Flash Note

Refer to important disclosures at the end of this report

Malaysia Equity Research   27 May 2016

WCT Holdings Bhd

Mkt. Cap: US$473m I **3m Avg. Daily Val:** US$0.90m

Last Traded Price: RM1.54

Price Target: RM1.55 (1% upside) (Prev RM1.55)

Analyst

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Under pressure to reduce gearing

- **Exploring asset monetisation and placement in 2016 to reduce gearing as well as IPOs in 2017**
- **Highway projects to achieve RM2bn target**
- **Maintain HOLD and TP of RM1.55**

What's New

Concerted efforts to reduce net gearing. WCT's aggressive land banking and expansion of its mall business has pushed its net gearing to 1.0x (inclusive of JV) as at 31 March 2016. The initial plan was to list its REIT and construction division by this year. But these exercises will only likely happen in 1Q17 and 2Q17 respectively. We understand there is a MARC Rating due in 4Q16 which is an added pressure to hasten the fund-raising exercise. Besides this, more funds may need to be channelled to its Paradigm City Development in OUG given the higher mandated plot ratio of 6x vs 3x previously. Hence, WCT is exploring other avenues to reduce net gearing such as asset monetisation (land and property assets) and a private placement.

Timeline and methods to reduce net gearing

	RMm	Time frame
WCT's net debt @ 31 March 2016	2674.1	
WCT's net gearing (x)	1.0	
JV UEM/Sunrise for Rawang land	215	3Q16
Net gearing after exercise (x)	0.8	
Asset Monetisation	500	3Q16
Net gearing after exercise (x)	0.7	
Private placement (5%)	100	3Q16
Net gearing after exercise (x)	0.6	
WCT REIT	720	1Q17
Net gearing after exercise (x)	0.5	
Construction IPO	600	2Q17
Net gearing after exercise (x)	0.4	

Source: Company

No change in order win guidance. WCT is still guiding for RM2bn new wins this year. YTD wins stand at RM134m from one project (redevelopment of existing police quarters in relation to MRT Line 2). Its current external outstanding orderbook stands at RM3.8bn and total orderbook at RM4.4bn.

The new wins are likely to come from highway-related projects – DASH, SUKE and Pan Borneo Highway while it appears less optimistic for its chances for the remaining six viaduct packages for MRT Line 2. It has tendered for two packages for DASH, four for SUKE and four for Pan Borneo Highway. It also remains mindful of higher steel prices now, although steel has stabilised at RM2,400/MT. This may have an impact on Pan Borneo Highway projects given that there will be a high proportion of bridge works.

Also sticking to property sales target. WCT is keeping its RM600m sales target in spite of rather soft 1Q property sales of RM68m. We highlight that in 2015 it had to revise down its property sales target several times. It is hopeful of converting the sales by option of RM137m for R2, Paradigm Garden City when it is officially launched next week. The GDV for R2 is RM350m, comprising 419 units with average built-ups of 948 to 1,691 sq ft and an ASP of RM860psf. If the take-up rate proves to be strong, it may launch the next phase R4 in 4Q16.

Deferring the opening of Paradigm JB. This is now scheduled for 2Q17 vs the original timeline of November 2016 given the slower property market and consumer sentiment. Tenancies have reached 50% but we understand it remains challenging to bring this up to 70%. The targeted average rental rate is under RM7psf.

Maintain HOLD and TP of RM1.55. We remained concerned on its high debt levels and the expected timeline to raise funds. A case in point is the sale of land/JV with UEM Sunrise for the Rawang land where UEM Sunrise is seeking an extension to complete the condition precedents. Also, the asset monetisation and potential listings of its REIT and construction division are unlikely to result in any special dividends. We also expect the holding company discount to widen post listing of its REIT and construction unit, with the deteriorating property division being the only business left in WCT.

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation
EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax
PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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