

## WCT Holdings

WCTHG MK / WCTE.KL

### FLASH NOTE

➤ **Market Cap**  
**US\$619.8m**  
 RM2,078m

➤ **Avg Daily Turnover**  
**US\$0.47m**  
 RM1.55m

➤ **Free Float**  
**60.2%**  
 971.2 m shares

Current **RM1.91**  
 Target ➤ **RM1.97**  
 Prev. Target **RM1.97**  
 Up/Downside **3.0%**

#### STOCK RATING

ADD

**HOLD**

REDUCE

#### CIMB Analyst(s)



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#### Share price info

Share price perf. (%)	1M	3M	12M
Relative	-9.4	-11.2	-21.3
Absolute	-8.6	-13.2	-19.1

Major shareholders	% held
WCT Capital	19.6
EPF	13.9
KWAP	6.2

## Re-strategising for 2015

A potential REIT exercise was the slight positive surprise from WCT's post-results briefing though it would take at least a year for a deal to materialise and for shareholders to benefit. This should balance out the subdued property development outlook and WCT's seemingly less aggressive construction target going into 2015. New orders from Qatar remain the wild card. We believe the speed of the rollout of jobs there could be affected by the fall in oil price. We maintain our RM600m-800m p.a. property sales target and RM1bn p.a. new order wins for FY14-16. Also intact is our target price, which is based on a 30% RNAV discount. We foresee limited catalysts for the stock in the medium term and reiterate our Hold call. Switch to Gamuda.

### What Happened ➤

WCT's post-results briefing revealed that 1) The property sales outlook in 4Q is still weak and the post-GST (Apr-15) property outlook for the group remains fairly challenging. 2) WCT is no longer keen to bid for WCE subcontract works due to unattractive margins but is positive on bagging more jobs for Rapid and TRX. 3) It targets to ink a REIT deal for three of its five investment properties in the next 12 months.

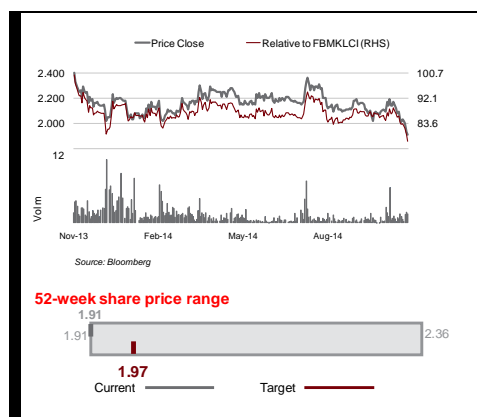
### What We Think ➤

We came away feeling cautiously positive about the group's efforts to re-strategise though we sensed that management remained cautious about the outlook for property development in 2015 and is selective about job tenders in view of rising competition in the subcontract segment. Ascribing a 20-30% success rate p.a. to the group's RM3.8bn domestic tender book seems fair but we believe that job wins are more likely in 2H15, with 1H15 construction earnings supported by recent job wins and internal works. The plan to inject its property assets into a REIT is not entirely new. Based on the preliminary numbers for the REIT plans, WCT could realise RM400m-500m net proceeds, which could excite shareholders and lead to special dividends. However, we would have more conviction in this story once the structure reaches a more advanced stage.

### What You Should Do ➤

Stay on the sidelines. The worst could be over for the share price but the overall outlook remains weighed down by property. WCT could be more disadvantaged in light of the weakening property outlook that is affecting commercial and high-rise products more than landed units. Domestic construction wins, though selective, could buck the trend.

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#### Financial Summary

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue (RMm)	1,560	1,672	1,976	2,230	2,534
Operating EBITDA (RMm)	262.4	323.0	267.6	325.8	337.2
Net Profit (RMm)	364.6	197.5	134.9	170.4	182.5
Core EPS (RM)	0.19	0.24	0.14	0.18	0.19
Core EPS Growth	16.0%	22.2%	(41.4%)	26.3%	7.1%
FD Core P/E (x)	10.44	8.54	14.55	11.52	10.76
DPS (RM)	0.070	0.083	0.090	0.090	0.090
Dividend Yield	3.66%	4.32%	4.71%	4.71%	4.71%
EV/EBITDA (x)	9.53	8.23	9.94	8.20	7.95
P/FCFE (x)	15.75	9.18	6.94	8.39	8.45
Net Gearing	39.8%	29.9%	26.9%	23.3%	20.1%
P/BV (x)	1.02	1.09	1.03	0.92	0.82
ROE	11.8%	13.1%	7.7%	8.9%	8.5%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.94	1.04	0.99

SOURCE: CIMB, COMPANY REPORTS

### 3Q14 results briefing ►

**Property sales outlook more challenging.** WCT's post-3Q14 results briefing was hosted by Head of Corporate Finance Mr Chong Kian Fah. The session was attended by over 30 analysts and fund managers. Management explained that the main drag on the 9M14 results was the one-off RM8m cost overrun for the New Doha International Airport (NDIA) and the slump in property EBIT margin to 13% in 3Q14 (20-25% industry average) due to a bigger sales contribution from its lower-margin high-rise units in Medini Iskandar. 45% of the c.RM300m property billings in 9M14 came from its high-rise units in Medini, with the two blocks recently transacted at a margin of 12%.

WCT indicated that property margins are bound to recover to c.20% but further upside could be capped due to moderating property demand. We keep our RM600m property sales target for FY14, which is broadly in line with management's revised target, and RM800m target for FY15. We have assumed 20-22% EBIT margins for both years. Management noted that the property market looks more challenging compared to the past two years. On the positive side, the group should start launching its landed units in Rawang by end-2015. This apparently is a more resilient segment.

**There are many jobs but WCT remains selective.** From the briefing, we concluded that management remained optimistic about its construction outlook, going by its success in almost achieving its RM1bn total job win target for 2014. The higher proportion of local infra/civil works jobs secured YTD would mean that the 7-8% EBIT margin for construction is sustainable but there is limited upside. The group is targeting more infra-type jobs in Rapid and TRX and has, together with a reputable foreign partner Arabtec, prequalified for the RM2bn-3bn Warisan Merdeka tower. We feel that WCT can continue to be selective, in view of its RM2.3bn external outstanding order book and RM1.2bn worth of internal jobs. Its total domestic tender book (new prospects) of RM3.8bn now excludes the subcontract works for the West Coast Expressway (WCE) as the group is no longer keen to tender due to the change in package structure that suggests lower margins. This was a negative surprise.

**Figure 1: Outstanding order book**

Gulf States		Malaysia - Engineering & Infrastructure		Malaysia – Building		Total
RM(mil)		RM(mil)		RM(mil)		RM(mil)
Government Administrative Office, Qatar	395	PLUS Widening	175	MyTown Shopping Centre	652	
New Doha Int'l Airport, Qatar	2	Tun Razak Exchange	101	KK Medical Centre	101	
		RAPID - common construction access & permanent road (awarded 18/7/2014)	342	Putrajaya Commercial Office	287	
		Others	2	Ministry of Int'l Trade (MITI)	180	
				UITM	36	
				Others	8	
<b>Total External</b>	<b>397</b>		<b>620</b>		<b>1,264</b>	<b>2,281</b>
	<b>17%</b>		<b>27%</b>		<b>56%</b>	<b>100%</b>
<b>Total Internal</b>				Property investment		
				-Kelana Jaya	165	
				-Johor Bahru	531	
				Property development		
				-Kelana Jaya	143	
				-Johor Bahru	99	
				-1Medini High-rise	259	
<b>TOTAL</b>					<b>2,461</b>	<b>3,478</b>

SOURCE: COMPANY

**Exploring REIT.** We are slightly surprised that the group is working to monetise its property investment assets through a REIT, given that it earlier said that this move would only be explored once Paradigm Mall in Johor Bahru matures. We view the REIT potential as positive as it should enable WCT to

unlock the values of three of its five existing property investment assets 1) BBT Shopping Mall, 2) Paradigm Mall in Kelana Jaya, and 3) Gateway Mall in KLIA2. This deal is still at an early stage and could materialise one year down the road as it would depend on whether Gateway is granted a 10-year extension to the concession agreement (CA) to smoothen the impact of amortisation from 25 to 35 years. Total targeted asset size is c.RM2bn. WCT could realise RM450m-500m cash proceeds. What would be positive for shareholders is a potential special dividend or dividend-in-specie arising from part of the cash proceeds, likely in FY16 by our estimates. We would have more conviction in this story once the structure reaches a more advanced stage.

**Figure 2: Key property investment assets**

Investment Property	Property type	Target Date Of Completion	Retail Letable Area
<b>BBT Shopping Mall,</b> Klang, Selangor Malaysia	Retail Space & 5,000 Car Parks	Completed since January 2008	1,000,950 sq ft  GLA
<b>Paradigm Mall,</b> Kelana Jaya, PJ, Malaysia	Retail Space & 4,300 Car Parks	Completed on 23 May 2012	680,000sq ft  NLA
<b>Gateway Mall,</b> KLIA2, Malaysia	Retail Space & 5,690 Car Parks	Open on 2 May 2014	360,000sq ft  NLA
<b>Paradigm Mall,</b> Johor Bahru, Iskandar Malaysia	Retail Space & 4,900 Car Parks	2016	1,250,000 sq ft  NLA
<b>Paradigm Mall,</b> OUG, Kuala Lumpur, Malaysia	Retail Space & Car Parks	TBA	1,500,000 sq ft  NLA

SOURCE: COMPANY

**Figure 3: RNAV**

<b>Concessions</b>	<b>DCF value</b>		<b>WCT's stake</b>	<b>Value</b>
	<b>(RM m)</b>			<b>(RM m)</b>
PPH, India	230.1		30.0%	69.0
DE, India	147.3		30.0%	44.2
KLIA2 Integrated Complex (25-year, 13% WACC)	717.7		70.0%	502.4
<b>Property - land</b>	<b>Acres</b>	<b>RM/psf</b>		
Bandar Bukit Tinggi 1	16.9	60.00	100.0%	44.2
Bandar Bukit Tinggi 2	35.2	60.00	100.0%	91.9
Bandar Bukit Tinggi 3	126.8	70.00	100.0%	386.7
56-acre new land near BBT 3	56.0	70.00	100.0%	170.8
Bukit Jelutong Commercial Centre	2.3	50.00	100.0%	4.9
1 Medini Residences	11.0	35.00	100.0%	16.8
Medini Commercial	10.3	35.00	100.0%	15.7
Bandar Serendah, Ulu Selangor	39.0	10.00	100.0%	17.0
Rawang Land	437.5	35.00	100.0%	667.0
OUG - mixed development	56.8	45.00	100.0%	111.3
Johor land acquisition (Jalan Skudai)	12.4	30.00	100.0%	16.2
New land in Medini	18.1	30.00	100.0%	23.7
	<b>2016 PAT</b>	<b>P/E</b>		
Construction	104.3	15.9	100.0%	1,658.4
Associated companies & investments				132.3
Net current assets less dev. properties				667.3
Total debt (3Q14)				(1,813.5)
Investment properties				659.0
<b>Total RNAV</b>				<b>3,484.3</b>
No. of shares (m)				951.6
No. of outstanding warrants (WB) (m)				139.3
Proceeds from warrants (WB)				348.3
No. of outstanding warrants (WC) (m)				157.2
Proceeds from warrants (WC)				432.3
No. of outstanding warrants (WD) (m)				164.8
Proceeds from warrants (WD)				379.0
<b>Fully-diluted RNAV</b>				<b>4,643.9</b>
Enlarged no. of shares (m)				1,412.9
<b>FD RNAV/share (RM)</b>				<b>3.29</b>
RNAV discount				30%
<b>Target price (RM)</b>				<b>1.97</b>

SOURCES: CIMB, COMPANY REPORTS

### Profit & Loss

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
<b>Total Net Revenues</b>	<b>1,672</b>	<b>1,976</b>	<b>2,230</b>	<b>2,534</b>
<b>Gross Profit</b>	<b>441</b>	<b>1,976</b>	<b>2,230</b>	<b>2,534</b>
<b>Operating EBITDA</b>	<b>323</b>	<b>268</b>	<b>326</b>	<b>337</b>
Depreciation And Amortisation	(10)	(19)	(21)	(24)
<b>Operating EBIT</b>	<b>313</b>	<b>248</b>	<b>304</b>	<b>313</b>
Financial Income/(Expense)	(34)	(46)	(46)	(47)
Pretax Income/(Loss) from Assoc.	19	10	10	10
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>298</b>	<b>212</b>	<b>268</b>	<b>277</b>
Exceptional Items	(44)	0	0	0
<b>Pre-tax Profit</b>	<b>254</b>	<b>212</b>	<b>268</b>	<b>277</b>
Taxation	(64)	(47)	(56)	(56)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>190</b>	<b>165</b>	<b>212</b>	<b>222</b>
Minority Interests	8	(31)	(42)	(39)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>197</b>	<b>135</b>	<b>170</b>	<b>183</b>
Recurring Net Profit	230	135	170	183
<b>Fully Diluted Recurring Net Profit</b>	<b>230</b>	<b>135</b>	<b>170</b>	<b>183</b>

### Balance Sheet

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Cash And Equivalents	1,346	1,413	1,484	1,558
Total Debtors	1,622	1,307	1,475	1,675
Inventories	86	90	95	100
Total Other Current Assets	305	335	368	405
<b>Total Current Assets</b>	<b>3,358</b>	<b>3,146</b>	<b>3,422</b>	<b>3,738</b>
Fixed Assets	521	612	706	803
Total Investments	1,102	1,157	1,217	1,282
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	631	631	631	631
<b>Total Non-current Assets</b>	<b>2,254</b>	<b>2,400</b>	<b>2,554</b>	<b>2,715</b>
Short-term Debt	662	640	619	600
Current Portion of Long-Term Debt				
Total Creditors	1,152	928	1,047	1,190
Other Current Liabilities	72	47	56	56
<b>Total Current Liabilities</b>	<b>1,886</b>	<b>1,615</b>	<b>1,723</b>	<b>1,846</b>
Total Long-term Debt	1,305	1,370	1,439	1,511
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	332	332	332	332
<b>Total Non-current Liabilities</b>	<b>1,637</b>	<b>1,702</b>	<b>1,771</b>	<b>1,843</b>
Total Provisions	10	11	12	13
<b>Total Liabilities</b>	<b>3,533</b>	<b>3,328</b>	<b>3,506</b>	<b>3,701</b>
Shareholders' Equity	1,700	1,809	2,020	2,262
Minority Interests	378	409	450	489
<b>Total Equity</b>	<b>2,078</b>	<b>2,217</b>	<b>2,470</b>	<b>2,751</b>

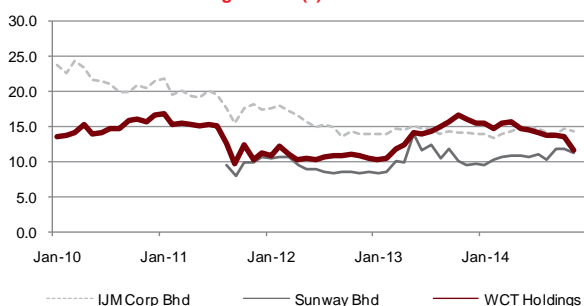
### Cash Flow

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
EBITDA	323.0	267.6	325.8	337.2
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(76.1)	55.6	(86.2)	(99.3)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	23.3	23.3	23.3	23.3
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	(58.4)	(71.4)	(45.7)	(55.2)
<b>Cashflow From Operations</b>	<b>211.8</b>	<b>275.2</b>	<b>217.2</b>	<b>206.1</b>
Capex	(88.4)	(91.1)	(91.1)	(91.1)
Disposals Of FAs/subsidiaries	51.2	55.4	59.9	64.9
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
<b>Cash Flow From Investing</b>	<b>(37.2)</b>	<b>(35.7)</b>	<b>(31.1)</b>	<b>(26.2)</b>
Debt Raised/(repaid)	39.3	43.6	47.9	52.4
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(42.5)	(42.5)	(42.5)	(42.5)
Preferred Dividends				
Other Financing Cashflow	96.4	(173.3)	(120.9)	(115.6)
<b>Cash Flow From Financing</b>	<b>93.3</b>	<b>(172.2)</b>	<b>(115.4)</b>	<b>(105.7)</b>
Total Cash Generated	267.9	67.3	70.7	74.2
<b>Free Cashflow To Equity</b>	<b>214.0</b>	<b>283.1</b>	<b>234.0</b>	<b>232.3</b>
<b>Free Cashflow To Firm</b>	<b>174.6</b>	<b>239.5</b>	<b>186.1</b>	<b>179.9</b>

### Key Ratios

	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue Growth	7.2%	18.2%	12.8%	13.6%
Operating EBITDA Growth	23.1%	(17.1%)	21.7%	3.5%
Operating EBITDA Margin	19.3%	13.5%	14.6%	13.3%
Net Cash Per Share (RM)	(0.64)	(0.62)	(0.59)	(0.57)
BVPS (RM)	1.75	1.86	2.08	2.33
Gross Interest Cover	4.63	4.10	4.92	4.97
Effective Tax Rate	25.4%	22.0%	20.9%	20.1%
Net Dividend Payout Ratio	33.7%	60.2%	47.6%	44.5%
Accounts Receivables Days	208.9	204.6	172.2	172.1
Inventory Days	23.7	N/A	N/A	N/A
Accounts Payables Days	268	N/A	N/A	N/A
ROIC (%)	13.4%	9.2%	10.9%	10.4%
ROCE (%)	8.88%	6.35%	7.29%	7.01%

### 12-month Forward Rolling FD P/E (x)



### Key Drivers

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Outstanding Orderbook	2,543	3,043	2,843	2,843
Order Book Depletion	1,000	1,000	1,000	1,000
Orderbook Replenishment	1,500	800	1,000	1,000
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% main prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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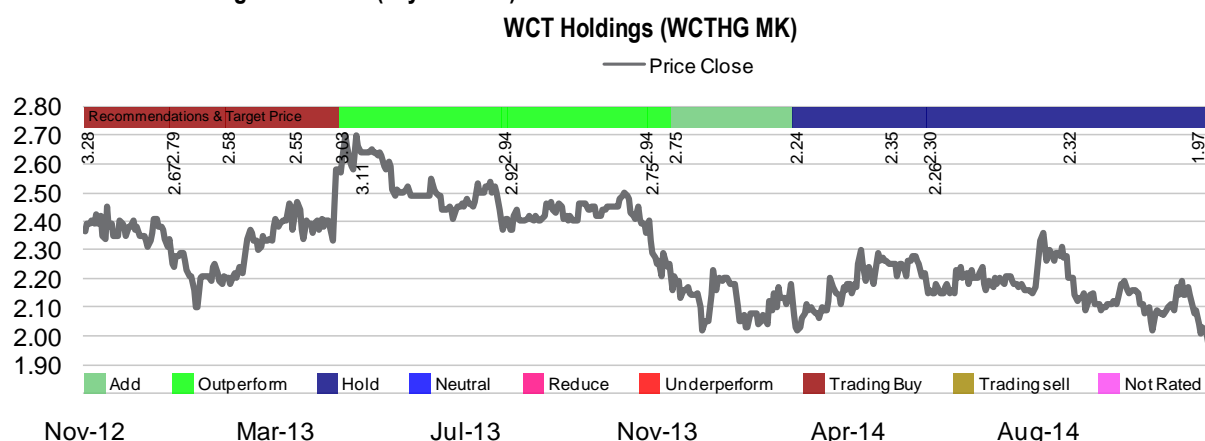
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#### Spitzer Chart for stock being researched ( 2 year data )



#### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2014.

AAV – Very Good, ADVANC – Very Good, AEONTS – not available, AMATA – Good, ANAN – Very Good, AOT – Very Good, AP – Good, ASK – Very Good, ASP – Very Good, BANPU – Very Good, BAY – Very Good, BBL – Very Good, BCH – not available, BCP – Excellent, BEAUTY – Good, BEC – Good, BECL – Very Good, BGH – not available, BH – Good, BIGC – Very Good, BJC – Good, BLA – Very Good, BMCL – Very Good, BTS – Excellent, CCET – Good, CENTEL – Very Good, CHG – not available, CK – Very Good, CPALL – not available, CPF – Very Good, CPN – Excellent, DELTA – Very Good, DEMCO – Good, DTAC – Very Good, EA – Good, ECL – not available, EGCO – Excellent, GFPT – Very Good, GLOBAL – Good, GLOW – Good, GRAMMY – Excellent, HANA – Excellent, HEMRAJ – Very Good, HMPRO – Very Good, ICHI – not available, INTUCH – Excellent, ITD – Good, IVL – Excellent, JAS – not available, JUBILE – not available, KAMART – not available, KBANK – Excellent, KCE – Very Good, KGI – Good, KKP – Excellent, KTB – Excellent, KTC – Good, LH – Very Good, LPN – Very Good, M – not available, MAJOR – Good, MAKRO – Good, MBKET – Good, MC – Very Good, MCOT – Very Good, MEGA – Good, MINT – Excellent, OFM – Very Good, OISHI – Good, PS – Very Good, PSL – Excellent, PTT – Excellent, PTTEP – Excellent, PTTC – Excellent, QH – Very Good, RATCH – Very Good, ROBINS – Very Good, RS – Very Good, SAMART – Excellent, SAPPE – not available, SAT – Excellent, SAWAD – not available, SC – Excellent, SCB – Excellent, SCBLIF – Good, SCC – Very Good, SCCC – Good, SIM – Excellent, SIRI – Good, SPALI – Excellent, STA – Very Good, STEC – Good, SVI – Very Good, TASC – Good, TCAP – Very Good, THAI – Very Good, THANI – Very Good, THCOM – Very Good, THRE – not available, THREL – Good, TICON – Good, TISCO – Excellent, TK – Very Good, TMB – Excellent, TOP – Excellent, TRUE – Very Good, TTW – Very Good, TUF – Good, VGI – Very Good, WORK – not available.

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### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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