

**HLIB Research**

PP 9484/12/2012 (031413)

**Edwin Woo, CFA**
[ckwoo@hlib.hongleong.com.my](mailto:ckwoo@hlib.hongleong.com.my)

(603) 2083 1718

**BUY** (Maintain)

**Target Price:** **RM1.44**
**Previously:** **RM1.50**
**Current Price:** **RM0.905**

Capital upside	59.1%
Dividend yield	0.0%
Expected total return	59.1%

**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)	1559
Market capitalisation (RM m)	1411
3-mth average volume ('000)	39559
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

**Major shareholders**

Tan Sri Desmond Lim	25.6%
Amanah Saham	10.9%

**Earnings summary**

	FY23	FY24f	FY25f
FYE (Dec)			
PATMI - core (RM m)	-254.1	60.5	67.9
EPS - core (sen)	-16.3	3.9	4.4
P/E (x)	NA	23.3	20.8

# WCT Holdings

## Caught speeding

WCT's 9MFY24 core PATAMI of RM42.1m was within our but below consensus expectations. Nevertheless, all operating segments were better YoY. Its REIT proposal was recently submitted to SC and would serve as a key catalyst to narrow its wide P/B discount of 65% vs the sector average. Property sales of RM848m are encouraging while construction tenders remain high at >RM13bn. Tweak FY25/26 core PATAMI by -5.1% and -10.9%. Maintain BUY with TP of RM1.44. The stock trades at a depressed P/B of 0.42x.

**Within expectations.** WCT reported 3QFY24 results with revenue of RM437.5m (16.2% QoQ, -11.9% YoY) and core LATAMI of -RM5.3m (vs core PATAMI of RM31.3m in 2QFY24, vs core PATAMI of -RM13.5m in 3QFY23). This brings 9MFY24 core PATAMI to RM42.1m (vs core LATAMI of -RM8.2m in 9MFY23). Results came in within our but below consensus expectations at 70% and 63% of full year forecasts.

**Els.** 3QFY24 core PATAMI was adjusted for: (i) RM184m of gain of re-measurement of JV and (ii) RM5.4m of forex loss.

**Dividends.** No DPS was declared for the quarter.

**QoQ.** WCT sunk into losses of -RM5.3m in 3QFY24 mainly due to weakness from the construction segment which sank into LBIT of -7.7m (vs RM11.2m in 2QFY24). Compounding the sequential deterioration was perpetual sukuk distribution amounting to RM22.8m in 3QFY24.

**YoY.** Losses narrowed on a YoY basis driven stronger property segment contribution from new projects billings while property investment segment was also stronger due to higher rental & occupancy rates.

**YTD.** On a YTD basis, performance was markedly better on broad based improvement across WCT's operating divisions.

**REIT progress.** Application for its proposed establishment and listing of REIT was recently submitted to the SC. This remains the key catalyst to de-gear its balance sheet to sustainable levels, redeploy funds for other projects and potentially returning capital to shareholders. To recap, the REIT is being independently valued at RM2.44bn and has the potential to net WCT cash proceeds worth RM1.38bn and substantially reduce net gearing to 0.33x from 0.73x.

**Construction.** Estimated unbilled construction orderbook stands at RM2.9bn, translating to a decent 2.6x cover on FY23 construction revenue. WCT has secured RM960.7m of new contracts in FY24 YTD comprising: (i) RM497m for Adison West and East – internal (ii) PLUS highway upgrading works worth RM249.7m and (iii) Kwasa infra worth RM214.0m. We taper down our contract replenishment assumptions for FY24, assuming the SARP comes into orderbook in FY25. WCT's tender book remains sizable at more than RM13bn.

**Others.** Both property development and investment are recording stronger numbers. Property sales are healthy at RM848m taking unbilled sales to RM1.05bn – buoyed by Pavilion Mont Kiara (97% take up) and Adison West (79% take up). All of its retail malls continues to benefit from higher footfall, rental rates and occupancy rates while hotels are also turning in a stronger performance.

**Forecast.** Cut FY25/26 core PATAMI by -5.1% and -10.9% after dialling back on replenishment assumptions in FY24.

**Maintain BUY, TP: RM1.44.** Maintain BUY with lower SOP driven TP of RM1.44 (from RM1.50) after reflecting enlarged share base from recently completed placement. WCT trades at a still relatively depressed trailing P/B multiple of 0.42x (vs KLCON: ~1.2x) – we think its risk to reward is tilted to the upside due to rerating potential from REIT exercise which should narrow its wide trading P/B discount (vs sector) of 65%.

**Figure #1** Quarterly results comparison

FYE Dec	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	496.6	376.3	437.5	16.2	(11.9)	1,325.7	1,281.2	(3.4)
EBIT	28.8	59.5	46.5	(21.9)	61.4	118.0	177.3	50.2
Finance cost	(34.6)	(35.9)	(39.0)	8.6	12.6	(95.0)	(113.2)	19.1
Share of JVs and associates	11.8	14.6	14.3	(2.1)	20.9	25.6	43.0	67.9
PBT	6.0	38.3	21.8	(43.0)	262.5	48.6	107.1	120.3
PAT	10.0	30.1	16.8	(44.3)	67.6	37.6	86.2	129.5
Core PATMI	(13.5)	31.3	(5.3)	(117.1)	(60.6)	(8.2)	42.1	(611.4)
Reported PATMI	(13.5)	31.3	173.2	454.0	(1,379.0)	(8.2)	220.6	(2,781.8)
Core EPS (sen)	(0.9)	2.1	(0.4)	(117.1)	(60.6)	(0.5)	2.8	(611.4)
EBIT margin (%)	5.8	15.8	10.6			8.9	13.8	
PBT margin (%)	1.2	10.2	5.0			3.7	8.4	
PATMI margin (%)	(2.7)	8.3	(1.2)			(0.6)	3.3	

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**Figure #2** SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
Construction - PE (sustainable RM3bn order)	46	15.0	684	0.44
Property Development - DCF	389		389	0.25
Investment assets - based on AR valuation	3,056		3,056	1.96
Surplus Land at 40% discount			956	0.61
Less net debt			(2,590.0)	(1.7)
<b>Sum of Parts (SOP) Value</b>			<b>2,496</b>	<b>1.60</b>
<b>Discount applied</b>		<b>10%</b>	<b>(250)</b>	<b>(0.16)</b>
<b>Target price</b>			<b>2,246</b>	<b>1.44</b>

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## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash	234	415	512	623	568
Receivables	2,864	3,031	2,588	2,664	2,445
Inventories	346	226	202	178	154
PPE	400	433	431	424	417
Investment properties	1,910	1,921	1,979	2,038	2,099
Associates & JVs	475	503	555	603	644
Others	2,076	2,139	2,206	2,245	2,286
<b>Assets</b>	<b>8,304</b>	<b>8,668</b>	<b>8,472</b>	<b>8,775</b>	<b>8,612</b>
Debts	2,798	3,093	3,063	3,033	3,003
Payables	1,465	1,738	1,463	1,728	1,512
Others	134	149	213	213	213
<b>Liabilities</b>	<b>4,397</b>	<b>4,981</b>	<b>4,739</b>	<b>4,974</b>	<b>4,728</b>
Shareholder's equity	3,958	3,717	3,776	3,844	3,926
Minority interest	(52)	(30)	(42)	(42)	(42)
<b>Equity</b>	<b>3,907</b>	<b>3,687</b>	<b>3,734</b>	<b>3,802</b>	<b>3,884</b>

### Cash Flow Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Profit before taxation	56	(178)	123	136	160
Depreciation & amortisation	41	39	27	32	31
Changes in working capital	(77)	129	361	212	28
Taxation	(28)	(32)	(21)	(27)	(36)
Others	221	175	-	-	-
<b>CFO</b>	<b>213</b>	<b>134</b>	<b>490</b>	<b>354</b>	<b>184</b>
Net capex	(61)	(72)	(25)	(25)	(25)
Others	42	84	(338)	(188)	(184)
<b>CFI</b>	<b>(18)</b>	<b>12</b>	<b>(363)</b>	<b>(213)</b>	<b>(209)</b>
Changes in borrowings	(41)	296	(30)	(30)	(30)
Dividends paid	-	-	-	-	-
Others	(214)	(284)	-	-	-
<b>CFF</b>	<b>(254)</b>	<b>12</b>	<b>(30)</b>	<b>(30)</b>	<b>(30)</b>
<b>Net cash flow</b>	<b>(60)</b>	<b>158</b>	<b>97</b>	<b>111</b>	<b>(55)</b>
Forex	-	-	-	-	-
Others	10	23	-	-	-
Beginning cash	284	234	415	512	623
Ending cash	234	415	512	623	568

### Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
<b>Revenue</b>	<b>2,104.9</b>	<b>1,727.3</b>	<b>1,878.1</b>	<b>1,971.2</b>	<b>1,703.8</b>
EBITDA	191.0	(39.2)	237.1	257.5	219.6
EBIT	150.3	(78.2)	209.6	225.6	188.1
Finance cost	(110.1)	(129.4)	(138.5)	(137.2)	(68.2)
Associates & JV	15.5	29.9	52.4	47.7	40.6
<b>Profit before tax</b>	<b>55.7</b>	<b>(177.8)</b>	<b>123.5</b>	<b>136.1</b>	<b>160.5</b>
Tax	(28.0)	(31.6)	(21.3)	(26.5)	(36.0)
<b>Net profit</b>	<b>27.7</b>	<b>(209.4)</b>	<b>102.1</b>	<b>109.6</b>	<b>124.5</b>
Minority interest	(44.1)	(44.8)	(41.6)	(41.7)	(41.8)
<b>PATMI (core)</b>	<b>(16.4)</b>	<b>(254.1)</b>	<b>60.5</b>	<b>67.9</b>	<b>82.8</b>
Exceptionals	145.1	-	-	-	-
PATMI (reported)	128.7	(254.1)	60.5	67.9	82.8

### Valuation & Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Core EPS (sen)	(1.1)	(16.3)	3.9	4.4	5.3
P/E (x)	NM	NM	23.3	20.8	17.0
EV/EBITDA (x)	25.4	(123.7)	20.4	18.8	22.1
DPS (sen)	0.5	-	-	-	-
Dividend yield	0.6%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	2.5	2.4	2.4	2.5	2.5
P/B (x)	0.36	0.38	0.37	0.37	0.36
EBITDA margin	9.1%	-2.3%	12.6%	13.1%	12.9%
EBIT margin	7.1%	-4.5%	11.2%	11.4%	11.0%
PBT margin	2.6%	-10.3%	6.6%	6.9%	9.4%
Net margin	-0.8%	-14.7%	3.2%	3.4%	4.9%
ROE	-0.4%	-6.6%	1.6%	1.8%	2.1%
ROA	-0.2%	-3.0%	0.7%	0.8%	1.0%
Net gearing	64.8%	72.1%	67.6%	62.7%	62.0%

### Assumptions

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Contracts secured	-	-	1,000	1,500	1,500
Property sales	421	856	1,000	800	800

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**Hong Leong Investment Bank Berhad (10209-W)**

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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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.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
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