

17 March 2015 | Corporate Update

WCT Holdings Berhad

Proposes rights and bonus issues

Maintain BUY

Unchanged Target Price (TP): RM1.84

INVESTMENT HIGHLIGHTS

- WCT Holdings (WCTH) yesterday proposed to undertake a renounceable rights issue of shares and bonus issue of new warrants. The proceeds will be utilised to fund its working capital requirements.
- We maintain our earnings forecasts at this juncture pending further clarity on the proposed issuances.
- Hence, we reaffirm our **BUY** recommendation with an unchanged TP of RM1.84.

Corporate exercise. WCTH has proposed a renounceable rights issue of up to 143.2m rights shares on the basis of 1 rights share-for-10 existing shares, of which the rights share price will be determined later. Additionally, the Group has also proposed a bonus issue of up to 315.1m new warrants (Warrant E) on the basis of 1 warrant-for-5 existing share after the completion of the proposed rights issue of shares. Pricing for the rights share will be based on the five (5)-day weighted average market price (WAMP) immediately preceding the price fixing date. Meanwhile, pricing of the warrants will be based of 5 day WAMP immediately preceding the price fixing date after taking into account the theoretical ex-rights price. The proposals are expected to be completed by 3Q2015.

Funding for working capital. Should the rights share price be RM1.55*, the Group is expected to raise between RM167m and RM222m. Out of this amount, RM164m-RM220m (98-99% of proceeds) will be utilised to finance its day-to-day operations while the balance will be for defraying expenses in relation to the proposals. Meanwhile, the Group may also raise between RM404.8m to RM538.8m based on Warrant E price of RM1.71^ assuming full exercise of the warrants. Proceeds from Warrant E will also be used to fund its future working capital.

The proposals shall result in dilution to EPS. Nevertheless balance sheet may be strengthened by lower gearing ratio. We expect the proceeds to fund its growing working capital requirements given that its construction external order book is expected to surpass RM3.0b this year. Excluding the full exercise of Warrant E, we expect our FY15 earnings forecast to dilute by 7-30% with its net gearing in the range of 0.5-0.2x post right issues (refer Appendix). If the Warrant E is fully exercised, we estimate that FY15 EPS will be between 8 sen to 10.6 sen, a dilution of 23-42% from 13.7sen.

RETURN STATS	
Price (12 March 2015)	RM1.60
Target Price	RM1.84
Expected Share Price Return	15.0%
Expected Dividend Yield	2.8%
Expected Total Return	+17.8%

STOCK INFO	
KLCI	1,780.54
Bursa / Bloomberg	9679 / WCTHG MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,076.1
Par Value (RM)	0.50
Market cap. (RM'm)	1,721.7
Price over NTA	0.78x
52-wk price Range	RM1.38–RM2.35
Beta (against KLCI)	1.12x
3-mth Avg Daily Vol	1.46m
3-mth Avg Daily Value	RM2.34m
Major Shareholders	
WCT Capital SB	19.51%
EPF	10.14%
LTH	9.23%
AmanahRaya Trustees	8.27%
ASB	7.42%
KWAP	7.18%

*Based on 5 day WAMP of WCT Shares of up to 11 March 2015


^A premium of 10.32% to the theoretical ex-rights share price of WCT calculated based on 5 day WAMP of WCT Shares of up to 11 March 2015

INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	1,560.4	1,655.0	1,662.2	1,696.0	1,752.1
EBIT (RM'm)	467.8	302.7	202.4	193.4	209.8
Pre-tax profit (RM'm)	414.9	254.2	151.1	174.0	190.7
Normalised PATAMI (RM'm)	147.8	153.8	111.1	150.7	165.1
FD EPS (sen)	15.0	13.7	10.1	13.7	15.0
EPS growth (%)	-9.0	-8.2	-26.6	35.6	9.6
PER (x)	6.1	14.8	18.9	11.7	10.7
Dividend (sen)	6.5	6.8	2.5	4.0	4.5
Dividend Yield (%)	3.2	2.9	1.2	2.1	2.8

Source: Company data, forecasts by MIDFR

VALUATION AND RECOMMENDATION

Maintain BUY. Overall, we leave our earnings forecasts unchanged at this juncture pending further clarity on the proposed issuances. Hence, we maintain BUY recommendation on WCTH with an unchanged TP of RM1.84. 

SUM-OF-PARTS VALUATION (SOP)

Segments	Basis	Indicative value (RM'm)	Per share (RM)
Engineering & construction	FY15 PER of 12x	811.1	0.74
<u>Concessions</u>			
Indian Tollways	DCF valuation (WACC: 8%)	117.5	0.11
KLIA2 Gateway Mall	DCF valuation (WACC: 10%)	328.5	0.30
<u>Property Development</u>			
On-going & undeveloped landbanks	DCF of future profit + surplus of book value	1,724.8	1.57
<u>Property Investment</u>			
AEON BT, Paradigm Mall & Premiere Hotel	DCF valuation (WACC: 9.5%)	523.5	0.48
SOP		3,505.4	3.18
Net debt		-1,479.7	-1.34
Total SOP			1.84
Enlarged share capital (mil)			1,101.4

Source: Forecasts by MIDFR

FINANCIAL SUMMARY

Income Statement						Cash Flow Statement					
	FY12	FY13	FY14	FY15F	FY16F		FY12	FY13	FY14	FY15F	FY16F
Revenue	1,560.4	1,655.0	1,662.2	1,696.0	1,752.1	Operating activities					
Cost of sales	-1,237.3	-1,374.9	-1,428.6	-1,415.5	-1,455.7	PBT	414.9	254.2	151.1	174.0	190.7
Operating expense	-99.9	-117.8	-100.2	-87.0	-86.6	Depr & Amort	6.5	9.9	8.2	7.6	9.0
EBIT	467.8	302.7	202.4	193.4	209.8	Chgs in working capital	-59.6	-633.6	-511.1	-103.7	-22.7
Interest expense	-68.9	-67.6	-66.7	-69.4	-79.5	Non-cash adjustment	-186.0	-74.7	27.8	19.4	19.1
PBT	414.9	254.2	151.1	174.0	190.7	Net interest expense	-39.7	-39.9	-46.2	-69.4	-79.5
Taxation	-69.4	-64.5	-28.5	-20.8	-22.2	Tax paid	-52.2	-64.4	-58.8	-20.8	-22.2
Normalised PATAMI	147.8	153.8	111.1	150.7	165.1	CF from Operations	83.9	-548.5	-429.1	7.2	94.4
Balance Sheet						Investing activities					
	FY12	FY13	FY14	FY15F	FY16F		FY12	FY13	FY14	FY15F	FY16F
Non-current assets	2,862.7	2,863.1	3,482.6	3,528.2	3,572.3	Capex	-48.4	-50.6	-2.8	-30.0	-30.0
PPE	276.2	271.7	237.4	283.0	327.1	Income received	26.5	163.4	1.7	23.2	23.2
Land held for development	388.5	640.4	994.2	994.2	994.2	Other investing activities	-173.0	-352.1	99.9	0.0	0.0
Investments	1,528.4	1,096.3	1,265.6	1,265.6	1,265.6	CF from Investments	-194.9	-239.3	98.8	-6.8	-6.8
Trade receivables & others	669.6	854.8	985.5	985.5	985.5						
Current assets	2,524.3	2,671.5	2,718.5	2,542.5	2,594.9	Financing activities					
Inventories	73.9	75.6	90.7	82.3	97.0	Dividends paid to owners	-61.8	-72.9	-48.8	-45.2	-49.5
Receivables	977.1	990.8	1,022.2	940.7	971.8	Dividends paid to MI	0.0	0.0	0.0	0.0	0.0
Amount due from customer	81.9	261.4	239.7	239.7	239.7	Net proceeds in capital	468.8	667.0	447.9	-21.6	-31.5
Other current assets	313.7	370.3	415.0	415.0	415.0	CF from Financing	407.1	594.1	399.1	-66.8	-81.0
Cash & equivalent	1,077.7	973.4	950.8	864.8	871.3						
TOTAL ASSETS	5,387.0	5,534.6	6,201.1	6,070.7	6,167.2	Net changes in cash	296.1	-193.7	68.8	-66.5	6.6
Share capital	475.8	546.2	546.3	546.3	546.3	Beginning cash	774.7	1053.1	861.1	931.2	864.8
Share premium	394.1	2,174.0	2,174.2	2,174.2	2,174.2	Exchange differences	-17.7	1.7	1.2	0.0	0.0
Reserves & other equities	equities	-463.8	-439.7	-136.0	10.0	Ending cash	1,053.1	861.1	931.2	864.8	871.3
TOTAL EQUITY	869.9	2,256.4	2,280.7	2,584.5	2,730.4						
Non-current liabilities	1,489.8	2,047.0	2,298.1	1,964.7	1,923.6	Ratios					
Long-term borrowings	934.8	1,590.9	1,881.8	1,635.4	1,535.4		FY12	FY13	FY14	FY15F	FY16F
Payables	554.9	456.1	416.3	329.3	388.2	Revenue growth	1.4%	6.1%	0.4%	2.0%	3.3%
Current liabilities	2,029.9	1,231.2	1,622.3	1,521.6	1,513.2	PBT growth	99.9%	-38.7%	-40.6%	15.1%	9.6%
Short-term borrowings	930.7	369.1	584.1	531.5	500.0	Normalised PATAMI growth	-11.0%	4.1%	-27.8%	35.6%	9.6%
Payables	1,083.4	842.7	862.1	814.0	837.1	PBT margin	26.6%	15.4%	9.1%	10.3%	10.9%
Amount due to customer	0.0	0.0	162.9	162.9	162.9	Normalised PATAMI margin	9.5%	9.3%	6.7%	8.9%	9.4%
Tax payable	15.8	19.5	13.2	13.2	13.2	ROE	8.2%	7.0%	5.0%	5.9%	6.2%
TOTAL LIABILITIES	3,519.6	3,278.3	3,920.4	3,486.2	3,436.8	ROA	2.7%	2.8%	1.8%	2.5%	2.7%
						Net gearing (x)	0.4	0.4	0.7	0.5	0.5
						Book value/share (RM)	1.83	1.97	2.02	2.12	2.22
						PBV (x)	1.3	1.0	0.9	0.8	0.7
						EV/share (RM)	3.17	2.94	3.31	2.98	2.89

Source: Bloomberg, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

APPENDIX

Effects of the proposals

	Minimum Scenario		Maximum Scenario	
	No. of shares (mil)	Value (RM'm)	No. of shares (mil)	Value (RM'm)
Issued and paid-up capital	1,092.6	546.3	1,092.6	546.3
Less: Treasury shares	-16.5	-8.2	—	—
	1,076.1	538.0	1,092.6	546.3
Full exercise of Warrants C	—	—	157.0	78.5
Full exercise of Warrants D	—	—	163.6	81.8
Full exercise of ESOS	—	—	19.1	9.5
	1,076.1	538.0	1,432.3	716.1
Proposed rights issue of shares	107.6	53.8	143.2	71.6
(a)	1,183.7	591.8	1,575.5	787.7
Full exercise of proposed Warrants E	236.7	118.4	315.1	157.5
Enlarged share capital (b)	1,420.4	710.2	1,890.6	945.3

Source: Company data, MIDFR

Assumptions:

- Minimum Scenario:** Assuming all the existing treasury shares are retained in the Company and that none of the outstanding convertible securities have been exercised into new WCTH Shares prior to the implementation of the proposals.
- Maximum Scenario:** Assuming all the existing treasury shares are resold in the open market at their respective acquisition prices and that all of the outstanding convertible securities have been exercised into new WCTH shares prior to the implementation of the proposals.
- The proposed right issue indicative price at RM1.55 per share*
- The proposed warrants indicative price at RM1.71 per share^

Our estimates of post-rights

FY15F	Minimum Scenario	Maximum Scenario
(a) Enlarged share capital post rights issue	1,183.7	1,575.5
FD EPS (sen)	12.7	9.6
Book value (RM)	2.15	2.83
Price-to-book value (x)	0.7	0.6
Net gearing (x)	0.5	0.2
Adjusted Target Price (RM)	1.96	1.83
(b) Enlarged share capital post rights issue and Warrant E	1,420.4	1,890.6
FD EPS (sen)	10.6	8.0
Book value (RM)	2.51	3.32
Price-to-book value (x)	0.6	0.5
Net gearing (x)	0.3	0.1
Adjusted Target Price (RM)	1.84	1.73

Source: Forecasts by MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.