



AmInvestment Bank

## Company report

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# WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

CONSTRUCTION

28 February 2018

*First, put the house in order*

## HOLD

(Maintained)

**Rationale for report: Company update**

Price	RM1.60
Fair Value	RM1.66
52-week High/Low	RM2.48/RM1.46

### Key Changes

Fair value	⬇️
EPS	⬇️

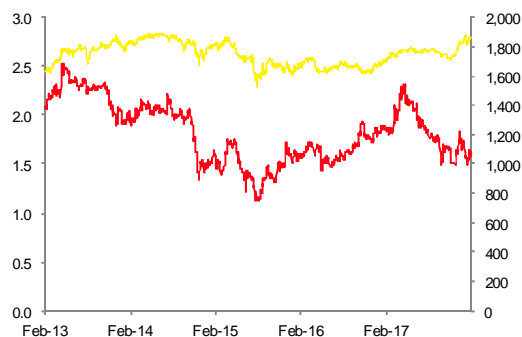
YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	1,905.9	2,752.6	3,247.7	3,113.7
Core net profit (RM mil)	148.5	135.2	179.0	189.4
FD Core EPS (sen)	9.1	8.0	10.6	11.3
FD Core EPS growth (%)	38.6	(12.0)	32.4	5.8
Consensus Net Profit (RM mil)	-	21.6	184.5	180.8
DPS (sen)	3.0	3.0	3.0	3.0
PE (x)	17.5	19.9	15.0	14.2
EV/EBITDA (x)	16.4	18.8	15.7	14.7
Div yield (%)	1.9	1.9	1.9	1.9
ROE (%)	5.2	4.2	5.4	5.5
Net Gearing (%)	87.9	85.9	81.5	76.9

### Stock and Financial Data

Shares Outstanding (million)	1,415.4
Market Cap (RMmil)	2,264.6
Book Value (RM/share)	2.31
P/BV (x)	0.7
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 (RMmil)	4.2

Price performance	3mth	6mth	12mth
Absolute (%)	0.6	(13.5)	(12.5)
Relative (%)	(7.5)	(18.2)	(20.8)



— WCTHG MK — FBMKLCI Index

### Investment Highlights

- We raise our FY18-19F net profit forecasts by 6% each, revise up our SOP-based FV by 2.5% to RM1.66 (Exhibit 2) (from RM1.62) but maintain our HOLD call, following an analyst briefing yesterday.
- We now regard WCT's FY17 results, announced last Monday, as within our forecast and consensus estimates (vs. below both expectations previously). This follows the disclosure by WCT of share of RM22.9mil fair value loss from Paradigm PJ in the results which we now exclude in our calculation of WCT's core net profit (Exhibit 1). We take comfort that WCT's fundamentals have not deteriorated as much as we have feared, and hence we upgrade our forecasts and FV accordingly.
- WCT guided for annual job wins of RM2bil in FY18F, which is in line with our replenishment assumption of RM2bil annually in FY18-20F. WCT said that it is eyeing work packages from West Coast Expressway, Pan Borneo Sabah Highway and "a couple of highways in Peninsular Malaysia", and tendering for several building jobs.
- WCT elaborated on the RM164.6mil impairment it made on receivables from a building job for the Ministry of Interior, Qatar. WCT said that the job had been completed (with the defect liability period ending the end of this year). The impairment arose because the client could not agree with WCT on WCT's billings on certain variation orders and prolongation claims. While negotiations were still ongoing to settle the account, to be prudent, WCT decided to make impairment on the part it believed that it was not getting the buy-in from the client.
- At present, WCT only has one outstanding project in the Middle East, i.e. the Lusail Development project also in Qatar, with an outstanding value of RM455mil. WCT said that the client has been "supportive" in terms of providing prompt payments as well as granting extension of time as and when issues arise. WCT hinted that this could be its last overseas project for now as "there are plenty of opportunities in Malaysia".
- WCT said that the listing of WCT REIT, by bundling in it Paradigm Mall in PJ (70%-owned), AEON Bukit Tinggi Mall (100%-owned) and Premiere Hotel in Klang (100%-owned), is now very much off the table. This is because AEON Co (M) Bhd (AEON), the tenant for its entire AEON Bukit Tinggi Mall, has now officially taken WCT to the court, with the next court hearing scheduled in April 2018.

- To recap, AEON is seeking a High Court injunction to prevent WCT from terminating the 10-year lease agreement for the mall it signed with WCT in 2007 (expired on 23 Nov 2017, with an option to extend for five years) and evicting AEON and its sub-tenants from the mall. 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 under planning next to it) for property development.
- We now believe that it is taking the new shareholder of WCT, Tan Sri Desmond Lim, much longer time to put the house in order. Only when WCT's operations and fundamentals are substantially stabilised, there will be a possibility that he would even consider turning WCT into his flagship PLC, via the injection of Malton (a sister company of WCT, with its prized asset being Pavilion Bukit Jalil) and his private business ventures including Pavilion Kuala Lumpur and Pavilion Damansara Heights.
- In conclusion, WCT's local construction division has turned the corner with the award of key infrastructure projects such as MRT2, LRT3 and Pan Borneo Sarawak Highway recently. However, earnings risks associated with its ongoing and newly completed (subject to a defect liability period of 18 months) projects in the Middle East remain elevated as reflected in the surprise lumpy impairment made recently (WCT is no longer pursuing new projects in the Middle East). Its property division is not spared the downturn in the property market and is weighed down by some RM550mil unsold stock (1.8x its property sales of RM305mil in FY17). WCT could be missing the window to list its matured investment properties under a REIT at good valuations against a backdrop of rising interest rate and surging supply of retail space in the market. All these, coupled with WCT's proposed placement of new shares of up to 10% of its existing paid-up capital, are likely to cap the upside in WCT's share price over the near term.

## EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY17 1Q	FY17 2Q	FY17 3Q	FY17 4Q	QoQ Chg	FY16 12M	FY17 12M	YoY Chg
<b>Turnover</b>	<b>473.4</b>	<b>383.3</b>	<b>469.8</b>	<b>579.4</b>	<b>23%</b>	<b>1,933.6</b>	<b>1,905.9</b>	<b>-1%</b>
Construction	383.4	236.8	308.2	463.4	50%	1,568.7	1,391.8	-11%
Property Development	74.8	130.9	142.9	88.6	-38%	303.2	437.1	44%
Property Investment	15.2	15.6	18.7	27.4	47%	61.8	77.0	25%
<b>EBIT</b>	<b>54.2</b>	<b>62.4</b>	<b>75.8</b>	<b>92.0</b>	<b>21%</b>	<b>169.6</b>	<b>284.4</b>	<b>68%</b>
Construction	35.0	38.6	46.8	31.9	-32%	59.1	152.3	158%
Property Development	11.4	15.0	21.6	27.7	28%	83.1	75.7	-9%
Property Investment	7.9	8.8	7.4	32.4	338%	27.4	56.5	106%
Net inc/(exp)	(12.3)	(13.5)	(14.3)	(23.1)	61%	(46.3)	(63.2)	36%
Associates	7.8	5.8	4.0	(14.4)	-455%	30.4	3.2	-89%
EI	(4.9)	(16.2)	0.2	27.0	10773%	(31.7)	6.1	-119%
<b>Pretax profit</b>	<b>44.8</b>	<b>38.5</b>	<b>65.8</b>	<b>81.5</b>	<b>24%</b>	<b>122.0</b>	<b>230.6</b>	<b>89%</b>
Taxation	(14.1)	(17.0)	(25.3)	(22.3)	-12%	(56.8)	(78.7)	39%
Minority interest	2.4	(0.0)	0.3	0.1	nm	3.2	2.7	nm
<b>Net profit</b>	<b>33.1</b>	<b>21.5</b>	<b>40.8</b>	<b>59.3</b>	<b>45%</b>	<b>68.4</b>	<b>154.6</b>	<b>126%</b>
<b>EPS (sen)</b>	<b>2.6</b>	<b>1.6</b>	<b>2.9</b>	<b>4.2</b>	<b>45%</b>	<b>5.5</b>	<b>11.3</b>	<b>105%</b>
<b>Core net profit</b>	<b>38.0</b>	<b>37.7</b>	<b>40.5</b>	<b>32.3</b>	<b>(20%)</b>	<b>100.1</b>	<b>148.5</b>	<b>48%</b>
EBIT margin	11%	16%	16%	16%	(0%)	9%	15%	6%
Pretax margin	9%	10%	14%	14%	0%	6%	12%	6%
Effective tax rate	32%	44%	38%	27%	(11%)	47%	34%	(12%)

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 2: SOP VALUATION

<b>Property development</b>		
Bandar Bukit Tinggi, Klang	627	120 acres, RM120 psf
Rawang, Selangor	424	608 acres, RM16 psf
Kota Kinabalu, Sabah	48	22 acres, RM50 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	22	10% down payment for acquisition cost of RM223mil
Mont Kiara, KL	80	At acquisition cost
Available for sale	116	7 acres in Bandar Bukit Tinggi, 89 acres in Serendah
RNAV	3,086	
RNAV after discount	2,315	25% discount
<b>Property investment</b>		
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	
<b>Construction</b>		
	1,674	14x FY18F net profit
Net debt	-2,758	As at end-FY17
Proceeds from warrant/ESOS conversion	534	
	2,788	
Enlarged share base (m shares)	1,682	
<b>FV (RM/share)</b>	<b>1.66</b>	

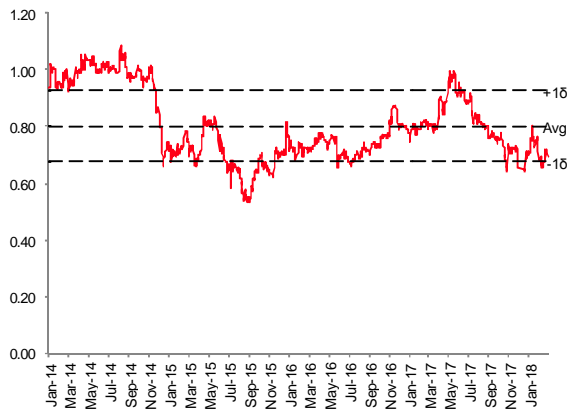
Source: Company, AmInvestment Bank Bhd

**EXHIBIT 3: OUTSTANDING ORDER BOOK**

Project	Outstanding Value (RMmil)
Package GS02 & GS03, LRT3	1,468
Package V204, MRT2	912
Pan Borneo Sarawak	859
TRX	521
RAPID	513
Lusail development, Qatar	455
Jalan Maarof/Semantan highway	212
West Coast Expressway	196
Johan Setia Depot, LRT3	141
Internal works	121
Police quarters redevelopment, Gombak	91
Others	128
<b>Total</b>	<b>5,617</b>

Source: Company, AmInvestment Bank Bhd

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	1,933.6	1,905.9	2,752.6	3,247.7	3,113.7
EBITDA	184.6	306.7	268.3	319.6	336.9
Depreciation/Amortisation	(15.0)	(22.3)	(11.4)	(12.0)	(12.6)
Operating income (EBIT)	169.6	284.4	256.9	307.5	324.3
Other income & associates	30.4	3.2	28.8	28.8	28.8
Net interest	(46.3)	(63.2)	(88.5)	(88.3)	(87.2)
Exceptional items	(31.7)	6.1	-	-	-
<b>Pretax profit</b>	<b>122.0</b>	<b>230.6</b>	<b>197.2</b>	<b>248.1</b>	<b>265.9</b>
Taxation	(56.8)	(78.7)	(53.7)	(59.1)	(66.5)
Minorities/pref dividends	• 3.2	2.7	(8.3)	(10.0)	(10.0)
<b>Net profit</b>	<b>68.4</b>	<b>154.6</b>	<b>135.2</b>	<b>179.0</b>	<b>189.4</b>
Core net profit	100.1	148.5	135.2	179.0	189.4
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
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
<b>Total non-current assets</b>	<b>1) 4,759.5</b>	<b>4,916.3</b>	<b>5,033.6</b>	<b>5,150.4</b>	<b>5,266.6</b>
Cash & equivalent	455.1	527.2	510.9	540.6	581.4
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
<b>Total current assets</b>	<b>2,580.9</b>	<b>3,217.5</b>	<b>3,201.1</b>	<b>3,230.9</b>	<b>3,271.7</b>
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
<b>Total current liabilities</b>	<b>1,804.5</b>	<b>2,248.2</b>	<b>2,248.2</b>	<b>2,248.2</b>	<b>2,248.2</b>
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
<b>Total long-term liabilities</b>	<b>2,737.9</b>	<b>2,738.9</b>	<b>2,738.9</b>	<b>2,738.9</b>	<b>2,738.9</b>
<b>Shareholders' funds</b>	<b>2,764.1</b>	<b>3,138.6</b>	<b>3,231.3</b>	<b>3,367.9</b>	<b>3,514.8</b>
Minority interests	33.9	8.1	16.4	26.4	36.4
BV/share (RM)	2.21	2.31	2.28	2.38	2.48
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Pretax profit	122.0	230.6	197.2	248.1	265.9
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	(118.5)	(124.8)
<b>Cash flow from operations</b>	<b>(117.6)</b>	<b>(19.1)</b>	<b>214.6</b>	<b>141.6</b>	<b>153.7</b>
Capital expenditure	(276.6)	(36.6)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	38.1	(82.6)	-	-	-
<b>Cash flow from investing</b>	<b>(238.6)</b>	<b>(119.2)</b>	<b>(100.0)</b>	<b>(100.0)</b>	<b>(100.0)</b>
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)	(88.3)	(87.2)
<b>Cash flow from financing</b>	<b>321.3</b>	<b>401.3</b>	<b>(131.0)</b>	<b>(130.8)</b>	<b>(129.6)</b>
<b>Net cash flow</b>	<b>(34.8)</b>	<b>263.0</b>	<b>(16.3)</b>	<b>(89.2)</b>	<b>(75.9)</b>
<b>Net cash/(debt) b/f</b>	<b>398.5</b>	<b>334.7</b>	<b>535.4</b>	<b>519.1</b>	<b>548.8</b>
<b>Net cash/(debt) c/f</b>	<b>381.0</b>	<b>597.7</b>	<b>519.1</b>	<b>429.9</b>	<b>472.9</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue growth (%)	15.9	(1.4)	44.4	18.0	(4.1)
EBITDA growth (%)	25.8	66.2	(12.5)	19.1	5.4
Pretax margin (%)	6.3	12.1	7.2	7.6	8.5
Net profit margin (%)	3.5	8.1	4.9	5.5	6.1
Interest cover (x)	3.7	4.5	2.9	3.5	3.7
Effective tax rate (%)	46.6	34.1	27.2	23.8	25.0
Dividend payout (%)	-	26.4	31.4	23.7	22.4
Debtors turnover (days)	255	363	251	213	222
Stock turnover (days)	27	57	61	52	54
Creditors turnover (days)	258	323	321	321	321

Source: Company, AmInvestment Bank Bhd estimates

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