

Outthink. Outperform.

Fair value gains offset impairments

WCT's FY17 net profit was above market and our expectations. We were surprised by the net exceptional gain of RM4m, mainly due to investment property fair value gains offset by impairment of receivables. Core net profit surged 78% yoy to RM151m, driven by higher construction and property earnings. We cut our EPS forecasts by 4-6% for FY18-19 to reflect higher interest expenses due to the increase in borrowings. We reiterate our BUY call with a reduced 12-month TP of RM2.36, based on a 20% discount to RNAV.

Within expectations

Net profit of RM155m (+126% yoy) was above the consensus forecast of RM147m and our estimate of RM130m. We were surprised by the RM214m fair value gain for Paradigm Mall JB, which started operation in November 2017, and other investment properties. This was partly offset by the RM165m impairment of receivables, which related to the completed Ministry of Interior project in Qatar, and unrealized forex loss of RM20m. The core net profit of RM151m (+78% yoy) for FY17 was within our expectation.

Better operating performance

Revenue was down 1% yoy to RM1.9bn as higher property development (+44% yoy) and investment (+25% yoy) revenue offset lower construction revenue (-11% yoy). Operating profit jumped 72% yoy to RM313m. The higher property investment profit (+937% yoy) was partially offset by the lower property development profit (-8% yoy) and RM33m loss for the construction division. The property investment division recognised a fair value gain of RM225m with normalised profit of RM46m. Excluding the one-off impairment of receivables amounting to RM165m and unrealised forex loss of RM20m, construction profit was RM152m in FY17, double that in FY16.

New contract target achieved

WCT secured RM2bn of new contracts in FY17, achieving its target. The order book expanded to RM5.6bn at end-FY17 from RM5.0bn at end-FY16. Property sales of RM305m in FY17 were higher than RM281m in FY16. Unrecognised sales stood at RM147m with unsold completed stock still high at RM550m. WCT is targeting to secure RM2bn of new contracts in FY18, having already submitted tenders worth over RM2.8bn.

Maintain BUY

We revise up our RNAV/share forecast to RM2.95 from RM2.74, mainly to reflect the higher book value for its investment properties following the revaluation. Applying a higher discount of 20% to RNAV (10% previously) to reflect a higher execution risk for its restructuring, we cut our TP to RM2.36 from RM2.46.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	1,933.6	1,905.9	2,828.7	2,800.9	3,257.5
EBITDA (RMm)	163.1	305.8	320.6	378.7	447.3
Pretax profit (RMm)	122.0	230.6	269.1	321.2	401.1
Net profit (RMm)	68.4	154.6	198.1	231.0	290.6
EPS (sen)	5.2	10.0	12.7	14.7	18.3
PER (x)	30.7	15.9	12.6	10.9	8.8
Core net profit	55.5	150.7	198.1	231.0	289.6
Core EPS (sen)	4.4	9.8	12.7	14.7	18.2
Core EPS growth (%)	(19.5)	121.5	29.3	15.7	24.1
Core PER (x)	36.2	16.3	12.6	10.9	8.8
Net DPS (sen)	1.3	3.0	3.0	3.0	3.0
Dividend Yield (%)	0.8	1.9	1.9	1.9	1.9
EV/EBITDA (x)	25.4	13.8	13.1	10.9	8.8
Chg in EPS (%)			(3.7)	(6.0)	New
Affin/Consensus (x)			1.2	1.3	NA

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

WCT Holdings

WCTHG MK
Sector: Construction & Infra

RM1.60 @ 27 February 2018

BUY (maintain)

Upside: 48%

Price Target: RM2.36

Previous Target: RM2.46



Price Performance

	1M	3M	12M
Absolute	-4.8%	0.6%	-12.5%
Rel to KLCI	-5.7%	-7.5%	-20.8%

Stock Data

Issued shares (m)	1,406.9
Mkt cap (RMm)/(US\$m)	2,251/575.9
Avg daily vol - 6mth (m)	2.5
52-wk range (RM)	1.46-2.48
Est free float	64.8%
BV per share (RM)	2.22
P/BV (x)	0.7
Net cash/ (debt) (RMm) (4Q17)	(2,758)
ROE (2018E)	6.2%
Derivatives	Yes
(Warr 15/20, WP RM0.25, EP RM2.08)	
Shariah Compliant	Yes

Top 3 Key Shareholders

Dominion Nexus Sdn Bhd	17.6%
EPF	8.8%
LTH	8.2%

Source: Affin Hwang, Bloomberg

Loong Chee Wei CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

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REIT listing could be delayed

Net gearing increased to 0.88x in 4Q17 from 0.86x in 3Q17 with the drawdown of loans for working capital. The proposed private placement of up to 140m shares to raise up to RM224m is pending. The potential listing of WCT REIT could be delayed pending the resolution of the legal suit filed by AEON to prevent the termination of the lease for BBT Mall, which expired on 23 November 2017. The 3 sales and purchase agreements signed for the disposal of land in Bandar Bukit Tinggi and Serendah will generate sale proceeds of RM116m.

Key risks

Key risks to our positive view are slower property sales and construction execution risks.

Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q17	% QoQ	% YoY	FY17	% YoY	4Q17 Comment
Revenue	579.4	23.3	27.9	1,905.9	(1.4)	FY17: Lower revenue due to decline in construction revenue (-11% yoy), partly offset by higher property development (+44% yoy) and property investment (+25% yoy) revenue.
Operating costs	(268.2)	(26.8)	(37.2)	(1,600.0)	(8.1)	
EBITDA	311.2	329.6	1,082.1	305.8	58.9	
<i>EBITDA margin (%)</i>	53.7	38.3ppt	47.9ppt	16.0	6.1ppt	Higher operating profit margin for its construction division offset the impact of lower property development margin.
Depreciation	(12.7)	275.0	127.9	(22.3)	49.1	
EBIT	298.5	332.3	1,339.3	283.5	59.7	
Interest expense	(23.1)	61.5	79.9	(63.2)	2.6	
Interest income	8.5	6.4	49.6	25.9	21.2	
Associates	(37.2)	(1,021.1)	56.4	(19.6)	(2,004.3)	
Forex gain/(loss)	(0.7)	(195.5)	(103.2)	(20.5)	(258.1)	Loss from translation of receivables in Middle East due to stronger Ringgit.
Exceptional gain/(loss)	(164.5)	9,577.9	45,474.8	24.4	(183.1)	Fair value gain for Paradigm JB offset impairment for receivables in Qatar.
Pretax profit	81.5	23.8	617.0	230.6	89.1	
Core pretax	246.7	269.4	(2,519.6)	226.7	63.7	
Tax	(22.3)	(11.8)	68.6	(78.7)	38.5	
<i>Tax rate (%)</i>	27.4	-11.1ppt	-89.0ppt	34.1	-12.4ppt	Higher tax rate than statutory rate as unrealised forex loss and certain expenses are not tax deductible.
Minority interests	0.1	(65.8)	(98.3)	2.7	(15.6)	
Net profit	59.3	45.3	1,589.2	154.6	126.1	Above expectation.
EPS (sen)	4.2	45.5	1,396.4	11.3	105.3	
Core net profit	224.5	437.7	(1,343.4)	150.7	77.6	Within expectation.

Source: Affin Hwang estimates, Company

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	4Q16	3Q17	4Q17	% QoQ	% YoY	FY16	FY17	% YoY
Construction	39.7	47.1	(132.4)	NA	(433.6)	74.0	(32.8)	NA
Property development	18.2	21.6	27.7	28.1	52.2	82.5	75.7	(8.2)
Property investment	5.3	7.4	246.5	>100	>100	26.1	270.5	>100
Total	63.2	76.1	141.8	86.2	124.3	182.5	313.4	>100

Source: Company, Affin Hwang

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Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	4Q16	3Q17	4Q17	ppt QoQ	ppt YoY	FY16	FY17	ppt YoY
Construction	10.6	15.3	(28.6)	NA	NA	4.7	(2.4)	NA
Property development	28.5	15.1	31.3	16.1	2.8	27.2	17.3	(9.9)
Others	34.0	39.7	897.9	>100	>100	42.2	351.4	>100
Total	13.9	16.2	24.5	8.3	10.5	9.4	16.4	7.0

Source: Company, Affin Hwang

Fig 4: RNAV and target price assumptions

Segment	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 14x avg earnings of RM100m	100	1,400	1,400	0
Property devt @ RNAV	100	2,844	2,837	0
BBT mall @ NBV	100	442	442	0
Paradigm mall @ NBV	70	510	510	0
gateway@klia2 @ NBV	70	420	420	0
Other investment properties	100	1,152	683	69
Indian toll roads	30	135	135	0
Net cash/(debt)		(2,515)	(2,107)	19
RNAV		4,389	4,320	2
No. of shares (m shrs)		1,415	1,521	(7)
RNAV/share (RM)		3.10	2.84	9
New shares from warrants conversion (m)		237	237	0
Fully-diluted no. of shares (m)		1,652	1,758	(6)
Fully-diluted RNAV/share (RM)		2.95	2.74	8
Target price at 20% discount to RNAV/share (previously applied 10% discount to RNAV)		2.36	2.46	(4)

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com