

HLIB Research

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HOLD (Maintain)

Target Price: **RM0.47**
Previously: **RM0.27**
Current Price: **RM0.495**

Capital upside	-5.1%
Dividend yield	0.0%
Expected total return	-5.1%

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)	1403
Market capitalisation (RM m)	1003
3-mth average volume ('000)	2340
SC Shariah compliant	Yes

Major shareholders

Dominion Nexus Sdn Bhd	18.1%
Tan Sri Desmond Lim	6.0%
Amanah Saham	5.7%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	79	39	71
EPS - core (sen)	5.6	2.7	5.0
P/E (x)	8.9	18.2	9.9

WCT Holdings

Challenging times

WCT's 1QFY20 core loss of -RM16m (against core earnings of RM21.2m in 4QFY19 and RM10.3m in 1QFY19) were below ours and consensus expectations. Weaker performance was due to lower contribution from all segments stemming from the MCO. WCT's estimated outstanding orderbook stands at c.RM6.0bn translating into a healthy 4.8x cover. We remain cautious on its gearing moving forward as Covid-19 will have a durable impact on its retail & hospitality assets. Cut FY20-22 earnings by 8-46%. Maintain HOLD with SOP-driven TP of RM0.48. Our TP is derived from 40% discount on SOP value of RM0.78.

Below expectations. WCT reported 1QFY20 results with revenue of RM338.1m (-27% QoQ, -26% YoY) and core loss of -RM16.0m (against core earnings of RM21.2m in 4QFY19 and RM10.3m in 1QFY19). We deem the results to be below expectations (we projected FY20 core earnings of RM71.4m; while consensus projected core earnings of RM85.1m). Note that our numbers have been adjusted for land sale gain of RM16m. No dividends were declared for the quarter (1QFY19: nil).

Deviations. The results shortfall was due to poorer than expected performance from all segments as a result of the MCO. The company saw limited construction works done during MCO (TRX and MRT2) while its retail, hospitality and property segments were shut.

QoQ. On a QoQ basis, WCT turned to core loss of -RM16.0m (vs. core earnings of RM21.2m in 4QFY19) as revenue declined by -27% dragged by minimal construction and property progress billings as well as lower contribution from property investment segment.

YoY. On a YoY basis, WCT's core loss of -RM16.0m pales in comparison with its core earnings of RM10.3m registered in 1QFY19. Its construction segment experienced the steepest fall (EBIT declined -79% YoY) as a result of stop work order for most of its projects compounded by a downward revision in expected margins moving forward (from incurring fixed overheads during MCO and from implementing SOP measures).

Orderbook. WCT's estimated outstanding orderbook stands at c.RM6bn translating into a healthy c.4.8x cover (based on FY19 construction revenue). Earlier this year, the company received a letter of award worth RM1.2b for the 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. While the company has consistently boasted a tenderbook of c.RM5.8b, we are not too sanguine on its award conversion prospects in the near term. Given its healthy orderbook cover, we think that project execution will remain WCT's key focus.

De-gearing updates. Company has so far issued a cumulative RM821m of perpetual sukuk to retire its RM800m MTN. According to management any further issuance will depend on the state of the capital markets (perpetual sukuk programme up to RM1b). At present, WCT has retired all but RM183m (earlier than scheduled) of the MTN which will be completely retired in Aug-20. Moving forward, its next major bond redemption amounts to RM100m due by 2HFY21. Other peripheral on-going measure is its land sales initiative in which FY19 brought sales value of only RM128m. We reckon WCT may fall short of meeting its land sales target of RM125m in FY20 given the uncertain environment. All in all, we remain cautious on its gearing (net gearing including perpetual: 0.98x) moving forward as Covid-19 will have a durable impact on its retail & hospitality assets increasing cash flow pressure.

Forecast. Cut FY20-22 earnings by 45.9%/19.3%/8.2% after imputing slower rebound in its retail and hospitality segment and weaker margin assumptions.

Maintain HOLD, TP: RM0.47. Despite the earnings cut, our TP increases to RM0.47 (from RM0.27) after (i) lowering SOP discount from 60% to 40% to reflect lower equity risk premiums in-line with the liquidity flush and (ii) rolling over earnings to FY21 which represents a more normalised earnings. Our TP implies FY20/21/22 P/E of 17.2x/9.3x/7.6x.

Figure #1 Quarterly results comparison

FYE Dec	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	3MFY19	3MFY20	YoY (%)
Revenue	459.6	461.0	338.1	(26.7)	(26.4)	459.6	338.1	(26.4)
EBIT	57.8	88.4	36.9	(58.3)	(36.2)	57.8	36.9	(36.2)
Finance cost	(37.9)	(31.5)	(32.6)	3.5	(14.1)	(37.9)	(32.6)	(14.1)
Share of JVs and associates	0.6	(31.2)	5.1	nm	nm	0.6	5.1	nm
PBT	20.5	25.8	9.4	(63.5)	(54.1)	20.5	9.4	(54.1)
PAT	8.8	18.8	0.8	(95.5)	(90.5)	8.8	0.8	(90.5)
Core PATMI	10.3	21.2	(16.0)	nm	nm	10.3	(16.0)	nm
Reported PATMI	40.3	(103.9)	(0.0)	nm	nm	40.3	(0.0)	nm
Core EPS (sen)	0.7	1.5	(1.1)	nm	nm	0.7	(1.1)	nm
EBIT margin (%)	12.6	19.2	10.9			12.6	10.9	
PBT margin (%)	4.5	5.6	2.8			4.5	2.8	
PATMI margin (%)	2.2	4.6	(4.7)			2.2	(4.7)	

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Figure #2 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY21 earnings (ex. JV)	63	7.0	441	0.31
Gateway@klia2 based on DCF	23	8.0%	16	0.01
Paradigm Mall based on cap rate	227	8.0%	159	0.11
Premiere Hotel Klang based on DCF	111	10.0%	111	0.08
Undeveloped surplus land value at 75% discount			379	0.27
Sum of Parts (SOP) Value			1,106	0.78
Discount applied		40%	(442)	(0.31)
Target price			664	0.47

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY21F
Cash	401	646	158	257	260
Receivables	2,893	2,051	2,312	3,019	2,627
Inventories	518	452	401	323	168
PPE	367	389	389	390	390
Investment properties	1,796	1,934	1,992	2,052	2,113
Associates & JVs	591	531	546	561	577
Others	2,502	3,432	2,208	2,242	2,277
Assets	9,069	9,435	8,005	8,844	8,413
Debt	3,659	3,212	2,468	2,418	2,368
Payables	1,731	1,550	1,364	1,983	1,595
Others	116	306	116	116	116
Liabilities	5,506	5,068	3,948	4,516	4,079
Shareholder's equity	3,189	3,755	3,769	3,840	3,840
Minority interest	(27)	(34)	(27)	(27)	(27)
Equity	3,163	3,721	3,742	3,813	3,813

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY21F
Profit before taxation	150	117	49	108	135
Depreciation & amortisation	29	24	25	25	25
Changes in working capital	(128)	552	(182)	(11)	160
Taxation	(104)	(45)	(10)	(37)	(48)
Others	(30)	(133)	(117)	(115)	(115)
CFO	(83)	514	(236)	(30)	157
Net capex	(55)	(25)	(25)	(25)	(25)
Others	40	-	-	-	-
CFI	(15)	(25)	(25)	(25)	(25)
Changes in borrowings	374	(528)	(50)	(50)	(50)
Dividends paid	-	-	-	-	-
Others	(368)	(4)	15	11	11
CFF	6	(532)	(35)	(39)	(39)
Net cash flow	(92)	246	(85)	81	-
Forex	18	-	-	-	-
Others	(52)	-	-	-	-
Beginning cash	527	401	646	561	642
Ending cash	401	646	561	642	642

Income Statement

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY21F
Revenue	2,297	1,794	1,619	2,695	2,099
EBITDA	281	322	149	221	245
EBIT	252	299	124	196	220
Finance cost	(136)	(145)	(90)	(103)	(101)
Associates & JV	(33)	(37)	15	15	16
Profit before tax	83	117	49	108	135
Tax	(104)	(45)	(10)	(37)	(48)
Net profit	(21)	72	39	71	88
Minority interest	62	7	-	-	-
PATMI (core)	41	79	39	71	88
Exceptionals	63	(107)	-	-	-
PATMI (reported)	108	(28)	39	71	-

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY21F
Core EPS (sen)	2.9	5.6	2.7	5.0	6.2
P/E (x)	17.1	8.9	18.2	9.9	8.0
EV/EBITDA (x)	10.5	9.2	19.9	13.4	12.1
DPS (sen)	-	-	-	-	-
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	2.25	2.65	2.66	2.71	2.71
P/B (x)	0.2	0.2	0.2	0.2	0.2
EBITDA margin	12.2%	18.0%	9.2%	8.2%	11.7%
EBIT margin	11.0%	16.7%	7.6%	7.3%	10.5%
PBT margin	3.6%	6.5%	3.0%	4.0%	6.4%
Net margin	1.8%	4.4%	2.4%	2.6%	4.2%
ROE	1.3%	2.3%	1.0%	1.9%	2.3%
ROA	0.5%	0.9%	0.4%	0.8%	1.0%
Net gearing	102.2%	66.2%	77.6%	72.2%	70.8%

Assumptions

FYE Dec (RM m)	FY18	FY19	FY20F	FY21F	FY21F
Contracts secured	2,674	119	1,200	1,000	-
Property sales	146	322	-	-	-

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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