

WCT Holdings (HOLD ↔; EPS ↔)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

24 February 2017

Price Target : RM1.97(↔)

Share price : RM1.91

Finishing at the dot
Results

- WCT reported 4QFY16 results with revenue of RM453m (+9% QoQ, -13% YoY) and core earnings (after removing EIs) of RM26.2m (+30% QoQ, -36% YoY).
- For the full year FY16, core earnings totalled RM100m, recovering +89% YoY.
- Our derivation of core earnings removes (i) forex gains of RM13m, (ii) impact of FRS139 for time value of money on its receivables amounting to -RM15m and (iii) fair value loss on The Ascent of -RM29m as it will be sold below BV.

Deviation

- FY16 core earnings made up 100% of our forecast which is within expectations but below consensus at 86%.

Dividends

- No dividends were declared for FY16 which is a negative surprise (FY15: 4.2 sen).

Highlights

- Decent level of job wins.** WCT managed to secure RM1.4bn worth of jobs in FY16 (FY15: RM3bn). With this, we estimate its orderbook to stand at RM4.1bn, translating to a healthy cover 2.6x on FY16 construction revenue.
- Changes in major shareholder.** In Nov 2016, WCT saw a significant change in its major shareholder with the emergence of Tan Sri Desmond Lim (TS Lim) taking over the 20% stake previously held by its 2 founding members. We believe that the near term benefit to WCT from this shareholding change is the possibility of its AEON BBT Mall and Paradigm Mall to be injected into PREIT (HOLD, TP: RM1.77) as TS Lim is also a major shareholder in the latter. Apart from that, there is speculation of a possible merger between WCT and Malton (not-rated) given their common major shareholder, TS Lim.

Risks

- WCT's net gearing is high at 91% while earnings delivery has in the recent past, been erratic from quarter to quarter.

Forecasts

- Unchanged as the results were inline.

Rating

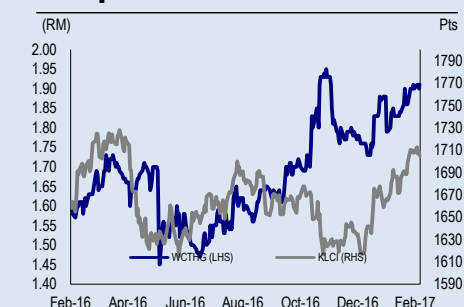
Maintain HOLD, TP: RM1.97

Valuation

- Our SOP based TP of RM1.97 implies FY17-18 P/E of 17x and 14.6x respectively and has taken into account the recently proposed 10% share placement.

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KLCI	1704.5
Expected share price return	3.1%
Expected dividend return	1.5%
Expected total return	4.7%

Share price

Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,255
Market cap (RM m)	2,397
3-mth avg. volume ('000)	2,376
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	3.8	5.5	19.4
Relative	2.4	0.6	16.6

Major shareholders

Dominion Nexus SB	19.6%
Lembaga Tabung Haji	9.7%
Employees Provident Fund	7.6%

Summary Earnings Table

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F
Revenue	1,668	1,934	2,521	2,676
EBITDA	147	185	226	258
EBIT	139	170	217	248
Profit Before Tax	105	154	200	233
Core PATAMI	53	100	145	169
vs Consensus (%)		(15)	(8)	(4)
Core EPS (sen)	4.2	8.0	11.6	13.5
P/E (x)	44.6	23.6	16.2	13.9
Net DPS (sen)	4.2	-	2.9	3.4
Net DY (%)	2.2	-	1.5	1.8
BV per share	2.08	2.20	2.23	2.33
P/B (x)	0.9	0.9	0.8	0.8
ROE (%)	2.0	3.7	5.2	5.9
Net Gearing (%)	79.3	91.4	73.7	71.9

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	Comments
Revenue	522.2	414.4	453.2	9.4	(13.2)	Higher QoQ as orderbook execution gains traction but still lower YoY as it has yet to fully replace completed jobs.
EBIT	38.2	31.8	41.3	29.7	8.0	
Finance cost	2.9	(7.3)	(12.8)	76.5	(542.4)	
Associates & JVs	15.0	7.2	5.6	(22.6)	(62.8)	
PBT	56.1	31.8	34.0	7.1	(39.4)	
PAT	40.8	21.0	20.8	(0.9)	(48.9)	
PATMI - core	41.0	20.1	26.2	30.3	(36.1)	
PATMI - reported	68.9	24.0	3.5	(85.4)	(94.9)	Includes forex, impact of FRS139 and fair value loss on The Ascent.
EPS - core	3.3	1.6	2.1			
EBIT margin	7.3	7.7	9.1			Construction margins improve as newer jobs kick in.
PBT margin	10.8	7.7	7.5			

Company, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	12MFY15	12MFY16	YoY (%)	Comments
Revenue	1,667.9	1,933.6	15.9	Largely driven by construction following strong job wins in FY15.
EBIT	138.7	169.6	22.3	
Finance cost	(57.8)	(46.3)	(19.9)	
Associates & JVs	24.5	30.4	23.9	
PBT	105.4	153.7	45.8	
PAT	50.5	96.8	91.9	
PATMI - core	52.9	100.1	89.0	Made up 100% of full year forecast.
PATMI - reported	209.4	68.4	(67.3)	Includes forex, impact of FRS139 and fair value loss on The Ascent.
EPS - core	4.2	8.0		
EBIT margin	8.3	8.8		
PBT margin	6.3	7.9		

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Figure #3 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
Sum of Parts (SOP) Value			3,513	1.97

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	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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NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

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