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Modified plans

WCT's planned listing of its REIT and construction arm has been delayed due to the extended time needed to meet listing requirements. It only raised RM85m from the exercise of its WCT-WC warrants. The shortfall in cash raised could see WCT issuing new equity via a private placement. WCT is considering the divestment of The Ascent office building and other assets as part of its de-gearing exercise. Short-term concerns could dampen share price performance but long-term prospect remains good. Maintain BUY with RM2.02 target price, based on 10% discount to RNAV.

Construction arm listing delayed

WCT's planned listing of its construction arm has been delayed to 2Q17 from 4Q16. The extended time is needed to meet the chain-listing rule of having separate Board of Directors and management team for the construction arm. Applying PER of 14x and FY15 net profit of RM107m, valuation for the construction arm is RM1.5bn. Assuming WCT divest a 40% stake in the construction arm, it will raise proceeds amounting to RM600m.

REIT listing to proceed first

WCT REIT is expected to list first in 1Q17 by injecting Paradigm PJ and BBT malls with indicative RNAV of RM1.2bn. Assuming WCT divests a 60% stake in WCT REIT, it will raise RM720m proceeds. By retaining a 40% stake, WCT REIT will become an associate and its debt will be de-consolidated, reducing group net gearing. WCT has also identified assets worth RM500m for disposal, including The Ascent and 39-acre land in Serendah. This is in addition to the divestment of the 608.6-acre land in Rawang into a joint venture with UEM Sunrise to raise RM215m proceeds.

Possible private placement

WCT has shareholders' prior approval to issue new shares up to 10% of its paid-up capital. It can issue up to 124.8m shares worth RM192m at current share price. A partial private placement below the 10% threshold is sufficient to cover the shortfall from the warrant conversion.

Long-term BUY

We estimate that its net gearing will reduce from 0.81x currently to 0.4x if the above corporate exercises are completed. This could appease the debt rating agencies to preserve its current AA- rating and remove the current negative rating watch. Maintain BUY with RM2.02 target price.

Earnings & Valuation Summary

| FYE 31 Dec | 2014 | 2015 | 2016E | 2017E | 2018E |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 1,662.2 | 1,667.9 | 2,399.0 | 3,118.7 | 3,200.4 |
| EBITDA (RMm) | 161.8 | 126.4 | 269.5 | 349.7 | 407.8 |
| Pretax profit (RMm) | 149.5 | 271.6 | 406.2 | 282.8 | 343.5 |
| Net profit (RMm) | 122.9 | 219.1 | 353.3 | 208.7 | 254.3 |
| EPS (sen) | 9.6 | 13.9 | 22.5 | 14.8 | 17.9 |
| PER (x) | 16.0 | 11.1 | 6.8 | 10.4 | 8.6 |
| Core net profit (RMm) | 99.5 | 72.3 | 148.0 | 208.7 | 254.3 |
| Core EPS (sen) | 8.0 | 5.5 | 10.0 | 14.8 | 17.9 |
| Core EPS growth (%) | (8.9) | (31.2) | 82.5 | 47.5 | 20.8 |
| Core PER (x) | 19.3 | 28.0 | 15.4 | 10.4 | 8.6 |
| Net DPS (sen) | 6.2 | 6.0 | 6.0 | 8.0 | 8.0 |
| Dividend Yield (%) | 4.0 | 3.9 | 3.9 | 5.2 | 5.2 |
| EV/EBITDA (x) | 19.9 | 31.0 | 15.2 | 12.4 | 10.5 |
| Chg in EPS (%) | | | (2.9) | (3.1) | (3.1) |
| Affin/Consensus (x) | | | 2.4 | 1.2 | 1.3 |

Source: Company, Affin Hwang estimates, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)
 (Formerly known as HwangDBS Investment Bank Bhd)

Company Update

WCT Holdings

WCTHG MK
 Sector: Construction & Infra

RM1.54 @ 25 May 2016

BUY (maintain)

Upside: 31%

Price Target: RM2.02

Previous Target: RM2.02



Price Performance

| | 1M | 3M | 12M |
|-------------|-------|-------|--------|
| Absolute | -7.3% | -6.7% | +4.0% |
| Rel to KLCI | -6.8% | -2.2% | +10.6% |

Stock Data

| | |
|-------------------------------------|--------------|
| Issued shares (m) | 1,248.6 |
| Mkt cap (RMm)/(US\$m) | 1897.8/462.7 |
| Avg daily vol - 6mth (m) | 2.1 |
| 52-wk range (RM) | 1.1-1.76 |
| Est free float | 45.8% |
| BV per share (RM) | 2.15 |
| P/BV (x) | 0.71 |
| Net cash/ (debt) (RMm) (1Q16) | 2,174.1 |
| ROE (2015E) | 12.7% |
| Derivatives | Yes |
| (Warr 12/17, WP RM0.185, EP RM1.71) | |
| (Warr 15/20, WP RM0.175, EP RM2.08) | |
| Shariah Compliant | Yes |

Top 3 Key Shareholders

| | |
|---------------------|-------|
| WCT Capital | 19.7% |
| Lembaga Tabung Haji | 10.3% |
| EPF Board | 7.4% |

Source: Affin Hwang, Bloomberg

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De-gearing hits a snag

Shortfall from warrant conversion

At expiry, 37% of the WCT-WC warrants were exercised. Proceeds of RM85m was short of the expected RM200m if all the warrants were exercised. We reduce our EPS forecasts by 3% for FY16-18 to reflect the increase in the number of shares.

A partial private placement below the 10% threshold to raise RM100m coupled with internally generated funds are sufficient to cover the shortfall from the warrant conversion. The table below highlights the potential impact of its de-gearing exercises on its net gearing and earnings from the deemed disposals and possible private placement.

Fig 1: WCT's planned de-gearing exercises

| Proposal | JV with UEM | Asset monetisation | Private placement | WCT REIT | Construction IPO | Total |
|-------------------------------|--------------|--------------------|------------------------|----------|------------------|-------|
| Timing | 3Q16 | 3Q16 | 3Q16 | 1Q17 | 2Q17 | |
| Valuation (RMm) | 424 | 500 | 100 | 1,200 | 1,500 | 3,724 |
| Proceeds (RMm) | 215 | 500 | 100 | 720 | 600 | 2,135 |
| P&L gain (RMm) | 205 | NA | NA | NA | 100 | 305 |
| Post-exercise net gearing (x) | 0.77 | 0.65 | 0.60 | 0.52 | 0.40 | |
| Valuation basis | Market value | Market value | Discounted share price | RNAV | 14x PER | |
| Stake sale (%) | 50 | 100 | 5-10 | 60 | 40 | |

Source: Affin Hwang estimates, company

Strengthening balance sheet for future expansion

The potential de-gearing exercises could raise RM2.1bn to reduce its net gearing from the current 0.81x as at 31 March 2016 to 0.4x. This will strengthen its balance sheet to support its plan to participate in infrastructure projects on a public-private partnership (PPP) basis and develop new malls.

Secured order book and unbilled sales

WCT has outstanding construction order book of RM4.4bn and unbilled property sales of RM551m. This should support its earnings for at least two years. It is targeting to clinch RM2bn of new construction contracts and achieve RM600m of new property sales in FY16. Total property sales was RM67.6m while bookings (pending the signing of the sales and purchase agreement to recognise as sales) amounted to RM136.9m in 1Q16.

The new property project to be officially launched in 3Q16 is its Paradigm Garden City project in Overseas Union Garden, Kuala Lumpur, with estimated gross development value (GDV) of RM11.5bn. This project is expected to drive property sales going forward.

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Still a BUY

WCT is trading at an attractive 32% discount to RNAV/share of RM2.25. We expect strong fully-diluted core EPS growth of 82% yoy to RM0.10 in FY16E. We have reflected the RM205m gain from the deemed disposal of the Rawang land into a joint venture with UEM Sunrise in our fully-diluted EPS forecast of RM0.225. The one-off gain to be recognised in FY16E is expected to exceed the RM89m recognised in FY15. Coupled with higher core earnings, we expect fully-diluted EPS to jump 62% yoy in FY16E.

We reiterate our BUY call with RM2.02 target price, based on 10% discount to RNAV. But the share price could see short-term weakness due to concerns of a possible share placement.

Fig 2: RNAV and target price assumptions for WCT

| Segments | Stake (%) | RNAV (RMm) | % of RNAV (excl net debt) |
|---|-----------|--------------|---------------------------|
| Construction @ PER of 14x avg earnings of RM100m | 100 | 1,400 | 30 |
| Property development @ RNAV | 100 | 2,107 | 45 |
| BBT mall @ DCF at 9% disc rate | 100 | 384 | 8 |
| Paradigm mall @ Capital value at 7% cap rate | 70 | 356 | 8 |
| gateway@klia2 @ DCF at 9% disc rate | 70 | 337 | 7 |
| Indian toll roads | 15.4-30 | 130 | 3 |
| Net cash/(debt) | | (2,069) | |
| RNAV | | 2,645 | |
| No. of shares (m shrs) | | 1,249 | |
| RNAV/share (RM) | | 2.12 | |
| New shares from warrants conversion (m) | | 400 | |
| FD no. of shares (m) | | 1,649 | |
| FD RNAV/share (RM) | | 2.25 | |
| Target price at 10% discount to RNAV/share | | 2.02 | |

Source: Affin Hwang estimates

Key risks

Key risks to our BUY call are weak property sales and earnings risk from unrealised forex loss if the Ringgit strengthens against the US\$. Other risks include poor market conditions that cause further delays for its planned de-gearing exercises.

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WCT – FINANCIAL SUMMARY

Profit & Loss Statement

| FYE 31 Dec (RMm) | 2014 | 2015 | 2016E | 2017E | 2018E |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,210.6 | 1,278.3 | 1,715.5 | 2,243.8 | 2,124.8 |
| Operating expenses | (1,048.8) | (1,151.8) | (1,446.0) | (1,894.1) | (1,717.0) |
| EBITDA | 161.8 | 126.4 | 269.5 | 349.7 | 407.8 |
| Depreciation | (8.2) | (8.1) | (8.8) | (9.1) | (9.3) |
| EBIT | 153.6 | 118.4 | 260.7 | 340.7 | 398.5 |
| Net int income/(expense) | (43.0) | (23.8) | (75.1) | (75.5) | (76.1) |
| Associates' contribution | 15.4 | 88.2 | 15.4 | 17.7 | 21.1 |
| Exceptional gain/(loss) | 23.4 | 88.8 | 205.3 | 0.0 | 0.0 |
| Pretax profit | 149.5 | 271.6 | 406.2 | 282.8 | 343.5 |
| Tax | (28.5) | (54.9) | (45.8) | (65.8) | (78.1) |
| Minority interest | 1.9 | 2.5 | (7.1) | (8.3) | (11.0) |
| Net profit | 122.9 | 219.1 | 353.3 | 208.7 | 254.3 |
| Core net profit | 99.5 | 72.3 | 148.0 | 208.7 | 254.3 |

Balance Sheet Statement

| FYE 31 Dec (RMm) | 2014 | 2015 | 2016E | 2017E | 2018E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed assets | 1,965.0 | 2,316.6 | 2,460.4 | 2,501.3 | 2,542.0 |
| Other long term assets | 1,513.3 | 1,747.3 | 1,758.8 | 1,772.1 | 1,787.9 |
| Total non-current assets | 3,478.3 | 4,063.9 | 4,219.2 | 4,273.4 | 4,329.8 |
| Cash and equivalents | 950.8 | 524.3 | 636.7 | 479.3 | 572.7 |
| Stocks | 513.9 | 694.8 | 1,043.7 | 1,216.3 | 1,102.8 |
| Debtors | 876.6 | 929.8 | 1,537.0 | 1,498.9 | 1,791.8 |
| Other current assets | 407.4 | 549.3 | 409.4 | 409.4 | 409.4 |
| Total current assets | 2,748.7 | 2,698.2 | 3,626.7 | 3,603.9 | 3,876.7 |
| Creditors | 835.5 | 760.6 | 1,535.1 | 1,449.4 | 1,613.2 |
| Short term borrowings | 584.1 | 520.4 | 520.4 | 520.4 | 520.4 |
| Other current liabilities | 220.7 | 185.0 | 185.0 | 185.0 | 185.0 |
| Total current liabilities | 1,640.3 | 1,466.0 | 2,240.5 | 2,154.7 | 2,318.6 |
| Long term borrowings | 1,846.4 | 2,072.8 | 2,072.8 | 2,072.8 | 2,072.8 |
| Other long term liabilities | 453.1 | 565.8 | 565.8 | 565.8 | 565.8 |
| Total long term liabilities | 2,299.5 | 2,638.7 | 2,638.7 | 2,638.7 | 2,638.7 |
| Shareholders' Funds | 2,234.4 | 2,620.6 | 2,922.8 | 3,031.6 | 3,186.1 |
| Minority interests | 52.8 | 36.8 | 43.9 | 52.2 | 63.2 |

Cash Flow Statement

| FYE 31 Dec (RMm) | 2014 | 2015 | 2016E | 2017E | 2018E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBIT | 153.6 | 118.4 | 260.7 | 340.7 | 398.5 |
| Depreciation & amortisation | 8.2 | 8.1 | 8.8 | 9.1 | 9.3 |
| Working capital changes | (490.1) | (530.9) | (181.6) | (220.4) | (15.5) |
| Cash tax paid | (58.8) | (60.4) | (45.8) | (65.8) | (78.1) |
| Others | (2.3) | 67.6 | 145.6 | (57.9) | (55.0) |
| Cashflow from operation | (389.4) | (397.3) | 187.6 | 5.7 | 259.1 |
| Capex | (102.3) | (152.6) | (152.6) | (50.0) | (50.0) |
| Disposal/(purchases) | 31.2 | 16.1 | 0.0 | 0.0 | 0.0 |
| Others | 217.7 | 57.1 | 10.4 | 10.0 | 9.5 |
| Cash flow from investing | 146.5 | (79.3) | (142.1) | (40.0) | (40.5) |
| Debt raised/(repaid) | 508.4 | 162.7 | 0.0 | 0.0 | 0.0 |
| Equity raised/(repaid) | (50.4) | 108.3 | 0.0 | 0.0 | 0.0 |
| Net interest income/(exp) | (80.4) | (115.2) | (85.6) | (85.6) | (85.6) |
| Dividends paid | (48.8) | (22.6) | (74.9) | (99.9) | (99.9) |
| Others | (108.4) | (83.1) | 0.0 | 0.0 | 0.0 |
| Cash flow from financing | 220.4 | 50.1 | (160.5) | (185.5) | (185.5) |
| Free Cash Flow | (460.6) | (533.8) | 35.1 | (44.3) | 209.1 |

Key Financial Ratios and Margins

| FYE 31 Dec (RMm) | 2014 | 2015 | 2016E | 2017E | 2018E |
|---------------------------|---------|---------|-------|--------|-------|
| Growth | | | | | |
| Revenue (%) | 0.4 | 0.3 | 43.8 | 30.0 | 2.6 |
| EBITDA (%) | (17.7) | (21.9) | 113.1 | 29.8 | 16.6 |
| Core net profit (%) | (9.3) | (27.3) | 104.6 | 41.0 | 21.9 |
| Profitability | | | | | |
| EBITDA margin (%) | 9.7 | 7.6 | 11.2 | 11.2 | 12.7 |
| PBT margin (%) | 9.0 | 16.3 | 16.9 | 9.1 | 10.7 |
| Net profit margin (%) | 7.4 | 13.1 | 14.7 | 6.7 | 7.9 |
| Effective tax rate (%) | 19.1 | 20.2 | 11.3 | 23.3 | 22.8 |
| ROA (%) | 2.1 | 3.4 | 4.8 | 2.7 | 3.2 |
| Core ROE (%) | 4.5 | 3.0 | 5.3 | 7.0 | 8.2 |
| ROCE (%) | 4.5 | 2.8 | 5.4 | 6.8 | 7.7 |
| Dividend payout ratio (%) | 55.2 | 32.9 | 21.2 | 47.9 | 39.3 |
| Liquidity | | | | | |
| Current ratio (x) | 1.7 | 1.8 | 1.6 | 1.7 | 1.7 |
| Op. cash flow (RMm) | (389.4) | (397.3) | 187.6 | 5.7 | 259.1 |
| Free cashflow (RMm) | (460.6) | (533.8) | 35.1 | (44.3) | 209.1 |
| FCF/share (sen) | (40.9) | (44.5) | 2.8 | (3.6) | 16.7 |
| Asset management | | | | | |
| Debtors turnover (days) | 264.3 | 265.5 | 327.0 | 243.8 | 307.8 |
| Stock turnover (days) | 154.9 | 198.4 | 222.1 | 197.9 | 189.4 |
| Creditors turnover (days) | 251.9 | 217.2 | 326.6 | 235.8 | 277.1 |
| Capital structure | | | | | |
| Net gearing (%) | 66.2 | 78.9 | 66.9 | 69.7 | 63.4 |
| Interest cover (x) | 2.7 | 2.2 | 3.1 | 4.1 | 4.8 |

Quarterly Profit & Loss

| FYE 31 Dec (RMm) | 4Q14 | 1Q15 | 2Q15 | 3Q15 | 4Q15 |
|--------------------------|---------------|--------------|--------------|--------------|--------------|
| Revenue | 322.4 | 351.6 | 422.3 | 371.8 | 522.2 |
| Operating expenses | (345.5) | (331.0) | (397.7) | (336.1) | (487.9) |
| EBITDA | (23.1) | 20.6 | 24.6 | 35.7 | 34.3 |
| Depreciation | (1.8) | (1.8) | (1.9) | (1.9) | (2.5) |
| EBIT | (24.9) | 18.8 | 22.7 | 33.9 | 31.8 |
| Net int income/(expense) | 19.3 | 1.6 | (13.1) | (13.8) | 10.0 |
| Associates' contribution | 2.5 | 3.5 | 9.7 | 2.0 | 73.0 |
| Exceptional items | (10.8) | 0.4 | (0.2) | 0.1 | (0.7) |
| Pretax profit | 16.5 | 42.7 | 43.8 | 100.9 | 84.1 |
| Tax | 0.2 | (9.4) | (14.8) | (15.3) | (15.4) |
| Minority interest | 3.6 | (0.1) | 2.1 | 0.2 | 0.2 |
| Net profit | 20.3 | 33.2 | 31.1 | 85.9 | 68.9 |
| Core net profit | 0.7 | 14.4 | 6.6 | 7.1 | 41.6 |
| Margins (%) | | | | | |
| EBITDA | (7.2) | 5.9 | 5.8 | 9.6 | 6.6 |
| PBT | 5.1 | 12.2 | 10.4 | 27.1 | 16.1 |
| Net profit | 6.3 | 9.4 | 7.4 | 23.1 | 13.2 |

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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