.5	823.5	823.5	823.5
Other current liabilities	8.9	9.3	9.3	9.3	9.3
Total current liabilities	1,466.0	1,813.5	1,813.5	1,813.5	1,813.5
Long-term borrowings	2,072.8	2,158.7	2,158.7	2,158.7	2,158.7
Other long-term liabilities	565.8	578.9	578.9	578.9	578.9
Total long-term liabilities	2,638.7	2,737.6	2,737.6	2,737.6	2,737.6
Shareholders' funds	2,610.3	2,763.4	2,862.8	2,973.9	3,109.3
Minority interests	36.8	33.9	37.5	45.8	55.8
BV/share (RM)	2.10	2.21	2.28	2.36	2.47
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	207.9	122.0	173.7	193.9	225.4
Depreciation/Amortisation	8.1	15.0	11.0	11.4	12.0
Net change in working capital	(530.8)	(274.5)	-	-	-
Others	(167.7)	19.9	11.4	6.5	(121.6)
Cash flow from operations	(482.5)	(117.6)	196.1	211.9	115.8
Capital expenditure	(145.8)	(276.6)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(49.5)	38.1	-	-	-
Cash flow from investing	(195.3)	(238.6)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	142.0	381.2	-	-	-
Equity raised/(repaid)	108.3	92.6	-	-	-
Dividends paid	(22.6)	(25.0)	(18.9)	(18.9)	(18.9)
Others	(130.5)	(127.5)	(80.9)	(80.8)	(80.0)
Cash flow from financing	97.3	321.3	(99.8)	(99.7)	(98.9)
Net cash flow	(580.6)	(34.8)	(3.7)	12.2	(83.0)
Net cash/(debt) b/f	944.5	398.5	334.7	331.0	343.2
Net cash/(debt) c/f	402.3	381.0	331.0	343.2	260.2
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	0.3	15.9	7.0	0.9	8.9
EBITDA growth (%)	(43.6)	98.9	34.3	7.9	11.3
Pretax margin (%)	12.5	6.3	8.4	9.3	9.9
Net profit margin (%)	9.3	3.5	5.7	6.2	6.8
Interest cover (x)	1.5	3.7	2.9	3.2	3.6
Effective tax rate (%)	26.4	46.6	29.8	28.7	27.1
Dividend payout (%)	30.9	-	16.0	14.6	12.3
Debtors turnover (days)	283	255	239	237	217
Stock turnover (days)	38	35	35	35	35
Creditors turnover (days)	234	260	259	259	259

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad ("AmInvestment") without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, "AmBank Group").

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents ("Relevant Person") accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.