

WCT Holdings (HOLD ↔; EPS ↔)
**INDUSTRY: NEUTRAL
NEWSBREAK**
6 April 2017
Price target: RM1.97 (↔)
Share price: RM2.11
Wins LRT3 job
News

- **Awarded LRT3 depot.** WCT has been awarded the contract by Prasarana to undertake the LRT3 depot works at Johan Setia worth RM185.9m. The job is expected to be completed within 18 months.

Comments

- **1st job win for the year.** This LRT3 depot contract is WCT's first for the year. In FY16, WCT managed to secure RM1.4bn worth of contracts. With this contract in the bag, we estimate WCT's orderbook to now stand at RM5.2bn, an all-time high. This translates to a healthy cover ratio of 3.3x on FY16 construction revenue.
- **Better margins from infra.** The bulk of WCT's orderbook comprises infra related jobs (>80%) as opposed to buildings. Management guides that construction margins should improve in this year as more infra based jobs will be executed which generally command better margins compared to buildings. For the past 2 years, WCT's construction EBIT margins have been thin at 3.7-3.8% (after adjusting for EIs).
- **Eyeing for more.** Management is targeting to add RM2bn in new job wins this year. It has submitted RM2.5bn in tenders and has another RM2.5-3bn which is under preparation.

Risks

- The key risks are its inconsistency in earnings delivery from quarter to quarter and high net gearing (91%).

Forecasts

- Unchanged as YTD job wins of RM185.9m are still within our full year target of RM1bn.

Rating
Maintain HOLD, TP: RM1.97

- The strategic direction brought by its new major shareholder Tan Sri Desmond Lim appears pretty much a status quo. We reckon that any rerating potential is likely to be muted unless earnings delivery becomes more consistent and its de-gearing plans bear fruit.

Valuation

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

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KLCI	1744.7
Expected share price return	-6.6%
Expected dividend return	1.4%
Expected total return	-5.3%

Share price

Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,256
Market cap (RM m)	2,650
3-mth avg. volume ('000)	2,725
SC Syariah Compliant	Yes

Price Performance

	1M	3M	12M
Absolute	12.8	15.3	22.7
Relative	11.7	10.7	20.7

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 (%)			(8)	(4)
Core EPS (sen)	4.2	8.0	11.6	13.5
P/E (x)	50.0	26.5	18.2	15.7
Net DPS (sen)	4.2	-	2.9	3.4
Net DY (%)	2.0	-	1.4	1.6
BV per share	2.08	2.20	2.17	2.28
P/B (x)	1.0	1.0	1.0	0.9
ROE (%)	2.0	3.7	5.3	6.1
Net Gearing (%)	79.3	91.4	77.9	75.8

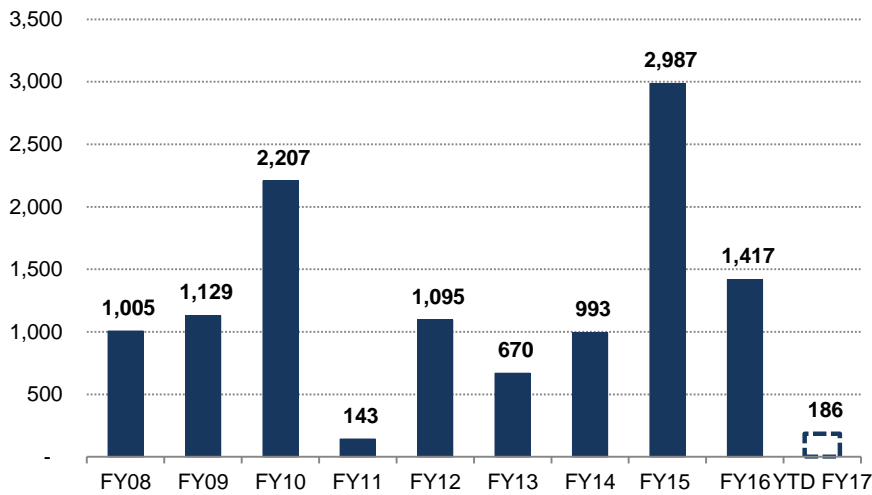
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Figure #1 SOP valuation for WCT

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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Figure #2 WCT's orderbook replenishment (RM m)



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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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