



WCT HOLDINGS BERHAD

Outperform

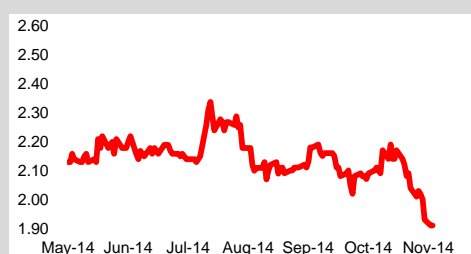
DESCRIPTION

Malaysian construction company with core businesses in civil engineering construction, property development and investment and management of properties and concession assets.

12-Month Target Price	RM2.50
Current Price	RM1.83
Expected Return	37%

Market	Main
Sector	Construction
Bursa Code	9679
Bloomberg Ticker	WCTHG MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	RM1.83 – RM2.39
3-Month Average Vol ('000)	823.2

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-12.4	-15.5	-13.5
Relative Returns	-13.4	-14.9	-13.3

KEY STOCK DATA

Market Capitalisation (RM m)	1,990.6
No. of Shares (m)	1,087.8

MAJOR SHAREHOLDERS

	%
WCT Capital SB	19.3
Employees Provident Fund	10.0
Lembaga Tabung Haji	10.0

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REIT in 2015?

In a briefing after the 3Q results, WCT Holdings (WCT) revealed that the Group is exploring the possibility of floating the existing assets via a REIT structure. The assets identified include Paradigm Mall, BBT Mall and Gateway Mall (KLIA) with estimated combined size of RM2bn. The proceeds will be mainly used to defray current debts and as working capital for the Group's property projects (especially OUG mixed development which is targeted to be unveiled by 2H2015).

- **Unlocking value through REIT.** With the projected capital commitment to increase in the next few years, WCT has plans to list its current investment assets to lighten its balance sheet. We understand that two of its assets have just revised the rental, and WCT believes that it is an opportune time to float the assets in 2015. The size of the REIT is expected to be c.RM2bn, and we understand that the proceeds will be utilized to pare down debts and used as working capital. Although positive, we would prefer WCT to wait longer for the assets to mature (none of the assets are longer than 10 years) and the demand for REITs might also be challenging in the rising interest rate environment. If WCT can pull it off, we estimate its debt might be pared down by one-third, giving the Group more headroom to allocate the capital to its new projects.
- **Weaker margins** registered in the 3QFY14, as reported earlier was due to margin compressions from higher construction costs and low-margin projects such as One Medini in Johor. Property sales, albeit weak in the 1H, has since improved. We understand that construction billing for the quarter was coming mostly from building jobs, which traditionally command lower margins than infrastructure jobs. Going forward, the Group expect the margins to improve closer to 8-9% PBT for construction and c.20% for property.
- **Maintain Outperform** and our SOTP-derived TP to RM2.50. We like WCT for its strategic shift towards a more sustainable business model of growing recurring income. Also, if the proposed REIT materializes, it could unlock the value of the Group and lighten the balance sheet.

KEY FORECAST TABLE

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F	CAGR (%)
Revenue	1,560.4	1,655.0	1,862.3	2,120.6	2,251.2	7.6
Operating Profit	473.5	302.7	258.0	289.1	303.3	(8.5)
Pre-tax Profit	420.6	254.2	181.4	195.4	203.5	(13.5)
Net Profit	364.6	197.5	140.1	152.1	157.9	(15.4)
EPS (Sen)	26.0	14.1	10.0	10.8	11.3	(15.4)
P/E (x)	8.0	14.8	20.9	19.3	18.6	
DPS (Sen)	9.5	9.5	9.5	9.5	9.5	
Dividend Yield (%)	4.5	4.5	4.5	4.5	4.5	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F
Revenue	1,560.4	1,655.0	1,862.3	2,120.6	2,251.2
Gross Profit	345.3	280.0	376.4	408.8	380.9
Operating expenses	128.1	22.7	-87.2	-105.5	-57.6
Operating Profit	473.5	302.7	289.1	303.3	323.3
Other Gains / (Losses)	16.0	19.2	3.8	10.4	-7.2
Finance Costs	-68.9	-67.6	-111.5	-118.2	-112.6
Pre-tax Profit	420.6	254.2	181.4	195.4	203.5
Income Tax	-69.2	-64.5	-46.9	-48.8	-55.1
Effective Tax Rate (%)	16.5	25.4	25.9	25.0	27.1
Minorities	13.2	7.8	3.5	3.3	3.2
Net Profit	364.6	197.5	140.1	152.1	157.9
Growth					
Revenue (%)	15.4	15.4	12.5	13.9	6.2
Gross Profit (%)	19.4	19.4	34.4	8.6	-6.8
Net Profit	20.9	20.9	-29.1	8.6	3.9

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F
Property, Plant & Equipment	276.2	271.7	315.1	354.5	395.1
Cash and Cash Equivalents	1,077.7	973.4	1,160.5	1,518.7	1,385.9
Receivables	1,051.9	990.8	1,233.4	1,404.4	1,490.9
Other Assets	2,926.3	3,298.8	3,411.1	3,551.0	3,621.4
Total Assets	5,332.2	5,534.6	6,120.0	6,828.6	6,893.2
Payables	1,030.9	842.7	948.3	1,079.8	1,146.3
Borrowings	1,824.0	1,922.1	2,267.7	2,689.9	2,565.2
Tax payable	50.3	41.5	37.8	37.8	37.8
Other Liabilities	553.9	471.9	532.7	603.9	639.9
Total Liabilities	3,459.1	3,278.3	3,786.6	4,411.5	4,389.3
Shareholders' Equity	1,873.1	2,256.4	2,333.4	2,417.0	2,503.9
Total Equity and Liabilities	5,332.2	5,534.6	6,120.0	6,828.5	6,893.2

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2012A	2013A	2014F	2015F	2016F
Book Value Per Share	1.9	2.2	2.0	1.7	1.7
NTA Per Share	1.9	2.2	2.0	1.7	1.7
EPS (Sen)	26.0	14.1	10.0	10.8	11.3
DPS (Sen)	9.5	9.5	9.5	9.5	9.5
Payout Ratio (%)	36.6	67.5	95.2	87.6	84.4
ROA (%)	3.1	6.3	3.1	2.0	2.2
ROE (%)	22.9	9.0	6.1	6.4	6.4

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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