



AmInvestment Bank

Company report

WCT HOLDINGS

(WCTHG MK EQUITY, WCTE.KL)

03 May 2018

WCT wins in AEON Bukit Tinggi dispute

HOLD

(Maintained)

Joshua Ng

ng-chin-yuing@ambankgroup.com

03-2036 2293

Rationale for report: Company update

Price	RM1.23
Fair Value	RM1.38
52-week High/Low	RM2.48/RM1.13

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	1,905.9	2,752.6	3,247.7	3,113.7
Core net profit (RM mil)	148.5	135.2	179.0	189.4
FD Core EPS (sen)	9.1	8.0	10.6	11.3
FD Core EPS growth (%)	38.6	(12.0)	32.4	5.8
Consensus Net Profit (RM mil)	-	-	179.5	200.4
DPS (sen)	3.0	3.0	3.0	3.0
PE (x)	13.5	15.3	11.6	10.9
EV/EBITDA (x)	14.7	16.8	14.0	13.2
Div yield (%)	2.5	2.5	2.5	2.5
ROE (%)	5.2	4.2	5.4	5.5
Net Gearing (%)	87.9	85.9	81.5	76.9

Stock and Financial Data

Shares Outstanding (million)	1,415.4
Market Cap (RMmil)	1,740.9
Book Value (RM/share)	2.31
P/BV (x)	0.5
ROE (%)	5.2
Net Gearing (%)	87.9
Major Shareholders	Tan Sri Desmond Lim (17.5%) EPF (8.1%) Lembaga Tabung Haji (7.1%)
Free Float	38.5
Avg Daily Value (RMmil)	4.6

Price performance	3mth	6mth	12mth
Absolute (%)	(21.2)	(27.6)	(44.5)
Relative (%)	(21.2)	(32.5)	(47.5)

Investment Highlights

- We maintain our forecasts, SOP-based FV of RM1.38 (Exhibit 1) and HOLD call. This follows the Kuala Lumpur High Court's judgment in favour of WCT in its dispute with tenant AEON Co. (M) Bhd (AEON) with regards to the extension of the tenancy of AEON Bukit Tinggi Shopping Centre.
- The court has ruled that: (1) there was no renewal of the lease upon its expiry on 23 Nov 2017; (2) AEON will have to vacate the property; (3) AEON will have to pay WCT damages calculated from 23 Nov 2017 to the date of vacant possession, as well as RM10,000 legal cost. AEON intends to file an appeal against the decision as well as an application for stay of execution.
- We are slightly positive on the latest development. We believe that the court's decision has strengthened WCT's bargaining position vs. AEON, assuming that there is still a chance that the parties would attempt to reach an amicable out-of-court settlement.
- To recap, the key stumbling block for the parties to mutually agree to a 5-year extension upon the expiry of the initial 10-year lease which expired on 27 Nov 2017, is AEON's rejection of WCT's plans to take back part of the mall's open car park space (main-road fronting, with an LRT3 station under planning next to it) for property development.
- In any case, given the experience accumulated by WCT in running shopping malls (Paradigm Mall in PJ, Gateway@KLIA2 and Paradigm Mall in JB) in recent years, we believe WCT will be able to find a replacement for AEON as the anchor tenant for the mall, if need be. For FY17, we estimate that the mall contributed RM32mil or 11% of WCT's total EBIT.
- We maintain our view that WCT's construction division has turned the corner with the award of key infrastructure projects such as the MRT2, LRT3 and Pan Borneo Sarawak Highway recently. However, its property division has not been spared the downturn in the property market and is weighed down by some RM550mil of unsold stock (1.8x its property sales of RM305mil in FY17). WCT could be missing the window to list its matured investment properties under a REIT at good valuations against a backdrop of rising interest rate and surging supply of retail space in the market. All these, coupled with WCT's proposed placement of new shares of up to 10% of its existing paid-up capital, are likely to cap the upside in WCT's share price over the near term.

EXHIBIT 1: SOP VALUATION

Property development		
Bandar Bukit Tinggi, Klang	627	120 acres, RM120 psf
Rawang, Selangor	424	608 acres, RM16 psf
Kota Kinabalu, Sabah	48	22 acres, RM50 psf
Medini, Iskandar	507	39 acres, RM300 psf
OUG, Kuala Lumpur	1,053	60 acres, RM400 psf
Johor Bahru, Johor	209	12 acres, RM400 psf
TRX, Kuala Lumpur	22	10% downpayment for acquisition cost of RM223mil
Mont Kiara, KL	80	At acquisition cost
Available for sale	116	7 acres in Bandar Bukit Tinggi, 89 acres in Serendah
RNAV	3,086	
RNAV after discount	1,852	40% discount
Property investment		
Equity in property JVs	503	70%-owned Paradigm development in Petaling Jaya and 70%-owned Gateway@KLIA2
BBT Shopping Mall, Klang	442	NBV
Premiere Hotel, Bandar Bukit Tinggi	77	NBV
	1,022	
Construction		
	1,674	14x FY18F net profit
Net debt	-2,758	As at end-FY17
Proceeds from warrant/ESOS conversion	534	
	2,325	
Enlarged share base (m shares)	1,682	
FV (RM/share)	1.38	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
Package GS02 & GS03, LRT3	1,468
Package V204, MRT2	912
Pan Borneo Sarawak	859
TRX	521
RAPID	513
Lusail development, Qatar	455
Jalan Maarof/Semantan highway	212
West Coast Expressway	196
Johan Setia Depot, LRT3	141
Internal works	121
Police quarters redevelopment, Gombak	91
Others	128
Total	5,617

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART



EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	1,933.6	1,905.9	2,752.6	3,247.7	3,113.7
EBITDA	184.6	306.7	268.3	319.6	336.9
Depreciation/Amortisation	(15.0)	(22.3)	(11.4)	(12.0)	(12.6)
Operating income (EBIT)	169.6	284.4	256.9	307.5	324.3
Other income & associates	30.4	3.2	28.8	28.8	28.8
Net interest	(46.3)	(63.2)	(88.5)	(88.3)	(87.2)
Exceptional items	(31.7)	6.1	-	-	-
Pretax profit	122.0	230.6	197.2	248.1	265.9
Taxation	(56.8)	(78.7)	(53.7)	(59.1)	(66.5)
Minorities/pref dividends	3.2	2.7	(8.3)	(10.0)	(10.0)
Net profit	68.4	154.6	135.2	179.0	189.4
Core net profit	100.1	148.5	135.2	179.0	189.4
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	328.3	338.4	426.9	514.9	602.2
Intangible assets	-	-	-	-	-
Other long-term assets	4,431.2	4,577.9	4,606.7	4,635.5	4,664.3
Total non-current assets	4,759.5	4,916.3	5,033.6	5,150.4	5,266.6
Cash & equivalent	455.1	527.2	510.9	540.6	581.4
Stock	132.0	461.2	461.2	461.2	461.2
Trade debtors	1,351.4	1,895.1	1,895.1	1,895.1	1,895.1
Other current assets	642.4	333.9	333.9	333.9	333.9
Total current assets	2,580.9	3,217.5	3,201.1	3,230.9	3,271.7
Trade creditors	971.7	1,212.7	1,212.7	1,212.7	1,212.7
Short-term borrowings	823.5	1,028.0	1,028.0	1,028.0	1,028.0
Other current liabilities	9.3	7.4	7.4	7.4	7.4
Total current liabilities	1,804.5	2,248.2	2,248.2	2,248.2	2,248.2
Long-term borrowings	2,158.7	2,257.1	2,257.1	2,257.1	2,257.1
Other long-term liabilities	579.2	481.8	481.8	481.8	481.8
Total long-term liabilities	2,737.9	2,738.9	2,738.9	2,738.9	2,738.9
Shareholders' funds	2,764.1	3,138.6	3,231.3	3,367.9	3,514.8
Minority interests	33.9	8.1	16.4	26.4	36.4
BV/share (RM)	2.21	2.31	2.28	2.38	2.48
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	122.0	230.6	197.2	248.1	265.9
Depreciation/Amortisation	15.0	22.3	11.4	12.0	12.6
Net change in working capital	(275.2)	(269.4)	-	-	-
Others	20.6	(2.6)	6.0	(118.5)	(124.8)
Cash flow from operations	(117.6)	(19.1)	214.6	141.6	153.7
Capital expenditure	(276.6)	(36.6)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	38.1	(82.6)	-	-	-
Cash flow from investing	(238.6)	(119.2)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	381.2	285.0	-	-	-
Equity raised/(repaid)	92.6	266.6	-	-	-
Dividends paid	(25.0)	(40.8)	(42.5)	(42.5)	(42.5)
Others	(127.5)	(109.6)	(88.5)	(88.3)	(87.2)
Cash flow from financing	321.3	401.3	(131.0)	(130.8)	(129.6)
Net cash flow	(34.8)	263.0	(16.3)	(89.2)	(75.9)
Net cash/(debt) b/f	398.5	334.7	535.4	519.1	548.8
Net cash/(debt) c/f	381.0	597.7	519.1	429.9	472.9
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	15.9	(1.4)	44.4	18.0	(4.1)
EBITDA growth (%)	25.8	66.2	(12.5)	19.1	5.4
Pretax margin (%)	6.3	12.1	7.2	7.6	8.5
Net profit margin (%)	3.5	8.1	4.9	5.5	6.1
Interest cover (x)	3.7	4.5	2.9	3.5	3.7
Effective tax rate (%)	46.6	34.1	27.2	23.8	25.0
Dividend payout (%)	-	26.4	31.4	23.7	22.4
Debtors turnover (days)	255	363	251	213	222
Stock turnover (days)	27	57	61	52	54
Creditors turnover (days)	258	323	321	321	321

Source: Company, AmlInvestment Bank Bhd estimates

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