

Company Flash Note

WCT Holdings Bhd

Bloomberg: WCTHG MK | Reuters: WCTE.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

26 Nov 2014

HOLD RM1.83 KLCI : 1,838.56

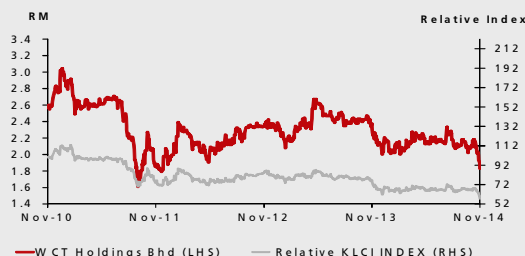
Price Target : 12 months RM 2.20 (Prev RM 2.20)

Shariah Compliance: Yes

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2013A	2014F	2015F	2016F
Revenue	1,672	1,866	2,249	2,189
EBITDA	283	272	311	347
Pre-tax Profit	254	235	262	290
Net Profit	198	148	162	177
Net Pft (Pre Ex.)	198	148	162	177
EPS (sen)	15.6	11.7	12.8	14.0
EPS Pre Ex. (sen)	15.6	11.7	12.8	14.0
EPS Gth (%)	(53)	(25)	9	10
EPS Gth Pre Ex (%)	(53)	(25)	9	10
Diluted EPS (sen)	14.7	11.0	12.0	13.2
Net DPS (sen)	5.1	5.1	5.1	5.1
BV Per Share (sen)	174.4	181.8	190.2	199.8
PE (X)	11.7	15.7	14.3	13.0
PE Pre Ex. (X)	11.7	15.7	14.3	13.0
P/Cash Flow (X)	nm	7.3	10.4	7.3
EV/EBITDA (X)	11.5	11.9	10.8	9.7
Net Div Yield (%)	2.8	2.8	2.8	2.8
P/Book Value (X)	1.0	1.0	1.0	0.9
Net Debt/Equity (X)	0.4	0.4	0.4	0.3
ROAE (%)	9.8	6.6	6.9	7.2

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

Exploring REIT setup

- Exploring retail REIT to unlock asset value
- Mixed outlook for property
- Construction franchise lacks flagship project
- HOLD, TP RM2.20 (15% discount to SOP)

Plans to unlock value. The highlight at the analyst briefing was WCT saying it is exploring a REIT structure to unlock asset value. This is not surprising given the efforts to grow its investment property portfolio. The REIT may have an initial asset size of RM2bn and will include AEON BBT mall (EBITDA RM30m), and Paradigm mall in Kelana Jaya and Gateway@KLIA2 (RM40-45m EBITDA each). Later, WCT may inject other assets such as Paradigm Johor Bahru (1.25m sq ft) and Paradigm mall OUG (1.5m sq ft). Indicative yield is c.6% and WCT would hold >50% stake in the REIT. This is only a preliminary but WCT has targeted to list the REIT in a year. Minority shareholders could gain from a potential distribution in specie or special dividends.

Mixed outlook for property. After a slow 1H, WCT is seeing stronger demand for landed property (BBT 2 shop houses and *Laman Greenville*) but believes sales will be slower for high-rise residential units. *The Azure Residence*, Kelana Jaya priced at RM1000 psf has so far reached 40% take up for the first tower. The weaker property margins in 3Q were due to a larger share of sales recognised for lower-margin *Medini Residence* project. Normalised margins for other landed projects, such as *Laman Greenville*, remain healthy >20%. 9M14 property sales reached RM497m, but that includes RM120m in sales (only booking fee paid) for the *AEON BBT* service apartments.

Absence of flagship project makes WCT vulnerable. WCT is sticking to its RM2bn order win target for FY14 (c.RM1bn achieved so far). The balance would come from outstanding tenders in Qatar, where the timing of award remains fluid. Unlike its larger cap peers, WCT lacks a flagship project, which forces it to bid for sub-contract works or lower-margin building jobs. For example, WCT is no longer bidding for the West Coast Expressway as IJM has structured the sub-contract jobs into smaller specific packages, making scale difficult to achieve. Other potential projects include infrastructure works for RAPID and TRX. WCT has also been prequalified together with JV partner Arabtec for Warisan Merdeka.

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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 i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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