

## WCT Holdings Berhad

(9679 | WCTHG MK) Main | Construction

### Unlocking Value Through REIT

#### KEY INVESTMENT HIGHLIGHTS

- Proposed to set up REIT to be listed on the Main Market of Bursa Malaysia
- REIT likely to consist of WCT's retail malls and hotels
- Allows WCT to unlock the value of malls and hotels; lighter balance sheet
- Outstanding order book at RM3.2b, may potentially replenish RM2.0b of new jobs
- Maintain NEUTRAL with revised TP of RM0.97

**REIT proposal.** WCT Holdings Bhd (WCT) has proposed to set up and list a REIT on the Main Market of Bursa Malaysia, which will comprise retail properties owned by the group's subsidiaries or JV companies. This will involve the disposal of the properties by the subsidiaries and JVs of their entire stake to the REIT to be paid in cash and new REIT units.

**Properties to be included.** WCT is still in the midst of identifying and we believe this will likely include all of WCT's retail malls. The group wholly owns AEON Mall Bukit Tinggi and Paradigm Mall Johor Bahru. It also owns a 70% stake in both Paradigm Mall Petaling Jaya and gateway@klia2 and 60% of Subang Skypark. All five malls are close to full occupancy (more details in Table 1 below). The REIT may likely include WCT's three hotels as well, namely Le Meridien Petaling Jaya, Premiere Hotel Klang and Hyatt Place Johor Bahru.

**Rationale of REIT setup.** Apart from allowing WCT to unlock the value of its malls, the group will also be able to raise funds to pare down its borrowings. With total borrowings of RM3.15b as at 31<sup>st</sup> March 2024, the group is highly geared at 74.5%, net. This will place WCT in better financial standing in anticipation of upcoming mega projects in the country.

**Expected improvement in the order book.** After a two-year hiatus, WCT finally secured a much-needed external job in Jun-24, an RM249.7m package for the construction of additional lanes for the North-South Expressway on the stretch from Yong Peng to Senai in Johor. The project is expected to be completed in three years by Jun-27. The outstanding orderbook now stands at RM3.2b. WCT has an active tender book of RM20.0b. Assuming a conservative hit rate of 10%, we opine WCT may be able to secure RM2.0b of new jobs for FY24. We believe this may come from the Penang International Airport (PIA) expansion, Pan Borneo Sabah, other packages for the North-South Expressway expansion and potentially its first data centre project. The RM1.3b Subang Airport Regeneration Plan would provide WCT with an immediate boost to its order book, though more clarity is needed on the implementation of the project.

**Earnings estimates.** We lift our earnings estimates slightly by +13.3%/+16.7% to factor in stronger job wins, on the back of a stronger rollout of government projects that are expected in 2HCY24.

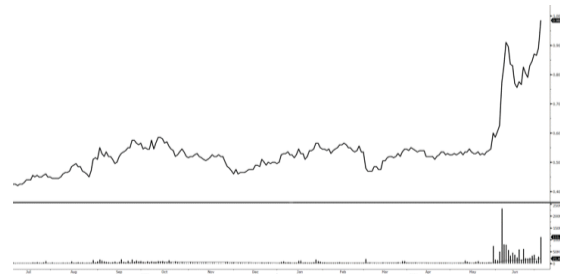
### Maintain NEUTRAL

**Revised Target Price: RM0.97**  
(Previously RM0.50)

#### RETURN STATISTICS

Price @ 3 <sup>rd</sup> July 2024 (RM)	0.985
Expected share price return (%)	-1.5
Expected dividend yield (%)	+0.0
Expected total return (%)	-1.5

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	62.8	62.8
3 months	13.2	75.4
12 months	134.5	102.2

#### INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	1,967.0	2,254.1	2276.7
Operating Profit	188.8	178.1	182.1
Profit Before Tax	167.2	191.6	195.8
Core PATAMI	66.9	76.6	79.7
Core EPS	4.7	5.4	5.6
DPS (sen)	0	0	0
Dividend Yield	-	-	-


#### KEY STATISTICS

FBM KLCI	1,615.32
Issue shares (m)	1,417.24
Estimated free float (%)	58.73
Market Capitalisation (RM'm)	1,395.98
52-wk price range	RM0.41 -
3-mth average daily volume (m)	21.44
3-mth average daily value (RM'm)	16.73
Top Shareholders (%)	
Dominion Nexus Sdn Bhd	18.15
Lim Siew Choon	7.42
Amanah Saham Nasional Bhd	5.82

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**Target price.** Following from the earnings revision, we are revising our **TP** to **RM0.97** from RM0.50, as we peg its FY25F EPS of 5.4 sen to a PER of 18x, which is +1SD above its 10-year mean.

**Maintain NEUTRAL.** We are maintaining our **NEUTRAL** recommendation on WCT. While prospects remain bright for the construction sector and for WCT to replenish more jobs, the recent rise in its share price by close to +80% since Jun-24, has stretched its valuations for a fair bit. We believe this indicates that all the positives have been priced in. We believe the REIT plan is a good opportunity for the group to lighten its balance sheet and reduce its debts. We await further details from management on this front. 

**Table 1: WCT Holdings' retail malls**

	AEON Mall Bukit Tinggi	Paradigm Mall, Petaling Jaya	gateway@klia 2, Sepang	Paradigm Mall, Johor Bahru	Subang Skypark
<b>Occupancy rate</b>	100%	97%	95%	97%	94%
<b>Opening year</b>	2007	2012	2014	2017	Acquired Apr- 18
<b>WCT ownership</b>	100%	70%	70%	100%	60%
<b>Retail lettable area</b>	1,000,950 sq ft	672,000 sq ft	378,000 sq ft	1,282,000 sq ft	81,800 sq ft
<b>No. of car parks</b>	3,294	3,214	5,815	3,385	553

Source: Company

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Revenue	2,102.4	1,727.3	1,967.0	2,254.1	2,276.7
Gross profit	259.5	45.7	243.9	279.5	284.6
Operating profit	223.3	(14.7)	188.8	214.1	216.3
Finance cost	(110.1)	(129.4)	(118.0)	(135.2)	(136.6)
Profit before tax	139.7	(177.8)	167.2	191.6	195.8
Tax	31.5	(31.6)	(36.8)	(42.2)	(43.1)
PATAMI	127.2	(254.1)	66.9	76.6	79.7
Core PATAMI	53.6	(254.1)	66.9	76.6	79.7

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Fixed assets	364.3	396.2	331.1	337.8	346.2
Intangible assets	4,565.7	4,520.0	4,565.2	4,610.8	4,726.1
<b>Non-current assets</b>	<b>4,930.0</b>	<b>4,871.9</b>	<b>4,896.3</b>	<b>4,948.6</b>	<b>5,072.3</b>
Cash	234.7	414.7	318.7	336.6	345.0
Trade debtors	744.6	788.5	763.3	801.5	821.5
<b>Current assets</b>	<b>3,338.8</b>	<b>3,775.8</b>	<b>3,231.2</b>	<b>3,440.3</b>	<b>3,618.5</b>
Trade creditors	794.8	111.9	686.9	795.4	815.3
Short-term debt	1,629.8	1,885.5	1,470.9	1,456.0	1,601.6
<b>Current liabilities</b>	<b>2,670.0</b>	<b>3,246.1</b>	<b>2,157.8</b>	<b>2,251.4</b>	<b>2,416.9</b>
Long-term debt	1,167.8	1,207.8	1,294.9	1,363.5	1,431.7
<b>Non-current liabilities</b>	<b>1,704.8</b>	<b>1,714.7</b>	<b>1,890.3</b>	<b>1,990.5</b>	<b>2,058.7</b>
Share capital	3,212.8	3,212.8	3,212.8	3,212.8	3,212.8
Retained earnings	1,427.4	1,171.5	1,564.0	1,631.6	1,699.9
<b>Equity</b>	<b>3,905.0</b>	<b>3,686.9</b>	<b>4,079.4</b>	<b>4,147.0</b>	<b>4,215.3</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
PBT	139.3	-177.8	-177.8	167.2	195.8
<b>Operating cash flow</b>	<b>213.0</b>	<b>134.5</b>	<b>134.5</b>	<b>248.2</b>	<b>279.8</b>
Capital expenditure	-44.0	-44.9	-44.9	-48.0	-54.1
<b>Investing cash flow</b>	<b>-18.2</b>	<b>-15.1</b>	<b>-15.1</b>	<b>-51.1</b>	<b>-57.5</b>
Debt raised/(repaid)	-40.8	248.1	248.1	-55.0	-65.0
Dividends paid	-7.1	-7.1	-7.1	-7.1	-
<b>Financing cash flow</b>	<b>-254.4</b>	<b>11.9</b>	<b>11.9</b>	<b>-244.3</b>	<b>-246.6</b>
<b>Net cash flow</b>	<b>-59.6</b>	<b>131.3</b>	<b>131.3</b>	<b>-47.2</b>	<b>171.5</b>
<b>Beginning cash flow</b>	<b>222.1</b>	<b>183.4</b>	<b>183.4</b>	<b>324.5</b>	<b>254.7</b>
Forex differences	20.9	9.8	9.8	-	-
<b>Ending cash flow</b>	<b>183.4</b>	<b>324.5</b>	<b>324.5</b>	<b>277.3</b>	<b>426.2</b>

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Gross profit margin	12.3%	2.6%	12.4%	12.4%	12.5%
Operating profit margin	12.0%	-0.9%	9.6%	9.5%	9.5%
PBT margin	8.0%	-10.3%	8.5%	8.5%	8.6%
PAT margin	4.0%	-14.7%	3.4%	3.4%	3.5%
Core PAT margin	2.5%	-14.7%	3.4%	3.4%	3.5%

Source: Bloomberg, MIDFR

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology