Hong Leong Investment Bank

HLIB Research
PP 9484/12/2012 (031413)

WCT Holdings (BUY ←→; EPS ↑)

INDUSTRY: OVERWEIGHT
NEWSBREAK

6 October 2017
Price target: RM2.29 (↑)
Share price: RM1.75

3rd time lucky with LRT3

News

- **Secures another LRT3 contract.** WCT announced that it has been awarded a RM640m contract from Prasarana for Package GS02 of the LRT3. The job scope includes 2.9km viaduct guideway from Merchant Square to Suria Damansara with 2 stations and is expected to be completed within 35 months.

Comments

- **3rd time lucky.** This contract win is WCT's 3rd for the LRT3. It previously secured the Johan Setia depot (RM186m) in April and Package GS03 - 2.8km viaduct from Suria Damansara to Temasya Glenmarie (RM840m). We are positively surprised that WCT managed to clinch 2 viaduct packages for the LRT3 as past precedence (i.e. LRT ext, MRT1 and MRT2) did not seen more than 1 package awarded to the same contractor.
- **Orderbook scales new highs.** With this recent contract, WCT's YTD job wins now totals at RM1.7bn (all being from the LRT3). WCT's orderbook stood at RM4.4bn in 2QFY17. After adding on 2 packages of the LRT3 secured since then, coupled with an estimated burn rate of RM400m in 3Q, we estimate its orderbook balance to now stand at RM5.5bn. This implies a strong cover of 3.7x on FY16 construction revenue.

Risks

- Derailment of its de-gearing plans.

Forecasts

- As YTD job wins of RM1.7bn have exceeded our FY17 assumption of RM1bn, we adjust our earnings model accordingly to reflect this.

Rating

Maintain BUY, TP: RM2.29

- Albeit with a cautious stance, we are turning positive on WCT given its results recovery and de-gearing plans that has been laid out by its new top management.

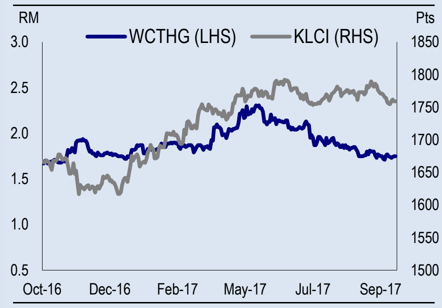
Valuation

- Following our earnings upgrade, our SOP based TP is raised slightly from RM2.26 to RM2.29. This implies FY17-18 P/E of 23.2x and 20x respectively.
- While the implied P/E valuations at our TP appear steep, we opine that WCT has a significant surplus land value (i.e. market value less BV), backing 67% of its market capitalisation.

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my
(603) 2168 1138

KLCI	1759.1
Expected share price return	30.9%
Expected dividend return	1.4%
Expected total return	32.3%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,407
Market cap (RM m)	2,462
3-mth avg. volume ('000)	1,350
SC Syariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-0.6	-17.8	3.6
Relative	0.2	-17.3	-1.9

Major shareholders

Dominion Nexus SB	17.6%
EPF	8.1%
LTH	7.1%

Summary Earnings Table

FYE Dec (RM m)	FY16	FY17E	FY18F	FY19F
Revenue	1,934	2,062	2,502	2,757
EBITDA	185	213	242	270
EBIT	170	199	228	255
Profit Before Tax	154	179	210	239
Core PATAMI	100	139	161	182
vs Consensus (%)		(7)	(6)	(4)
Core EPS (sen)	7.1	9.9	11.5	13.0
P/E (x)	24.6	17.7	15.3	13.5
Net DPS (sen)	-	2.5	2.9	3.2
Net DY (%)	-	1.4	1.6	1.9
BV per share	1.97	2.05	2.14	2.23
P/B (x)	0.9	0.9	0.8	0.8
ROE (%)	3.7	4.9	5.5	5.9
Net Gearing (%)	91.4	86.4	84.4	81.4

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Figure #1 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Mid FY18 earnings (ex. JV)	127	14	1,774	1.00
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			**4,036**	**2.29**

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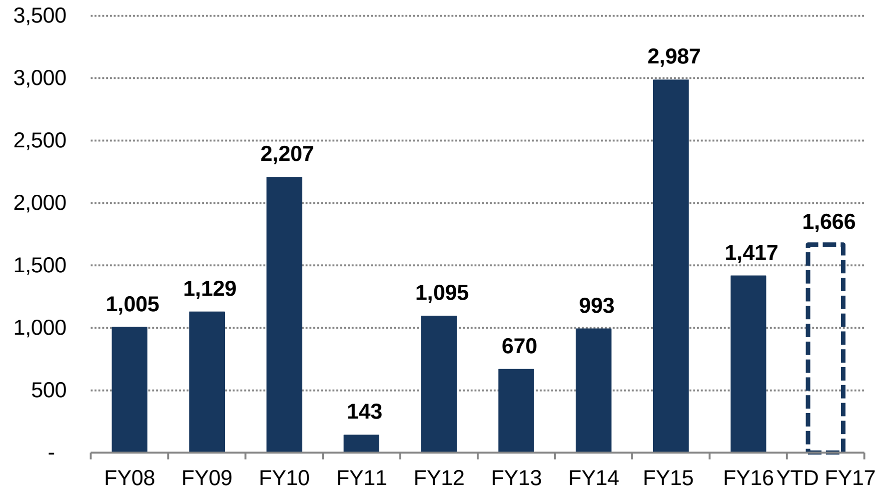
Figure #2 WCT's annual orderbook replenishment (RM m)



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Financial Projections for WCT Holdings

Balance Sheet

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	524	455	443	349	278
Receivables	2,365	2,549	2,654	2,907	3,054
Inventories	154	132	134	164	180
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**	**7,560**	**7,876**	**8,100**
Debts	2,593	2,982	2,932	2,882	2,832
Payables	1,458	1,510	1,667	1,910	2,045
Others	54	50	51	52	53
Liabilities	**4,105**	**4,542**	**4,650**	**4,845**	**4,930**
Shareholder's equity	2,610	2,764	2,880	3,001	3,138
Minority interest	37	34	29	30	32
Equity	**2,647**	**2,798**	**2,909**	**3,031**	**3,169**

Cash Flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	102	154	179	210	239
Depreciation & amortisation	8	15	14	15	15
Changes in working capital	(271)	118	49	(39)	(28)
Taxation	(55)	(57)	(41)	(49)	(57)
Others	(270)	(394)	(104)	(115)	(120)
CFO	**(486)**	**(164)**	**98**	**22**	**49**
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)	-	(35)	(40)	(46)
Others	(4)	(66)	-	-	-
CFF	**97**	**323**	**(85)**	**(90)**	**(96)**
Net cash flow	**(584)**	**(125)**	**(12)**	**(94)**	**(71)**
Forex	38	17	-	-	-
Others	119	39	-	-	-
Beginning cash	951	524	455	443	349
Ending cash	524	455	443	349	278

Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	**1,668**	**1,934**	**2,062**	**2,502**	**2,757**
EBITDA	138	185	213	242	270
EBIT	130	170	199	228	255
Finance cost	(58)	(46)	(50)	(49)	(49)
Associates & JV	30	30	31	32	32
Profit before tax	**102**	**154**	**179**	**210**	**239**
Tax	(55)	(57)	(41)	(49)	(57)
Net profit	**47**	**97**	**139**	**161**	**182**
Minority interest	2	3	-	-	-
PATMI (core)	**50**	**100**	**139**	**161**	**182**
Exceptionals	160	(32)	-	-	-
PATMI (reported)	209	68	139	161	182

Valuation & Ratios

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	3.5	7.1	9.9	11.5	13.0
P/E (x)	49.6	24.6	17.7	15.3	13.5
EV/EBITDA (x)	37.1	27.7	24.0	21.1	18.9
DPS (sen)	4.4	-	2.5	2.9	3.2
Dividend yield	2.5%	0.0%	1.4%	1.6%	1.9%
BVPS (RM)	1.86	1.97	2.05	2.14	2.23
P/B (x)	0.9	0.9	0.9	0.8	0.8
EBITDA margin	8.3%	9.5%	10.3%	9.7%	9.8%
EBIT margin	7.8%	8.8%	9.6%	9.1%	9.3%
PBT margin	6.1%	7.9%	8.7%	8.4%	8.7%
Net margin	3.0%	5.2%	6.7%	6.4%	6.6%
ROE	2.0%	3.7%	4.9%	5.5%	5.9%
ROA	0.8%	1.4%	1.9%	2.1%	2.3%
Net gearing	79.3%	91.4%	86.4%	84.4%	81.4%

Assumptions

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Contracts secured	2,987	1,417	1,600	1,000	1,000
Property sales	373	281	350	400	500

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Hong Leong Investment Bank Berhad (10209-W)
Level 23, Menara HLA
No. 3, Jalan Kia Peng
50450 Kuala Lumpur
Tel 603 2168 1168 / 603 2710 1168
Fax 603 2161 3880

Equity rating definitions

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.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
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.