



AmInvestment Bank

Company report

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WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

CONSTRUCTION

06 Apr 2017

Lands RM186mil LRT3 job

HOLD

(Maintained)

Rationale for report: Company update

Price	RM2.11
Fair Value	RM1.88
52-week High/Low	RM2.14/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	120.4	134.3	158.6
FD Core EPS (sen)	8.1	8.8	9.5	10.9
FD Core EPS growth (%)	45.4	7.8	8.6	13.9
Consensus Net Profit (RM mil)	-	148.4	167.4	184.9
DPS (sen)	-	2.0	2.0	2.0
PE (x)	25.9	24.0	22.1	19.4
EV/EBITDA (x)	28.0	20.1	18.6	16.6
Div yield (%)	-	0.9	0.9	0.9
ROE (%)	2.5	4.1	4.3	4.9
Net Gearing (%)	91.4	77.3	74.1	69.7

Stock and Financial Data

Shares Outstanding (million)	1,249.2
Market Cap (RMmil)	2,635.8
Book Value (RM/share)	2.21
P/BV (x)	1.0
ROE (%)	2.5
Net Gearing (%)	91.4

Major Shareholders	Tan Sri Desmond Lim (19.7%) Lembaga Tabung Haji (10.2%) EPF (7.9%)
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Free Float	38.5
Avg Daily Value (RMmil)	5.0

Price performance	3mth	6mth	12mth
Absolute (%)	19.9	26.3	22.7
Relative (%)	14.1	20.4	20.8



Investment Highlights

- We cut our FY17-19F EPS forecasts by 6%, 4% and 5%, but raise our FV by 4% to RM1.88 (from RM1.80) based on sum of parts (SOP) (Exhibit 1) and maintain our HOLD call.
- WCT has been awarded by Prasarana the construction job for Johan Setia Depot (Phase 1) of LRT3 worth RM185.9mil. This is the first key job WCT has secured in FY17, boosting its order backlog by 3.5% to RM5.5bil (Exhibit 2). The new job is in line with our assumption that WCT will secure RM2bil new jobs in FY17F.
- However, we trim our EPS forecasts to reflect the dilution from 100.5mil new shares arising from a recent placement exercise at an issue price of RM1.77. On the other hand, our FV is raised slightly as we roll forward our valuation base year for its construction unit to FY18F from FY17F.
- During a recent analyst briefing, WCT said that it was in talks to dispose of 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). It also hopes to raise about RM500mil from the disposal of landbank considered “non-strategic” in Klang Valley outskirts, such as Bandar Bukit Tinggi (Klang), Rawang and Serendah.
- In addition, given the soft property market, WCT will hold back new launches this year. It will instead focus on clearing unsold property stock, of which the value is projected to rise to RM1bil by end-FY17F (assuming zero property sales). It is confident of achieving RM500mil sales in FY17F (vs. RM281mil achieved in FY16) on enhanced marketing and promotional efforts, particularly via the offering of attractive rebates.
- We estimate that these proposed monetisation exercises could reduce WCT’s net debt and gearing of RM2.3bil and 0.8x (post the recent shares placement), to RM1.3bil and 0.4x respectively.
- We believe WCT will ultimately be turned into the flagship PLC of new controlling shareholder Tan Sri Desmond Lim, via the injection of Malton (a sister company of WCT, with its prized asset being Pavilion Bukit Jalil) and Lim’s private business ventures including Pavilion Kuala Lumpur and Pavilion Damansara Heights. This could potentially double WCT’s market capitalisation to above RM4bil. However, the devil is in the details. We believe it is premature to tell if the exercise 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 exercise.

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	2,369	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		
	1,511	13x FY18F net profit
Net debt	-2,349	Post private placement
Proceeds from warrant/ESOS conversion	814	Outstanding and new warrants
	3,367	
Enlarged share base (m shares)	1,788	
FV (RM/share)	1.88	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
RAPID	990
Pan Borneo Sarawak	944
Package V204, MRT2	893
TRX	717
Lusail development, Qatar	605
Gov administrative office, Qatar	324
West Coast Expressway	257
Internal works	232
Johan Setia Depot, LRT3	186
Police quarters redevelopment, Gombak	119
Kwasa Damansara	61
MyTown Shopping Centre	50
Others	95
Total	5,473

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

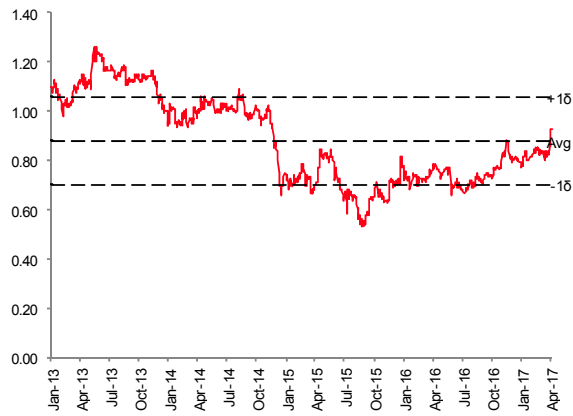


EXHIBIT 4: PE BAND CHART



EXHIBIT 5: 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)	(78.1)	(75.0)	(74.1)
Exceptional items	156.4	(31.7)	-	-	-
Pretax profit	207.9	122.0	176.6	199.7	231.2
Taxation	(54.9)	(56.8)	(52.5)	(57.1)	(62.6)
Minorities/pref dividends	2.5	3.2	(3.7)	(8.4)	(10.0)
Net profit	155.4	68.4	120.4	134.3	158.6
Core net profit	(1.0)	100.1	120.4	134.3	158.6
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	629.8	644.8	685.5
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	2,814.8	2,829.8	2,870.6
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	3,041.3	3,155.1	3,293.4
Minority interests	36.8	33.9	37.5	45.9	55.9
BV/share (RM)	2.10	2.21	2.24	2.32	2.42
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	207.9	122.0	176.6	199.7	231.2
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	7.8	(0.7)	(117.2)
Cash flow from operations	(482.5)	(117.6)	195.4	210.4	126.0
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	177.8	-	-
Dividends paid	(22.6)	(25.0)	(20.4)	(20.4)	(20.4)
Others	(130.5)	(127.5)	(78.1)	(75.0)	(74.1)
Cash flow from financing	97.3	321.3	79.4	(95.4)	(94.5)
Net cash flow	(580.6)	(34.8)	174.7	15.0	(68.5)
Net cash/(debt) b/f	944.5	398.5	334.7	509.4	524.4
Net cash/(debt) c/f	402.3	381.0	509.4	524.4	456.0
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	8.5	9.6	10.2
Net profit margin (%)	9.3	3.5	5.8	6.4	7.0
Interest cover (x)	1.5	3.7	3.0	3.4	3.9
Effective tax rate (%)	26.4	46.6	29.7	28.6	27.1
Dividend payout (%)	30.9	-	17.0	15.2	12.9
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

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