

Construction good, property weak

Lower margins offsetting the revenue upside from construction orderbook

- WCT's 1Q15 NPATAMI of MYR 33mn was in line with our estimate (26% of old FY estimate) but below consensus (23%). However, this was propped up by FX gains of MYR 18mn, excluding which earnings fell short of our estimate. Although we think the likelihood of WCT winning upcoming projects remains good (e.g., KL118, TRX, RAPID, West Coast Expressway), property division was a disappointment, with 2015F launches scaled back.
- We expect consensus to continue to revise earnings and valuation downward, and we are tweaking our FY15F/16F earnings downward by 5%/7%. Our SOTP-derived TP remains MYR 1.40, due to an upward revision in GDV estimates of several landbanks (OUG, Rawang) by management (details inside the report). We maintain our Reduce rating, as our TP represents 22% downside from current levels.
- We remain cautious on WCT for three reasons: we expect 1) continued EBIT margin weakness and consequently earnings misses; 2) the ongoing slowdown in property sales to depress medium-term property earnings; and 3) significant dilution overhang due to warrants and the recent rights issue. These issues are likely to offset any likely benefits from the strong construction orderbook replenishment in 2015F.
- While we remain positive on WCT's long-term strategy of diversifying from the volatile construction business and expanding recurring income streams (e.g., mall and hotels), we believe this will not be able to offset the impact of its declining EBIT margins and property sales, whose impact will be felt more in the near term.
- Based on our earnings estimates, WCT currently trades at 17x FY15F P/E (EPS 10cents), at a premium to its much larger peers IJM and Gamuda vs. a 25-30% discount to them historically. We thus recommend IJM (IJM MK, Buy) and Gamuda (GAM MK, Buy) as our picks in the Malaysia construction space.

Year-end 31 Dec	FY14		FY15F		FY16F		FY17F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	1,662	1,578	1,574	1,640	1,613	1,891	1,890	
Reported net profit (mn)	123	126	120	138	128	170	160	
Normalised net profit (mn)	111	126	120	138	128	170	160	
FD normalised EPS	10.20c	10.99c	10.30c	10.65c	9.75c	11.64c	10.82c	
FD norm. EPS growth (%)	-10.1	20.8	1.0	-3.2	-5.3	9.3	11.0	
FD normalised P/E (x)	17.6	N/A	17.4	N/A	18.4	N/A	16.5	
EV/EBITDA (x)	15.6	N/A	16.0	N/A	15.9	N/A	14.8	
Price/book (x)	0.9	N/A	0.9	N/A	0.9	N/A	0.9	
Dividend yield (%)	3.4	N/A	2.2	N/A	2.1	N/A	2.3	
ROE (%)	5.5	5.4	5.2	5.4	5.0	5.8	5.5	
Net debt/equity (%)	66.2	71.2	69.0	76.1	70.4	74.8	74.0	

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Global Markets Research

27 May 2015

Rating Remains	Reduce
Target price Remains	MYR 1.40
Closing price 25 May 2015	MYR 1.79
Potential downside	-21.8%

Anchor themes

WCT, a midsize Malaysian contractor, is diversifying from volatile construction earnings into property and malls/hotels, which are more stable. We think 2015F may be a weak year for WCT's EPS as margins decline, property sales slow down, and warrants raise share base.

Nomura vs consensus

Our FY15F earnings are 16% below consensus and our TP is 25% below, as we think the Street is too optimistic on FY15F earnings.

Research analysts

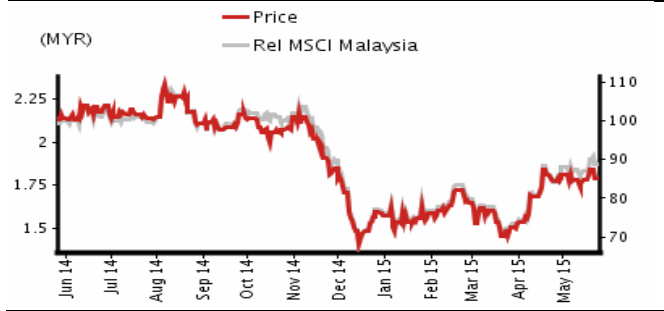
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Key data on WCT Holdings

Relative performance chart



Notes:

Performance

(%)	1M	3M	12M		
Absolute (MYR)	1.0	7.6	-15.9	M cap (USDm)	541.2
Absolute (USD)	0.1	7.3	-25.3	Free float (%)	80.5
Rel to MSCI Malaysia	4.9	9.7	-10.1	3-mth ADT (USDm)	0.7

Income statement (MYRmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue	1,655	1,662	1,574	1,613	1,890
Cost of goods sold	-1,387	-1,462	-1,375	-1,399	-1,634
Gross profit	268	201	199	214	256
SG&A					
Employee share expense					
Operating profit	268	201	199	214	256
EBITDA	278	209	204	220	263
Depreciation	-10	-8	-5	-6	-6
Amortisation					
EBIT	268	201	199	214	256
Net interest expense	-68	-60	-76	-82	-86
Associates & JCEs	19	15	27	28	30
Other income					
Earnings before tax	219	156	149	160	201
Income tax	-64	-28	-29	-32	-41
Net profit after tax	155	127	120	128	160
Minority interests	8	2	0	0	0
Other items	-36	-18	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	127	111	120	128	160
Extraordinary items	71	12	0	0	0
Reported NPAT	198	123	120	128	160
Dividends	-108	-67	-48	-51	-64
Transfer to reserves	89	56	72	77	96

Valuations and ratios

Reported P/E (x)	9.7	15.8	17.4	18.4	16.5
Normalised P/E (x)	15.1	17.5	17.4	18.4	16.5
FD normalised P/E (x)	15.8	17.6	17.4	18.4	16.5
Dividend yield (%)	5.5	3.4	2.2	2.1	2.3
Price/cashflow (x)	na	na	14.4	na	na
Price/book (x)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x)	10.0	15.6	16.0	15.9	14.8
EV/EBIT (x)	10.3	16.1	16.3	16.3	15.1
Gross margin (%)	16.2	12.1	12.6	13.3	13.6
EBITDA margin (%)	16.8	12.6	12.9	13.6	13.9
EBIT margin (%)	16.2	12.1	12.6	13.3	13.6
Net margin (%)	11.9	7.4	7.6	7.9	8.4
Effective tax rate (%)	29.4	18.3	19.7	19.7	20.4
Dividend payout (%)	54.8	54.7	40.0	40.0	40.0
ROE (%)	9.8	5.5	5.2	5.0	5.5
ROA (pretax %)	6.5	4.4	4.2	4.2	4.4

Growth (%)

Revenue	6.1	0.4	-5.3	2.5	17.2
EBITDA	5.5	-24.8	-2.5	7.8	19.7
Normalised EPS	-28.1	-13.4	0.5	-5.3	11.0
Normalised FDEPS	-26.3	-10.1	1.0	-5.3	11.0

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
EBITDA	278	209	204	220	263
Change in working capital	-488	94	26	-177	-354
Other operating cashflow	-338	-733	-85	-91	-101
Cashflow from operations	-548	-430	144	-48	-193
Capital expenditure	-224	-102	-400	-400	-400
Free cashflow	-773	-533	-256	-448	-593
Reduction in investments	698	-90	-159	-159	-159
Net acquisitions					
Dec in other LT assets	-703	-562	-218	-219	-221
Inc in other LT liabilities	-102	-41	0	0	0
Adjustments	182	803	377	378	380
CF after investing acts	-698	-422	-256	-448	-593
Cash dividends	-73	-49	-78	-51	-64
Equity issue	260	0	143	242	280
Debt issue	0	600	200	100	100
Convertible debt issue					
Others	407	-152	0	0	0
CF from financial acts	594	399	265	290	316
Net cashflow	-104	-23	9	-158	-277
Beginning cash	1,078	973	951	960	802
Ending cash	973	951	960	802	525
Ending net debt	949	1,480	1,670	1,928	2,305

Balance sheet (MYRmn)

As at 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Cash & equivalents	973	951	960	802	525
Marketable securities					
Accounts receivable	707	877	672	689	807
Inventories	76	91	74	76	89
Other current assets	916	831	796	969	1,298
Total current assets	2,671	2,749	2,502	2,536	2,720
LT investments	781	870	1,029	1,188	1,347
Fixed assets	272	236	260	282	300
Goodwill					
Other intangible assets					
Other LT assets	1,811	2,372	2,590	2,810	3,030
Total assets	5,535	6,227	6,382	6,816	7,398
Short-term debt	369	584	584	584	584
Accounts payable	616	835	606	621	728
Other current liabilities	246	221	221	221	221
Total current liabilities	1,231	1,640	1,411	1,426	1,532
Long-term debt	1,553	1,846	2,046	2,146	2,246
Convertible debt					
Other LT liabilities	494	453	453	453	453
Total liabilities	3,278	3,940	3,910	4,025	4,232
Minority interest	52	53	53	53	53
Preferred stock	0	0	0	0	0
Common stock	546	546	618	696	778
Retained earnings	1,056	1,110	1,152	1,229	1,325
Proposed dividends					
Other equity and reserves	603	578	649	812	1,010
Total shareholders' equity	2,204	2,234	2,419	2,738	3,113
Total equity & liabilities	5,535	6,227	6,382	6,816	7,398

Liquidity (x)

Current ratio	2.17	1.68	1.77	1.78	1.78
Interest cover	4.0	3.3	2.6	2.6	3.0

Leverage

Net debt/EBITDA (x)	3.42	7.09	8.20	8.78	8.77
Net debt/equity (%)	43.0	66.2	69.0	70.4	74.0

Per share

Reported EPS (MYR)	18.40c	11.33c	10.30c	9.75c	10.82c
Norm EPS (MYR)	11.83c	10.24c	10.30c	9.75c	10.82c
FD norm EPS (MYR)	11.34c	10.20c	10.30c	9.75c	10.82c
BVPS (MYR)	2.02	2.05	1.96	1.97	2.00
DPS (MYR)	0.10	0.06	0.04	0.04	0.04

Activity (days)

Days receivable	155.8	173.9	179.6	154.4	144.5
Days inventory	19.7	20.8	21.9	19.7	18.5
Days payable	168.7	181.2	191.3	160.5	150.6
Cash cycle	6.8	13.4	10.2	13.7	12.3

Source: Company data, Nomura estimates

1Q15 results: analyst briefing takeaways

Overall

- Foreign shareholding is holding at ~10%.
- Overall net income of MYR33mn includes unrealized forex gains for amounts in Middle Eastern currencies. Excluding that item, net income and construction margins would have been lower.
- Rights issue will be completed in July, with the issue of free warrants to follow in August.

Construction

- Revenues in the current quarter mainly came from Government Administrative Office project in Qatar; Ministry of international Trade (MITI) building; and MyTown Shopping Centre and KK Medical Centre projects in Malaysia.
- Construction orderbook has the potential to surprise positively due to government focus on infra projects as part of the 11th Malaysia Plan. Key tenders submitted include MYR15bn (mainly Penang Transport Master Plan) and MYR3.7bn (KL118 tower and West Coast Expressway).
- Key tenders under preparation include MYR 4.5bn (LRT3) and MYR1.53bn (TRX, RAPID earthworks).
- Margins for the construction segment continue to disappoint, ex-forex gains. For the Qatar (Lusail City project), operating margins should be ~6%, per management.
- Management sounded less bullish on future Qatar projects due to the weakness in the Middle Eastern economies after the oil price decline.

Property development

- Current quarter sales was ~MYR 127mn, and unbilled sales stand at MYR 658mn.
- New property launches for FY15F declined from MYR 894mn (4Q14 guidance) to MYR 705mn (1Q15 guidance). Bukit Serendah industrial lots has been postponed due to low demand.
- Margins for several 2015F launches (see Fig. 4) will be lower because they are medium-cost apartments as part of the Selangor state's affordable housing programme, called Rumah Selangorku.
- Takeups in recent launches have been lukewarm, with Laman Granville takeup at ~30%, and Skyz Jelutong phase 1 at 80% and phase 2 at 50%.
- Management has increased the projected GDV for several of its landbanks materially, due to better land swap deals and changes in underlying assumptions. For example, Rawang was increased from MYR1.8bn to MYR2.8bn, OUG from MYR4.9bn to MYR6.3bn, and Jalan Skudai from MYR1.3bn to MYR1.5bn.

Property investment

- Gateway @ KLIA2 is still generating a small, loss due to a higher amortization charge as the concession period has not been extended for Malaysia Airports by the government.
- Average footfall at Gateway mall @KLIA2 fell to 90,000 per day in 1Q15 from 101,000 per day in 4Q14.

Fig. 1: WCT: 1Q15 earnings review

MYR mn	1Q15	1Q14	% chg y-y	4Q14	% chg q-q	FY15F	as % of FY15F
Turnover	352	467	(25%)	322	9%	1,574	22%
Construction	250	327	(24%)	261	(4%)	1,004	25%
Property Development	87	126	(31%)	46	91%	512	17%
Property Investment & Management	14	14	5%	16	(8%)	58	25%
Operating profit	59	67	(12%)	26	127%	199	30%
Construction	27	37	(25%)	7	276%	70	39%
Property Development	26	24	8%	14	86%	97	26%
Property Investment & Management	6	7	(7%)	5	23%	31	20%
Share of profit in associates / JCE	3	5	(24%)	3	39%	27	13%
Adjusted Pretax profit	43	57	(25%)	7	555%	149	29%
Reported NPAT	33	40	(17%)	20	64%	120	28%
Operating margins (%)	17%	14%	2 ppt	8%	9 ppt	13%	
Construction	11%	11%	0 ppt	3%	8 ppt	7%	
Property Development	29%	19%	10 ppt	30%	-1 ppt	19%	
Property Investment & Management	44%	49%	-6 ppt	33%	11 ppt	53%	
Basic Earnings per share (cent)							
Reported basic EPS (cent)	3.09	3.67	(16%)	1.86	66%	10.30	

Source: Company data, Nomura estimates

Fig. 2: WCT: Current orderbook

Gulf States	MYR mn
Government Administrative Office, Qatar	256
New Doha Int'l Airport, Qatar (15%)	2
Lusail City development Project, Qatar	868
	1,126
Malaysia - Civil Engg and Infra	
PLUS Widening	129
Tun Razak Exchange	29
RAPID	327
Others	2
	487
Malaysia - Building	
MyTown Shopping Centre	628
KK Medical Centre	41
Putrajaya Commercial Office	271
Ministry of international Trade (MITI)	58
Jusco Melaka	30
Others	3
	1,031
External orderbook	2,644
Outstanding external orderbook	2,644
Orderbook burn rate (FY14)	1,211
IMPLIED CONSTRUCTION EARNINGS VISIBILITY (years)	2.2

Source: Company data, Nomura research

Fig. 3: WCT: Potential projects and tenderbook

Major Potential projects	Value (MYR mn)
Tenders Submitted	
Local Projects (PDP) - Total Project Value	15,000
Local & Overseas Projects	3,736
Total	18,736
Tenders under preparation	
Local Projects (PDP) - Total Project Value	4,500
Local & Overseas Projects	1,530
Total	6,030
Construction Contracts Targets 2015	
MALAYSIA	
Petronas RAPID Pengerang Civil Works (MYR 500mn in 2 pkgs)	
Tun Razak Exchange (TRX) - MYR 1bn	
KL 118 - MYR 3bn building works	
West Coast Expressway	
Kwasa Damansara Land Civil Works (PDP) - MYR 100mn	
LRT 3	
Mass Rapid Transit 2	
KK Water Supply Scheme	
KL - JB High Speed Rail	
Southern Double Track	
Hydro Electric Dam in Sarawak	
Hydro Electric Dam in Sabah	
MIDDLE EAST	
Qatar Roads and Expressways	
Qatar Earthworks and Infrastructure works	
Government Office Buildings in Qatar	

Source: Company data, Nomura research

Fig. 4: Property target launches in 2015

Project	GDV (MYR mn)	Target Launch
Bandar Parklands (A7)	48	May'15
Bandar Parklands (A6)	64	Jul'15
Paradigm Residences PJ	307	Sept'15
Inanam, KK	200	Sept'15
BBT 2	86	Oct'15
Total	705	

Source: Company data, Nomura research

Fig. 5: Shopping malls occupancy

Paradigm Mall	Occupancy
Retail space leased	97%
Avg footfalls per day	
Weekday	35,000
Weekend	58,000
Gateway Mall @KLIA2	
Retail space leased	74%
Avg footfalls per day	90,000

Source: Company data, Nomura research

Reducing earnings marginally by 5-7% for FY15-16F; maintaining TP of MYR1.40

We marginally tweak our earnings estimates downward, as we account for lower property launches by the company and lower earnings from Gateway Mall@KLIA2 where the footfalls have been falling q-q.

- **Construction:** We lift our new project award estimates for remaining 2015F to MYR750mn from MYR600mn, with our expectation that these project awards will be mostly local in nature. We make no changes to our margin assumptions for the segment.
- **Property development:** We cut our property development revenue estimates marginally by 1%/7% for 2015/16F, as we account for lower property launches and sales. Management has lowered its launch guidance for FY15F by MYR200mn; therefore, we adjust our new property sales lower by 5%/19% for 2015F/16F. We keep our property development margin estimate roughly unchanged at 20%.
- **Income from joint ventures:** We reduce our earnings from Gateway@KLIA2 Mall, and, as such, our earnings from associate and JVs is cut by ~30% for both 2015F and 2016F.

Fig. 6: WCT: Changes to our estimates

MYR mn	Old estimates		New estimates		% y-y	
	FY15F	FY16F	FY15F	FY16F	FY15F	FY16F
Revenue	1,578	1,640	1,574	1,613	(0%)	(2%)
... Construction	1,004	980	1,004	991	0%	1%
... Property development	516	560	512	522	(1%)	(7%)
... Investment & Mgmt	58	100	58	100	0%	0%
Operating profit	199	221	199	214	(0%)	(3%)
... Construction	70	69	70	69	0%	1%
... Property development	98	112	97	104	(1%)	(7%)
... Investment & Mgmt	31	40	31	40	0%	0%
Associate and JCE	39	40	27	28	(31%)	(29%)
Operating margins	13%	13%	13%	13%	(0.0) ppt	(0.2) ppt
... Construction	7%	7%	7%	7%	0.0 ppt	(0.0) ppt
... Property development	19%	20%	19%	20%	0.0 ppt	(0.0) ppt
Adj. Net income	126	138	120	128	(5%)	(7%)
New project awards	1,440	1,000	1,590	1,000	10%	0%
New property pre-sales	447	758	423	612	(5%)	(19%)

Source: Nomura estimates

Maintain TP of MYR1.40; reiterate Reduce

We continue to value WCT on 2015F earnings and incorporate our new earnings estimates into our sum-of-the-parts valuation methodology (unchanged). Although our earnings our adjusted marginally lower, our TP is unchanged, as management has raised GDVs for a few property projects, which offsets the decline in valuation due to our marginally lower earnings for 2015-16F. We make no changes to our valuation assumptions:

- We continue to value the construction segment at 8.5x CY15F P/E.
- We continue to value property business at a discount to the revalued net asset value (RNAV) basis. To arrive at the revaluation surplus, we use a DCF of future profits from all the projects and current unbilled sales. We use a discount rate (cost of equity) of 10.1% for Malaysia property. To this surplus, we add the book value of shareholders'

funds to arrive at the RNAV for WCT's property business. We apply a discount of 60% to property RNAV and arrive at an equity value of MYR657mn.

- The NAV of investments in current malls and hotels (using a DCF of free cash flows to equity) at an 8.9% discount rate (unchanged).
- The NAV of India expressways (using a DCF of free cash flows to equity) at a 10.5% discount rate (due to a higher risk premium).
- The NAV of KLIA2 IC (using a DCF of free cash flows to equity) at an 8.9% discount rate (unchanged).

We maintain our TP to MYR1.40, which represents 22% downside potential from current levels, and thus, we reiterate our Reduce rating for WCT. We instead recommend IJM (IJM MK, Buy) and Gamuda (GAM MK, Buy) to invest in the Malaysian construction industry.

Fig. 7: WCT: Property development RNAV

Developments	JV Structure	% Stake	Total remaining GDV (MYR mn)	Remaining Landbank (acre)	NAV Surplus (NPV of future profits)
Launched					
Bandar Bukit Tinggi 1, Klang	Integrated Township	100%	1,078	17	80
Bandar Bukit Tinggi 2, Klang	Integrated Township	100%	1,349	26	96
Bandar Parklands, Klang	Integrated Township	100%	3,268	75	148
Total Bandar Bukit Tinggi, Klang	Integrated Township		5,695	118	323
d'Banyan Residency, Kota Kinabalu	Luxury Homes	100%	6	0	0
1Medini Residences, Medini, Iskandar Malaysia	Highrise Residential	100%	434	0	29
Laman Greenville, Klang South	Luxury Homes	100%	579	0	39
Skyz Jelutong, Shah Alam	Highrise Residential	100%	147	0	11
Paradigm Residences, Petaling Jaya	Highrise Residential	100%	431	0	29
Not launched					
Rawang, Selangor	Integrated Township	100%	2,800	689	117
Inanam, Kota Kinabalu	Luxury Homes	100%	200	22	11
Bandar Serendah	Industrial	100%	189	39	11
Medini Business District, Iskandar Malaysia	Mix Commercial	100%	3,000	21	94
A60 - Medini North, Iskandar Malaysia	Mix Commercial	100%	1,500	18	56
OUG, Kuala Lumpur	Mix Commercial	100%	6,300	57	168
Jalan Skudai, Johor Bahru	Mix Commercial	100%	1,500	12	68
Unbilled sales		100%	658		49
Subtotal - Property Development NAV surplus			23,439	976	1,005
Add, property development book value					638
PROPERTY DEVELOPMENT - TOTAL NAV					1,643

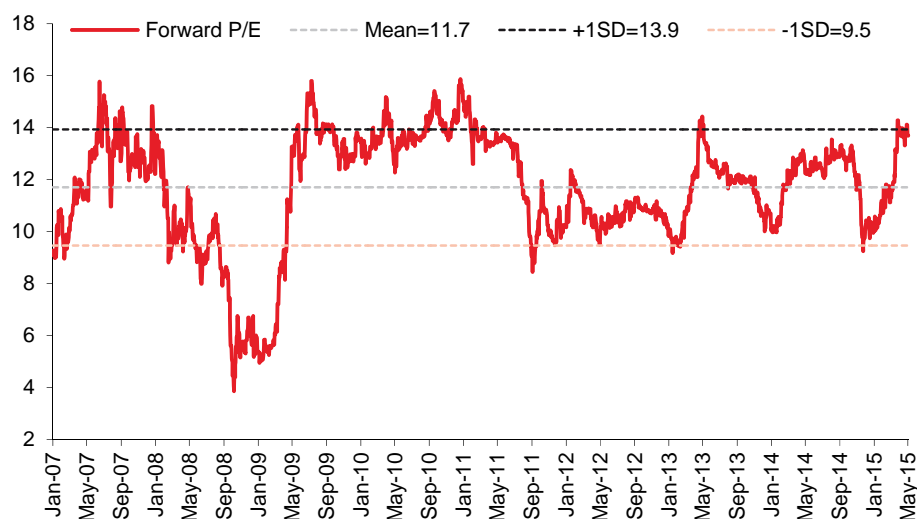
Source: Company data, Nomura estimates

Fig. 8: WCT: SOTP-based target price

Segment	Methodology	CY15F net income (MYR mn)	NAV (MYR mn)	Target PE (x)	WCT's stake	WCT's stake equity value (MYR mn)	Cost of equity (CoE)
Construction	PE based	37		8.5 x	100%	318	
Property development			<u>RNAV</u>	<u>Disc</u>			
Malaysia Property	Discount to RNAV		1,643	60%		657	
Property Investment			641			641	
- Current Malls (BBT and Paradigm Mall KJ)	DCF of FCFE at 8.9%		377			377	8.9%
- Current Hotels (Premiere Hotel Klang)	DCF of FCFE at 8.9%		84			84	8.9%
- India Expressways	DCF of FCFE at 10.5%		40			40	10.5%
- KLIA2 IC	DCF of FCFE at 8.9%		140			140	8.9%
Total NAV (MYR mn)						1,616	
Add, cash from warrants (end FY15F)						1,060	
Fully diluted shares outstanding						1,872	
- Shares outstanding (end FY15F)						1,236	
- Warrants outstanding (end FY15F)						636	
NAV/share (MYR)						1.40	
Implied P/E at TP		CY15F	CY16F	CY17F			
- Implied Construction P/E		8.5	8.6	7.3			
- Implied Property P/E		12.7	11.9	9.7			
- Implied Property investment + concessions P/E		20.8	17.7	13.3			
Implied P/B at TP (fully diluted)		1.1	1.0	0.9			

Source: Nomura estimates

Fig. 9: WCT: One-year forward P/E based on consensus earnings



Source: Bloomberg, Nomura research

Fig. 10: Construction sector comparables

		Nomura	Last	Mcap	P/E		P/B		EV/EBITDA		ROE		Div Yld	
		Rating	Close 25/May	(US\$m)	CY15F	CY16F	CY15F	CY16F	CY15F	CY16F	CY15F	CY16F	CY15F	CY16F
MALAYSIA CONSTRUCTION														
IJM Corp Bhd	IJM MK	Buy	6.97	3,439	16.2	14.3	1.3	1.2	11.2	10.6	9.2	9.1	2.4	2.8
Gamuda Bhd	GAM MK	Buy	5	3,294	14.7	12.7	1.9	1.7	15.7	13.8	13.4	14.2	2.7	3.1
WCT Holdings Bhd	WCTHG MK	Reduce	1.79	538	17.4	18.4	0.9	0.9	16.0	15.9	5.2	5.0	2.2	2.1
Muhibbah Engineering M Bhd	MUHI MK	NR	2.45	317	10.9	10.3	1.5	1.4	10.2	8.9	14.2	14.0	2.0	2.2
Hock Seng LEE BHD	HSL MK	NR	1.85	281	11.2	10.0	1.5	1.4	6.6	6.1	14.0	14.4	2.1	2.3
Mudajaya Group Bhd	MDJ MK	NR	1.39	207	13.1	8.8	0.6	0.6	12.5	10.2	4.8	6.6	2.8	3.9
Pintaras Jaya BHD	PINT MK	NR	4.16	187	10.9	9.9			5.4	4.8	17.7	17.2	3.6	3.6
Eversendai Corp Bhd	EVSD MK	NR	0.73	156	9.8	7.5	0.6	0.6	5.4	4.6	6.4	8.1	2.4	3.4
Econpile Holdings Bhd	ECON MK	NR	1.04	154	11.2	9.7	4.8	4.0	5.9	5.2	24.2	22.8	1.8	2.1
Kimlun Corp Bhd	KICB MK	NR	1.29	107	8.8	8.1	0.9	0.9	5.0	5.0	11.0	11.0	2.7	2.8
Median					11.2	9.9	1.3	1.2	8.4	7.5	12.2	12.5	2.4	2.8
INDONESIA CONSTRUCTION														
Jasa Marga Persero Tbk PT	JSMR IJ	Buy	6450	3,327	25.8	20.2	4.0	3.5	12.6	10.8	16.4	18.5	1.3	1.6
Wijaya Karya Persero Tbk PT	WIKA IJ	Buy	3335	1,555	31.9	24.2	4.5	3.9	12.8	10.2	15.0	17.3	0.3	0.9
Pembangunan Perumahan Pe	PTPP IJ	Buy	4115	1,511	28.6	21.6	6.9	5.5	12.8	9.9	26.7	28.5	0.8	1.0
Waskita Karya Persero Tbk P	WSKT IJ	Buy	1765	1,327	27.4	21.3	4.9	4.0	16.8	12.9	19.6	20.7	0.3	0.4
Adhi Karya Persero Tbk PT	ADHI IJ	NR	2770	378	13.2	10.1	2.4	2.0	7.0	5.7	19.6	21.0	1.6	1.8
Median					27.4	21.3	4.5	3.9	12.8	10.2	19.6	20.7	0.8	1.0
THAILAND CONSTRUCTION														
CH Karnchang PCL	CK TB	NR	26	1,311	29.0	24.3	2.2	2.1	24.2	22.4	8.8	8.8	1.6	1.6
Italian-Thai Development PCL	ITD TB	NR	7.5	1,179	45.2	38.4	2.6	2.4	14.3	13.0	5.6	6.6	0.7	0.9
Sino-Thai Engineering & Cons	STEC TB	NR	21.8	990	23.2	20.2	3.6	3.3	15.2	13.2	16.1	16.7	2.0	2.3
Median					29.0	24.3	2.6	2.4	15.2	13.2	8.8	8.8	1.6	1.6

Note: Priced as on 25 May 2015. Note: figures for all companies have been calendarised.

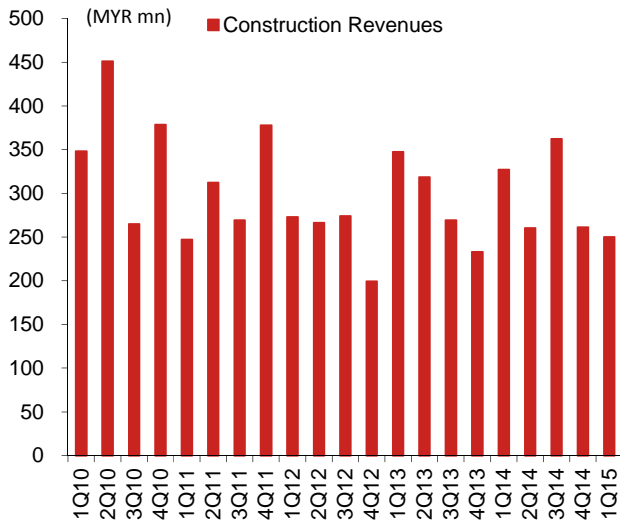
Source: Bloomberg consensus forecasts for not rated (NR) stocks, Nomura estimates

Upside risks (where can we go wrong)

- New project awards larger than our estimates: We build in MYR1.6bn/MYR1bn of total new projects in FY15F/16F. In the case WCT is able to secure projects exceeding our assumed value (e.g., the Kwasa Damansara land civil works, with both having EPF as a major shareholder), there could be upside risk to the stock.
- Higher-than-expected EBIT margins for construction and property development. EBIT margins are affected due to cost and labour pressure in Malaysia and the Middle East. However, if these were to reverse, it could pose an upside risk.
- Higher-than-expected property sales.
- Arbitration wins (e.g., the Meydan Racecourse arbitration).
- Successful unlocking of value through the REIT of WCT's malls.

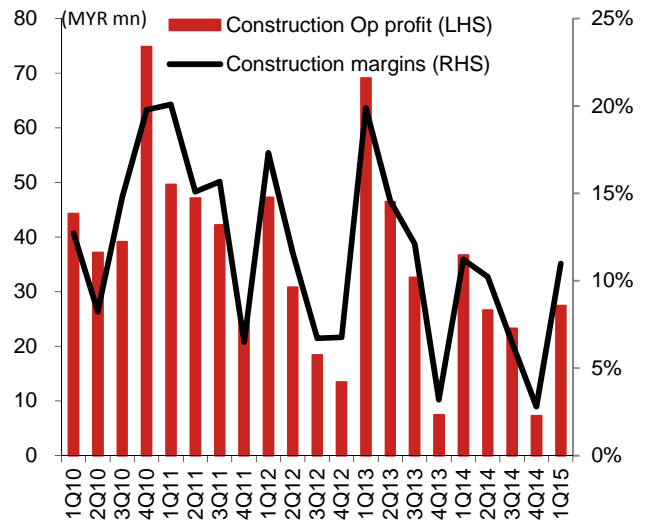
Key charts

Fig. 11: Construction revenues



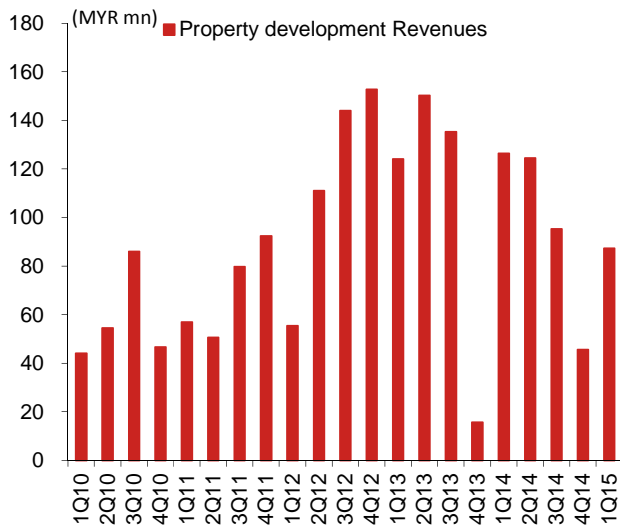
Source: Company data, Nomura research

Fig. 12: Construction-adjusted operating profit and margins



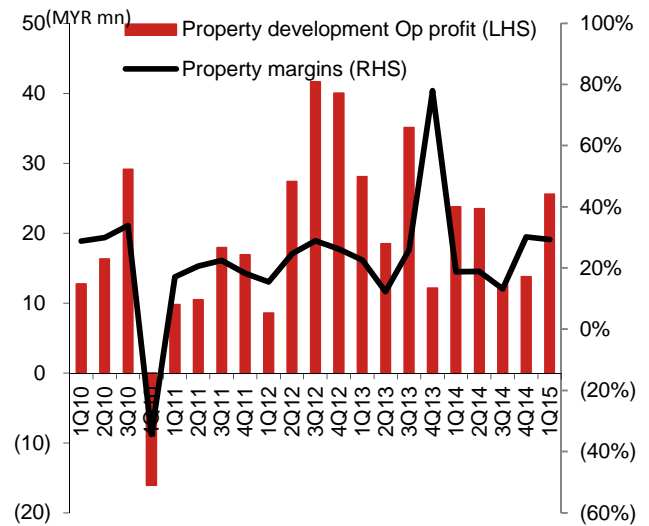
Source: Company data, Nomura research

Fig. 13: Property development revenues



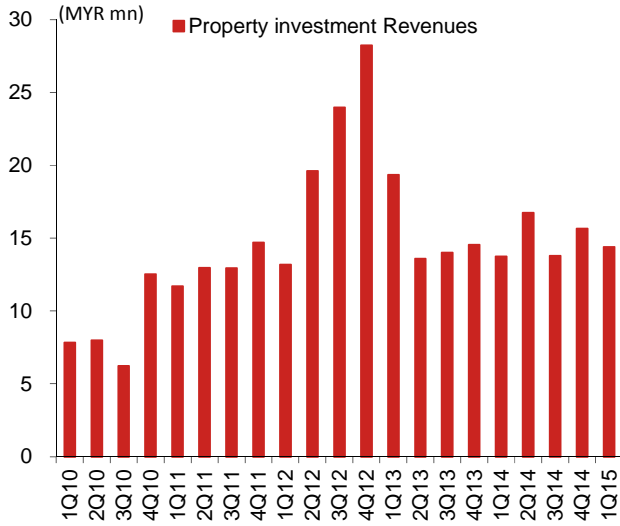
Source: Company data, Nomura research

Fig. 14: Property dev.-adjusted operating profit and margins



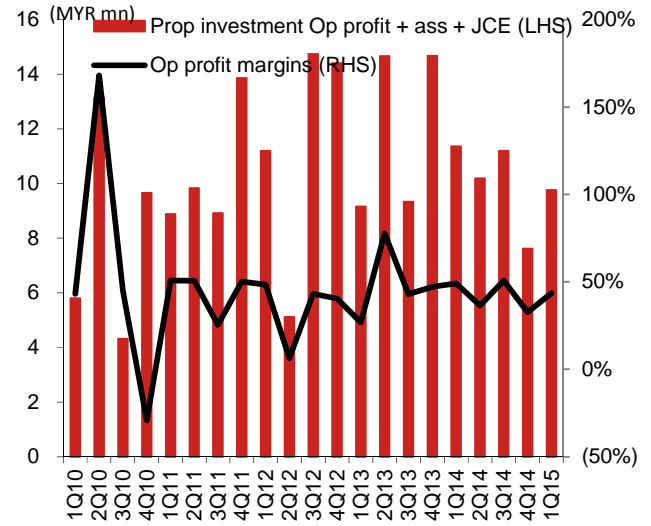
Source: Company data, Nomura research

Fig. 15: Investment and management revenues



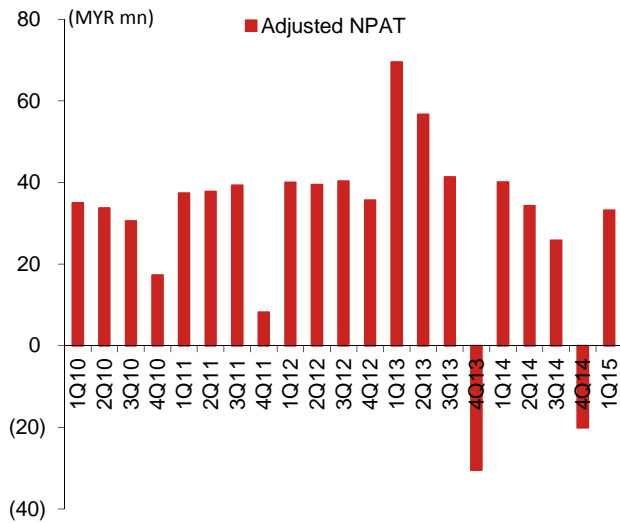
Source: Company data, Nomura research

Fig. 16: Investment/management-adjusted operating profit and margins



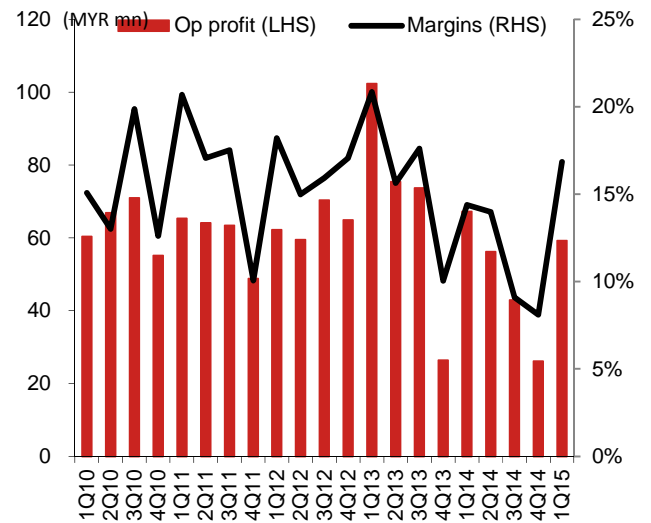
Source: Company data, Nomura research

Fig. 17: Overall net income



Source: Company data, Nomura research

Fig. 18: Overall adjusted operating profit and margins



Source: Company data, Nomura research

Appendix A-1

Analyst Certification

I, Tushar Mohata, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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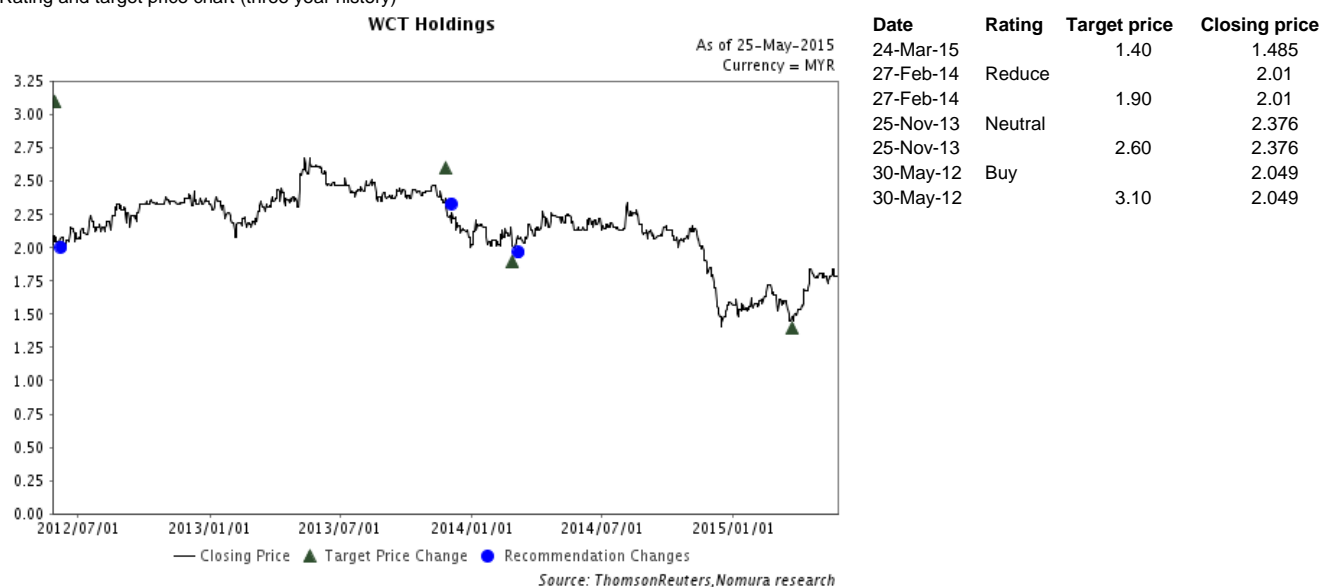
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Gamuda	GAM MK	MYR 5.00	25-May-2015	Buy	N/A	
IJM Corp	IJM MK	MYR 6.97	25-May-2015	Buy	N/A	
WCT Holdings	WCTHG MK	MYR 1.79	25-May-2015	Reduce	N/A	

WCT Holdings (WCTHG MK)

MYR 1.79 (25-May-2015) Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

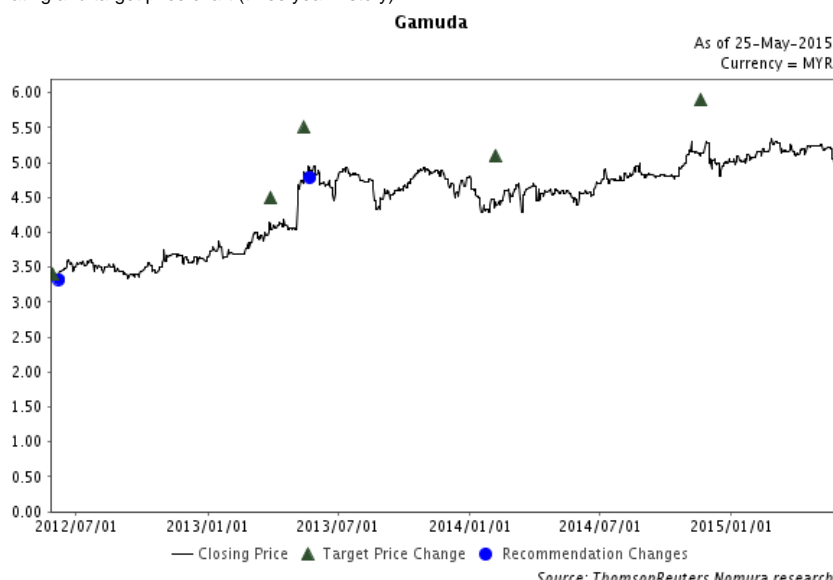
Valuation Methodology We value WCT using a sum-of-the-parts (SOTP) methodology derived from 1) the construction segment valued at 8.5x CY15F P/E; 2) NAV of the property segment at 60% discount to RNAV; 3) NAV of investments in malls and hotels at an 8.9% discount rate; 4) NAV of India expressways at a 10.5% discount rate; and 5) NAV of KLIA2 IC at a 8.9% discount rate. Our SOTP calculation implies a valuation of MYR1.6bn for WCT's businesses. To this, we add cash from warrants (~MYR1bn) to arrive at our target price of MYR1.40. The benchmark index for this stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Key upside risks to our view stem from the following: 1) New project awards larger than our estimates: We build in MYR1.6bn/MYR1bn of total new projects in FY15F/16F. In the case WCT is able to secure projects exceeding our assumed value (e.g., the Kwasa Damansara land civil works, with both having EPF as a major shareholder), there might be upside risk to the stock. 2) Higher-than-expected margins for construction and property development: Margins are affected due to cost and labour pressures in Malaysia and the Middle East. However, if these were to reverse, it could pose an upside risk. 3) Higher-than-expected property sales. 4) Arbitration wins (e.g., the Meydan Racecourse arbitration). 5) Successful unlocking of value through the REIT of WCT's malls.

Gamuda (GAM MK)

MYR 5.00 (25-May-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
19-Nov-14		5.90	5.13
05-Feb-14		5.10	4.39
15-May-13	Buy		4.87
15-May-13		5.50	4.87
29-Mar-13		4.50	4.04
30-May-12	Neutral		3.41
30-May-12		3.40	3.41

For explanation of ratings refer to the stock rating keys located after chart(s)

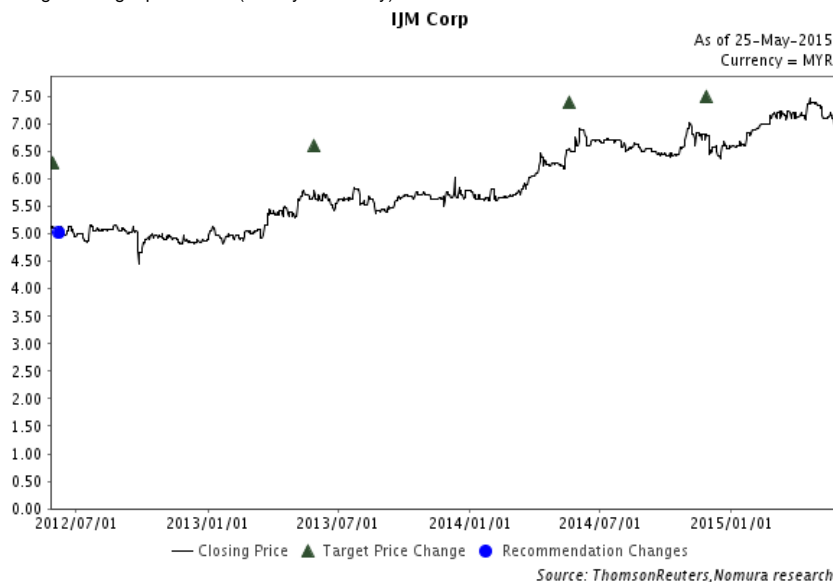
Valuation Methodology We value Gamuda using a sum-of-the-parts methodology derived from 1) construction business on DCF (FCFE) at a CoE of 9.5%; 2) property business at a 40% discount to RNAV; and 3) infrastructure projects on cash flows discounted at 6-10% cost of equity. We add cash from warrants and arrive at a total equity value of MYR14.2bn, which implies a target price of MYR5.90. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Downside risks include 1) lower-than-expected construction and property margins; 2) delay in construction project awards, or execution risk (e.g., land acquisition/tunnelling delays); 3) losses in the Vietnam property business; and 4) policy uncertainty in Malaysia, invoking WASIA sec 114, or selling SPLASH at below 1x P/B.

IJM Corp (IJM MK)

MYR 6.97 (25-May-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
26-Nov-14		7.50	6.81
19-May-14		7.40	6.565
29-May-13		6.60	5.786
30-May-12	Buy		5.126
30-May-12		6.30	5.126

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value IJM using an SOTP-based methodology. We value 1) the construction business at 15x CY15F earnings; 2) the property segment at 35% discount to RNAV; 3) the manufacturing business at 11x CY15F earnings; 4) Indian tollways and the Gautami power plant using price-to-revenue ratios of 3x; 5) Vietnam water at a P/E of 10x on CY15F earnings; 6) Malaysia tollways and Kuantan port at DCF of FCFE at a discount rate of 6.5-7.7%; and 8) GCO at market value and other investments (Kumpulun and Scomi Group) at the market price. Our SOTP calculation implies a valuation of MYR13.3bn or a target price of MYR7.50. The benchmark index for this stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Risks include 1) lower-than-expected margins from construction and property development; 2) lower-than-expected orderbook inflows or property sales; 3) lower CPO or building material prices; 4) an unexpected cancellation of projects, e.g., the West Coast Expressway project.

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STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan**: Russell/Nomura Large Cap.

SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

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