

WCT Holdings (BUY \leftrightarrow ; EPS \leftrightarrow)

INDUSTRY: OVERWEIGHT

NEWSBREAK

17 October 2017

Price target: RM2.29 (\leftrightarrow)

Share price: RM1.68

2nd round of placement

News

- **Proposes private placement.** WCT has proposed to undertake a private placement of up to 140m new shares, representing 10% of its existing share base. It intends to submit the placement application to Bursa within 3 months and complete the exercise within 6 months upon approval.

Comments

- **2nd round of placement.** To recap, WCT proposed to undertake a placement of up to 125m new shares in Jan. The exercise was completed in April with 80% (100.5m shares) of the placement taken up while Bursa's approval for the balance 20% (24.5m shares) has since lapsed.
- **Funds to be raised.** Assuming an indicative placement price of RM1.73 (VWAP from 9 to 13 Oct) and a full take up, WCT will be able to raise RM242.2m.
- **Utilisation of proceeds.** The placement proceeds will be used for debt repayment (RM100m), working capital (RM140.2m) and placement expenses (RM2m). It is estimated that the repayment of borrowings will result to interest savings of RM4.8m annually. The working capital requirements are mainly for its construction segment, in which WCT has managed to secure RM1.7bn worth of jobs YTD (FY16: RM1.4bn) from 3 packages of the LRT3.

Risks

- Derailment of its de-gearing plans.

Forecasts

- Unchanged pending more clarity on the timeline and take up of the placement.
- We estimate that the placement would reduce its net gearing from 86% (2QFY17) to 72% on a proforma basis.

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

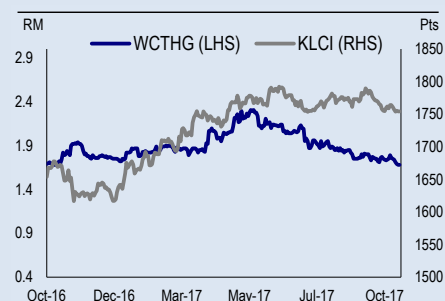
- Our SOP based TP of RM2.29 implies FY17-18 P/E of 23.2x and 20x respectively.
- While the implied P/E valuations at our TP appear steep, one must bear in mind that WCT has a significant surplus land value (i.e. market value less BV), backing 69% of its market capitalisation.

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KLCI	1754.4
Expected share price return	36.3%
Expected dividend return	1.5%
Expected total return	37.8%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,407
Market cap (RM m)	2,363
3-mth avg. volume ('000)	1,364
SC Syariah Compliant	Yes

Price Performance

	1M	3M	12M
Absolute	-4.5	-10.2	-0.6
Relative	-2.8	-10.1	-6.3

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)	23.6	17.0	14.7	13.0
Net DPS (sen)	-	2.5	2.9	3.2
Net DY (%)	-	1.5	1.7	1.9
BV per share	1.97	2.05	2.14	2.23
P/B (x)	0.9	0.8	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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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
Debt	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)	47.6	23.6	17.0	14.7	13.0
EV/EBITDA (x)	36.4	27.2	23.6	20.7	18.6
DPS (sen)	4.4	-	2.5	2.9	3.2
Dividend yield	2.6%	0.0%	1.5%	1.7%	1.9%
BVPS (RM)	1.86	1.97	2.05	2.14	2.23
P/B (x)	0.9	0.9	0.8	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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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.