

WCT Holdings (HOLD ↔; EPS ↔)

INDUSTRY: OVERWEIGHT

COMPANY INSIGHT / BRIEFING

27 May 2015

Price Target (ex-rights): RM1.73

Share price (ex-rights): RM1.70

Share price (cum rights): RM1.77

Still searching for the spark

Highlights

- **Hosts 1QFY15 briefing.** WCT hosted an investor's briefing this morning post 1QFY15 results. To recap, 1Q earnings stood at RM33m (-17% YoY, +223% QoQ) which was above expectations, primarily due to forex gains. We sensed that management is turning upbeat on construction but remains cautious on the property outlook.
- **Contracts under its radar.** WCT is bidding for RM3.7bn worth of contracts and is in the midst of preparing tenders for another RM1.5bn. Domestically, these include jobs at RAPID where it has bid for 2 packages (RM500m), infra works for TRX (RM1bn), portions of the West Coast Expressway (RM1bn) and a smallish earthworks job for Kwasa Damansara (RM100m). In Qatar, it is eyeing on more jobs for the Lusail Development where it already won a RM868m contract earlier in March.
- **Formidable contender for KL118?** WCT, (via a JV with UAE based Arabtec) has submitted its bid for the KL118 tower (RM3bn). In total, 6 consortiums have been shortlisted. We feel that WCT has a decent chance in securing the job by virtue of Arabtec's track record which includes the world's tallest building, the Burj Khaifah.
- **Tough shot for PDP roles.** WCT has submitted its PDP proposal for the Penang Transport Masterplan and the LRT3. We reckon that its chances are slim for these jobs as the former would require significant balance sheet strength to undertake while WCT lacks rail related experience for the latter (having won no LRT or MRT contracts thus far).
- **Challenging property outlook.** Management shared that property sales have slowed post GST, particularly for the high end condos. WCT will continue to focus on its landed products in Klang where sentiment is less affected. It maintains its RM650m sales target for FY15 while we are more conservative at RM450m.

Risks

- WCT's orderbook replenishment has lagged behind its burn rate over the past 2 years. As such, more job wins need to come to fruition this time around to propel earnings.

Forecasts

- Unchanged as there were no surprises from the briefing.

Rating

HOLD, TP: RM1.73 (ex-rights)

- Whilst management is more upbeat on its construction prospects, we caution on the highly competitive landscape in the jobs that it is gunning for. No doubt that job wins have been decent YTD, but we remain sceptical that this can come significantly above its burn rate. The saving grace for WCT comes from the value of its investment properties. We maintain our HOLD rating as WCT still lacks the catalysts to warrant a buy in.

Valuation

- Our ex rights TP of RM1.73 is based on the SOP method, implying ex-rights FY15-16 P/E of roughly 16x.

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KLCI	1773.4
Expected share price return	-2.3%
Expected dividend return	2.7%
Expected total return	0.5%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,086
Market cap (RM m)	1,922
3-mth avg. volume ('000)	1,544

Price Performance	1M	3M	12M
Absolute	-0.1	7.7	-16.4
Relative	4.9	10.6	-12.2

Major shareholders

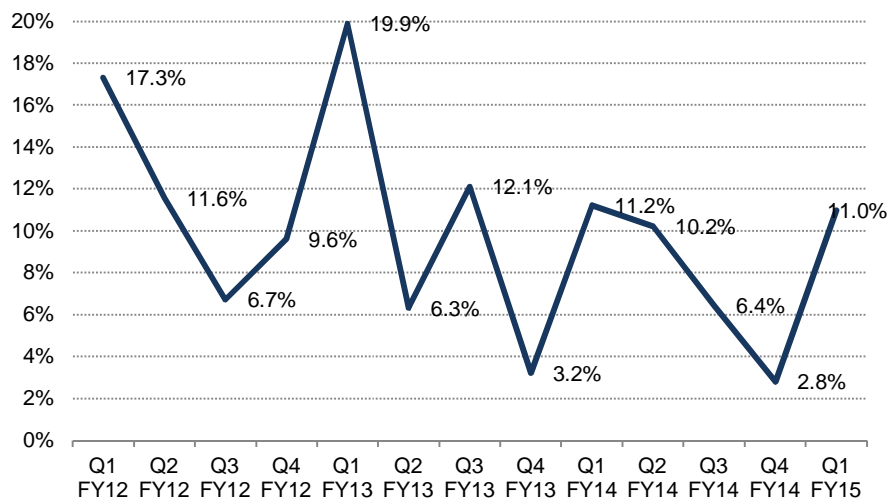
WCT Capital	19.5%
Lembaga Tabung Haji	10.2%
Employees Provident Fund	9.4%

Summary Earnings Table

FYE Jul (RM m)	FY13	FY14	FY15F	FY16F
Revenue	1,662	1,659	1,817	1,947
EBITDA	193	232	265	286
EBIT	184	223	256	277
Profit Before Tax	140	177	208	228
Core PATAMI	113	128	151	165
vs Consensus (%)		89	93	94
Core EPS (sen)	10.5	11.9	14.0	15.3
P/E (x)	16.9	14.9	12.6	11.6
Net DPS (sen)	6.7	4.8	5.6	6.1
Net DY (%)	3.8	2.7	3.2	3.5
BV per share	2.07	2.15	2.23	2.32
P/B (x)	0.9	0.8	0.8	0.8
ROE (%)	5.1	5.6	6.4	6.7
Net Gearing (%)	66.2	72.1	75.4	75.6

HLIB

Figure #1 Quarterly construction EBIT margin



Quarterly financial reports

Figure #2 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY15 earnings	121	12	1,450	0.77
Gateway@klia2 based on DCF	237	5.1%	166	0.09
Paradigm Mall based on cap rate	329	7.0%	231	0.12
Premiere Hotel Klang based on DCF	185	8.5%	185	0.10
Cash proceeds from warrants	1,060		1,060	0.57
Cash proceeds from rights	143		143	0.08
Sum of Parts Value (ex rights)			3,234	1.73

HLIB estimates

Figure #3 Conversion to ex rights price

Conversion to ex rights price	Current	Ex rights
Current price	1.77	1.70
Target price	1.92	1.73
Upside/ (downside)	8.7%	1.7%

HLIB estimates

Financial Projections for WCT Holdings

Balance Sheet

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Cash	973	951	864	795	764
Receivables	2,082	2,223	2,179	2,274	2,352
Inventories	76	91	76	82	88
PPE	272	236	242	248	255
Investment properties	653	738	775	813	854
Associates & JVs	443	528	528	528	528
Others	1,035	1,461	1,682	1,855	1,980
Assets	5,535	6,227	6,345	6,597	6,820
-	-	-	-	-	-
Debts	1,922	2,431	2,531	2,606	2,656
Payables	1,299	1,461	1,402	1,487	1,559
Others	57	49	50	51	52
Liabilities	3,278	3,940	3,982	4,143	4,267
-	-	-	-	-	-
Shareholder's equity	2,204	2,234	2,311	2,402	2,501
Minority interest	52	53	52	52	53
Equity	2,256	2,287	2,363	2,454	2,554

Cash Flow Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Profit before taxation	219	140	177	208	228
Depreciation & amortisation	10	8	9	8	9
Changes in working capital	(256)	132	0	(18)	(12)
Taxation	(64)	(28)	(49)	(57)	(63)
Others	(457)	(681)	-	-	-
CFO	(548)	(430)	137	141	162
-	-	-	-	-	-
Net capex	(5)	28	(15)	(15)	(15)
Others	(234)	79	(258)	(210)	(162)
CFI	(239)	107	(273)	(225)	(177)
-	-	-	-	-	-
Changes in borrowings	98	508	100	75	50
Dividends paid	(73)	(72)	(51)	(60)	(66)
Others	569	(37)	-	-	-
CFF	594	399	49	15	(16)
-	-	-	-	-	-
Net cash flow	(194)	76	(87)	(69)	(31)
Forex	2	1	-	-	-
Others	88	(100)	-	-	-
Beginning cash	1,078	973	951	864	795
Ending cash	973	951	864	795	764

Income Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	1,655	1,662	1,659	1,817	1,947
EBITDA	277	193	232	265	286
EBIT	267	184	223	256	277
Finance cost	(68)	(60)	(62)	(64)	(66)
Associates & JV	19	15	16	16	16
Profit before tax	219	140	177	208	228
Tax	(64)	(28)	(49)	(57)	(63)
Net profit	155	111	128	151	165
Minority interest	8	2	-	-	-
PATMI (core)	162	113	128	151	165
Exceptionals	35	10	-	-	-
PATMI (reported)	198	123	128	151	165

Valuation & Ratios

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Core EPS (sen)	15.1	10.5	11.9	14.0	15.3
P/E (x)	11.7	16.9	14.9	12.6	11.6
EV/EBITDA (x)	12.4	17.9	14.8	13.0	12.0
DPS (sen)	6.8	6.7	4.8	5.6	6.1
Dividend yield	3.8%	3.8%	2.7%	3.2%	3.5%
BVPS (RM)	2.05	2.07	2.15	2.23	2.32
P/B (x)	0.9	0.9	0.8	0.8	0.8
EBITDA margin	16.8%	11.6%	14.0%	14.6%	14.7%
EBIT margin	16.2%	11.1%	13.4%	14.1%	14.2%
PBT margin	13.2%	8.4%	10.6%	11.4%	11.7%
Net margin	9.8%	6.8%	7.7%	8.3%	8.5%
ROE	8.1%	5.1%	5.6%	6.4%	6.7%
ROA	3.0%	1.9%	2.0%	2.3%	2.5%
Net gearing	43.0%	66.2%	72.1%	75.4%	75.6%

Assumptions

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Contracts secured	670	993	1,200	1,000	800
Property sales	499	461	450	500	500

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

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