HongLeong Investment Bank

HLIB Research
PP 9484/12/2012 (031413)

WCT Holdings (HOLD ←→; EPS ←→)

INDUSTRY: OVERWEIGHT
COMPANY INSIGHT

31 May 2017
Price Target: RM2.15 (←→)
Share priceRM2.14

Recovery motion in place

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Highlights

- **Hosts briefing.** We attended WCT's 4QFY16 investor's briefing yesterday. To recap, 1QFY17 core earnings of RM37.4m (+17% YoY) were above expectations.
- **Better margins to sustain.** WCT displayed a recovery in construction EBIT margin at 7.8% vs 4.2% last quarter and 7.1% in the same period last year. Management believes this can be sustained for the remainder of the year as bulk of the works to be recognised this year are infra based which carries higher margins vs building jobs. As of 1Q, 78% of WCT's RM4.6bn orderbook comprises infra jobs.
- **Gunning for more job wins.** WCT has tendered for over RM10bn worth of jobs, of which 50% are infra based such as the LRT3 (RM9bn), MRT2 stations (RM1.5bn) and KL-Klang BRT (via BOT model). It is also tendering for RM3.5bn worth of domestic building jobs (e.g. offices, condos, malls and hotel) and RM1.8bn in Qatar. To ride on the increasing flow of local contracts awarded to China contractors, WCT has partnered 2 state owned enterprise (SOE) contractors which are eyeing on building and infra jobs. For FY17, WCT is aiming to replenish its orderbook by RM2bn (YTD: RM186m).
- **Repricing existing developments.** 1Q property sales only totalled RM49m (1QFY16: RM68m) with unbilled sales at RM387m (1.3x FY16 property revenue). Management is targeting for RM500m in sales for FY17 which we feel is an uphill challenge as no new launches are slated for this year. Instead, management aims to drive sales from its existing inventory of RM130m and incoming stock of RM1bn. To drive sales, WCT is repricing some of its existing developments by providing discounts and/or free fit-outs.
- **De-gearing initiatives.** To reduce its net gearing (currently at 95%), WCT will be undertaking (i) share placement of balance 35m shares to raise RM50m in 2H17, (ii) setting up its own REIT comprising Paradigm, AEON BBT and Premiere Hotel with market value of RM1.1bn to raise RM400m and (iii) land disposal in Sg Buaya (RM300m).

Risks

- Key risks are inconsistency in earnings delivery from quarter to quarter and high net gearing.

Forecasts

- Although 1Q results accounted for 31% of our full year forecast, we are taking a conservative stance and retaining our estimates.

Rating

Maintain HOLD, TP: RM2.15

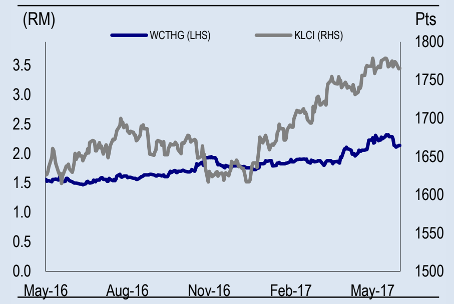
- While WCT's earnings are poised for a recovery that will be driven by its sizable orderbook, we remain cautious on its erratic earnings delivery and high net gearing.

Valuation

- Our unchanged SOP based TP of RM2.15 implies FY17-18 P/E of 24.7x and 20.8x respectively.

KLCI	1,765.3
Expected share price return	0.5%
Expected dividend return	1.0%
Expected total return	1.5%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,391
Market cap (RM m)	2,977
3-mth avg. volume ('000)	5,197

Price Performance	1M	3M	12M
Absolute	-4.0	13.2	37.2
Relative	-3.9	8.6	26.4

Major shareholders

Dominion Nexus SB	17.7%
Lembaga Tabung Haji	7.6%
Employees Provident Fund	7.3%

Summary Earnings Table

FYE Dec (RM m)	FY16	FY17E	FY18F	FY19F
Revenue	1,934	2,002	2,322	2,547
EBITDA	185	189	218	253
EBIT	170	174	204	238
Profit Before Tax	154	155	186	222
Core PATAMI	100	121	143	170
vs Consensus (%)		(18)	(16)	(11)
Core EPS (sen)	7.2	8.7	10.3	12.2
P/E (x)	29.8	24.6	20.7	17.5
Net DPS (sen)	-	2.2	2.6	3.1
Net DY (%)	-	1.0	1.2	1.4
BV per share	1.99	2.06	2.14	2.23
P/B (x)	1.1	1.0	1.0	1.0
ROE (%)	3.7	4.3	4.9	5.6
Net Gearing (%)	91.4	86.7	85.3	82.8

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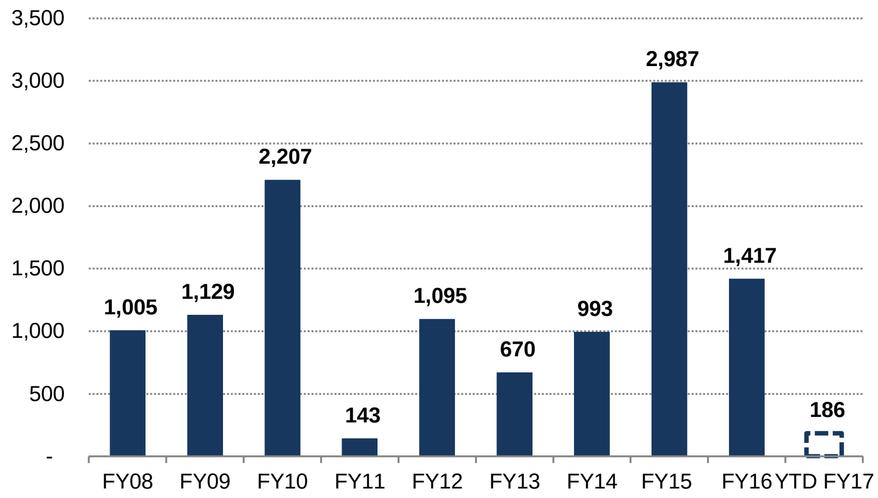
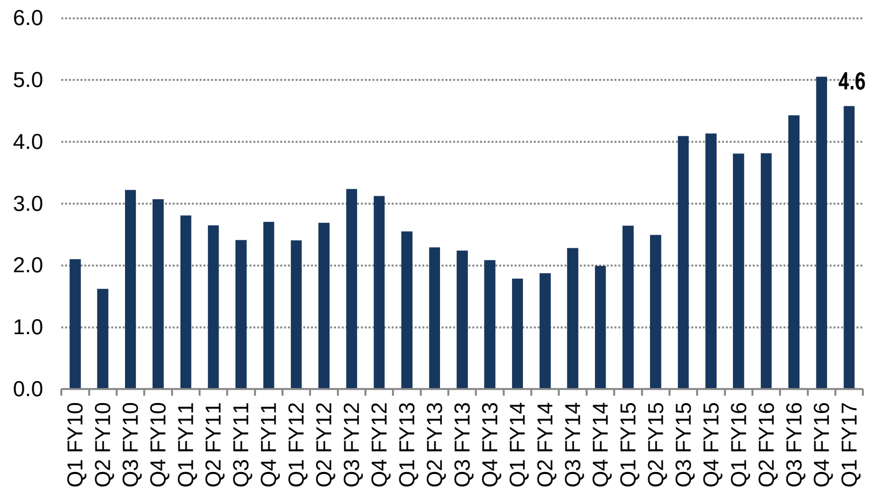
Figure #1 Annual orderbook replenishment of WCT (RM m)



Announcements to Bursa

Figure #2 Orderbook balance movement of WCT (RM bn)



Announcements to Bursa

Figure #3 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Mid FY18 earnings (ex. JV)	109	14	1,528	0.87
Gateway@klia2 based on DCF	237	5.1%	166	0.09
Paradigm Mall based on cap rate	434	6.0%	304	0.17
Premiere Hotel Klang based on DCF	203	8.0%	203	0.11
Undeveloped surplus land value at 50% discount			817	0.46
Cash proceeds from warrants and placement			772	0.44
Sum of Parts (SOP) Value			**3,790**	**2.15**

HLIB estimates

Financial Projections for WCT Holdings

Balance Sheet

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	524	455	446	345	262
Receivables	2,365	2,549	2,620	2,804	2,933
Inventories	154	132	132	153	166
PPE	288	328	339	350	360
Investment properties	883	1,125	1,181	1,240	1,302
Associates & JVs	664	651	651	651	651
Others	1,874	2,100	2,157	2,215	2,275
Assets	**6,752**	**7,340**	**7,526**	**7,757**	**7,949**
Debts	2,593	2,982	2,932	2,882	2,832
Payables	1,458	1,510	1,646	1,818	1,930
Others	54	50	51	52	53
Liabilities	**4,105**	**4,542**	**4,630**	**4,753**	**4,816**
Shareholder's equity	2,610	2,764	2,867	2,975	3,102
Minority interest	37	34	29	30	31
Equity	**2,647**	**2,798**	**2,896**	**3,005**	**3,134**

Cash Flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	102	154	155	186	222
Depreciation & amortisation	8	15	14	15	15
Changes in working capital	(271)	118	66	(33)	(31)
Taxation	(55)	(57)	(34)	(42)	(52)
Others	(270)	(394)	(105)	(115)	(120)
CFO	**(486)**	**(164)**	**96**	**10**	**34**
Net capex	(61)	(55)	(25)	(25)	(25)
Others	(135)	(229)	-	-	-
CFI	**(195)**	**(284)**	**(25)**	**(25)**	**(25)**
Changes in borrowings	163	389	(50)	(50)	(50)
Dividends paid	(61)	-	(30)	(36)	(42)
Others	(4)	(66)	-	-	-
CFF	**97**	**323**	**(80)**	**(86)**	**(92)**
Net cash flow	**(584)**	**(125)**	**(9)**	**(101)**	**(83)**
Forex	38	17	-	-	-
Others	119	39	-	-	-
Beginning cash	951	524	455	446	345
Ending cash	524	455	446	345	262

Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	**1,668**	**1,934**	**2,002**	**2,322**	**2,547**
EBITDA	138	185	189	218	253
EBIT	130	170	174	204	238
Finance cost	(58)	(46)	(50)	(49)	(49)
Associates & JV	30	30	31	32	32
Profit before tax	**102**	**154**	**155**	**186**	**222**
Tax	(55)	(57)	(34)	(42)	(52)
Net profit	**47**	**97**	**121**	**143**	**170**
Minority interest	2	3	-	-	-
PATMI (core)	**50**	**100**	**121**	**143**	**170**
Exceptionals	160	(32)	-	-	-
PATMI (reported)	209	68	121	143	170

Valuation & Ratios

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	3.6	7.2	8.7	10.3	12.2
P/E (x)	60.0	29.8	24.6	20.7	17.5
EV/EBITDA (x)	41.1	30.7	30.0	25.9	22.3
DPS (sen)	4.4	-	2.2	2.6	3.1
Dividend yield	2.1%	0.0%	1.0%	1.2%	1.4%
BVPS (RM)	1.88	1.99	2.06	2.14	2.23
P/B (x)	1.1	1.1	1.0	1.0	1.0
EBITDA margin	8.3%	9.5%	9.4%	9.4%	9.9%
EBIT margin	7.8%	8.8%	8.7%	8.8%	9.3%
PBT margin	6.1%	7.9%	7.8%	8.0%	8.7%
Net margin	3.0%	5.2%	6.0%	6.2%	6.7%
ROE	2.0%	3.7%	4.3%	4.9%	5.6%
ROA	0.8%	1.4%	1.6%	1.9%	2.2%
Net gearing	79.3%	91.4%	86.7%	85.3%	82.8%

Assumptions

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Contracts secured	2,987	1,417	1,000	1,000	1,000
Property sales	373	281	350	400	500

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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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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