



AmInvestment Bank

Company report

WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

23 Nov 2017

De-gearing still the key focus

HOLD

(Maintained)

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Rationale for report: Company update

Price RM1.65
Fair Value RM1.91
52-week High/Low RM2.48/RM1.49

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	154.5	147.8	171.4
FD Core EPS (sen)	6.0	8.6	8.3	9.6
FD Core EPS growth (%)	104.9	45.1	(4.3)	16.0
Consensus Net Profit (RM mil)	-	147.5	168.8	183.2
DPS (sen)	-	2.0	2.0	2.0
PE (x)	27.7	19.1	20.0	17.2
EV/EBITDA (x)	26.3	17.1	17.1	15.2
Div yield (%)	-	1.2	1.2	1.2
ROE (%)	2.5	5.3	4.7	5.2
Net Gearing (%)	91.4	75.7	72.0	67.4

Stock and Financial Data

Shares Outstanding (million)	1,415.4
Market Cap (RMmil)	2,335.4
Book Value (RM/share)	2.21
P/BV (x)	0.7
ROE (%)	2.5
Net Gearing (%)	91.4
Major Shareholders	Tan Sri Desmond Lim (17.5%) EPF (8.1%) Lembaga Tabung Haji (7.1%)
Free Float	38.5
Avg Daily Value (RMmil)	3.8

Price performance	3mth	6mth	12mth
Absolute (%)	(10.3)	(27.5)	(13.1)
Relative (%)	(7.7)	(25.3)	(17.8)



— WCTHG MK — FBMKLCI Index

Investment Highlights

- We maintain our forecasts, SOP-based FV of RM1.91 (Exhibit 1) and HOLD call, following an analyst briefing this morning.
- WCT maintained its guidance for annual job wins of RM2bil in FY17F, and tentatively in FY18F too, which is in line with our replenishment assumption of RM2bil annually in FY17-19F. YTD, it has secured new jobs worth a total of RM1.76bil.
- Apart from various building jobs, it is eyeing work packages from the West Coast Expressway, East Coast Rail Link, Pan Borneo Sabah and potentially a revived Kaiduan Dam project in Sabah (of which WCT was reported to have been awarded a letter of intent by the Sabah state government in 2009). Meanwhile, WCT said that Prasarana has "annulled" the KL-Klang bus rapid transit (BRT) project. WCT had submitted a bid for the build-operate-transfer (BOT) project.
- WCT elaborated on a legal suit brought against it by AEON Co (M) Bhd (AEON), the tenant for its entire AEON Bukit Tinggi Mall. AEON is seeking a High Court injunction to prevent WCT from terminating the lease agreement for the mall it signed with WCT (which expired on 23 Nov 2017 in the absence of a renewal) and evicting AEON and its sub-tenants from the mall.
- WCT described the legal suit as "a defensive move" by AEON as the parties are still negotiating the option to extend the lease agreement by another five years, upon the 10th anniversary of the agreement first inked between the parties in 2007.
- WCT said that while the parties have resolved the "financial terms" of the extension, AEON is not agreeable to WCT's plans to take back part of the mall's open car park space (main-road fronting, with an LRT3 station being planned next to it) for property development.
- We believe WCT has a strong bargaining position, given its proven ability in running shopping malls (Paradigm Mall in PJ, Gateway@KLIA2 and Paradigm Mall in JB). We believe WCT will be able to find a replacement for AEON as the anchor tenant for the mall if need be.

- WCT said that the legal suit could affect the listing of WCT REIT, now expected in 2QFY18. To recap, WCT intends to bundle Paradigm Mall in PJ (70%-owned), AEON Bukit Tinggi Mall (100%-owned) and Premiere Hotel in Klang (100%-owned), under the REIT. WCT hopes to raise about RM400mil by paring down its stake in the REIT with an expected market value of RM1.1bil, to just under 50%.
- In the worst case, WCT plans to replace AEON Bukit Tinggi Mall with Paradigm Mall in JB in the REIT. Paradigm Mall in JB is slated for opening on 28 Nov 2017 with 70% of the floor space ready for business. This should exceed 90% by June 2018, as 92% of the floor space has already been signed up thus far. Among the tenants of Paradigm Mall in JB are Parkson, H&M, Harvey Norman, Celebrity Fitness, Village Grocer and Golden Screen Cinemas.
- There is no change to WCT's other de-gearing initiatives which include: (1) the disposal of "non-strategic" landbank (Rawang, Serendah and fragmented land parcels in Bukit Tinggi, Klang); (2) clearing of unsold property stocks via "re-pricing" (YTD, it has sold properties worth a total of RM301mil, and its unbilled property sales stand at RM176mil currently); (3) potential RM200mil proceeds from the conversion of outstanding WCT-WD by Dec 2017; and (4) potential RM240mil proceeds from the private placement of 140mil new WCT shares at an indicative issue price of RM1.73/share. WCT appears confident that it will be able to place out 25mil new WCT shares "by the end of the year" to raise up to RM45mil. It said that it has "identified potential places".
- As at end-3QFY17, WCT's net debt and gearing stood at RM2.68bil and 0.87x respectively. We estimate that these de-gearing initiatives should help to bring its net gearing down to 0.5-0.6x.
- We maintain our view that WCT will ultimately be turned into the flagship PLC of Tan Sri Desmond 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		
Net debt	1,555	13x FY18F net profit
Proceeds from warrant/ESOS conversion	-2,349	Post private placement
	814	Outstanding and new warrants
	3,411	
Enlarged share base (m shares)	1,788	
FV (RM/share)	1.91	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
Package GS02 & GS03, LRT3	1,480
Package V204, MRT2	941
Pan Borneo Sarawak	886
RAPID	633
TRX	618
Lusail development, Qatar	491
West Coast Expressway	215
Johan Setia Depot, LRT3	161
Internal works	175
Police quarters redevelopment, Gombak	104
Others	131
Total	5,835

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

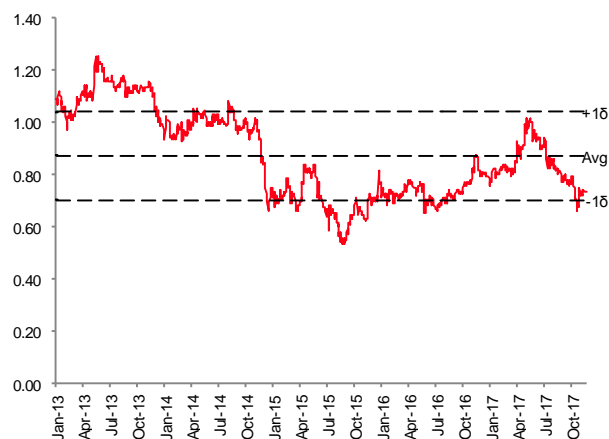


EXHIBIT 4: PE BAND CHART

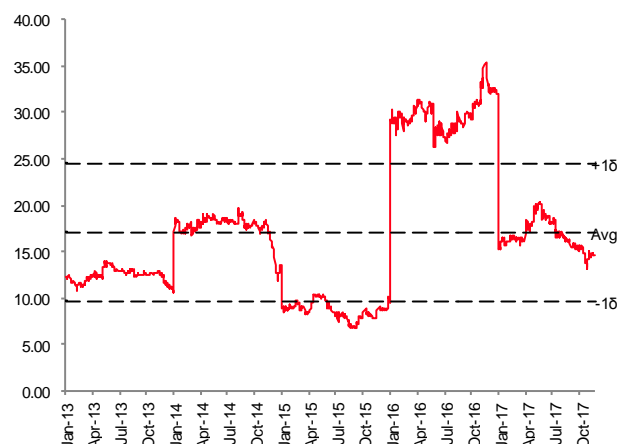


EXHIBIT 5: FINANCIAL DATA

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	272.4	272.0	302.3
Depreciation/Amortisation	(8.1)	(15.0)	(11.0)	(11.4)	(12.0)
Operating income (EBIT)	138.7	169.6	261.3	260.5	290.3
Other income & associates	24.5	30.4	27.1	27.1	27.1
Net interest	(57.8)	(46.3)	(77.7)	(74.2)	(73.1)
Exceptional items	156.4	(31.7)	-	-	-
Pretax profit	261.8	122.0	210.7	213.4	244.2
Taxation	(54.9)	(56.8)	(52.6)	(57.3)	(62.9)
Minorities/pref dividends	2.5	3.2	(3.7)	(8.4)	(10.0)
Net profit	209.4	68.4	154.5	147.8	171.4
Core net profit	52.9	100.1	154.5	147.8	171.4
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	654.6	674.7	720.7
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	2,839.6	2,859.8	2,905.7
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	3,075.3	3,202.7	3,353.7
Minority interests	36.8	33.9	37.5	45.9	55.9
BV/share (RM)	2.10	2.21	2.26	2.36	2.47
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	261.8	122.0	210.7	213.4	244.2
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	(2.0)	(10.2)	(108.9)
Cash flow from operations	(428.6)	(117.6)	219.8	214.7	147.4
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)	(77.7)	(74.2)	(73.1)
Cash flow from financing	97.3	321.3	79.8	(94.5)	(93.5)
Net cash flow	(526.6)	(34.8)	199.5	20.1	(46.1)
Net cash/(debt) b/f	944.5	398.5	334.7	534.2	554.4
Net cash/(debt) c/f	456.3	381.0	534.2	554.4	508.2
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	47.6	(0.1)	11.2
Pretax margin (%)	15.7	6.3	10.2	10.2	10.7
Net profit margin (%)	12.6	3.5	7.5	7.1	7.5
Interest cover (x)	2.4	3.7	3.4	3.5	4.0
Effective tax rate (%)	21.0	46.6	25.0	26.8	25.7
Dividend payout (%)	22.9	-	13.2	13.8	11.9
Debtors turnover (days)	283	255	239	237	217
Stock turnover (days)	27	27	23	23	21
Creditors turnover (days)	234	260	259	259	259

Source: Company, AmlInvestment Bank Bhd estimates

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