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WCT shares look cheap on fundamentals

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Without any new catalysts, WCT Holdings Bhd's share price has been on a sharp decline, falling 14.85% in the past six months to RM2.14 at last Friday's close, which values the group at only 10.4 times forward earnings and 1.15 times book value.

At these valuations, which are well supported by fundamentals, WCT could be a stock worth holding. While there is poor visibility on order book replenishment at the moment, any news of potential jobs would be a re-rating catalyst for the stock, say analysts.

In the meantime, the group's RM3 billion order book ensures that its earnings can be sustained over the next year. This should prop up its share price at current levels while the group hunts for new jobs.

Notably, WCT's share price decline has been on relatively thin volumes. The main seller since last month has been the Employees Provident Fund (EPF), which trimmed its holdings by more than 12 million shares or 1.13%, bringing its stake to 10.97%. Tabung Haji has been a net buyer, picking up some 16 million shares in the same period, bringing its stake to 9.21%.

Meanwhile, WCT's co-founder and largest shareholder, Taing Kim Hwa, picked up about 250,000 shares in the open market in the past two weeks as the shares hit a 52-week low of RM1.99 on Dec 31.

The immediate potential catalyst for WCT is the RM1 billion tender for a road project in Oman. However, there is a little uncertainty over the project, which was supposed to be awarded late last year, but has since been delayed.

WCT's current share price has already factored in the possibility that it will not get the job, says AmResearch's Mak Hoy Ken, who maintains his "buy" call on WCT with a target price of RM2.85.

That goes to say, even if WCT fails to bag the Oman job, its share price should not drop further. The Oman job would be a nice bonus, but Mak says the bulk of the group's order book replenishment will likely come from local jobs that have higher margins.

"This year should be slightly better for WCT as there are quite a number of projects that it can benefit from, and it is one of the more cost-competitive players out there. For example, the West Coast Expressway that will be undertaken by LJM Corp Bhd is going ahead. WCT has worked with them before and is a strong contender to benefit from that project," says Mak.

He notes that other potential projects for WCT are the final phase of the Gemas-Johor Baru double-tracking and electrification works,

the Putrajaya building works and the next mass rapid transit line.

However, it is not going to be an easy year for the construction sector. Local contract awards are expected to slow by 15.8% to around RM13 billion since the government indicated that it would be sequencing projects, says a report by Alliance Research, which has a "neutral" call on the sector.

Nonetheless, various analysts expect WCT to replenish its order book by some RM1.5 billion, compared with last year's RM511 million. It should be noted that the award of many local projects was delayed last year because of the general election.

"While there is some pressure for the group to replenish its order book, WCT's fundamentals are still intact. It has a healthy order book of RM3 billion," says an analyst from Kenanga. "We estimate its earnings will grow about 20% to RM216 million. Billings from its construction projects are expected to pick up this year and its property division is not doing too badly either. We maintain our target price of RM2.50 per share."

The negative sentiment on the property sector has also weighed down on WCT, which is fast becoming a quasi-property stock. The Real Property Gains Tax hikes and minimum price caps for foreign buyers, which were announced in Budget 2014, are expected to have a negative impact on sales.

However, WCT could be sheltered from the worst of it. Many of the group's developments are in Medini, Johor, which has been designated as a special economic zone in Iskandar Malaysia and is exempted from Budget 2014's various property cooling measures.

"While most of the property market may be affected, Medini should be protected. There has been lobbying to maintain the area as a special economic zone," says Mak. "On top of that, WCT was one of the first developers to go into Medini, giving it the first mover advantage. It has various developments lined up for the area."

WCT's recurring income base is poised to widen this year with the opening of the Gateway@klia2 mall at the new low-cost carrier terminal, which is scheduled to open by May 2. Notably, klia2's opening has been delayed once, and there is speculation of another delay.

However, WCT should receive compensation for any delays. To date, about 80% of the mall's retail space has been taken up.

All in all, WCT shares look cheap at current valuations with most of the risks already factored in and earnings secured. Therefore, it may be a good stock to buy and hold while waiting for catalysts to emerge, say analysts. ■

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