WCT Holdings

REIT Listing to Unlock Value

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OUTPERFORM ↑

Price:	**RM1.03**
Target Price:	**RM1.43** ↑

WCT has confirmed the disposal value of its three retail mall assets at RM2.44b for a REIT listing, to be named Paradigm REIT in 1QFY25. The valuation exceeds our previous assumption of RM1.02b, prompting us to upgrade our TP by 22% to RM1.43 (from RM1.17). We are positive on this REIT listing as it marks the start of a re-rating exercise. The next focus should be on its property development segment, supported by a stronger balance sheet post the REIT listing. Upgrade to OUTPERFORM.

Disposing three assets worth RM2.44b via a REIT. Yesterday, WCT confirmed plans to monetize its three retail properties assets namely Bukit Tinggi Shopping Centre, Paradigm Mall Petaling Jaya and Paradigm Mall Johor Bahru for a total valuation of RM2.44b to a newly established REIT called Paradigm REIT. The REIT will be listed on the Main Market of Bursa Malaysia. Paradigm REIT will fund the assets injections by issuing 1.6b new units at an assumed price of RM1.00, and a cash payment of RM837m. The REIT listing is expected to be completed in 1QFY25.

A de-gearing exercise. We are positive on this move as the REIT listing could initiate a re-rating exercise. Approximately 98% of the proceeds (estimated at RM1.40b) from the listing will be used to pare down borrowings, leading to an expected annual interest savings of RM50m. WCT's net gearing is also anticipated to decrease by more than half to 0.33x (pro forma for audited FY23A) from 0.73x previously.

Outlook. We believe WCT is poised for a better FY24 on the impending roll-out of various public infrastructure projects such as: (i) MRT3 (RM45b), (ii) Penang International Airport expansion project, (iii) Pan Borneo Sabah, (iv) Subang Airport Regeneration plan (RM3.7b), and (v) various government hospitals. Furthermore, the de-gearing exercise should strengthen its balance sheet, enabling growth in its property development segment through delivery of value-enhancing projects.

Forecasts. Pending completion of the REIT listing exercise, we are maintaining our estimates.

Valuations. We upgrade our SoP-driven TP by 22% to RM1.43 (see Page 2) from RM1.17, solely reflecting the REIT listing (RM2.44b vs. our previous assumption of RM1.02b) with an unchanged: (i) 12x construction FY25 PER, which is at a discount to 20x we ascribed to large contractors given WCT's much smaller size, and (ii) a 75% discount to its property RNAV, which is at the steeper end of our property company valuation to reflect the low realisability of WCT's GDV. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Investment case. We like WCT for: (i) the improved prospects of the local construction sector with the anticipated roll-out of public projects, (ii) the recovery of its construction profits with the completion of low-margin legacy projects, and (iii) a potential re-rating on a lower risk premium as it de-gears its balance sheet via land disposals as well as the listing of Paradigm REIT. As such, we upgrade the stock to OUTPERFORM from MARKET PERFORM. Further re-rating could occur with improved property launches funded by a strong better balance sheet post-REIT listing

Share Price Performance

KLCI	1,660.59
YTD KLCI chg	14.2%
YTD stock price chg	108.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	1,542.2
Shares Outstanding	1,497.2
52-week range (H)	1.35
52-week range (L)	0.46
3-mth avg. daily vol.	32,788,710
Free Float	61%
Beta	1.3

Major Shareholders

Dominion Nexus Sdn	17.2%
Lim Choon Siew	7.0%
Amanah Saham Nasional	5.5%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1727.3	2039.8	2536.2
EBIT	-48.3	284.1	336.1
PBT	-177.8	154.1	206.1
PAT	-209.4	101.2	135.0
Net profit	-254.1	53.6	87.5
Consensus (NP)	-	63.5	82.1
Earnings Revision (%)	-	-	-
EPS (sen)	-17.9	3.8	6.2
EPS Growth (%)	-342.9	-121.1	63.1
NDPS (sen)	-	0.5	0.5
NTA per Share (RM)	2.04	2.08	2.13
PER (x)	-5.7	27.0	16.5
Price to NTA (x)	0.50	0.50	0.48
Net Gearing (x)	1.20	1.18	1.15
ROA (%)	-2.9	0.6	1.0
ROE (%)	-8.8	1.8	2.9
Net Div. Yield (%)	-	0.5	0.5

Risks to our call include: (i) weak flow of construction jobs from public and private sectors, (ii) prolonged slowdown in the local property market, (iii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iv) rising building material cost.

WCT's Sum-of-Parts Valuation

Project	Remaining Land Bank (acres)	Outstanding GDV (RM m)	NPV of Profit (RM m)
Landbanks			
W City OUG @ KL	41	3,360	97
W City JGCC @ JB	10	1,016	52
Mont Kiara KL	3	808	46
Bukit Tinggi 1,2,3 (Klang)	69	1,000	29
Medini Iskandar, Johor	39	300	14
Inaman Kota Kinabalu	29	0	0
	191	**6,484**	**238**
Unbilled Sales (as of Mar 2024)			**749**
Prop development NAV (FY23A)			**2129.2**
Total RNAV (RM m)			**3115.8**
Discount to RNAV			75%
Property development Discounted RNAV			**779**
Construction*			512
Equity Value of Property Investment			**174**
Paradigm REIT			680
SoP			2145
Number of shares (m)			1498
SOP/share (RM)			**1.43**

**12x FY25F PER*
Source: Company, Kenanga Research

Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	1753	2105	1727	2040	2536
EBIT	336	223	-78	281	333
Interest Expense	-146	-110	-129	-130	-130
Associates/JV	-34	26	30	3	3
EI	0	0	0	0	0
PBT	155	139	-178	154	206
Taxation	-138	-29	-32	-53	-71
PAT	17	110	-209	101	135
MI/Perps	-45	-44	-45	-48	-48
Net Profit	-28	66	-254	54	87

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	340	364	396	396	396
Intangibles	0	0	0	0	0
Other FA	4568	4566	4476	4591	4744
Inventories	423	346	226	226	226
Receivables	1279	1176	1227	1204	1197
Other CA	1336	1593	1908	2250	2702
Cash	284	235	415	117	-186
Total Assets	**8229**	**8280**	**8648**	**8784**	**9079**
Payable	1023	1032	1347	1651	2053
ST Borrowings	1741	1630	1885	1885	1885
Other ST Liabilities	100	8	13	14	14
LT Borrowings	1097	1168	1208	908	608
Other LT Liabilities	506	537	507	590	701
MI/Perps	771	768	790	790	790
Net Assets	**2990**	**3137**	**2897**	**2945**	**3028**
Share Cap	3213	3213	3213	3213	3213
Reserves	-223	-76	-316	-268	-185
Equity	**2990**	**3137**	**2897**	**2945**	**3028**

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	-395	213	392	195	190
Investing CF	373	-103	-105	-10	-10
Financing CF	-339	-177	128	-485	-485
Change in Cash	-361	-68	414	-300	-304

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth					
Revenue	3%	20%	-18%	18%	24%
EBIT	55%	-34%	N/A	>100%	19%
PBT	212%	-10%	N/A	>100%	34%
PAT	10%	538%	N/A	>100%	33%
PATAMI	53%	>100%	N/A	>100%	63%
Profitability					
Operating margin	19%	11%	-5%	13%	13%
PBT margin	9%	7%	-10%	7%	8%
PAT margin	1%	5%	-12%	5%	5%
Net margin	-2%	3%	-15%	3%	3%
Effective Tax Rate	-89%	-21%	18%	-34%	-34%
ROE	-1%	2%	-9%	1%	3%
ROA	0%	1%	-3%	1%	1%
Leverage					
Debt/Equity (x)	0.9	0.9	1.1	1.0	0.8
Net Debt/(Cash)	2555	2563	2679	2677	2679
Net Debt/Equity (x)	1.11	1.06	1.20	1.18	1.15
Valuations					
Core EPS (sen)	-2.0	4.6	-17.9	3.8	6.2
NDPS (sen)	-2.0	4.7	-18.1	3.8	6.2
BV/share (RM)	0.5	0.5	0.0	0.5	0.5
Core PER (x)	2.11	2.21	2.04	2.08	2.13
Net Div. Yield (%)	-52.4	22.2	-5.8	27.3	16.7
PBV (x)	-51.9	22.0	-5.7	27.0	16.5

Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	MP	7.80	7.54	-3.3%	21,992.8	Y	07/2024	40.2	50.6	29.7%	25.8%	19.4	15.4	1.9	10.0%	12.0	1.5%
IJM	MP	2.98	3.00	0.7%	10,448.4	Y	03/2025	13.0	14.4	-6.5%	11.2%	23.0	20.7	1.1	4.8%	8.0	2.7%
KERJAYA	OP	1.90	2.24	17.9%	2,396.0	Y	12/2024	14.2	16.4	33.3%	15.4%	13.4	11.6	1.7	13.0%	10.0	5.3%
KIMLUN	OP	1.37	1.69	23.4%	484.1	Y	12/2024	6.0	11.5	200.0%	91.5%	22.7	11.9	0.6	2.8%	1.0	0.7%
SUNCON	MP	4.27	4.28	0.2%	5,505.6	Y	12/2024	14.0	20.4	6.1%	45.7%	30.6	21.0	6.0	20.7%	6.0	1.4%
WCT	OP	1.03	1.43	38.8%	1,542.2	Y	12/2024	3.8	6.2	-78.9%	63.2%	27.3	16.7	0.5	1.8%	0.5	0.5%
Sector Aggregate					**42,369.0**					**42.2%**	**24.9%**	**21.0**	**16.8**	**1.5**	**7.3%**		**2.0%**

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Migrant Worker Welfare	★	★	★		
	Waste Disposal/Pollution Control	★	★	★		
	Work Site Safety	★	★	★		
	Environmentally Friendly Construction Technology	★	★	★		
	Supply Chain Auditing	★	★	★		
	Energy Efficiency	★	★	★		
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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