

**WCT Holdings (HOLD ↔; EPS ↔)**

26 November 2014

INDUSTRY: OVERWEIGHT

Price Target: RM2.04 (↔)

COMPANY INSIGHT / BRIEFING

Share price: RM1.83

**REIT potential**
**Highlights**

- **Stiff competition for domestic tenders.** WCT is eyeing RM3.8bn worth of domestic tenders. These include (i) subcontract civil works at RAPID (RM1bn); (ii) infra works for TRX (RM300-400m); and (iii) Warisan Merdeka (RM3bn) where it has been prequalified with JV partner, Arabtec. On the flipside, WCT is not keen to participate in the West Coast Expressway as the open tender portion is said to have been broken down into too many small packages.
- **Still fluid overseas.** Overseas, WCT has RM3.3bn worth of tenders (both potential and submitted). It is still awaiting the outcome of an infra and road job (RM1bn) in Qatar. While contract sizes in the Middle East are large, its implementation timeline remains fluid.
- **Slow property sales.** Property sales for the 9M period amounted to RM497m, of which, RM120m are bookings. The Azure Residence (GDV: RM490m) at Paradigm has seen 46% take up rate for Tower 1 (GDV: RM200m). Given the softening property market, WCT has lowered its sales target from RM1.2bn to RM617m this year, inline with our unchanged assumption of RM600m.
- **Exploring REIT option...** WCT is exploring the option of injecting its investment properties (i.e. AEON BBT, Paradigm and Gateway) into a REIT next year. Based on the EBITDA generated by these 3 properties totalling RM110-125m, we estimate the REIT to be worth RM1.8-2.1bn at a 6% cap rate. We understand that WCT's internal valuation of these properties stands at more than RM2bn.
- **...but still at early stages.** We are positive on WCT's move to monetise its investment properties. However, we feel that this move is still in its early stages with hurdles such as (i) getting consent from other stake holders such as EPF and MAHB which own minority stakes in Paradigm and Gateway respectively and (ii) for Gateway to get its 10 year extension approved to lengthen the concession duration to 25 years.

**Risks**

- Slow orderbook replenishment and property sales.

**Forecasts**

- Unchanged. Our forecast has already been cut by 6-15% following the disappointing 3Q results.

**Rating**
**HOLD (↔) TP: RM2.04**

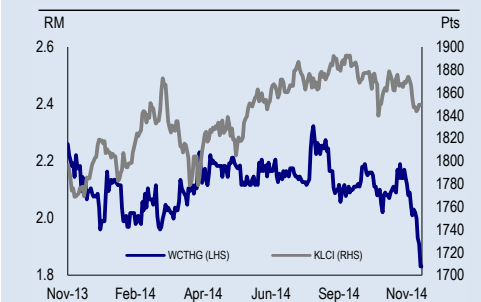
- WCT's domestic tenders are facing stiff competition while timing of its foreign ones are fluid, giving uncertainty to job wins while property sales are also weaker than expected. Nonetheless, the saving grace comes from the potential monetisation of its investment properties which may support share price on the downside.

**Valuation**

- TP is based on a 10% discount to SOP method which implies FY14-15 P/E of 15.6x and 13.5x respectively, vis-à-vis its mean of 16x (based on 1 year forward earnings).

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KLCI	1838.6
Expected share price return	11.3%
Expected dividend return	2.9%
Expected total return	14.2%

**Share price**

**Information**

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,088
Market cap (RM m)	1,991
3-mth avg. volume ('000)	823

**Price Performance**

	1M	3M	12M
Absolute	-12.4	-16.0	-20.7
Relative	-13.4	-14.9	-22.4

**Major shareholders**

WCT Capital	19.3%
LTH	10.0%
EPF	10.0%

**Summary Earnings Table**

FYE Jul (RM m)	FY13	FY14	FY15F	FY16F
Revenue	1,655	1,820	1,901	1,926
EBITDA	277	287	326	347
EBIT	267	279	318	338
Profit Before Tax	219	219	254	268
Core PATAMI	162	142	165	174
vs Consensus (%)		(6)	(7)	(15)
Core EPS (sen)	14.9	13.1	15.1	16.0
P/E (x)	12.3	14.0	12.1	11.5
Net DPS (sen)	6.7	5.2	6.0	6.4
Net DY (%)	3.7	2.9	3.3	3.5
BV per share	2.02	2.10	2.19	2.29
P/B (x)	0.9	0.9	0.8	0.8
ROE (%)	8.1	6.3	7.0	7.1
Net Gearing (%)	43.0	37.8	39.7	40.9

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**Figure #1 SOP valuation for WCT**

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY15 earnings	157	12	1,887	1.34
Gateway@klia2 based on DCF	237	5.1%	166	0.12
Paradigm Mall based on cap rate	329	7.0%	231	0.16
Premiere Hotel Klang based on DCF	225	7.5%	225	0.16
Cash proceeds from warrants	688		688	0.49
<b>Sum of Parts Value</b>			<b>3,198</b>	<b>2.26</b>
Discount applied		10%	(320)	(0.23)
<b>Target price</b>			<b>2,878</b>	<b>2.04</b>

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## Financial Projections for WCT Holdings

### Balance Sheet

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Cash	1,078	973	1,175	1,230	1,316
Receivables	1,697	2,082	2,188	2,237	2,252
Inventories	74	76	82	84	84
PPE	276	272	278	285	292
Investment properties	1,312	653	686	720	756
Associates & JVs	207	443	443	443	443
Others	744	1,035	1,152	1,270	1,388
<b>Assets</b>	<b>5,387</b>	<b>5,535</b>	<b>6,005</b>	<b>6,269</b>	<b>6,532</b>
Debts	1,824	1,922	2,041	2,178	2,336
Payables	1,638	1,299	1,564	1,591	1,590
Others	57	57	58	59	60
<b>Liabilities</b>	<b>3,520</b>	<b>3,278</b>	<b>3,663</b>	<b>3,829</b>	<b>3,986</b>
Shareholder's equity	1,810	2,204	2,290	2,389	2,493
Minority interest	57	52	52	52	52
<b>Equity</b>	<b>1,867</b>	<b>2,256</b>	<b>2,342</b>	<b>2,441</b>	<b>2,545</b>

### Cash Flow Statement

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Profit before taxation	204	219	219	254	268
Depreciation & amortisation	7	10	8	8	8
Changes in working capital	167	(256)	153	(24)	(16)
Taxation	(69)	(64)	(77)	(89)	(94)
Others	(218)	(457)	-	-	-
<b>CFO</b>	<b>90</b>	<b>(548)</b>	<b>304</b>	<b>149</b>	<b>167</b>
Net capex	(12)	(5)	(15)	(15)	(15)
Others	(182)	(234)	(149)	(151)	(154)
<b>CFI</b>	<b>(195)</b>	<b>(239)</b>	<b>(164)</b>	<b>(166)</b>	<b>(169)</b>
Changes in borrowings	440	98	118	138	158
Dividends paid	(62)	(73)	(57)	(66)	(70)
Others	29	569	-	-	-
<b>CFF</b>	<b>407</b>	<b>594</b>	<b>61</b>	<b>72</b>	<b>88</b>
<b>Net cash flow</b>	<b>302</b>	<b>(194)</b>	<b>202</b>	<b>55</b>	<b>86</b>
Forex	(18)	2	-	-	-
Others	3	88	-	-	-
Beginning cash	790	1,078	973	1,175	1,230
Ending cash	1,078	973	1,175	1,230	1,316

### Income Statement

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
<b>Revenue</b>	<b>1,560</b>	<b>1,655</b>	<b>1,820</b>	<b>1,901</b>	<b>1,926</b>
EBITDA	263	277	287	326	347
EBIT	257	267	279	318	338
Finance cost	(69)	(68)	(79)	(84)	(90)
Associates & JV	16	19	19	20	20
<b>Profit before tax</b>	<b>204</b>	<b>219</b>	<b>219</b>	<b>254</b>	<b>268</b>
Tax	(69)	(64)	(77)	(89)	(94)
<b>Net profit</b>	<b>135</b>	<b>155</b>	<b>142</b>	<b>165</b>	<b>174</b>
Minority interest	13	8	-	-	-
<b>PATMI (core)</b>	<b>148</b>	<b>162</b>	<b>142</b>	<b>165</b>	<b>174</b>
Exceptionals	211	35	-	-	-
PATMI (reported)	359	198	142	165	174

### Valuation & Ratios

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Core EPS (sen)	13.6	14.9	13.1	15.1	16.0
P/E (x)	13.5	12.3	14.0	12.1	11.5
EV/EBITDA (x)	11.1	10.6	10.2	9.0	8.4
DPS (sen)	5.7	6.7	5.2	6.0	6.4
Dividend yield	3.1%	3.7%	2.9%	3.3%	3.5%
BVPS (RM)	1.66	2.02	2.10	2.19	2.29
P/B (x)	1.1	0.9	0.9	0.8	0.8
EBITDA margin	16.9%	16.8%	15.8%	17.2%	18.0%
EBIT margin	16.5%	16.2%	15.3%	16.7%	17.6%
PBT margin	13.1%	13.2%	12.0%	13.3%	13.9%
Net margin	9.5%	9.8%	7.8%	8.7%	9.0%
ROE	9.0%	8.1%	6.3%	7.0%	7.1%
ROA	3.0%	3.0%	2.5%	2.7%	2.7%
Net gearing	41.2%	43.0%	37.8%	39.7%	40.9%

### Assumptions

FYE Dec (RM m)	FY12	FY13	FY14F	FY15F	FY16F
Contracts secured	2,100	670	994	1,000	1,000
Property sales	522	499	600	700	800

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<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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