

# WCT Holdings (BUY ↑; EPS ↑)

**INDUSTRY: OVERWEIGHT**
**COMPANY INSIGHT**
**21 January 2016**
**Price Target: RM2.15 (↑)**
**Share price: RM1.52**

## Delivery time

### Highlights

- **Meeting with management.** Last week, together with a group of 12 fund managers, we met up with WCT's Executive Director, Kenny Wong.
- **Hiccups in Qatar are over.** WCT's earnings for FY15 were marred by Variation Orders (VOs) for its building job in Qatar as it had to recognise cost for additional works without any offsetting revenue. This should no longer be an issue for FY16 as the job was 94% completed as of Nov 2015. WCT has also submitted claims worth RM100m for the VO and, if approved, should flow straight to its bottomline.
- **Record high job wins.** Despite sluggish job wins in the past, WCT rebounded strongly in FY15 by amassing RM3bn in new contracts, an all-time high. This brings its orderbook to RM4.4bn (end Nov) implying a healthy cover ratio of 3.8x, a stark improvement from the 1.6x witnessed a year ago.
- **Recovery forthcoming.** While WCT's construction EBIT margin stood at a thin 4.5% for 9MFY15, we envisage a forthcoming recovery. Of the new job wins last year, 89% are civil & infra related which arguably, is WCT's forte. Traditionally, WCT has managed to garner higher margins for its civil & infra contracts as opposed to buildings.
- **Gunning for more.** Management is targeting to secure RM2bn worth of new jobs this year. These include the KL118 infra works (RM1bn), Pan Borneo Sarawak (RM1bn), other stretches of the West Coast Expressway (RM300-500m), Kwasa D'sara civil works (RM250m), TRX buildings, MRT2 (RM28bn) and LRT3 (RM9bn).
- **Listing on the cards.** In efforts to de-gear, WCT is working towards the listing of (i) AEON BBT Mall and Paradigm Mall via a REIT with asset size of RM1.2bn and (ii) its construction arm. The indicative timeline for both is in 4Q16 although progress on the former is at a more advance stage. In both cases, WCT intends to hold at least a 51% stake.

### Risks

- Inconsistency in earnings delivery from quarter to quarter.

### Forecasts

- We raise FY16-17 earnings by 6% and 12% respectively after we impute stronger than expected job wins in FY15. This implies a 3 year earnings CAGR of 10%.

### Rating

**Upgrade to BUY, TP: RM2.15**

- WCT's weak earnings should bottom out in FY15 before a reversal of fortunes takes place in FY16 underpinned by its record high orderbook. The impending listings of its REIT and construction arms are tell-tale signs that a positive earnings momentum could be forthcoming.

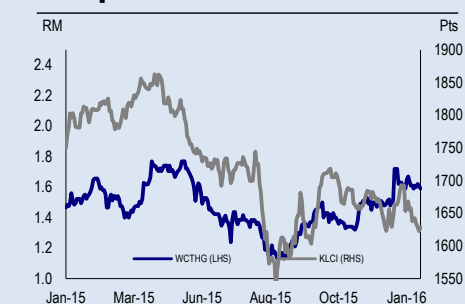
### Valuation

- Aside the earnings upgrade, we (i) raise our P/E target from 12x to 14x given its recovering prospects and (ii) impute the surplus land value of its landbank at a steep 75% discount.
- Our new SOP based TP of RM2.15 implies FY16 P/E of 21.5x but a more palatable 17x in FY17 once its earnings recovery gains full traction.

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KLCI	1676.6
Expected share price return	41.7%
Expected dividend return	1.0%
Expected total return	42.7%

### Share price



### Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,193
Market cap (RM m)	1,813
3-mth avg. volume ('000)	2,833

### Price Performance

	1M	3M	12M
Absolute	2.7	9.4	3.7
Relative	4.3	15.2	12.1

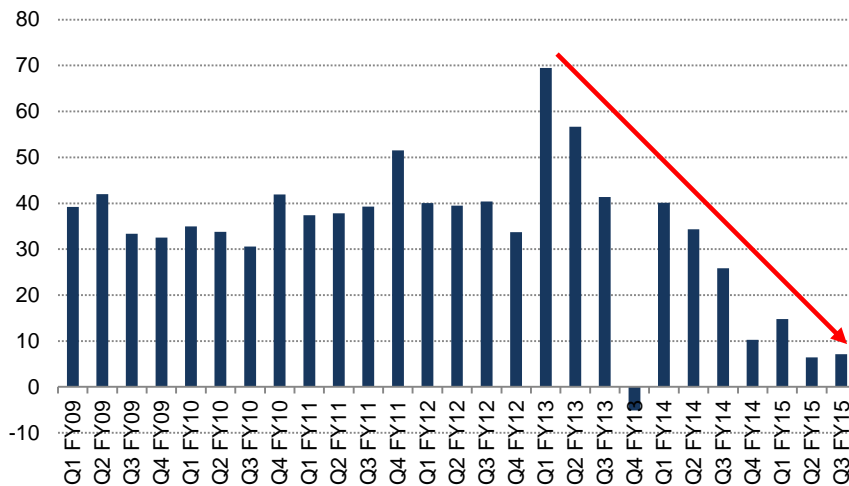
### Major shareholders

WCT Capital	19.4%
Lembaga Tabung Haji	10.2%
Employees Provident Fund	7.2%

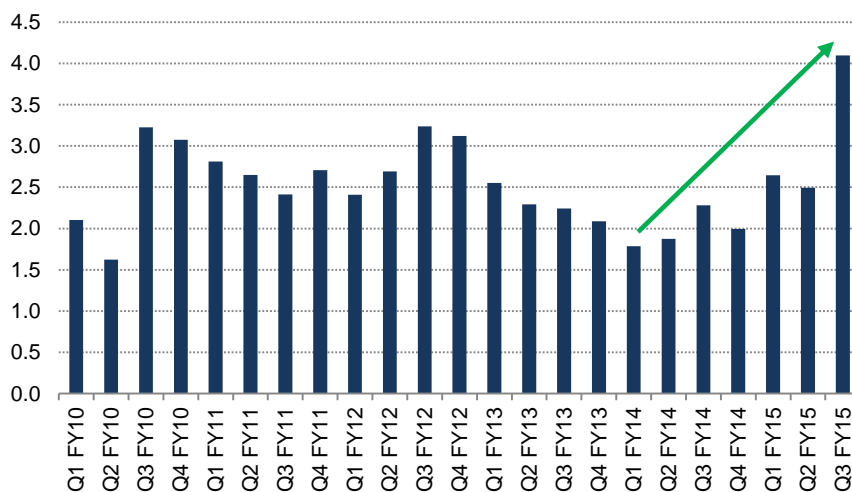
### Summary Earnings Table

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F
Revenue	1,662	1,580	2,111	2,482
EBITDA	193	141	239	284
EBIT	184	132	231	275
Profit Before Tax	140	69	165	208
Core PATAMI	113	45	119	151
vs Consensus (%)		(58)	(21)	(16)
Core EPS (sen)	9.5	3.7	10.0	12.6
P/E (x)	16.0	40.7	15.2	12.0
Net DPS (sen)	6.0	1.5	4.0	5.1
Net DY (%)	4.0	1.0	2.6	3.3
BV per share	1.87	1.90	2.13	2.20
P/B (x)	0.8	0.8	0.7	0.7
ROE (%)	5.1	2.0	5.0	5.8
Net Gearing (%)	66.2	73.6	64.7	65.9

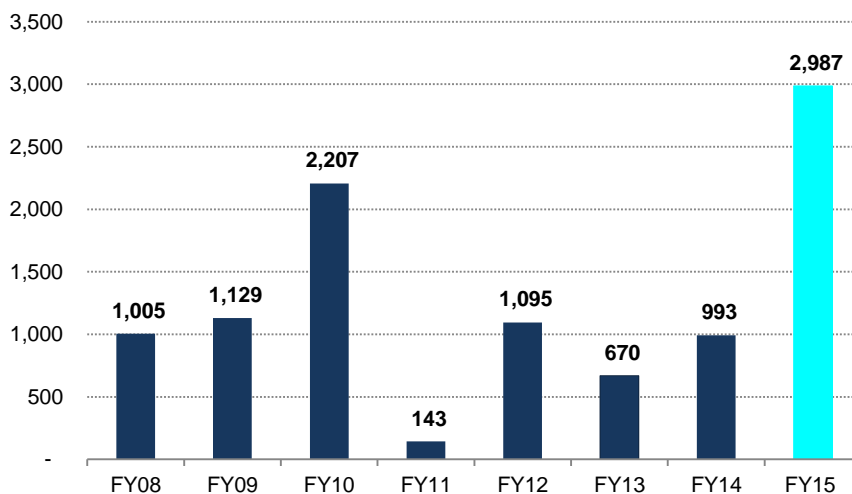
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**Figure #1** Quarterly earnings have been falling but... (RM m)

Quarterly announcements to Bursa

**Figure #2** ...orderbook is now at a record high (RM bn)

Company

**Figure #3** Annual orderbook replenishment of WCT (RM m)

Announcements to Bursa

**Figure #4 SOP valuation for WCT**

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Mid CY17 earnings	127	14	1,775	1.01
Gateway@klia2 based on DCF	237	5.1%	166	0.09
Paradigm Mall based on cap rate	329	7.0%	231	0.13
Premiere Hotel Klang based on DCF	185	8.5%	185	0.10
Undeveloped surplus land value at 75% discount			417	0.24
Cash proceeds from warrants			1,021	0.58
<b>Sum of Parts (SOP) Value</b>			<b>3,794</b>	<b>2.15</b>

HLIB estimates

**Figure #5 Peer comparison**

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E		P/B		ROE (T1)	Yield (T1)
						CY15	CY16	T1	T2		
Gamuda	10,827	4.50	4.85	BUY	July	17.0	17.7	1.6	1.5	8.8%	2.1%
IJM	12,019	3.36	3.86	BUY	Mar	21.5	18.1	1.4	1.3	6.8%	1.9%
WCT	1,813	1.52	2.15	BUY	Dec	40.7	15.2	0.8	0.7	2.0%	1.0%
MRCB	2,126	1.19	1.63	BUY	Dec	36.4	18.6	1.0	1.0	2.9%	0.7%
Edgenta	2,685	3.30	4.23	BUY	Dec	15.0	12.1	2.1	2.0	14.9%	3.3%
SunCon	1,797	1.39	1.59	BUY	Dec	15.3	14.0	4.6	3.8	31.0%	2.3%
Mudajaya	689	1.28	1.14	HOLD	Dec	456.8	14.5	0.6	0.6	0.1%	0.0%
Eversendai	530	0.69	1.06	BUY	Dec	12.5	6.8	0.6	0.5	4.5%	1.6%
Kimlun	442	1.47	1.56	BUY	Dec	7.7	7.5	1.0	0.9	13.5%	2.6%
Hock Seng Lee	1,066	1.94	1.75	HOLD	Dec	14.2	13.3	1.6	1.5	11.9%	1.4%
Mitrajaya	738	1.15	1.95	BUY	Dec	9.2	7.7	1.7	1.4	19.1%	3.8%
SCable	504	1.59	2.57	BUY	Dec	13.0	9.2	1.5	1.4	12.4%	2.3%

HLIB estimates

Note: T1 refers to most immediate forecast year, T2 refers to the year after T1

## Financial Projections for WCT Holdings

### Balance Sheet

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Cash	973	951	866	963	923
Receivables	2,082	2,223	2,131	2,451	2,675
Inventories	76	91	76	100	117
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
<b>Assets</b>	<b>5,535</b>	<b>6,227</b>	<b>6,300</b>	<b>6,959</b>	<b>7,331</b>
Debts	1,922	2,431	2,531	2,606	2,656
Payables	1,299	1,461	1,407	1,713	1,942
Others	57	49	50	51	52
<b>Liabilities</b>	<b>3,278</b>	<b>3,940</b>	<b>3,987</b>	<b>4,369</b>	<b>4,649</b>
Shareholder's equity	2,204	2,234	2,261	2,538	2,629
Minority interest	52	53	52	52	53
<b>Equity</b>	<b>2,256</b>	<b>2,287</b>	<b>2,313</b>	<b>2,590</b>	<b>2,682</b>

### Cash Flow Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Profit before taxation	219	140	69	165	208
Depreciation & amortisation	10	8	9	8	9
Changes in working capital	(256)	132	53	(39)	(12)
Taxation	(64)	(28)	(24)	(45)	(57)
Others	(457)	(681)	(258)	(5)	(162)
<b>CFO</b>	<b>(548)</b>	<b>(430)</b>	<b>(152)</b>	<b>85</b>	<b>(15)</b>
Net capex	(5)	28	(15)	(15)	(15)
Others	(234)	79	-	-	-
<b>CFI</b>	<b>(239)</b>	<b>107</b>	<b>(15)</b>	<b>(15)</b>	<b>(15)</b>
Changes in borrowings	98	508	100	75	50
Dividends paid	(73)	(72)	(18)	(48)	(60)
Others	569	(37)	-	-	-
<b>CFF</b>	<b>594</b>	<b>399</b>	<b>82</b>	<b>27</b>	<b>(10)</b>
<b>Net cash flow</b>	<b>(194)</b>	<b>76</b>	<b>(84)</b>	<b>97</b>	<b>(40)</b>
Forex	2	1	-	-	-
Others	88	(100)	-	-	-
Beginning cash	1,078	973	951	866	963
Ending cash	973	951	866	963	923

### Income Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
<b>Revenue</b>	<b>1,655</b>	<b>1,662</b>	<b>1,580</b>	<b>2,111</b>	<b>2,482</b>
EBITDA	277	193	141	239	284
EBIT	267	184	132	231	275
Finance cost	(68)	(60)	(79)	(82)	(84)
Associates & JV	19	15	16	16	17
<b>Profit before tax</b>	<b>219</b>	<b>140</b>	<b>69</b>	<b>165</b>	<b>208</b>
Tax	(64)	(28)	(24)	(45)	(57)
<b>Net profit</b>	<b>155</b>	<b>111</b>	<b>45</b>	<b>119</b>	<b>151</b>
Minority interest	8	2	-	-	-
<b>PATMI (core)</b>	<b>162</b>	<b>113</b>	<b>45</b>	<b>119</b>	<b>151</b>
Exceptionals	35	10	-	205	-
PATMI (reported)	198	123	45	325	151

### Valuation & Ratios

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Core EPS (sen)	13.6	9.5	3.7	10.0	12.6
P/E (x)	11.2	16.0	40.7	15.2	12.0
EV/EBITDA (x)	13.6	19.6	26.8	15.8	13.3
DPS (sen)	6.1	6.0	1.5	4.0	5.1
Dividend yield	4.0%	4.0%	1.0%	2.6%	3.3%
BVPS (RM)	1.85	1.87	1.90	2.13	2.20
P/B (x)	0.8	0.8	0.8	0.7	0.7
EBITDA margin	16.8%	11.6%	8.9%	11.3%	11.4%
EBIT margin	16.2%	11.1%	8.4%	10.9%	11.1%
PBT margin	13.2%	8.4%	4.3%	7.8%	8.4%
Net margin	9.8%	6.8%	2.8%	5.7%	6.1%
ROE	8.1%	5.1%	2.0%	5.0%	5.8%
ROA	3.0%	1.9%	0.7%	1.8%	2.1%
Net gearing	43.0%	66.2%	73.6%	64.7%	65.9%

### Assumptions

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Contracts secured	670	993	2,987	1,000	1,000
Property sales	499	461	373	400	450

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<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.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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## Industry rating definitions

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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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