

WCT Holdings Berhad

Business as Usual

TP: RM1.26 (+53.7%)

Last Traded: RM0.82

BUY

Ooi Beng Hooi

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

We attended WCT's IQ18 results briefing held on 24 May 2018. While certain ongoing mega projects will be subject to review and the rollouts of some mega projects planned by the previous administration delayed, we are comforted by the fact that the business outlook for WCT remain largely intact. Meanwhile, management is actively addressing the elevated net gearing level at 0.94x currently. Valuation wise, the stock is trading at single digit PE multiple to its forward earnings, and at a mere 0.37x of its book value. Reiterate BUY on WCT as we think the recent sell-down on the stock is overdone. The depressed market sentiment may present an opportunity for investors to bottom fish.

Construction Division Supported by Healthy Order Book

We believe the ongoing construction jobs in hand, which include works for RAPID, Pengerang, Tun Razak Exchange (TRX), Pan Borneo Highway in Sarawak, MRT2, LRT3, etc. would proceed even though some of these projects could be subjected to review. This is especially so for those projects that are people-centric such as the ongoing Pan Borneo Highway in Sarawak, MRT2 and LRT3. We understand from management that majority of the infrastructure jobs were secured directly from the government agencies and the jobs in hands were awarded to WCT through competitive biddings. The management further noted that WCT has not been contacted by its clients with regards to a review or suspension of projects, for now.

For TRX, we think the catalytic development is financially feasible. Given that some parts of the entire development have reached an advanced stage, we see strong reasons for the development to proceed. The Prime Minister Tun Dr Mahathir has underlined that the new government is business friendly. Furthermore, the development project involves foreign partners and investors, which include Lendlease, Mulia Group, HSBC and Veolia Water Technologies.

While certain infrastructure works planned by the previous administration may be reviewed, delayed or shelved, WCT carries a healthy outstanding order book of RM5.1bn (see Exhibit 1), which could last the group till 2020.

WCT has yet to secure any new construction jobs YTD. However, management maintains its FY18 order book replenishment target of RM2.0bn (versus our assumption of RM1.5bn). This is backed by about RM6.6bn of tender book, which comprises around RM1.7bn of civil works (including highway in East Malaysia), and about RM4.9bn of building works (about RM2.0bn from related party and about RM1.0b to RM1.5bn at TRX)

Outlook for Property Market Remains Challenging

The property sales for IQ18 slowed down to RM45m from RM77mn achieved in the immediate preceding quarter while unbilled sales declined further from RM230mn to RM177mn.

Share Information

Bloomberg Code	WCTHG MK
Bursa	WCT
Stock Code	9679
Listing	Main Market
Share Cap (mn)	1406.9
Market Cap (RMmn)	1,153.6
52-wk Hi/Lo (RM)	2.23/0.695
12-mth Avg Daily Vol ('000 shrs)	4261.5
Estimated Free Float (%)	70.4
Beta	1.10

Major Shareholders (%)

Dominion Nexus Sdn Bhd	- 17.57
Employees Provident Fund	- 8.94
Lembaga Tabung Haji	- 8.72
Skim Amanah Saham	- 5.64

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(5.0)	1.6
Net profit (RMmn)	146.9	150.1
Consensus	155.2	162.7
TA's / Consensus (%)	94.6	92.3
Previous Rating	Buy (Maintained)	

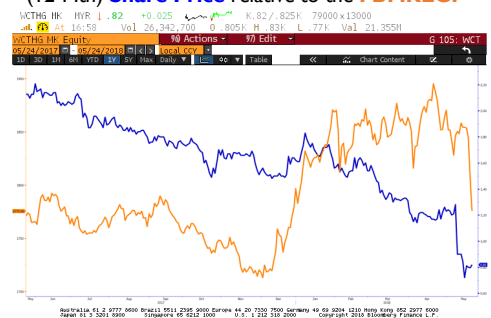
Financial Indicators

	FY18	FY19
Net Debt / Equity (%)	65.9	61.2
CFPS (sen)	43.4	7.8
Price / CFPS (x)	1.9	10.5
ROA (%)	2.0	2.1
NTA/Share (RM)	2.2	2.2
Price/NTA (x)	0.4	0.4

Share Performance (%)

Price Change	WCT	FBM KLCI
1 mth	(29.9)	(4.1)
3 mth	(49.4)	(4.6)
6 mth	(50.6)	3.4
12 mth	(61.4)	0.1

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

In the foreseeable future, WCT plans to rollout 2 property projects with a combined estimated GDV of RM394mn. They are:

Project	Estimated GDV (RM'mn)	Target Launch Date
Paradigm Residences, JB	165	4Q18/1Q19
Sapphire @ Paradigm PJ	229	3Q18

The construction of Sapphire@Paradigm PJ is expected to complete by 3Q18. As such, this development project will be launched based on build-then-sell concept.

For FY18, it maintains a property sales target of RM300mn, mainly from clearance of existing stocks.

Several De-gearing Initiatives

WCT has signed 2 sale and purchase agreements (SPA) to dispose of 89 acres of land in Sungai Buaya for RM61mn, and another SPA to sell 7 acres of land in Bukit Tinggi, Klang, for RM55mn. The disposals of land in Sungai Buaya and Bukit Tinggi are expected to be completed in June 2018 and 4Q18 respectively. The group intends to dispose more land as part of the group's de-gearing initiatives.

Forecast

Adjustments made to our earnings model were: i) fine-tuning forecasts for construction revenue recognition for various projects; ii) factoring in refinancing cost for KLIA2 gateway; iii) adjustments for contribution from Paradigm Mall JB and hotels; and iv) lowering contribution from the property development division in view of subdued property market. All in, we cut FY18 earnings forecast by 5.0% but raise FY19 and FY20 earnings forecasts by 1.6% and 2.5% respectively.

Valuation

Following the earnings revision, we tweak WCT target price from RM1.25 to **RM1.26**, based on unchanged 14x CY19 construction earnings and 10x CY18 property earnings. Reiterate **BUY** call on the stock and we think the recent sell-down on the stock is overdone.

Earnings Summary (RMmn)

Profit & Loss (RMmn)

YE Dec 31	2016	2017	2018F	2019F	2020F
Revenue	1933.6	1905.9	2575.0	2408.6	2609.3
COGS	(1694.8)	(1578.2)	(2188.8)	(2047.3)	(2217.9)
Gross profit	238.8	327.7	386.3	361.3	391.4
EBITDA	197.5	327.7	251.0	236.2	247.4
Depr & Amort	(15.0)	(14.2)	(8.0)	(8.8)	(9.5)
EBIT	182.5	313.4	243.0	227.4	237.9
Finance cost	(61.5)	(63.2)	(78.8)	(66.0)	(62.8)
Associates	8.3	2.3	2.4	2.4	2.4
JV	(7.2)	(22.0)	32.0	39.0	41.0
Adj PBT	156.2	170.4	198.5	202.8	218.5
Tax	(56.8)	(78.7)	(45.7)	(46.7)	(50.2)
MI	3.2	2.7	(6.0)	(6.1)	(6.6)
Net profit	68.4	154.6	146.9	150.1	161.7
EI	(34.2)	60.3	0.0	0.0	0.0
Core Net Profit	102.6	94.4	146.9	150.1	161.7

Cash Flow (RMmn)

YE Dec 31	2016	2017	2018F	2019F	2020F
PBT	122.0	230.6	198.5	202.8	218.5
Depr & Amort	15.0	14.2	8.0	8.8	9.5
Tax	(41.5)	(54.9)	(45.7)	(46.7)	(50.2)
Associate and JV	(1.0)	19.6	(2.4)	(2.4)	(2.4)
OP before w/cpt change	152.7	222.3	283.0	275.2	288.4
Other Operating CF (net)	(411.1)	(454.1)	116.2	(325.3)	(311.7)
CFO	(163.9)	(22.2)	557.7	112.5	152.1

Capex	(59.1)	(117.7)	(39.6)	(41.6)	(30.0)
Others	(179.4)	(105.6)	133.3	50.0	0.0
CFI	(238.6)	(223.3)	93.7	8.4	(30.0)

Net Addition/(Rpmnt)	243.6	18.3	(536.5)	(131.8)	(178.4)
Dividend Paid	(25.0)	0.0	(45.0)	(46.5)	(46.5)
Others	104.0	378.7	6.3	6.3	6.3
CFF	322.6	397.0	(575.2)	(172.0)	(218.6)

Change in cash	(79.9)	151.5	76.3	(51.1)	(96.5)
Forex	17.4	-46.4	0.0	0.0	0.0
Net Cash Flow	(62.5)	105.1	76.3	(51.1)	(96.5)

Cash and bank balances	455.1	527.2	603.5	552.4	455.8
Adjustment	(119.1)	(86.1)	0.0	0.0	0.0
Cash & cash equivalent	336.0	441.1	603.5	552.4	455.8

Balance Sheet (RMm)

YE Dec 31	2016	2017	2018F	2019F	2020F
Fixed Assets	328.3	341.0	372.6	405.4	425.8
Land held for property development	1437.4	1554.0	1504.0	1454.0	1454.0
Associates + JV	650.9	614.0	616.4	618.8	621.2
Investment Properties	1124.8	1594.4	1594.4	1594.4	1594.4
Others	1218.0	815.5	815.5	815.5	815.5
LT Assets	4759.5	4918.9	4902.8	4888.0	4910.8
Inventories	132.0	461.2	457.8	487.3	493.7
Trade and other receivables	1081.3	1526.5	716.3	679.8	723.8
Deposits, cash and bank balances	455.1	527.2	603.5	552.4	455.8
Others	912.5	709.7	638.3	658.9	675.8
ST Assets	2580.9	3224.6	2415.9	2378.4	2349.2

Total Assets	7340.4	8143.5	7318.7	7266.4	7260.0
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Trade and other payables	967.9	1216.5	814.0	777.6	821.6
ST Borrowings	823.5	1028.0	741.6	659.8	530.4
Others	13.1	13.7	13.7	13.7	13.7
ST Liabilities	1804.5	2258.3	1569.4	1451.1	1365.7

LT Borrowings	2158.7	2257.1	2007.1	1957.1	1908.1
Others	579.2	481.4	473.3	465.2	457.1
LT Liabilities	2737.9	2738.5	2480.4	2422.3	2365.2

Share Cap	631.1	3210.1	3217.3	3224.5	3231.7
Reserves	(165.7)	(71.2)	30.7	134.3	249.5
Share Premium	2311.0	0.0	7.2	14.4	21.6
Treasury shares	(12.2)	(0.4)	(0.4)	(0.4)	(0.4)
Shareholder's Funds	2764.1	3138.6	3254.9	3372.9	3502.4
MI	33.9	8.1	14.0	20.1	26.7

Liabilities + Equities	7340.4	8143.5	7318.7	7266.4	7260.0
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Ratio

YE Dec 31	2016	2017	2018F	2019F	2020F
EBITDA margin (%)	10.2	17.2	9.7	9.8	9.5
Core EPS (sen)	8.3	6.9	9.8	9.7	10.4
EPS Growth (%)	66.6	(17.0)	42.1	(1.1)	7.7
PER (x)	9.9	11.9	8.4	8.5	7.9
GDPS (sen)	0.0	3.0	3.0	3.0	3.0
Share dividend (%)	0.6	0.0	0.0	0.0	0.0
Div Yield (%)#	0.6	3.7	3.7	3.7	3.7
Net gearing (x)	0.9	0.9	0.7	0.6	0.6
ROE (%)	3.8	3.2	4.6	4.5	4.7
ROA (%)	1.4	1.2	2.0	2.1	2.2
NTA/share (RM)	2.2	2.2	2.2	2.2	2.3
P/NTA (x)	0.4	0.4	0.4	0.4	0.4

#Including dividend yield arising from distribution of treasury shares

Appendix

Exhibit 1: Outstanding Order Book

Project	Outstanding value (RMmn)
Overseas	
Lusail Development Project, Qatar	434
Total for Overseas	434
Local	
Civil Engineering & Infrastructure	
RAPID Pengerang Civil Works	234
TRX – Infrastructure & Roadway	454
West Coast Expressway	189
Pan Borneo Highway	833
MRT V204 & S204	880
LRT 3 Johan Setia Depot	101
LRT 3 GS03 & GS02	1,444
Elevated Sprint Highway	180
Others	111
Sub-Total	4,426
Building	
Redevelopment of Police Quarters	83
Rapid UIO – Local Control Building	132
Others	17
Sub-Total	232
Total for Local	4,658
Total for External	5,092

Source: WCT, TA Research

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, May 25, 2018, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my