

**HLIB Research**

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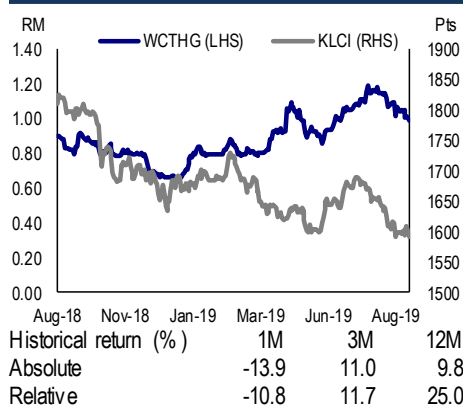
**SELL** (Maintain)

**Target Price:** **RM0.50**
**Previously:** **RM0.50**
**Current Price:** **RM0.99**

Capital upside	-49.5%
Dividend yield	0.0%
Expected total return	-49.5%

**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**

**Stock information**

Bloomberg ticker	WCTHG MK
Bursa code	9679
Issued shares (m)	1,410
Market capitalisation (RM m)	1,396
3-mth average volume ('000)	4,174
SC Shariah compliant	Yes

**Major shareholders**

Dominion Nexus Sdn Bhd	17.9%
EPF	9.5%
Urusharta Jamaah Sdn Bhd	8.6%

**Earnings summary**

	FY18	FY19f	FY20f
FYE (Dec)			
PATMI - core (RM m)	41	65	82
EPS - core (sen)	2.9	4.6	5.9
P/E (x)	33.9	21.5	16.9

# WCT Holdings

## Another job secured from Pavilion

WCT's 1HFY19 earnings of RM33m (-28% YoY) were within ours but below consensus expectations. YTD core PATAMI decreased due to lower contribution from construction segment and higher finance costs. In a separate announcement, WCT announced that they have received a letter of intent for construction of Pavilion Damansara Heights Development- Parcel 2 with contract value of RM1bn pending finalisation. Maintain forecast as the results are inline and we prefer to maintain our FY19 job replenishment target pending finalisation of the Pavilion contract. Maintain SELL rating with unchanged SOP-driven TP of RM0.50. Our TP is derived from 50% discount on SOP value of RM1.00. Despite the healthy orderbook level, the persistent weakness of property market caused by oversupply issue is a major headwind for its de-gearing initiatives.

**Within expectations.** WCT reported 2QFY19 results with revenue of RM450.1m (-2% QoQ, -24% YoY) and core earnings of RM22.7m (+120% QoQ, +274% YoY). This brings 1HFY19 core earnings to RM33.0m, decreasing by 28% YoY. The core earnings accounted for 51% of our full year forecast (consensus: 32%) which is within ours but below consensus expectations.

**QoQ.** Core PATAMI more than doubled due to higher contribution from both construction and property development segments. Recall that 1Q19 was a low base due to low contribution from property development segment.

**YoY.** Core PATAMI more than tripled due to higher contribution from both property development and investment divisions. Again this was a low base effect as low contribution from property development segment and high tax rate dampened the 2Q18 results.

**YTD.** Core PATAMI decreased by 28% due to lower contribution from construction segment and higher finance costs.

**Another job from Pavilion.** In a separate announcement, WCT announced that they have received a letter of intent 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. The proposed contract value is c.RM1bn which is still subject to further negotiations and finalisation. This contract would bring YTD job win to RM1bn (first for FY19) which exceeds our orderbook replenishment target of RM500m.

**Forecast.** Maintain forecast as the results are inline and we prefer to retain our FY19 job replenishment target pending finalisation of the Pavilion contract.

**Maintain SELL, TP: RM0.50.** Maintain SELL rating with unchanged SOP-driven TP of RM0.50. Our TP is derived from 50% discount on SOP value of RM1.00. Our TP implies P/E of 10.6x for FY19, 8.5x for FY20 and 7.2x for FY21. Despite the healthy orderbook level, the persistent weakness of property market caused by oversupply issue is major headwinds for its de-gearing initiatives.

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	589.9	459.6	450.1	(2.1)	(23.7)	1,129.7	909.8	(19.5)
EBIT	47.4	57.8	68.8	19.0	45.0	131.3	126.6	(3.6)
Finance cost	(29.0)	(37.9)	(38.3)	1.0	32.0	(54.1)	(76.2)	41.0
Share of JVs and associates	(1.2)	0.6	7.7	1,104.1	(753.0)	(3.3)	8.4	(350.3)
PBT	17.2	20.5	38.2	86.2	121.8	73.9	58.7	(20.6)
PAT	4.0	8.8	21.5	143.7	441.0	43.6	30.3	(30.5)
Core PATMI	6.1	10.3	22.7	119.9	274.0	45.8	33.0	(27.9)
Reported PATMI	43.8	40.3	22.7	(43.7)	(48.2)	82.2	63.0	(23.3)
Core EPS (sen)	0.4	0.7	1.6	119.9	274.0	3.3	2.3	(27.9)
EBIT margin (%)	8.0	12.6	15.3			11.6	13.9	
PBT margin (%)	2.9	4.5	8.5			6.5	6.5	
PATMI margin (%)	1.0	2.2	5.0			4.1	3.6	

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**Figure #2** SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY19 earnings (ex. JV)	57	10.0	568	0.40
Gateway@klia2 based on DCF	84	7.0%	59	0.04
Paradigm Mall based on cap rate	329	7.0%	231	0.16
Premiere Hotel Klang based on DCF	145	10.0%	145	0.10
Undeveloped surplus land value at 75% discount			409	0.29
<b>Sum of Parts (SOP) Value</b>			<b>1,412</b>	<b>1.00</b>
<b>Discount applied</b>		<b>50%</b>	<b>(706)</b>	<b>(0.50)</b>
<b>Target price</b>			<b>706</b>	<b>0.50</b>

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## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Cash	527	-	-	-	-
Receivables	2,700	2,893	2,751	2,718	3,028
Inventories	461	518	452	332	179
PPE	341	367	368	370	371
Investment properties	1,594	1,796	1,850	1,906	1,963
Associates & JVs	614	591	606	621	637
Others	1,905	2,502	2,636	2,700	2,793
<b>Assets</b>	<b>8,143</b>	<b>8,668</b>	<b>8,664</b>	<b>8,647</b>	<b>8,971</b>
Debts	3,285	3,659	3,609	3,559	3,509
Payables	1,651	1,731	1,712	1,663	1,939
Others	61	116	116	116	116
<b>Liabilities</b>	<b>4,997</b>	<b>5,506</b>	<b>5,437</b>	<b>5,337</b>	<b>5,564</b>
Shareholder's equity	3,139	3,189	3,254	3,336	3,434
Minority interest	8	(27)	(27)	(27)	(27)
<b>Equity</b>	<b>3,147</b>	<b>3,163</b>	<b>3,227</b>	<b>3,310</b>	<b>3,407</b>

### Cash Flow Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Profit before taxation	215	150	98	127	152
Depreciation & amortisation	14	29	24	24	24
Changes in working capital	(526)	(128)	227	104	119
Taxation	(79)	(104)	(33)	(45)	(55)
Others	354	(30)	(137)	(102)	(104)
<b>CFO</b>	<b>(22)</b>	<b>(83)</b>	<b>178</b>	<b>107</b>	<b>136</b>
Net capex	(27)	(55)	(25)	(25)	(25)
Others	(196)	40	-	-	-
<b>CFI</b>	<b>(223)</b>	<b>(15)</b>	<b>(25)</b>	<b>(25)</b>	<b>(25)</b>
Changes in borrowings	303	374	(50)	(50)	(50)
Dividends paid	(42)	-	-	-	-
Others	136	(368)	-	-	-
<b>CFF</b>	<b>397</b>	<b>6</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
<b>Net cash flow</b>	<b>152</b>	<b>(92)</b>	<b>103</b>	<b>32</b>	<b>61</b>
Forex	(46)	18	-	-	-
Others	(33)	(52)	-	-	-
Beginning cash	455	527	401	504	537
Ending cash	527	401	504	537	598

### Income Statement

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
<b>Revenue</b>	<b>1,906</b>	<b>2,297</b>	<b>2,287</b>	<b>2,237</b>	<b>2,708</b>
EBITDA	289	281	244	272	295
EBIT	274	252	221	248	271
Finance cost	(63)	(136)	(138)	(136)	(134)
Associates & JV	3	(33)	15	15	15
<b>Profit before tax</b>	<b>215</b>	<b>83</b>	<b>98</b>	<b>127</b>	<b>152</b>
Tax	(79)	(104)	(33)	(45)	(55)
<b>Net profit</b>	<b>136</b>	<b>(21)</b>	<b>65</b>	<b>82</b>	<b>97</b>
Minority interest	3	62	-	-	-
<b>PATMI (core)</b>	<b>139</b>	<b>41</b>	<b>65</b>	<b>82</b>	<b>97</b>
Exceptionals	39	63	-	-	-
PATMI (reported)	177	108	65	82	97

### Valuation & Ratios

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Core EPS (sen)	9.8	2.9	4.6	5.9	6.9
P/E (x)	10.1	33.9	21.5	16.9	14.3
EV/EBITDA (x)	16.0	16.5	18.9	17.0	15.7
DPS (sen)	3.0	-	-	-	-
Dividend yield	3.0%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	2.23	2.27	2.31	2.37	2.44
P/B (x)	0.4	0.4	0.4	0.4	0.4
EBITDA margin	15.1%	12.2%	10.7%	12.2%	10.9%
EBIT margin	14.4%	11.0%	9.7%	11.1%	10.0%
PBT margin	11.3%	3.6%	4.3%	5.7%	5.6%
Net margin	7.3%	1.8%	2.8%	3.7%	3.6%
ROE	4.7%	1.3%	2.0%	2.5%	2.9%
ROA	1.8%	0.5%	0.7%	1.0%	1.1%
Net gearing	87.9%	114.7%	110.9%	106.7%	102.2%

### Assumptions

FYE Dec (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Contracts secured	1,877	2,674	500	1,000	1,000
Property sales	305	146	-	-	-

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
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