

WCT Holdings (WCTHG MK)

Share Price: MYR1.77 MCap (USD): 545M Malaysia
Target Price: MYR1.80 (+2%) ADTV (USD): 0.7M Construction



HOLD for now

- 1Q15 construction margins negated by timing of projects.
- Property sales YTD remained lacklustre and it seems challenging to achieve its 2015 sales target.
- Lowering earnings estimates. Downgrade to HOLD with a lower TP of MYR1.80 (-14%)

What's New

In the analyst briefing yesterday, management explained that the weak construction core EBIT margin of 3.6% in 1Q15 was due to the completion of several projects. Construction margins are expected to improve in the 2H15 as new projects start contributing earnings. With an outstanding orderbook of MYR3.64b as of end-Mar 2015, WCT is targeting job wins from RAPID, Pengerang (>MYR500m), KL118 (MYR3b), TRX (MYR1b), West Coast Expressway (-MYR736m).

Meanwhile, property demand has remain lackluster especially after the GST implementation. Therefore, WCT has revised its 2015 new property launches to be adaptive to market demand. It has achieved MYR127m in property sales YTD. Given the weak property purchasing sentiment, we think that it would be challenging for WCT to meet its 2015 property sales target of MYR650m (+41% YoY) although management is retaining this target for now.

What's Our View

We adjust our 2015/16/17 EPS forecasts by -21%/-15%/-9% after we incorporate: i) weaker 1H15 construction margins, ii) lower property margins due to medium cost apartment launches and iii) lower contribution from Gateway@KLIA2 mall due to the still 74% occupancy rate. Our new SOP-based TP is MYR1.80 (-14%).

Although WCT could benefit from the upcoming mega infrastructure projects and government land developments, its tepid earnings and delay in its retail malls REIT could limit the upside to share price. We downgrade WCT to HOLD (from BUY) at lower SOP-based TP of MYR1.80 (from MYR2.10).

| FYE Dec (MYR m) | FY13A | FY14A | FY15E | FY16E | FY17E |
|------------------------|---------|---------|---------|---------|---------|
| Revenue | 1,655.0 | 1,662.2 | 1,800.1 | 1,992.0 | 1,729.7 |
| EBITDA | 282.4 | 147.5 | 155.8 | 194.2 | 207.8 |
| Core net profit | 200.5 | 97.0 | 103.2 | 137.9 | 149.4 |
| Core EPS (sen) | 18.7 | 8.9 | 9.5 | 12.6 | 13.7 |
| Core EPS growth (%) | 11.1 | (52.4) | 6.3 | 33.5 | 8.4 |
| Net DPS (sen) | 6.8 | 6.2 | 6.2 | 6.2 | 6.2 |
| Core P/E (x) | 9.5 | 19.9 | 18.7 | 14.0 | 12.9 |
| P/BV (x) | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 |
| Net dividend yield (%) | 3.8 | 3.5 | 3.5 | 3.5 | 3.5 |
| ROAE (%) | 10.0 | 4.4 | 4.6 | 6.0 | 6.3 |
| ROAA (%) | 3.7 | 1.7 | 1.7 | 2.2 | 2.4 |
| EV/EBITDA (x) | 11.0 | 22.0 | 22.0 | 17.5 | 16.1 |
| Net debt/equity (%) | 40.1 | 66.4 | 64.0 | 60.5 | 55.8 |

| Key Data | |
|---------------------------|-----------|
| Shariah status | Yes |
| 52w high/low (MYR) | 2.31/1.41 |
| 3m avg turnover (USDm) | 0.7 |
| Free float (%) | 96.2 |
| Issued shares (m) | 1,103 |
| Market capitalization | MYR2.0B |
| Major shareholders: | |
| -Permodalan Nasional Bhd. | 13.2% |
| -Lembaga Tabung Haji | 9.9% |
| -Employees Provident Fund | 9.2% |

| Share Price Performance | |
|--|-------|
| 2.60 | 110 |
| 2.40 | - 100 |
| 2.20 | - 90 |
| 2.00 - | - 80 |
| 1.80 | 70 |
| 1.60 | - 60 |
| 1.40 May-13 Sep-13 Jan-14 May-14 Sep-14 Jan-15 | 50 |
| ——WCT Holdings - (LHS, MYR) | |
| | |

| | 1 Mth | 3 Mth | 12 Mth |
|-----------------------|-------|-------|--------|
| Absolute(%) | (0.1) | 7.7 | (16.4) |
| Relative to index (%) | 5.3 | 11.0 | (11.9) |

| Maybank vs Market | | | | | | | | |
|--------------------|----------|-----------|----------|--|--|--|--|--|
| | Positive | Neutral | Negative | | | | | |
| Market Recs | 5 | 8 | 2 | | | | | |
| | Maybank | Consensus | % +/- | | | | | |
| Target Price (MYR) | 1.80 | 1.80 | 0.0 | | | | | |
| '15 PATMI (MYRm) | 103 | 137 | (24.8) | | | | | |
| '16 PATMI (MYRm) | 138 | 155 | (10.8) | | | | | |

Source: FactSet; Maybank

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Highlights, in charts and tables

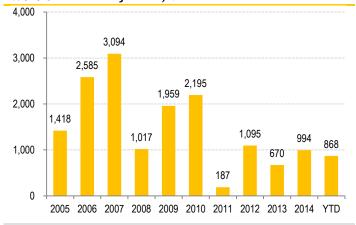
WCT: Outstanding construction order book, details

| | Contract v | alue (MYRm) | | | | |
|--------------------------------------|------------|-------------|------------|------------|------------|------------|
| | Total | WCT's shr | at Jun '14 | at Sep '14 | at Dec '14 | at Mar '15 |
| OVERSEAS | | | | | | |
| Government Admin Office, Qatar * | 1,360 | 1,360 | 479 | 354 | 395 | 338 |
| New Doha Intl Airport, Qatar | 3,270 | 1,600 | 2 | 2 | 2 | 2 |
| Lusails Development project, Qatar # | 1,200 | 868 | | | | 868 |
| Total overseas (A) | | | 356 | 397 | 340 | 1,126 |
| DOMESTIC (external) | | | | | | |
| Civil engineering & infrastructure | | | | | | |
| PLUS widening (Nilai-Seremban) @ | 391 | 391 | 290 | 175 | 141 | 129 |
| Tun Razak Exchange % | 169 | 169 | 152 | 101 | 36 | 29 |
| RAPID infra works ^ | | | 342 | 342 | 335 | 327 |
| Others | | | 4 | 2 | 2 | 2 |
| | | | 788 | 620 | 514 | 487 |
| Building | | | | | | |
| MITI HQ, Mukim Batu, KL @ | 300 | 300 | 215 | 180 | 102 | 58 |
| KK Medical Centre & Riverson @ | 331 | 331 | 147 | 101 | 69 | 41 |
| Putrajaya Commercial Office % | 315 | 315 | 291 | 287 | 279 | 271 |
| IKEA shopping mall Jalan Cochrane^ | 652 | 652 | 652 | 652 | 649 | 628 |
| Others | | | 79 | 44 | 43 | 33 |
| | | | 1384 | 1264 | 1142 | 1031 |
| Total Domestic (external) (B) | | | 2,172 | 1,884 | 1,656 | 1,518 |
| TOTAL EXTERNAL (C=A+B) | | | 2,528 | 2,281 | 1,996 | 2,644 |
| INTERNAL: Paradigm & others (D) | | | 1,153 | 1,197 | 1,073 | 994 |
| TOTAL (C+D) | | | 3,681 | 3,478 | 3,069 | 3,638 |

^{*} New in 2010; @ New in 2012; % New in 2013; $^{\wedge}$ New in 2014 ; # New in 2015

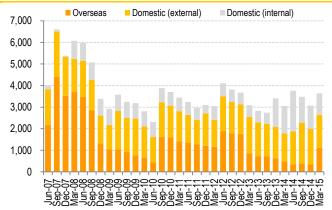
Sources: Company, Maybank KE

WCT: Construction job win, MYR868m YTD



Sources: Company, Maybank KE

WCT: Outstanding construction order book, MYR3.6b



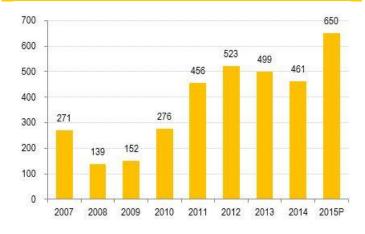
Sources: Company, Maybank KE

WCT: Property development projects

| | GDV | Stake | Total sales to date | Sales in 2011 | Sales in 2012 | Sales in 2013 | Sales in 2014 | Sales as of Mar'15 | Billings to date | Unrecognised @ Mar '15 |
|----------------------------|-----------|-------|------------------------|------------------|------------------|------------------|------------------|-----------------------|---------------------|---------------------------|
| | (MYR m) | (%) | (MYR m) | (MYR m) | (MYR m) | (MYR m) | (MYR m) | (MYR m) | (MYR m) | (MYR m) |
| Integrated township | (MTK III) | (70) | (MTIX III) | (MTK III) | (M11X 111) | (MTIX III) | (MTIX III) | (MTIX III) | (MTK III) | (MTK III) |
| Bandar Bukit Tinggi 1 | 2,201 | 100 | 1,120 | 26 | 4 | 12 | 1 | -1 | 1,123 | 0 |
| Bandar Bukit Tinggi 2 | 3,065 | 100 | 1,499 | 38 | 14 | 120 | 204 | 56 | 1,482 | 234 |
| Bandar Parklands | 4,476 | 100 | 1,196 | 315 | 186 | 166 | 27 | 1 | 1193 | 15 |
| Rawang, Selangor # | 2,800 | 100 | - | - | - | - | | | | |
| Luxury homes | | | | | | | | | | |
| D'Banyan Residency | 269 | 100 | 258 | 77 | 3 | 21 | 5 | 0 | 258 | 5 |
| Laman Greenville, Klang * | 712 | 100 | 86 | - | - | - | 74 | 5 | 63 | 70 |
| Inanam, KK, Sabah @ | 200 | 100 | - | - | - | - | | | | - |
| Retail & commercial | | | | | | | | | | |
| The Paradigm, Kelana J | 516 | 70 | - | - | - | - | 39 | 13 | 33 | 52 |
| Medini Business District * | 3,000 | 100 | - | - | - | - | | | | |
| Skyz Jelutong | 161 | 100 | 11 | - | - | - | 17 | -5 | 3 | 11 |
| A60 - Medini North @ | 1,500 | 100 | - | - | - | - | | | | |
| Jln Skudai, Johor @ | 1,500 | 100 | - | - | - | - | | | | |
| High-rise homes | | | | | | | | | | |
| 1Medini | 930 | 70 | 496 | - | 316 | 180 | 290 | -3 | 225 | 271 |
| DPN Land, HCMC | 500 | 100 | - | - | - | - | | | | - |
| <u>Industrial</u> | | | | | | | | | | |
| Bdr Serendah, Selangor # | 189 | 100 | - | - | - | - | | | | - |
| Mixed | | | | | | | | | | |
| OUG, Old Klang Rd @ | 6,300 | 100 | - | - | - | - | | | | - |
| <u>Vietnam</u> | | | | | | | | | | |
| Platinum Plaza | 1,000 | 67 | - | - | - | - | | | | - |
| Total | | | 4,666 | 456 | 523 | 499 | 657 | 66 | 4,380 | 658 |

^{*} New in 2010; # New in 2011; @ New in 2012; Sources: Company, Maybank KE

WCT: Yearly property sales



Source: Company, Maybank KE

WCT: Land bank

| Location | Total acres | Bal acres | GDV (MYRm) | Devt type |
|----------------------------------|----------------|--------------|---------------|---------------------|
| BBT, Klang | 1,336 | 117 | 5,354 | Township |
| Medini Business Dist, Johor # | 20.8 | 20.8 | 3,000 | Mixed commercial |
| Bdr Serendah, S'gor * | 39 | 39 | 189 | Industrial |
| Rawang, Selangor * | 659 | 659 | 2,800 | Township |
| OUG, OKR, KL @ | 57 | 57 | 6,300 | Mixed |
| Lot A60, Zone A, Medini @ | 18 | 18 | 1,500 | Mixed |
| Inanam, KK, Sabah @ | 22 | 22 | 200 | Luxury homes |
| Jln Skudai, Johor @ | 12 | 12 | 1,500 | Mixed commercial |
| Total | 2,164 | 945 | 20,843 | |
| # New in 2010; * New i | n 2011; @ | New in . | 2012 | |

Source: Company, Maybank KE

WCT's Sum-Of-Parts valuation

| | FY16 net profit (MYR m) | PER target (x) | WCT's stake | Value (MYR m) | |
|-----------------------------|----------------------------|-------------------|-------------|------------------|----------------------|
| Construction | 48.1 | 12.0 | 100.0% | 577.3 | 12x 2015 PER |
| Property investment | 30.3 | 12.0 | 100.0% | 363.6 | 12x 2015 PER |
| | | DCF value | WCT's stake | Value | |
| Property development | | 1,571.6 | 100.0% | 628.6 | 60% discount on RNAV |
| Gateway@KLIA2 concession | | 393.3 | 70.0% | 275.3 | DCF |
| Total SOP | | | | 1,844.9 | |
| Cash proceeds from warrants | | | | 688.5 | |
| Fully Diluted (FD) SOP | | | | 2,533.3 | |
| | | | | ====== | |
| SOP/sh (MYR) | | | | 1.69 | |
| FD SOP/sh (MYR) | | | | 1.79 | |
| FD SOP/sh (MYR) - Rounded | | | | 1.80 | |
| Number of shares | | | | 1,092.5 | |
| FD number of shares | | | | 1,413.1 | |

Source: Maybank KE

Foreign Shareholding was at 9.96% as of 15 May 2015



Sources: Company, Maybank KE

May 27, 2015 4

| FYE 31 Dec | FY13A | FY14A | FY15E | FY16E | FY17E |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Key Metrics | | | 40 = | | 40.5 |
| P/E (reported) (x) | 9.6 | 16.0 | 18.7 | 14.0 | 12.9 |
| Core P/E (x) | 9.5 | 19.9 | 18.7 | 14.0 | 12.9 |
| P/BV (x) | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 |
| P/NTA (x) | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 |
| Net dividend yield (%) | 3.8 | 3.5 | 3.5 | 3.5 | 3.5 |
| FCF yield (%) | nm | nm | 8.6 | 8.7 | 10.0 |
| EV/EBITDA (x) EV/EBIT (x) | 11.0 11.3 | 22.0 23.3 | 22.0 23.3 | 17.5 18.4 | 16.1 16.9 |
| INCOME STATEMENT (MYR m) | | | | | |
| Revenue | 1,655.0 | 1,662.2 | 1,800.1 | 1,992.0 | 1,729.7 |
| Gross profit | 270.1 | 225.4 | 244.4 | 270.9 | 233.6 |
| EBITDA | 282.4 | 147.5 | 155.8 | 194.2 | 207.8 |
| Depreciation | (9.9) | (8.2) | (8.6) | (9.0) | (9.5) |
| EBIT | 272.4 | 139.3 | 147.3 | 185.2 | 198.3 |
| Net interest income /(exp) | (34.5) | (27.1) | (28.5) | (28.2) | (28.5) |
| Associates & JV | 19.2 | 15.4 | 17.9 | 24.9 | 27.6 |
| Exceptionals | (2.9) | 23.5 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 254.2 | 151.1 | 136.6 | 181.9 | 197.4 |
| Income tax | (64.5) | (28.5) | (31.9) | (41.6) | (44.9) |
| Minorities | 7.8 | (2.1) | (1.5) | (2.4) | (3.1) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 197.5 | 120.5 | 103.2 | 137.9 | 149.4 |
| Core net profit | 200.5 | 97.0 | 103.2 | 137.9 | 149.4 |
| · | | | | | |
| BALANCE SHEET (MYR m) | | | | | |
| Cash & Short Term Investments | 1,039.1 | 950.8 | 782.7 | 718.2 | 681.8 |
| Accounts receivable | 1,089.1 | 1,022.2 | 1,189.8 | 1,316.7 | 1,143.3 |
| Inventory | 75.6 | 90.7 | 86.0 | 95.1 | 82.6 |
| Property, Plant & Equip (net) | 271.7 | 237.4 | 258.8 | 279.8 | 300.3 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 443.3 | 527.7 | 536.6 | 545.8 | 555.5 |
| Other assets | 2,615.9 | 3,372.2 | 3,372.2 | 3,372.2 | 3,372.2 |
| Total assets | 5,534.6 | 6,201.1 | 6,226.0 | 6,327.8 | 6,135.8 |
| ST interest bearing debt | 369.1 | 584.1 | 484.1 | 384.1 | 284.1 |
| Accounts payable | 842.7 | 1,025.0 | 1,213.0 | 1,342.3 | 1,165.6 |
| LT interest bearing debt | 1,553.1 | 1,846.4 | 1,746.4 | 1,746.4 | 1,746.4 |
| Other liabilities | 513.0 | 465.0 | 465.0 | 465.0 | 465.0 |
| Total Liabilities | 3,278.3 | 3,920.4 | 3,908.4 | 3,937.8 | 3,661.0 |
| Shareholders Equity | 2,204.3 | 2,227.9 | 2,263.3 | 2,333.4 | 2,415.0 |
| Minority Interest | 52.1 | 52.8 | 54.3 | 56.7 | 59.8 |
| Total shareholder equity | 2,256.4 | 2,280.7 | 2,317.6 | 2,390.1 | 2,474.8 |
| Total liabilities and equity | 5,534.6 | 6,201.1 | 6,226.0 | 6,327.8 | 6,135.8 |
| CASH FLOW (MYR m) | | | | | |
| Pretax profit | 254.2 | 151.1 | 136.6 | 181.9 | 197.4 |
| Depreciation & amortisation | 9.9 | 8.2 | 8.6 | 9.0 | 9.5 |
| Adj net interest (income)/exp | 34.5 | 27.1 | 28.5 | 28.2 | 28.5 |
| Change in working capital | (944.3) | (586.9) | 54.0 | 19.8 | 33.4 |
| Cash taxes paid | (64.5) | (28.5) | (31.9) | (41.6) | (44.9) |
| Other operating cash flow | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | (710.1) | (429.0) | 195.9 | 197.3 | 223.8 |
| Capex | (23.1) | (71.2) | (30.0) | (30.0) | (30.0) |
| Free cash flow | (733.3) | (500.2) | 165.9 | 167.3 | 193.8 |
| Dividends paid | (72.9) | (48.8) | (67.8) | (67.8) | (67.8) |
| Equity raised / (purchased) | 259.6 | (50.4) | 0.0 | 0.0 | 0.0 |
| Change in Debt | 406.6 | 498.3 | (200.0) | (100.0) | (100.0) |
| Other invest/financing cash flow | 3.2 | 170.0 | (66.2) | (63.9) | (62.4) |
| Net cash flow | (136.7) | 68.9 | (168.2) | (64.5) | (36.4) |

| FYE 31 Dec | FY13A | FY14A | FY15E | FY16E | FY17E |
|-----------------------------|--------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 6.1 | 0.4 | 8.3 | 10.7 | (13.2) |
| EBITDA growth | 11.2 | (47.8) | 5.7 | 24.6 | 7.0 |
| EBIT growth | 10.1 | (48.9) | 5.7 | 25.7 | 7.1 |
| Pretax growth | (38.7) | (40.6) | (9.6) | 33.1 | 8.5 |
| Reported net profit growth | (45.0) | (39.0) | (14.3) | 33.5 | 8.4 |
| Core net profit growth | 26.3 | (51.6) | 6.4 | 33.5 | 8.4 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 17.1 | 8.9 | 8.7 | 9.7 | 12.0 |
| EBIT margin | 16.5 | 8.4 | 8.2 | 9.3 | 11.5 |
| Pretax profit margin | 15.4 | 9.1 | 7.6 | 9.1 | 11.4 |
| Payout ratio | 36.7 | 56.2 | 65.7 | 49.2 | 45.4 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 11.9 | 7.3 | 5.7 | 6.9 | 8.6 |
| Revenue/Assets (x) | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Assets/Equity (x) | 2.5 | 2.8 | 2.8 | 2.7 | 2.5 |
| ROAE (%) | 10.0 | 4.4 | 4.6 | 6.0 | 6.3 |
| ROAA (%) | 3.7 | 1.7 | 1.7 | 2.2 | 2.4 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | (6.2) | 15.5 | (17.3) | (21.8) | (24.4) |
| Days receivable outstanding | 224.7 | 228.6 | 221.2 | 226.5 | 256.0 |
| Days inventory outstanding | 19.4 | 20.8 | 20.4 | 18.9 | 21.4 |
| Days payables outstanding | 250.3 | 234.0 | 258.9 | 267.2 | 301.7 |
| Dividend cover (x) | 2.7 | 1.8 | 1.5 | 2.0 | 2.2 |
| Current ratio (x) | 2.2 | 1.7 | 1.6 | 1.6 | 1.8 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 1.7 | 1.6 | 1.6 | 1.6 | 1.7 |
| Net debt/equity (%) | 40.1 | 66.4 | 64.0 | 60.5 | 55.8 |
| Net interest cover (x) | 7.9 | 5.1 | 5.2 | 6.6 | 7.0 |
| Debt/EBITDA (x) | 6.8 | 16.5 | 14.3 | 11.0 | 9.8 |
| Capex/revenue (%) | 1.4 | 4.3 | 1.7 | 1.5 | 1.7 |
| Net debt/ (net cash) | 883.0 | 1,479.7 | 1,447.8 | 1,412.3 | 1,348.7 |

Net debt/ (net cash)

Source: Company; Maybank

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