

WCT Holdings (BUY ↔; EPS ↔)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

23 November 2017

Price Target : RM2.29 (↔)

Share price : RM1.65

Recovery pace continues
Results

- WCT reported its 3QFY17 results with revenue of RM470m (+23% QoQ, +13% YoY) and core earnings (ex. forex) of RM41m (+8% QoQ, +103% YoY).
- Cumulative 9M revenue totalled RM1.33bn (-10% YoY) while core earnings totalled RM116m (+57% YoY).

Deviation

- 9M core earnings made up 84% of our full year forecast (consensus: 79%) which is above expectations.

Dividends

- No dividend declared.

Highlights

- Healthy construction margin recovery.** Although 9M construction revenue fell 22% YoY, EBIT staged a strong increase of 130%. We are pleased to note the YoY recovery in 9M construction EBIT margin from 3.6% to 10.7%. The recovery was fuelled by local jobs which command healthy margins as opposed to legacy jobs which dragged margins in the past. Overall, management expects better margins this year given the higher proportion of infra contracts that will be executed (as opposed to buildings).
- Strong on job wins.** YTD WCT managed to clinch 3 jobs totalling RM1.7bn associated with the LRT3. We estimate its orderbook to stand at RM5.6bn as of end 3Q. This orderbook level is an all-time high for WCT and translates to a strong cover of 3.7x on FY16 construction revenue.
- Property still tough.** While 9M property revenue increased 46% YoY, EBIT declined by 25%. We believe this is likely due to more aggressive discounts and incentives given which may have spurred sales at the expense of margins. Management's focus for this year remains on driving sales from existing and incoming inventories.

Risks

- High net gearing of 87%, although we note that this has reduced from 95% in 1Q.

Forecasts

- While the results were above expectations, we leave our forecast unchanged for now pending key takeaways from today's analyst briefing. Any potential revision to our estimates is likely to be upward biased.

Rating
Maintain BUY, TP: RM2.29

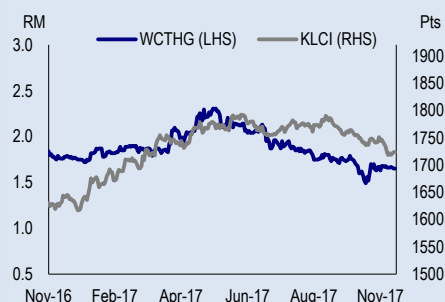
- Albeit with a cautious stance, we are turning positive on WCT given its results recovery. Coupled with its 29% share price decline since mid-May, this leaves sufficient buffer to reinforce our BUY rating.

Valuation

- Our SOP based TP of RM2.29 implies FY17-18 P/E of 23.2x and 20x respectively.
- While this is rather steep, WCT has significant surplus land value (i.e. market value less BV), backing 69% of its market capitalisation.

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KLCI	1,723.5
Expected share price return	38.8%
Expected dividend return	1.5%
Expected total return	40.3%

Share Price

Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,407
Market cap (RM m)	2,321
3-mth avg. volume ('000)	2,287
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	8.6	-10.3	-10.3
Relative	9.7	-7.8	-15.1

Major shareholders

Dominion Nexus Sdn Bhd	17.6%
EPF	8.0%
LTH	7.6%

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 (%)		(6)	(5)	(1)
Core EPS (sen)	7.1	9.9	11.4	13.0
P/E (x)	23.2	16.7	14.4	12.7
Net DPS (sen)	-	2.5	2.9	3.2
Net DY (%)	-	1.5	1.7	2.0
BV per share	1.96	2.05	2.13	2.23
P/B (x)	0.8	0.8	0.8	0.7
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 Quarterly results comparison

FYE Dec (RM m)	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
Revenue	414.4	383.3	469.8	22.6	13.4	QoQ: Growth by both construction and property. YoY: Growth from property.
EBIT	31.8	62.5	75.3	20.6	136.7	QoQ: Inline with revenue. YoY: Construction margin expansion.
Finance cost	(7.3)	(13.5)	(14.3)	5.5	96.6	
Associates & JVs	7.2	5.8	4.0	(30.1)	(44.0)	
PBT	31.8	54.7	65.1	19.0	104.9	
PAT	21.0	37.7	39.8	5.5	89.5	
PATMI - core	20.1	37.7	40.8	8.2	103.0	
PATMI - reported	24.0	21.5	41.5	93.3	73.2	Includes forex impact.
EPS - core	1.4	2.7	2.9			
EBIT margin	7.7	16.3	16.0			FY17 construction margin continues to recover.
PBT margin	7.7	14.3	13.9			

Company, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	9MFY16	9MFY17	YoY (%)	Comments
Revenue	1,480.4	1,326.5	(10.4)	Lower construction revenue.
EBIT	128.3	191.4	49.2	Higher on construction margin recovering 3-folds.
Finance cost	(33.5)	(40.1)	19.7	
Associates & JVs	24.8	17.6	(29.2)	
PBT	119.6	168.9	41.2	
PAT	76.0	112.5	47.9	
PATMI - core	73.9	115.9	56.8	Above expectations at 84% of full year forecast.
PATMI - reported	64.9	96.1	48.1	
EPS - core	5.3	8.2		
EBIT margin	8.7	14.4		Driven by construction margin recovery but slightly offset by property margin contraction.
PBT margin	8.1	12.7		

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Figure #3 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
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	11.4	13.0
P/E (x)	46.8	23.2	16.7	14.4	12.7
EV/EBITDA (x)	36.5	27.3	23.6	20.8	18.6
DPS (sen)	4.4	-	2.5	2.9	3.2
Dividend yield	2.6%	0.0%	1.5%	1.7%	2.0%
BVPS (RM)	1.86	1.96	2.05	2.13	2.23
P/B (x)	0.9	0.8	0.8	0.8	0.7
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.
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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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