

HLIB Research

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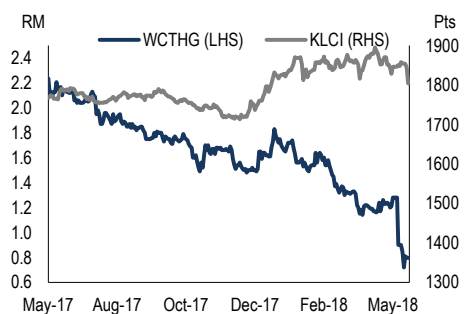
BUY (Maintain)

Target Price: **RM1.09**
Previously: **RM1.09**
Current Price: **RM0.82**

Capital upside	32.9%
Dividend yield	5.0%
Expected total return	37.9%

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


Historical return (%)	1M	3M	12M
Absolute	-29.9	-49.4	-61.4
Relative	-26.9	-46.9	-61.5

Stock information

Bloomberg ticker	WCTHG MK
Bursa code	9679
Issued shares (m)	1,407
Market capitalisation (RM m)	1,154
3-mth average volume ('000)	10,518
SC Shariah compliant	Yes

Major shareholders

Dominion Nexus Sdn Bhd	17.6%
Employees Provident Fund	8.9%
Lembaga Tabung Haji	8.7%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	138.5	143.9	162.2
EPS - core (sen)	9.8	10.2	11.5
P/E (x)	8.3	8.0	7.1

WCT Holdings

Value is emerging

With the potential slowdown in government contracts, WCT has shifted its focus to private sector jobs. Potential job wins could come from its sister companies (RM2bn). De-gearing initiatives such as private placement and REIT may have hit a temporary snag but RM116m worth of land sales are forthcoming. WCT's share price has fallen 51% YTD bringing it back to the GFC levels (2009) and trading at 0.37x P/B. We see value emerging and maintain BUY with RM1.09 TP.

Orderbook level healthy but... WCT's orderbook stood at RM5.2bn as of 1QFY18, implying a strong cover of 4x on FY17 construction revenue. The bulk of its orderbook is skewed towards infra related jobs (85%) which is WCT's forte and traditionally has garnered higher margins vs building jobs.

...cautious on job flow outlook. Following the change in government post GE14, we have turned cautious on the overall macro job flow outlook for the construction sector. The new administration has stated that it will put all mega projects under review to ensure that the terms are fair to the government and country. We feel that this will result to project award delays (as they are reviewed) or in the worst case, an outright cancellation.

Turning to private sector jobs. Management echoes our view on the potential slowdown in government job flows as explained above. As such, WCT aims to bid for more private sector jobs going forward. Its current tenderbook stands at RM6.6bn, of which RM4.9bn are building related and RM1.7bn infra based. For the former, RM2bn are tenders for jobs from its sister companies (i.e. Malton and Pavilion Group) which includes the upcoming Pavilion Damansara Mall (RM1bn). We gather that the chunk of WCT's infra bids are related to the Pan Borneo Highway Sabah. With the review of mega projects on the cards, we reckon that an award outcome is unlikely to materialise anytime soon.

Flattish property sales. WCT recorded RM45m of property sales in 1Q (1QFY17: RM49m) with an additional RM41m pending SPA. Unbilled sales of RM177m imply a rather thin cover of 0.4x FY17 property revenue. WCT's focus will remain on clearing its completed inventory which stands at RM624m. Discounts and incentives are being offered to push this. Come 3Q, WCT will have an additional RM229m to its property inventory with the completion of Sapphire Residence (Paradigm PJ) which will only be sold upon completion (registrations are now open).

De-gearing hits a snag. While WCT's de-gearing plans are still on the cards (1QFY18 net gearing: 95%), we feel that some of these initiatives may have hit a temporary snag. With WCT's share price down 51% YTD, we do not think that the proposed 10% private placement will proceed in the near term. For its REIT proposal, we feel this is unlikely to take place this year due to (i) rising yields for REITs, (ii) sorting out of the AEON lawsuit for BBT Mall and (iii) awaiting for better rental numbers for Paradigm JB to eventually be included into the REIT. On a brighter note, WCT has inked 3 SPAs for land disposals (BBT and Serendah) totalling RM116m.

Forecast. Unchanged as the briefing yielded no surprises.

Maintain BUY, TP: RM1.09. Whilst we acknowledge the increased risk from an uncertain job flow outlook coupled with high net gearing (1QFY18: 95%), we believe this has already been reflected by its 51% share price decline YTD. Now trading at FY18-19 P/E of 8x and 7.1x, WCT's share price is back to the level last seen in 2009, i.e. during the Global Financial Crisis. We value emerging at only 0.37x P/B.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Cash	455	527	749	676	620
Receivables	2,549	2,700	2,489	2,627	2,543
Inventories	132	461	281	259	241
PPE	328	341	351	361	371
Investment properties	1,125	1,594	1,674	1,758	1,846
Associates & JVs	651	614	614	614	614
Others	2,100	1,905	1,938	1,971	2,005
Assets	7,340	8,143	8,097	8,266	8,240
Debts	2,982	3,285	3,235	3,185	3,135
Payables	1,510	1,651	1,559	1,679	1,593
Others	50	61	62	63	64
Liabilities	4,542	4,997	4,856	4,927	4,791
Shareholder's equity	2,764	3,139	3,225	3,322	3,432
Minority interest	34	8	16	17	17
Equity	2,798	3,147	3,241	3,339	3,449

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Profit before taxation	154	215	190	215	243
Depreciation & amortisation	15	14	15	15	-
Changes in working capital	118	(526)	299	5	15
Taxation	(57)	(79)	(46)	(53)	(61)
Others	(394)	354	(103)	(115)	(105)
CFO	(164)	(22)	354	66	92
Net capex	(55)	(27)	(25)	(25)	(25)
Others	(229)	(196)	-	-	-
CFI	(284)	(223)	(25)	(25)	(25)
Changes in borrowings	389	303	(50)	(50)	(50)
Dividends paid	(12)	(42)	(58)	(65)	(73)
Others	(55)	136	-	-	-
CFF	323	397	(108)	(115)	(123)
Net cash flow	(125)	152	222	(73)	(55)
Forex	17	(46)	-	-	-
Others	39	(33)	-	-	-
Beginning cash	524	455	527	749	676
Ending cash	455	527	749	676	620

Income Statement

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	1,934	1,906	2,000	2,210	2,083
EBITDA	185	289	248	272	284
EBIT	170	274	233	257	284
Finance cost	(46)	(63)	(65)	(64)	(63)
Associates & JV	30	3	22	22	22
Profit before tax	154	215	190	215	243
Tax	(57)	(79)	(46)	(53)	(61)
Net profit	97	136	144	162	182
Minority interest	3	3	-	-	-
PATMI (core)	100	139	144	162	182
Exceptionals	(32)	39	-	-	-
PATMI (reported)	68	177	144	162	182

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Core EPS (sen)	7.1	9.8	10.2	11.5	12.9
P/E (x)	11.5	8.3	8.0	7.1	6.3
EV/EBITDA (x)	22.4	14.3	16.7	15.2	14.6
DPS (sen)	0.8	3.0	4.1	4.6	5.2
Dividend yield	1.0%	3.7%	5.0%	5.6%	6.3%
BVPS (RM)	1.96	2.23	2.29	2.36	2.44
P/B (x)	0.4	0.4	0.4	0.3	0.3
EBITDA margin	9.5%	15.1%	12.4%	12.3%	13.6%
EBIT margin	8.8%	14.4%	11.6%	11.6%	13.6%
PBT margin	7.9%	11.3%	9.5%	9.7%	11.7%
Net margin	5.2%	7.3%	7.2%	7.3%	8.7%
ROE	3.7%	4.7%	4.5%	5.0%	5.4%
ROA	1.4%	1.8%	1.8%	2.0%	2.2%
Net gearing	102.4%	87.9%	77.1%	75.5%	73.3%

Assumptions

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F	FY20F
Contracts secured	1,417	1,877	500	500	800
Property sales	281	305	300	300	300

Figure #1 **SOP valuation for WCT**

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY18 earnings (ex. JV)	124	10.0	1,239	0.75
Gateway@klia2 based on DCF	84	7.0%	59	0.04
Paradigm Mall based on cap rate	329	7.0%	231	0.14
Premiere Hotel Klang based on DCF	145	10.0%	145	0.09
Undeveloped surplus land value at 75% discount			409	0.25
Cash proceeds from Warrants E			491	0.30
Sum of Parts (SOP) Value			2,573	1.56
Discount applied		30%	(772)	(0.47)
Target price			1,801	1.09

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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.