



WCT Holdings Bhd (WCTHG MK) : BUY

Mkt. Cap: US\$310m | 3m Avg. Daily Val: US\$1.9m

Last Traded Price (27 Aug 2018): RM0.92

Price Target 12-mth: RM1.09 (18% upside) (Prev RM1.09)

Analyst

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Expect sizeable building contract wins to aid FY18F new win target

- Sticking to RM2bn new order target; next chunky award likely for Pavilion Damansara Heights
- 2H18 property earnings to also be lifted by land sale gain
- REIT exercise by mid-2019 provided issues with AEON are ironed out
- Maintain BUY and SOP-derived TP of RM1.09

What's New

RM2bn new order target maintained. Its current outstanding orderbook as at 30 June 2018 was RM5.4bn which provides more than two years' revenue visibility. YTD wins comprises one letter of intent from Lendlease worth RM555m for a retail mall at Tun Razak Exchange. WCT is maintaining its RM2bn new order win target for FY18F (vs our forecast of RM1.5bn). The lower margins seen in 2Q18 due to adjustments made for its Qatar project should normalise in 2H18. There has been no update on the potential reduction in value for its LRT 3 project but our estimate of a 17% cut or RM250m appears to be in line with management's estimates.

Its current tenderbook of RM6.8bn is skewed to more building works (RM5.1bn) and it appears less optimistic on local civil and infrastructure jobs. Building jobs comprise 15% of its total outstanding orderbook and hence, there is some urgency to replenish orders. We expect WCT to win a sizeable project for Pavilion Damansara Heights which is also owned by its majority shareholder Tan Sri Desmond. This is already at the final stages of award and will be crucial for WCT meeting this year's target.

Property division to be driven by land sales this year. WCT's sales target for FY18F is RM300m which appears stretched given 1H18 sales of just RM73m (RM105m if including pending SPA). It has already recognised RM81m in revenue and RM35m net profit from land sale gain in 2Q18, and is expected to recognise more in 2H18. It will recognise the remaining two SPAs for its Serendah land sale (total revenue of RM116m) and the balance from the LRT 3 compulsory land acquisition in Klang (totalling RM65m) in 2H18. It is

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	1,906	2,193	2,200	2,570
EBITDA	338	270	291	313
Pre-tax Profit	224	175	188	199
Net Profit	148	135	145	154
Net Pft (Pre Ex.)	155	135	145	154
Net Pft Gth (Pre-ex) (%)	126.1	(13.0)	7.7	6.6
EPS (sen)	10.5	9.51	10.2	10.9
EPS Pre Ex. (sen)	10.9	9.51	10.2	10.9
EPS Gth Pre Ex (%)	126	(13)	8	7
Diluted EPS (sen)	9.37	8.15	8.77	9.35
Net DPS (sen)	2.25	2.25	2.25	2.25
BV Per Share (sen)	222	227	233	239
PE (X)	8.8	9.7	9.0	8.4
PE Pre Ex. (X)	8.4	9.7	9.0	8.4
P/Cash Flow (X)	nm	4.1	5.0	8.6
EV/EBITDA (X)	12.0	14.7	13.6	12.9
Net Div Yield (%)	2.4	2.4	2.4	2.4
P/Book Value (X)	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	0.9	0.8	0.8	0.8
ROAE (%)	5.0	4.2	4.5	4.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.



Flash Note

also targeting to sell more land in 2H18 with an estimated sales value of RM85m.

The firm launch pipeline for 3Q/4Q18 still only has Sapphire @ Paradigm PJ a service apartment (GDV of RM250m) which is a build-and-sell project. It may also look to relaunch its Paradigm Garden City OUG project in October 2018.

REIT exercise in mid-2019. WCT remains hopeful of launching its REIT by mid-2019 but this is highly dependent on the outcome of the negotiations with AEON for its mall in Klang. Recall that in April 2018, the court ruled in favour of WCT on its lease renewal dispute with AEON but the latter has filed an appeal against this judgement. We understand that both parties are trying to settle the matter amicably and out of the court with some resolution by end-2018. The new asset size of the REIT will be RM2.5bn and will include Paradigm Mall Petaling Jaya, Paradigm Mall Johor Bahru, AEON Mall, Premier Hotel and New World Hotel. The occupancy of Paradigm Petaling Jaya and Paradigm Johor Bahru has improved and now stands at 94% and 92% respectively.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

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

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