

HLIB Research

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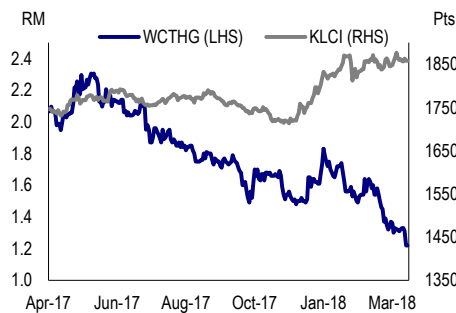
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BUY (Maintain)

Target Price: RM1.81
Previously: RM2.27
Current Price: RM1.22

Capital upside	1,858.4
Dividend yield	2.3%
Expected total return	50.7%

Sector coverage: Construction

Company description: WCT is involved in construction, property development and owns malls such as the Paradigm chain and Gateway@klia2.

Share Price


	1M	3M	12M
Absolute	-14.9	-19.1	-32.1
Relative	-15.3	-22.0	-36.2

Stock Information

Bloomberg ticker	WCTHGMK
Bursa code	9679
Issued shares (m)	1,407
Market capitalisation (RM m)	1,843
3-mth average volume ('000)	2,414
SC Shariah compliant	Yes

Major Shareholders

Dominion Nexus Sdn Bhd	17.6%
Employee Provident Fund	8.8%
Lembaga Tabung Haji	8.5%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	139	157	172
EPS - core (sen)	9.9	11.2	12.2
P/E (x)	12.4	10.9	10.0

WCT Holdings

Acquires stake in Subang Skypark

WCT has acquired a 60% stake in Subang Skypark for RM45m which involve the retail area of Terminal 3, car park, business aviation centre and hangar complex. The acquisition allows WCT to develop the said car park (5.13 hectares) into a mixed commercial development. The effective land cost translates into RM134.5psf which we reckon is fair as it also comes along with the existing facilities of Subang Skypark. No change to earnings forecast but we lower our SOP TP from RM2.27 to RM1.81 after imputing a 20% discount to account for potential delays in its de-gearing plans (i.e. REIT and land sales). **Maintain BUY** as share price has fallen 25% YTD.

NEWSBREAK

WCT announced that it has acquired a 60% stake in Subang Skypark for RM44.6m. Subang Skypark is mainly involved in commercial and aviation related developments which comprise of (i) the commercial retail area of Subang Skypark Terminal 3; (ii) a car park; (iii) a business aviation centre; and (iv) a hangar complex known as Skypark Regional Aviation Centre.

HLIB's VIEW

Rational for acquisition. WCT's rational for the acquisition includes (i) potential development of the car park into a mixed commercial development; and (ii) gaining exposure to Subang Skypark's existing business as mentioned above.

Effective land cost. From Subang Skypark's website, the said car park land measures 5.13 hectares. Based on WCT's acquisition cost for the 60% stake, this translates to an effective land cost of RM134.5 psf which we reckon is fair as it also comes along with the existing facilities of Subang Skypark.

Development plants. While development details on the car park land are limited, its website states that this will include a hotel, entertainment and F&B outlets, aviation museum, a hypermarket and an aviation theme park. A multi-storey car park is also included. However, with WCT now holding the majority stake, we do not discount a possible change in the development plants.

Financials of Subang Skypark. Based on the financial information acquired from the Companies Commission of Malaysia, Subang Skypark incurred a slight loss of RM0.7m on back of RM21.5m revenue for its FYE Dec 2016. As of that period, it had a book value of RM22.4m.

Forecast. The proforma impact of the acquisition to net gearing is expected to be minimal, increasing from 88% (4Q17) to 89%. Our earnings forecast are unchanged as we await further details on the proposed development plans.

Maintain BUY, TP: RM1.81. While there are no changes to our earnings forecast, we take this opportunity to scale back our TP by implementing a 20% discount to our SOP valuation. This is to account for the potential delays in some of its de-gearing initiatives (i.e. REIT and significant land sales). Our SOP based TP is reduced from RM2.27 to RM1.81, implying FY18-19 P/E of 16.2x and 14.9x, respectively. Nonetheless, with share price fall of 25% YTD, we felt that this provides an opportunity to accumulate. WCT remains backed by significant surplus land value (i.e. market value less book value) of RM1.6bn (RM1.16/share).

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY15	FY16	FY17	FY18f	FY19f
Revenue	1,668	1,934	1,906	2,482	2,697
EBITDA	138	185	297	237	255
EBIT	130	170	275	223	240
PBT	102	154	215	205	224
PAT	47	97	136	157	172
PATMI – Core	50	100	139	157	172
PATMI – Reported	209	68	140	157	172
% change YoY – Core PATMI	(41)	102	39	9	9
HLIB/ Consensus (%) – Core PATMI				93	92
Core EPS (sen)	3.5	7.1	9.9	11.2	12.2
P/E (x)	34.6	17.2	12.4	10.9	10.0
EV/EBITDA (x)	32.5	24.3	15.1	18.9	17.6
DPS (sen)	4.4	-	-	2.8	3.0
Yield (%)	3.6	-	-	2.3	2.5
BVPS (RM/share)	1.9	2.2	2.2	2.1	2.2
P/B (x)	0.7	0.5	0.5	0.6	0.5
ROE (%)	2.0	3.5	4.4	5.1	5.6
Net Gearing (%)	79.3	87.9	89.3	84.2	81.4

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Figure #2 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY18 earnings (ex. JV)	134	14	1,875	0.99
Gateway@klia2 based on DCF	237	5.1%	166	0.09
Paradigm Mall based on cap rate	434	6.0%	304	0.16
Premiere Hotel Klang based on DCF	203	8.0%	203	0.11
Undeveloped surplus land value at 50% discount			817	0.43
Cash proceeds from warrants and placement			923	0.49
Sum of Parts (SOP) Value			4,288	2.27
Discount applied		20%	(858)	(0.45)
Target price			3,430	1.81

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.