

HLIB Research

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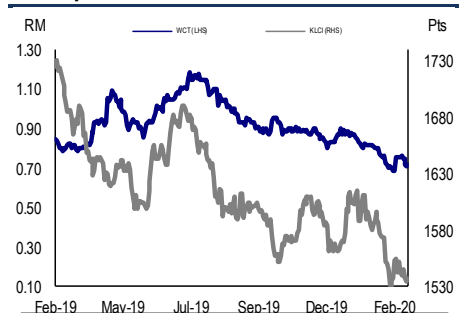
SELL (Maintain)

Target Price: **RM0.65**
Previously: **RM0.80**
Current Price: **RM0.71**

Capital upside	-8.5%
Dividend yield	0.0%
Expected total return	-8.5%

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	-10.6	-17.8	-15.7
Relative	-6.5	-13.4	-3.6

Stock information

Bloomberg ticker	WCTHG MK
Bursa code	9679
Issued shares (m)	1403
Market capitalisation (RM m)	1003
3-mth average volume ('000)	2340
SC Shariah compliant	Yes

Major shareholders

Dominion Nexus Sdn Bhd	17.9%
Urusharta Jamaah Sdn Bhd	8.6%
EPF	7.1%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	79	104	92
EPS - core (sen)	5.6	7.3	6.5
P/E (x)	9.1	9.7	11.0

WCT Holdings

Better than expected

WCT's FY19 earnings of RM79m (+96% YoY) were above ours but below consensus expectations. YTD core PATMI increased due to higher contribution from property development divisions. WCT's estimated outstanding orderbook stands at c.RM5.0bn translating into a healthy 4.0x cover. We reckon the outstanding amount may expand by RM1bn once the letter of award for Phase 2 Pavillion Damansara Heights is received. Increase FY20-21 earnings by 10-11% to reflect stronger property segment contribution. Maintain SELL rating with lower SOP-driven TP of RM0.65. Our TP is derived from 40% discount on SOP value of RM1.08. Despite the positive results surprise, we remain concerned on its limited de-gearing options.

Above ours but below consensus. WCT reported 4QFY19 results with revenue of RM461.3m (+25% QoQ, -38% YoY) and core earnings of RM21.2m (-15% QoQ, -297% YoY). This brings FY19 core earnings to RM79.1m, increasing 96% YoY. The core earnings accounted for 110% of our full year forecast (consensus: 86%). Results beat our expectations due to stronger contribution from property segment.

QoQ. Core PATMI decrease by 15% mainly due to higher taxes in the quarter as a result of under provision in prior quarter.

YoY/ YTD. Core PATMI increased 96% YTD and turned profitable in 4QFY19 (against core loss of RM10.8m in 4QFY18) due to higher contribution from property development divisions and higher occupancy rates at Paradigm Mall, Johor and higher rental income from Bukit Tinggi Mall.

Orderbook. WCT's estimated outstanding orderbook stands at c.RM5bn translating into a healthy c.4.0x cover. The outstanding amount may expand by RM1bn once the letter of award for construction of Pavilion Damansara Heights Development- Parcel 2 which consists of 1 block of 32 storey office and hotel, 2 blocks of residential tower and also a MRT link bridge in Pavilion Damansara Heights is received. To recap, earlier WCT received a letter of intent for the project with award subjected to further negotiations and finalisation.

De-gearing. WCT has recently exhausted its proposed private placement leaving little room to manoeuvre for its de-gearing exercise. We reckon the failure to place shares emanates from rather unattractive valuations to the management. In our view, this leaves the company with only the REIT option (targeting by mid-2020) to significantly bring down its gearing (currently 0.95x net gearing including perpetual sukuk). Other peripheral on-going measure is its land sale initiative in which FY19 brought sales value of only RM110m. Overall, efforts to deleverage remains challenging unless the REIT option can be accelerated. Nonetheless, its retail and hospitality related assets may be affected by Covid-19 which may further delay its REIT monetisation.

Forecast. Increase FY20-21 earnings by 11.9% and 10.8% to reflect stronger property segment contribution.

Maintain SELL, TP: RM0.65. Despite the positive results surprise, we remain concerned on its limited de-gearing options as elaborated above. Maintain SELL rating with lower SOP-driven TP of RM0.65 (from RM0.80) after increasing SOP discount to 40% (from 30%) to dwindling options in de-gearing and challenging tender environment. Our TP implies P/E of 8.8x for FY20 and 10.0x for FY21.

Figure #1 Quarterly results comparison

FYE Dec	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	737.9	368.3	461.0	25.2	(37.5)	2,253.4	1,739.1	(22.8)
EBIT	32.2	65.7	88.4	34.5	174.4	210.0	280.7	33.6
Finance cost	(44.9)	(37.3)	(31.5)			(135.7)	(145.0)	
Share of JVs and associates	(0.3)	(5.5)	(31.2)			(2.3)	(28.3)	
PBT	(13.0)	22.9	25.8	12.4	NA	72.1	107.4	48.9
PAT	(67.1)	23.1	18.8	(18.8)	NA	(21.3)	72.2	NA
Core PATMI	(10.8)	24.8	21.2	(14.5)	NA	40.3	79.1	96.2
Reported PATMI	3.5	13.3	12.5	(6.3)	257.6	111.8	88.8	(20.5)
Core EPS (sen)	(0.8)	1.8	1.5	(14.5)	NA	2.8	5.6	96.2
EBIT margin (%)	4.4	17.8	19.2			9.3	16.1	
PBT margin (%)	(1.8)	6.2	5.6			3.2	6.2	
PATMI margin (%)	(1.5)	6.7	4.6			1.8	4.5	

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Figure #2 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY20 earnings (ex. JV)	96	8.0	769	0.54
Gateway@klia2 based on DCF	83	7.0%	58	0.04
Paradigm Mall based on cap rate	302	7.0%	212	0.15
Premiere Hotel Klang based on DCF	112	10.0%	112	0.08
Undeveloped surplus land value at 75% discount			379	0.27
Sum of Parts (SOP) Value			1,529	1.08
Discount applied		40%	(612)	(0.43)
Target price			918	0.65

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Figure #3 Financial forecast summary

FYE Dec (RM m)	FY16	FY17	FY18	FY19	FY20f	FY21f
Revenue	1,933.6	1,905.9	2,253.4	1,739.1	2,128.4	2,593.7
EBITDA	184.6	288.7	303.1	303.1	280.3	257.6
EBIT	169.6	274.5	210.0	280.7	256.7	233.9
PBT	153.7	214.6	72.1	107.4	163.5	142.6
PAT	96.9	135.8	(21.3)	72.2	104.2	91.7
PATMI – Core	100.1	138.5	40.3	79.1	104.2	91.7
PATMI – Reported	68.4	177.5	111.8	88.8	104.2	91.7
% change YoY – Core PATMI	NA	38.4%	-70.9%	96.3%	31.7%	-12.0%
HLIB/ Consensus (%) – Core PATMI	NA	NA	NA	NA	97%	72%
Core EPS (sen)	7.1	9.8	2.9	5.6	7.3	6.5
P/E (x)	10.1	7.3	24.5	9.1	9.7	11.0
EV/EBITDA (x)	23.0	14.7	14.0	13.5	15.1	16.5
DPS (sen)	0.8	3.0	-	-	-	-
Yield (%)	0.0	0.0	-	-	-	-
BVPS (RM/share)	1.9	2.2	2.3	2.8	2.8	2.9
P/B (x)	0.4	0.3	0.3	0.3	0.3	0.2
ROE (%)	3.7%	4.7%	1.3%	3.1%	2.6%	2.3%
Net Gearing (%)	102.4%	87.9%	102.9%	75.4%	69.6%	64.7%

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% 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 in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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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.

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