

WCT Holdings (BUY ↔; EPS ↔)
INDUSTRY: OVERWEIGHT
NEWSBREAK
30 August 2017
Price target: RM2.26 (↔)
Share price: RM1.80
LRT3 contract and TRX land JV
News

- **Wins LRT3 contract.** WCT announced that it has been awarded a RM840m contract by Prasarana for the LRT3. The works are to be completed within 33 months.
- **JV for TRX land.** In a separate announcement, WCT will be undertaking a proposed JV with CCCG Overseas Real Estate (CORE) and China Communications Construction Company (CCCC) to develop a plot of land at TRX. The shareholding in the JV shall constitute WCT (20%), CORE (65%) and CCCC (15%). For the 80% stake in the JV, CORE and CCCC will pay WCT, the owner of the said land, RM200m.

Comments

- **Strong boost for job wins.** With the LRT3 contract in the bag, this would boost WCT's YTD job wins to RM1bn. This contract is WCT's 2nd LRT3 related job secured this year, with the earlier one being the depot at Johan Setia (RM186m). The contract win is within management's guidance as it previously mentioned that it has bid for 4 packages of the LRT3 worth RM800m to RM2bn each. We estimate WCT's orderbook to now stand at a new record high of RM5.2bn, translating to a cover of 3.5x on FY16 construction revenue.
- **JV to ease capital commitments.** The said TRX land measures 1.65 acres and was acquired by WCT from TRX City back in Oct 2015 for RM223m comprising 10% in cash and 90% in construction of infra and roads for the latter. Based on the recent price tag for CORE and CCCC's 80% stake in the JV, this now effectively values the said TRX land at RM250m. We are positive on this JV as it eases WCT's future capital commitments. Without the JV, WCT's cash flow could be strained from (i) the construction contract for TRX as it is partially paid in land and (ii) eventual development of the land. The previous development plan was for a service residence with GDV of RM1.1bn. On a proforma basis, the JV (i.e. 80% sale of TRX land) will reduce WCT's net gearing from 86% (2QFY17) to 80%.

Risks

- Derailment of its de-gearing plans.

Forecasts

- Unchanged as YTD job wins is as per our FY17 assumption of RM1bn. There could be upside to our earnings forecast should more job wins materialise this year.

Rating
Maintain BUY, TP: RM2.26

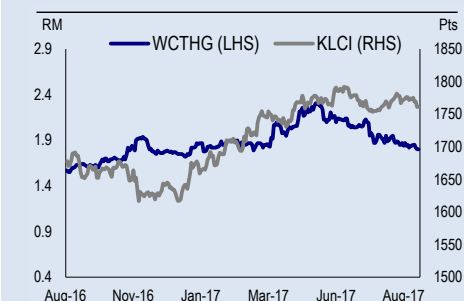
- Albeit with a cautious stance, we are turning positive on WCT given its results recovery. Coupled with its 22% share price decline since May, we feel there is now sufficient buffer to warrant our BUY rating.

Valuation

- Our SOP based TP of RM2.26 implies FY17-18 P/E of 23x and 20x respectively. While this is rather steep, WCT has significant surplus land value (i.e. market value less BV), backing >60% of its market capitalisation.

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KLCI	1754.9
Expected share price return	25.6%
Expected dividend return	1.3%
Expected total return	26.9%

Share price

Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,405
Market cap (RM m)	2,529
3-mth avg. volume ('000)	1,553
SC Syariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.8	-15.4	14.6
Relative	-4.4	-15.2	9.2

Major shareholders

Dominion Nexus SB	17.6%
EPF	8.0%
LTH	7.2%

Summary Earnings Table

FYE Dec (RM m)	FY16	FY17E	FY18F	FY19F
Revenue	1,934	2,002	2,322	2,547
EBITDA	185	211	236	263
EBIT	170	197	221	248
Profit Before Tax	154	178	204	232
Core PATAMI	100	137	156	177
vs Consensus (%)		(7)	(8)	(6)
Core EPS (sen)	7.1	9.8	11.1	12.6
P/E (x)	25.3	18.4	16.2	14.3
Net DPS (sen)	-	2.4	2.8	3.1
Net DY (%)	-	1.4	1.5	1.7
BV per share	1.97	2.05	2.13	2.23
P/B (x)	0.9	0.9	0.8	0.8
ROE (%)	3.7	4.9	5.3	5.8
Net Gearing (%)	91.4	86.3	84.2	81.4

HLIB

Figure #1 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Mid FY18 earnings (ex. JV)	124	14	1,733	0.98
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			3,994	2.26

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Financial Projections for WCT Holdings**Balance Sheet**

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	524	455	446	358	284
Receivables	2,365	2,549	2,620	2,804	2,933
Inventories	154	132	130	151	165
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	7,524	7,768	7,971
Debts	2,593	2,982	2,932	2,882	2,832
Payables	1,458	1,510	1,632	1,807	1,924
Others	54	50	51	52	53
Liabilities	4,105	4,542	4,616	4,741	4,810
Shareholder's equity	2,610	2,764	2,879	2,997	3,129
Minority interest	37	34	29	30	32
Equity	2,647	2,798	2,908	3,027	3,161

Cash Flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	102	154	178	204	232
Depreciation & amortisation	8	15	14	15	15
Changes in working capital	(271)	118	53	(30)	(26)
Taxation	(55)	(57)	(40)	(47)	(55)
Others	(270)	(394)	(104)	(115)	(120)
CFO	(486)	(164)	100	26	46
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)	-	(34)	(39)	(44)
Others	(4)	(66)	-	-	-
CFF	97	323	(84)	(89)	(94)
Net cash flow	(584)	(125)	(9)	(88)	(73)
Forex	38	17	-	-	-
Others	119	39	-	-	-
Beginning cash	951	524	455	446	358
Ending cash	524	455	446	358	284

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	211	236	263
EBIT	130	170	197	221	248
Finance cost	(58)	(46)	(50)	(49)	(49)
Associates & JV	30	30	31	32	32
Profit before tax	102	154	178	204	232
Tax	(55)	(57)	(40)	(47)	(55)
Net profit	47	97	137	156	177
Minority interest	2	3	-	-	-
PATMI (core)	50	100	137	156	177
Exceptionals	160	(32)	-	-	-
PATMI (reported)	209	68	137	156	177

Valuation & Ratios

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	3.5	7.1	9.8	11.1	12.6
P/E (x)	51.0	25.3	18.4	16.2	14.3
EV/EBITDA (x)	37.7	28.1	24.6	22.0	19.7
DPS (sen)	4.4	-	2.4	2.8	3.1
Dividend yield	2.4%	0.0%	1.4%	1.5%	1.7%
BVPS (RM)	1.86	1.97	2.05	2.13	2.23
P/B (x)	1.0	0.9	0.9	0.8	0.8
EBITDA margin	8.3%	9.5%	10.5%	10.2%	10.3%
EBIT margin	7.8%	8.8%	9.8%	9.5%	9.7%
PBT margin	6.1%	7.9%	8.9%	8.8%	9.1%
Net margin	3.0%	5.2%	6.9%	6.7%	6.9%
ROE	2.0%	3.7%	4.9%	5.3%	5.8%
ROA	0.8%	1.4%	1.8%	2.0%	2.2%
Net gearing	79.3%	91.4%	86.3%	84.2%	81.4%

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.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less 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.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.