



AmInvestment Bank

Company report

WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

25 July 2018

In better position to enforce Meyden arbitration award

HOLD

(Maintained)

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Rationale for report: Company update

Price	RM0.99
Fair Value	RM0.92
52-week High/Low	RM1.97/RM0.70

Key Changes

Fair value	↕
EPS	↕

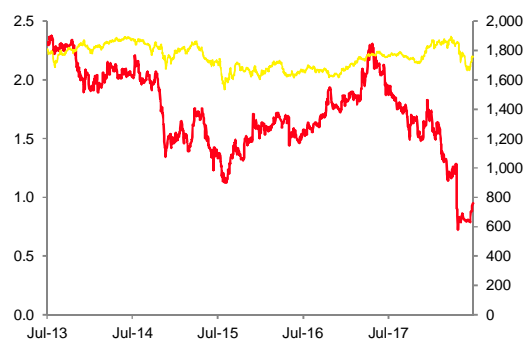
YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	1,905.9	2,597.6	2,672.7	2,353.7
Core net profit (RM mil)	148.5	135.4	136.4	136.8
FD Core EPS (sen)	10.8	9.2	9.2	9.3
FD Core EPS growth (%)	64.4	(15.1)	0.4	0.9
Consensus Net Profit (RM mil)	-	155.4	162.3	175.5
DPS (sen)	3.0	3.0	3.0	3.0
PE (x)	9.1	10.8	10.7	10.6
EV/EBITDA (x)	13.6	15.6	15.1	15.6
Div yield (%)	3.0	3.0	3.0	3.0
ROE (%)	5.2	4.3	4.2	4.1
Net Gearing (%)	87.9	85.8	83.8	81.8

Stock and Financial Data

Shares Outstanding (million)	1,415.4
Market Cap (RM mil)	1,401.3
Book Value (RM/share)	2.29
P/BV (x)	0.4
ROE (%)	5.2
Net Gearing (%)	87.9

Major Shareholders	Tan Sri Desmond Lim (17.5%) EPF(8.1%) Lembaga Tabung Haji (7.1%)
Free Float	38.5
Avg Daily Value (RM mil)	11.6

Price performance	3mth	6mth	12mth
Absolute (%)	(20.2)	(42.4)	(48.4)
Relative (%)	(15.5)	(40.0)	(48.5)



— WCTHG MK — FBMKLCI Index

Investment Highlights

- We maintain our forecasts, HOLD call and FV of RM0.92, based on 10x FY19F FD EPS, in line with our benchmark forward PE of 10-12x for mid-cap construction stocks.
- Following the dismissal by the Dubai Civil Court of Cassation (the highest civil appeal court in the UAE) of a civil suit brought by Meyden Group LLC against WCT, WCT is now in a better position to enforce an arbitration award of AED1.15bil (RM1.2bil) by the Dubai International Arbitration Centre in 2015 against Meyden Group LLC in relation to the cancellation of the Nad Al Sheba Racecourse project in Dubai, UAE, in 2009.
- Assuming Meyden Group LLC is to pay up, the arbitration award translates to 71 sen per share on a fully diluted basis. It would reduce WCT's net debt and gearing of RM3.0bil and 0.95x as at 31 March 2018, to RM1.8bil and 0.56x respectively.
- While the latest development is positive to WCT, we believe the episode is far from over as the question remains if Meyden Group LLC will play by the book. We hold the view that until and unless the payment is received, the arbitration award remains a paper judgment.
- Also, to recap, in Feb 2017, the 50:50 WCT–Arabtec Construction LLC JV received a request for arbitration from the Dubai International Arbitration Centre, filed by its steel work subcontractor for the Nad Al Sheba Racecourse project in Dubai, UAE, i.e. Triumpher Steel Construction Group LT. It is claiming AED107.7mil (RM130.6mil) for works done plus costs.
- We maintain our view that WCT's construction division is not spared the weakened prospects for job wins as the government cuts back on public infrastructure spending, particularly, mega projects on grounds of fiscal prudence. As local contractors compete for a shrinking pool of new construction jobs in the market, they tend to undercut each other, resulting in razor-thin margins for the successful bidders. The competition will intensify further with the introduction of a more transparent public procurement system under the new administration. Not helping either are the prolonged downturn in the local property market and the glut in retail space that weigh down on WCT's property development and investment divisions.

EXHIBIT 1: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
Package GS02 & GS03, LRT3	1,444
Package V204, MRT2	880
Pan Borneo Sarawak	833
Building, TRX	555
Infrastructure, TRX	454
Lusail development, Qatar	434
RAPID	366
Jalan Maarof/Semantan highway	180
West Coast Expressway	189
Internal works	154
Johan Setia Depot, LRT3	101
Police quarters redevelopment, Gombak	83
Others	128
Total	5,801

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

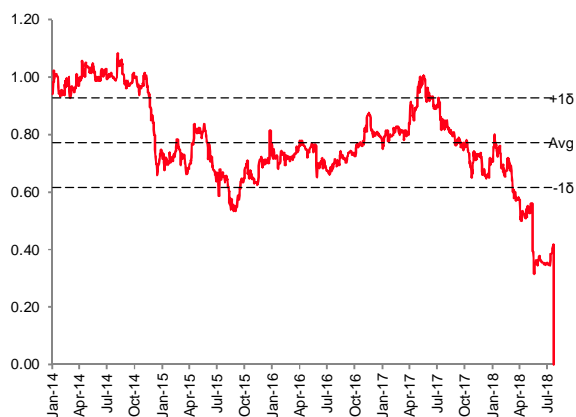


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
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Revenue	1,933.6	1,905.9	2,597.6	2,672.7	2,353.7
EBITDA	184.6	306.7	268.5	277.5	269.0
Depreciation/Amortisation	(15.0)	(22.3)	(11.4)	(12.0)	(12.6)
Operating income (EBIT)	169.6	284.4	257.0	265.4	256.3
Other income & associates	30.4	3.2	28.8	28.8	28.8
Net interest	(46.3)	(63.2)	(88.5)	(89.0)	(89.4)
Exceptional items	(31.7)	6.1	-	-	-
Pretax profit	122.0	230.6	197.3	205.3	195.8
Taxation	(56.8)	(78.7)	(53.7)	(58.9)	(48.9)
Minorities/pref dividends	3.2	2.7	(8.3)	(10.0)	(10.0)
Net profit	68.4	154.6	135.4	136.4	136.8
Core net profit	100.1	148.5	135.4	136.4	136.8
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
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Fixed assets	328.3	338.4	426.9	514.9	602.2
Intangible assets	-	-	-	-	-
Other long-term assets	4,431.2	4,577.9	4,606.7	4,635.5	4,664.3
Total non-current assets	4,759.5	4,916.3	5,033.6	5,150.4	5,266.6
Cash & equivalent	455.1	527.2	511.0	498.2	486.3
Stock	132.0	461.2	461.2	461.2	461.2
Trade debtors	1,351.4	1,895.1	1,895.1	1,895.1	1,895.1
Other current assets	642.4	333.9	333.9	333.9	333.9
Total current assets	2,580.9	3,217.5	3,201.3	3,188.4	3,176.6
Trade creditors	971.7	1,212.7	1,212.7	1,212.7	1,212.7
Short-term borrowings	823.5	1,028.0	1,028.0	1,028.0	1,028.0
Other current liabilities	9.3	7.4	7.4	7.4	7.4
Total current liabilities	1,804.5	2,248.2	2,248.2	2,248.2	2,248.2
Long-term borrowings	2,158.7	2,257.1	2,257.1	2,257.1	2,257.1
Other long-term liabilities	579.2	481.8	481.8	481.8	481.8
Total long-term liabilities	2,737.9	2,738.9	2,738.9	2,738.9	2,738.9
Shareholders' funds	2,764.1	3,138.6	3,231.5	3,325.4	3,419.8
Minority interests	33.9	8.1	16.4	26.4	36.4
BV/share (RM)	2.21	2.29	2.28	2.35	2.42
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
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Pretax profit	122.0	230.6	197.3	205.3	195.8
Depreciation/Amortisation	15.0	22.3	11.4	12.0	12.6
Net change in working capital	(275.2)	(269.4)	-	-	-
Others	20.6	(2.6)	6.0	(119.0)	(109.5)
Cash flow from operations	(117.6)	(19.1)	214.8	98.3	98.9
Capital expenditure	(276.6)	(36.6)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	38.1	(82.6)	-	-	-
Cash flow from investing	(238.6)	(119.2)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	381.2	285.0	-	-	-
Equity raised/(repaid)	92.6	266.6	-	-	-
Dividends paid	(25.0)	(40.8)	(42.5)	(42.5)	(42.5)
Others	(127.5)	(109.6)	(88.5)	(89.0)	(89.4)
Cash flow from financing	321.3	401.3	(131.0)	(131.4)	(131.8)
Net cash flow	(34.8)	263.0	(16.2)	(133.2)	(132.9)
Net cash/(debt) b/f	398.5	334.7	535.4	519.2	506.4
Net cash/(debt) c/f	381.0	597.7	519.2	386.1	373.4
Key Ratios (YE31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
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Revenue growth (%)	15.9	(1.4)	36.3	2.9	(11.9)
EBITDA growth (%)	25.8	66.2	(12.5)	3.4	(3.1)
Pretax margin (%)	6.3	12.1	7.6	7.7	8.3
Net profit margin (%)	3.5	8.1	5.2	5.1	5.8
Interest cover (x)	3.7	4.5	2.9	3.0	2.9
Effective tax rate (%)	46.6	34.1	27.2	28.7	25.0
Dividend payout (%)	-	26.4	31.4	31.1	31.0
Debtors turnover (days)	255	363	266	259	294
Stock turnover (days)	27	57	65	63	72
Creditors turnover (days)	258	323	321	321	321

Source: Company, AmInvestment Bank Bhd estimates

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