

WCT Bhd

WCT MK / WCTE.KL

FLASH NOTE

➤ **Market Cap**
US\$715.1m
RM2,216m

➤ **Avg Daily Turnover**
US\$1.04m
RM3.28m

➤ **Free Float**
56.8%
793.8 m shares

Current **RM2.70**
Target **RM3.17**
Previous Target **RM3.15**
Up/downside **17.4%**

SHORT TERM (3 MTH) **LONG TERM**
TRADING BUY **OUTPERFORM**
TRADING SELL **NEUTRAL**
UNDERPERFORM

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	7	11.4	-8.4
Absolute	8	17.9	3.8
Major shareholders		% held	
WCT Capital		20.0	
EPF		16.0	
PNB & Amanah Saham Funds		7.2	

Going big on malls

WCT's latest acquisition of a 12.4-acre land plot in Johor for transformation into a neighbourhood mall is a positive surprise. The development has the potential to be a big hit, in our view, if it mimics Paradigm Mall in Kelana Jaya. More such acquisitions could follow.

Our target price, still at a 30% discount to RNAV, has been nudged up as we impute the RM40 psf market value of the raw land. Maintain Trading Buy (not Outperform in view of election risks). This news, plus over RM1bn of contracts targeted, should provide catalysts. WCT remains one of our top sector picks. No change to EPS.

What Happened ➤

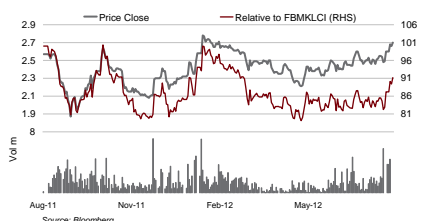
WCT announced last week that it would be acquiring a 12.4-acre freehold plot of land in Jalan Skudai in Johor Bahru for RM180m. The acquisition would include the purchase of an abandoned mall which would be refurbished (additional RM160m cost) into a 770k sq ft NLA neighbourhood mall similar to the group's newly-opened 680k sq ft NLA Paradigm Mall in Kelana Jaya. Management is exploring more land acquisitions in other states, beyond Klang Valley. The acquisition will be partly funded by the group's proposed RM1bn medium term notes (MTN) facility and RM893m cash as at 2Q12.

What We Think ➤

We were surprised as we had not anticipated a new shopping mall so soon, let alone in Johor Bahru. The cost of RM334m psf does not look steep considering it includes a ready structure from the abandoned mall, which will be transformed into another Paradigm Mall (in Kelang Jaya). We are optimistic that the mall would be well-received given: 1) a lack of a niche neighbourhood mall; and 2) an immediate mature population catchment of 250k. We think the new mall can match Paradigm Mall's peak traffic of 60k visitors/day. This will be WCT's third mall venture, to open at end-2014.

What You Should Do ➤

Accumulate aggressively. More land acquisitions could be in the pipeline. These would add to the excitement of 2-3 more potential construction jobs worth over RM1bn in the medium term.



52-week share price range



Financial Summary

	Dec-10A	Dec-11A	Dec-12F	Dec-13F	Dec-14F
Revenue (RMm)	1,709	1,539	2,219	2,853	3,457
Operating EBITDA (RMm)	255.0	200.8	321.3	384.5	426.7
Net Profit (RMm)	150.3	162.4	176.7	221.5	247.9
Core EPS (RM)	0.19	0.20	0.22	0.28	0.31
Core EPS Growth	1.5%	8.1%	8.8%	25.4%	11.9%
FD Core P/E (x)	15.26	14.18	13.02	10.37	9.26
DPS (RM)	0.10	0.10	0.10	0.10	0.10
Dividend Yield	3.66%	3.62%	3.62%	3.79%	3.79%
EV/EBITDA (x)	11.49	14.63	9.15	7.66	6.93
P/FCFE (x)	3.49	38.65	13.64	22.06	17.04
Net Gearing	44.8%	40.0%	34.9%	28.7%	24.4%
P/BV (x)	1.71	1.56	1.42	1.19	1.05
Recurring ROE	12.0%	12.4%	12.2%	13.4%	13.0%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.05	1.11	1.09

SOURCE: CIMB, COMPANY REPORTS

New mall down south ➤

The acquisition cost of RM180m includes an abandoned mall which will be refurbished (at additional cost) into a 770k sq ft NLA neighbourhood mall, mirroring the group's newly-opened 680k sq ft NLA Paradigm Mall in Kelana Jaya. New structures that will be built will include a 4-storey, 3.4k-bay car park, the group's signature Premiere Hotel, and a 1- tower serviced apartment (about RM120m GDV). The acquisition cost psf works out to RM334m, while the indicative cost of the raw commercial land at market value is RM40-50 psf. The acquisition will be partly funded by the group's proposed RM1bn medium term notes (MTN) facility and RM893m cash as at 2Q12.

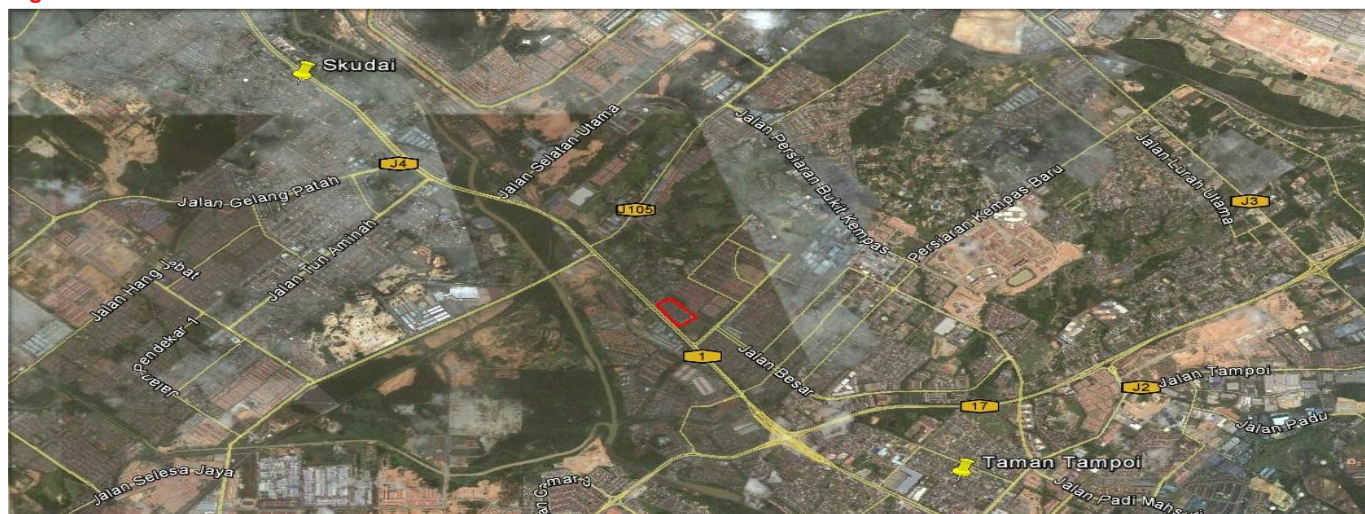
Refurbishment cost on top of the RM180m will be RM160m, bringing the total development cost to RM340m. This would be 35% lower than Paradigm Mall's development cost of RM527m. Given that the mixed development will emulate Paradigm Mall, other new components will be: 1) a Premiere hotel – 432 rooms (350 rooms at Paradigm Mall); and 2) a serviced apartment – 216 units of around RM120m GDV, benchmarked against WCT's 1Medini's RM550 psf price for Phase 2 in Iskandar. The land is located along Jalan Skudai and is surrounded by four main residential townships ie. Taman Johor, Taman Bukit Mewah, Taman Dato Panggawa Barat, and Taman Sutera Utama. Distance wise it is 10km away from Johor Bahru city (westbound), 15km from Medini, and 5km from the exit into PLUS Highway.

Figure 1: Acquisition of land plus abandoned mall in Johor Bahru

Location	: Johor Bahru - along Jln Skudai (west), near four townships
Catchment	: 1m population - mature area, 250k population in nearby catchment
Distance	: 10km from JB town, 15km from Medini, 5km from PLUS highway
Land type	: Commercial
Land (freehold)	: 539,347 sq ft (50,107 sq m/12.4 acres)
Land cost + mall	: RM180m (backed by RM1.6bn new MTN facility, and RM893m cash in balance sheet)
Land cost + mall (psf)	: RM334m psf
Indicative raw land cost	: RM40-50 psf
Additional refurbishment cost	: RM160m
Total development cost	: RM340m (compared to RM527m for 680k sq ft NLA Paradigm Mall in Kelana Jaya)
Existing land owner	: Idaman Usahamas Sdn Bhd - under Malaysia Building Society Bhd (MBSB)
Abandoned mall on land	: 1) 4-level retail section, 2) 2-level car park
Mixed development plans	: Mall (similar to Paradigm), Premiere Hotel (432 rooms), Service apartment (216 units)
Total mall NLA	: 770k sq ft (@RM6 psf base rental)
New car park	: 4-storeys, 3.4k bays
GDV from service apartments	: c.RM120m (c.1k sq ft/unit @ RM550 psf similar to 1Medini phase 2 in Iskandar)

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Location of the land



SOURCES: WCT

New recurring income from 2015 ►

This move will offer upside to the group's property investment/commercial development earnings from 2014. It will be its third, and Paradigm Mall's first footing outside Klang Valley. We estimate that new recurring income from commercial developments could expand from around RM20m p.a. to RM30m with Paradigm Mall in Kelana Jaya from 2012, and around RM40m p.a. from 2014 from Gateway@KLIA2. Assuming a RM6 psf rental rate and 90% occupancy, we estimate the new mall in JB can contribute RM10m-15m in annual net profits.

Figure 3: WCT's property Investment portfolio

Property investments	Stake Type (%)	Location	NLA	Operational date
BBT Shopping Mall	100% Retail + 5,000 car parks	Klang	1,000,612 sq ft	2007
Premiere Hotel	100% Business hotel	Klang	250 rooms, 900 halls	2010
Paradigm Mall	70% Retail + 5,000 car parks	Kelang Jaya	680,000 sq ft	May-12
KLIA2 Integrated Complex	70% Retail + 6,000 car parks	Sepang/KLIA	350,000 sq ft	Apr-13
Premiere Hotel	100% Business hotel	Kelana Jaya	350 rooms	2014
Platinum Plaza	67% Retail + 5,000 car parks	Ho Chi Minh	1,300,000 sq ft	TBD
New commercial development in JB	100% Retail + 3,400 car parks	Johor Bahru	770,000 sq ft	end 2014
Premiere Hotel JB	100% Business hotel	Johor Bahru	432 rooms	end 2014

SOURCES: CIMB, COMPANY REPORTS

Jobs will be key in 2H12 ►

Potential land acquisitions aside, we continue to expect more construction contracts in the coming months. Following a recent RM1bn highway job in Oman, the group may bag 2-3 more jobs in the medium term. Locally, the estimated RM1.3bn earthwork package for Phase 1 of Petronas's Rapid project in Johor remains the group's top priority. WCT is vying for one package, which should be worth at least RM700m. We remain bullish on its order-win prospects.

Figure 4: Targeted local construction projects: likely sequence of awards

Malaysia	Comments	Potential value	Time line	Likelihood
Petronas RAPID Pengerang civil works	Submitted tenders, decision in the coming months	RM700m	2-3 months	Strong
Sabah Hospital (new - under UKAS)	400-bed PFI job with O&M, 8-9 bidders	RM800-900m	2-3 months	Strong
Tun Razak Exchange (previously known as KLIFD)	Among 10 prequalified for 40-acre foundation works	RM200-300m	4Q12	Strong
KVMRT - SBK line station	Tendered for package S3 (Curve-Tmn Tun-Section 17)	RM200-300m/package	1-2 months	Strong
PNB Buildings	Tendered for 1 hotel package	Unknown	2H12	Strong
Vale Distribution Centre	Submitted two tenders on 24 Feb - decision soon	<RM100m	1-2 months	Medium
Iskandar	Potential civil and building works	Unknown	2H12	Medium
Putrajaya buildings	Few more jobs up for tender in 2012	Unknown	2H12	Medium
West Coast Expressway (WCE)	1 or 2 subcontracting packages	RM400-500m/package	end 2012/1Q13	Strong
Gemas-JB double tracking railworks	Part of one of three consortiums as frontrunners	RM8bn	After elections	Medium
Penang traffic alleviation projects	Prequalified - no developments so far	Unknown	2013	Medium

SOURCES: CIMB, COMPANY REPORTS

Figure 5: RNAV

Concessions	DCF value	WCT's stake	Value
	RM m		RM m
PPH, India	230.1	30.0%	69.0
DE, India	147.3	30.0%	44.2
KLIA2 Integrated Complex (25-year, 13% WACC)	275.0	70.0%	192.5
Property - land	Acres/m sq ft	RM/psf	
Bandar Bukit Tinggi 1	16.9	60.00	100.0% 44.2
Bandar Bukit Tinggi 2	40.2	60.00	100.0% 105.0
Bandar Bukit Tinggi 3	175.8	70.00	100.0% 536.1
56-acre new land near BBT 3	56.0	60.00	100.0% 146.4
Bukit Jelutong Commercial Centre	2.3	50.00	100.0% 4.9
*1 Medini Residences	11.0	40.00	100.0% 19.2
*Medini Commercial	10.3	40.00	100.0% 17.9
*Bandar Serendah, Ulu Selangor	39.0	8.00	100.0% 13.6
*Rawang Land	437.5	23.00	100.0% 438.3
*Platinum Plaza (HCMC)	22.2	70.00	67.0% 45.4
*OUG - mixed development	56.8	30.00	100.0% 74.2
Johor land acquisition (Jalan Skudai)	12.4	40.00	100.0% 21.6
	2013 PAT	P/E	
Construction	165.9	13.3	100.0% 2,207.0
Associated companies & investments			167.8
Net current assets less dev. properties			767.9
Total debt (1QFY12)			(1,583.7)
Investment properties			868.4
Total RNAV			4,198.9
No. of shares (m)			804.7
No. of outstanding warrants (WB) (m)			139.0
Proceeds from warrants (WB)			347.5
No. of outstanding warrants (WC) (m)			157.0
Proceeds from warrants (WC)			431.8
Fully diluted RNAV			4,978.1
Enlarged no. of shares (m)			1,100.7
FD RNAV/share (RM)			4.52
RNAV discount			30%
Target price (RM)			3.17

*surplus value: estimated market value less land cost

SOURCES: CIMB, COMPANY REPORTS

Figure 6: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2011	CY2012	CAGR (%)	CY2011	CY2012	CY2011	CY2012	CY2011	CY2012
Gamuda	GAM MK	Trading Buy	3.47	4.45	2,356	15.0	12.4	23.8%	3.76	3.54	25.0%	29.4%	3.1%	3.2%
IJM Corp Bhd	IJM MK	Trading Buy	5.18	6.50	2,288	17.8	13.6	28.2%	2.85	2.68	16.2%	20.4%	2.3%	2.5%
Malaysian Resources Corp	MRC MK	Neutral	1.62	1.73	774	31.0	30.1	14.8%	2.80	2.57	9.8%	8.9%	1.1%	1.4%
Muhibbah Engineering	MUHI MK	Neutral	0.94	0.95	124	6.2	5.9	34.1%	0.63	0.62	10.1%	10.7%	5.2%	5.3%
Mudajaya Group	MDJ MK	Trading Buy	2.73	3.78	481	6.5	4.9	16.3%	1.58	1.22	28.7%	27.8%	4.0%	4.2%
Sunway Bhd	SWB MK	Trading Buy	2.24	2.70	912	7.7	8.0	-16.0%	1.01	0.83	14.1%	11.4%	0.0%	4.1%
WCT Bhd	WCT MK	Trading Buy	2.70	3.17	653	12.1	11.1	13.4%	1.43	1.30	12.7%	12.2%	3.9%	3.9%
Malaysia average						16.8	13.7	25.2%	2.91	2.74	17.6%	20.7%	2.6%	2.7%
Adhi Karya	ADHI IJ	Outperform	920.0	1,060	175	9.1	9.1	8.6%	1.68	1.47	19.6%	17.3%	2.6%	2.5%
Pembangunan Perumahan	PTPP IJ	Outperform	620.0	760.0	316	12.5	11.1	22.0%	2.11	1.85	18.4%	17.4%	2.0%	2.0%
Total Bangun Persada	TOTL IJ	Outperform	530.0	675.0	190	13.5	10.7	31.3%	2.85	2.77	21.8%	26.2%	2.4%	7.0%
Wijaya Karya	WIKA IJ	Outperform	1,060	1,200	678	18.0	14.5	24.7%	3.08	2.66	15.5%	16.6%	0.9%	1.4%
Indonesia average						14.0	12.0	20.9%	2.53	2.23	17.8%	18.1%	1.6%	2.5%
CH. Karnchang	CK TB	Underperform	7.05	7.00	370	na	na	na	1.82	1.86	-54.3%	-2.2%	4.5%	0.0%
Italian-Thai Development	ITD TB	Underperform	3.28	3.06	437	na	107.6	3.8%	1.71	1.68	-15.3%	1.6%	0.0%	0.0%
Sino-Thai Eng & Construction	STEC TB	Outperform	15.70	18.50	591	20.6	18.6	38.3%	3.31	3.08	18.5%	17.1%	1.3%	2.9%
Thailand average						na	44.3	56.3%	2.19	2.15	-18.7%	4.9%	1.7%	1.2%
Yongnam Holdings	YNH SP	Outperform	0.23	0.33	228	4.4	5.4	11.7%	0.97	0.84	24.8%	16.3%	4.5%	2.7%
Singapore average						4.4	5.4	11.7%	0.97	0.84	24.8%	16.3%	4.5%	2.7%
Average (all)						18.8	12.6	13.4%	2.19	1.97	12.0%	16.2%	2.2%	2.8%

SOURCES: CIMB, COMPANY REPORTS

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Score Range	90 – 100	80 – 89	70 – 79	Below 70 or No Survey Result
Description	Excellent	Very Good	Good	N/A

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Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

**** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.**

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2011.

ADVANC - Excellent, **AMATA** - Very Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCP** - Excellent, **BEC** - Very Good, **BECL** - Very Good, **BGH** - not available, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Very Good, **CCET** - Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **GLOBAL** - not available, **GLOW** - Very Good, **GRAMMY** - Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** - Very Good, **ITD** - Good, **IVL** - Very Good, **JAS** - Very Good, **KBANK** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - not available, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **SC** - Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Very Good, **SPALI** - Very Good, **STA** - Very Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Very Good, **THCOM** - Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TUF** - Very Good.