



AmInvestment Bank

Company report

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WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

30 Aug 2017

Bagging LRT3 job, hiving off 80% TRX development

HOLD

(Maintained)

Rationale for report: Company update

Price RM1.80
Fair Value RM1.88
52-week High/Low RM2.48/RM1.53

Key Changes

Fair value ⇄
EPS ⇄

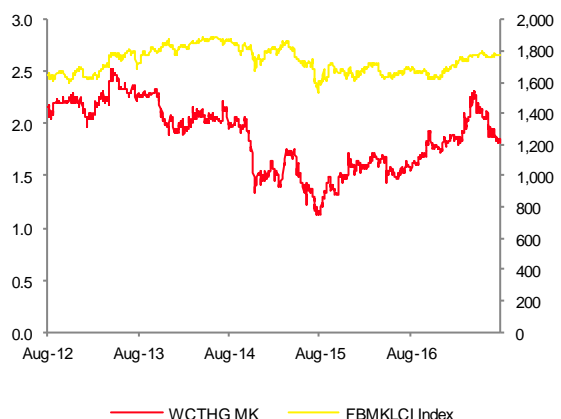
YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	1,933.6	2,069.2	2,086.9	2,272.2
Core net profit (RM mil)	100.1	129.7	142.6	166.1
FD Core EPS (sen)	8.1	9.3	10.0	11.3
FD Core EPS growth (%)	45.4	14.0	7.6	12.8
Consensus Net Profit (RM mil)	-	147.0	170.0	187.1
DPS (sen)	-	2.0	2.0	2.0
PE (x)	22.1	19.4	18.0	16.0
EV/EBITDA (x)	25.9	18.6	17.1	15.3
Div yield (%)	-	1.1	1.1	1.1
ROE (%)	2.5	4.5	4.6	5.1
Net Gearing (%)	91.4	77.1	73.7	69.2

Stock and Financial Data

Shares Outstanding (million) 1,249.2
Market Cap (RMmil) 2,248.6
Book Value (RM/share) 2.21
P/BV (x) 0.8
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) 3.1

Price performance	3mth	6mth	12mth
Absolute (%)	(15.4)	(4.2)	14.6
Relative (%)	(15.2)	(7.9)	9.4



Investment Highlights

- We maintain our forecasts, FV of RM1.88 (Exhibit 1) and HOLD call.
- WCT has been awarded by Prasarana a viaduct package of LRT3 (Package GS03) for RM840mil, to be completed within the next 33 months. This is the second key contract WCT has secured in FY17, boosting its YTD job wins to RM1.05bil and its outstanding construction orderbook to RM5.36bil (Exhibit 2). We are keeping our forecasts that assume job wins of RM2bil annually in FY17-19F. We view this development positively.
- Also, WCT has roped in CCCG Overseas Real Estate Pte Ltd (Chinese partner), a Singapore unit of China-based real estate group CCCG Real Estate Holding Ltd, to spearhead the development of its freehold land measuring 1.65 acres in Tun Razak Exchange (TRX). To recap, WCT acquired the land from KLIFD Sdn Bhd (a unit of 1MDB) in 2015 for RM223m or RM3,100 psf (plot ratio of 10.8x), as compared with three similar land sales at TRX during the same period at: RM2,800 psf (plot ratio of 10.5x), RM4,700 psf (plot ratio of 15.2x) and RM2,300 psf (plot ratio unknown). The acquisition coincided with the award by 1MDB Real Estate Sdn Bhd (another unit of 1MDB) of a MYR754.8m TRX infrastructure contract to WCT. WCT had said that it intended to develop a high-end serviced apartment tower with retail components with a GDV of RM1bil on the land.
- The Chinese partner will subscribe to an 80% stake in WCT Precious Development Sdn Bhd, the owner and developer of the 1.65-acre land in TRX, for RM200mil. This effectively values the land in its entirety at RM250mil which is comparable to the initial cost of RM223mil. We view this development positively too. Given its majority stake of 80%, the Chinese partner will drive the development, financing and marketing of the project. This will spare WCT, which is undergoing a major de-gearing exercise, from having to raise additional debt to fund the land cost (we understand that WCT has thus far only settled 10% of the purchase consideration), as well as working capital to kick start the project. We believe the Chinese partner could do a much better job in marketing the project given its network of international clientele.
- We maintain our view that WCT will ultimately be turned into the flagship PLC of Tan Sri Desmond Lim (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, 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)
Pan Borneo Sarawak	905
Package V204, MRT2	880
Package GS03, LRT3	840
RAPID	763
TRX	656
Lusails development, Qatar	526
West Coast Expressway	227
Johan Setia Depot, LRT3	184
Internal works	136
Police quarters redevelopment, Gombak	111
Others	133
Total	5,361

Source: Company, AmlInvestment Bank Bhd

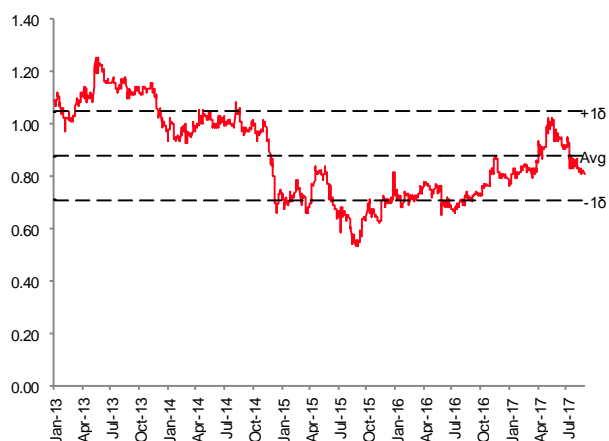
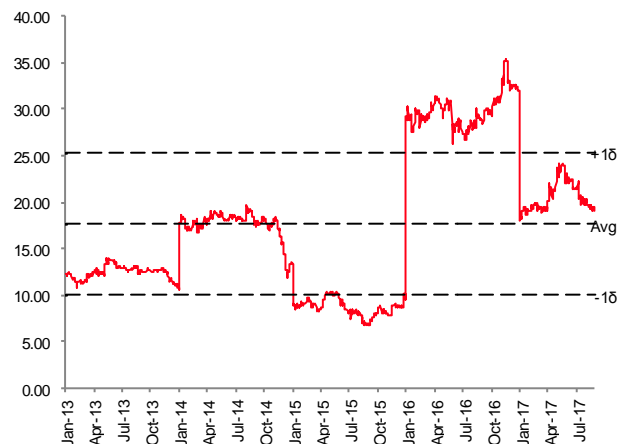
EXHIBIT 3: PB BAND CHART**EXHIBIT 4: PE BAND CHART**

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	146.7	184.6	247.9	267.5	297.8
Depreciation/Amortisation	(8.1)	(15.0)	(11.0)	(11.4)	(12.0)
Operating income (EBIT)	138.7	169.6	236.8	256.0	285.8
Other income & associates	24.5	30.4	27.1	27.1	27.1
Net interest	(57.8)	(46.3)	(78.1)	(75.0)	(74.1)
Exceptional items	156.4	(31.7)	-	-	-
Pretax profit	261.8	122.0	185.8	208.1	238.7
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	209.4	68.4	129.7	142.6	166.1
Core net profit	52.9	100.1	129.7	142.6	166.1
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	4,407.1	4,434.2	4,461.3
Total non-current assets	4,188.8	4,708.4	4,824.4	4,940.0	5,055.0
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	3,050.5	3,172.8	3,318.5
Minority interests	36.8	33.9	37.5	45.9	55.9
BV/share (RM)	2.10	2.21	2.25	2.34	2.44
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	261.8	122.0	185.8	208.1	238.7
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	(1.5)	(9.1)	(109.7)
Cash flow from operations	(428.6)	(117.6)	195.4	210.4	141.1
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	(526.6)	(34.8)	174.7	15.0	(53.4)
Net cash/(debt) b/f	944.5	398.5	334.7	509.4	524.4
Net cash/(debt) c/f	456.3	381.0	509.4	524.4	471.0
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	0.3	15.9	7.0	0.9	8.9
EBITDA growth (%)	(10.7)	25.8	34.3	7.9	11.3
Pretax margin (%)	15.7	6.3	9.0	10.0	10.5
Net profit margin (%)	12.6	3.5	6.3	6.8	7.3
Interest cover (x)	2.4	3.7	3.0	3.4	3.9
Effective tax rate (%)	21.0	46.6	28.2	27.4	26.2
Dividend payout (%)	22.9	-	15.8	14.3	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

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