

Company Focus

WCT Holdings Bhd

Bloomberg: WCTHG MK | Reuters: WCTE.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

25 Nov 2014

HOLD RM1.91 KLCI : 1,833.77

Price Target : 12 months RM 2.20 (Prev RM 2.30)

Shariah Compliance: Yes

Reason for Report : 3Q14 results, cut earnings and TP

Potential Catalyst: Stronger contract wins and property sales

Where we differ: In line with consensus

Analyst

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Result Summary

FY Dec (RM m)	3Q 2014	3Q 2013	2Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	471.1	418.5	401.5	12.6	17.3
Gross Profit	46.4	87.6	76.0	(47.0)	(39.0)
Opg Profit	42.9	73.7	56.2	(41.8)	(23.7)
EBITDA	47.1	77.0	60.3	(38.9)	(21.9)
Net Profit	25.8	41.3	34.3	(37.5)	(24.6)
Other Data					
Gross Margin (%)	9.8	20.9	18.9		
Opg Margin (%)	9.1	17.6	14.0		
Net Margin (%)	5.5	9.9	8.5		

Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	1,672	1,866	2,249	2,189
Operating Profit	253	230	258	285
EBITDA	283	272	311	347
Net Pft (Pre Ex.)	198	148	162	177
EPS (sen)	15.6	11.7	12.8	14.0
EPS Pre Ex. (sen)	15.6	11.7	12.8	14.0
EPS Gth (%)	(53)	(25)	9	10
EPS Gth Pre Ex (%)	(53)	(25)	9	10
Net DPS (sen)	5.1	5.1	5.1	5.1
BV Per Share (sen)	174.4	181.8	190.2	199.8
PE (X)	12.2	16.3	14.9	13.6
PE Pre Ex. (X)	12.2	16.3	14.9	13.6
EV/EBITDA (X)	11.8	12.3	11.1	10.0
Net Div Yield (%)	2.7	2.7	2.7	2.7
P/Book Value (X)	1.1	1.1	1.0	1.0
Net Debt/Equity (X)	0.4	0.4	0.4	0.3
ROAE (%)	9.8	6.6	6.9	7.2

At A Glance

Issued Capital (m shrs)	1,088
Mkt. Cap (RMm/US\$m)	2,078 / 621
Avg. Daily Vol.('000)	795

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business : WCT is primarily involved in construction, property development and property investment. Its construction division is involved in a wide array of civil infrastructure and building works. The property division has developments in the Klang Valley, Iskandar Malaysia and Sabah. WCT also owns three malls and a hotel as part of its property investment assets.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

No bright spots

- **3Q14 below expectations**
- **Company lowers property sales target**
- **We cut earnings across the board**
- **HOLD, TP nudged down to RM2.20**

Highlights

- **A weak quarter.** 3Q14 headline net profit of RM26m (-25% q-o-q, -38% y-o-y) takes 9M14 profit to RM100m (-29% y-o-y), below our and consensus estimates. Although 3Q14 construction revenue surged 46% q-o-q to RM516m, construction EBIT fell 13% to RM23m as margins fell 3 ppts to 4.5% due to weaker margins for both its local and overseas projects (additional cost for NDIA project).
- **Also a weak quarter for property.** 3Q14 property EBIT tumbled 47% q-o-q to RM13m on the back of lower revenue of RM98m (-23% q-o-q) and weaker margin of 13% in 3Q14 (vs 18% in 2Q14). WCT has cut its FY14 sales target to RM617m from RM1.2bn, by deferring launches at Medini Iskandar and Bandar Parklands. We have yet to include this project into our forecasts. Sales reached RM497m in 9M14.

Outlook

- **Cut earnings.** We cut FY14F/FY15F/FY16F earnings by 14%/8%/3% after assuming lower take up for some projects, such as Paradigm Residences, and trimmed margin assumptions. We also toned down construction margin by 1 ppt.
- **Stronger orderbook, but needs to do more.** We estimate WCT's outstanding orderbook at RM2.3bn including the RM651m contract from Boustead Ikano for the Cochrane retail mall. We assumed a balance of RM450m new order wins for FY14F, while the company continues to guide for another RM1bn for the rest of the year. There are outstanding chunky tenders in Qatar and Saudi but timing of award remains fluid.

Valuation

- We have a HOLD rating for WCT based on sum-of-the-parts valuation methodology. We value its construction business based on PE, while its property development and property investment units are based on DCF and market value, respectively.

Risks

Rising material prices

- Rising material prices (due to higher costs of production) will negatively impact margins.

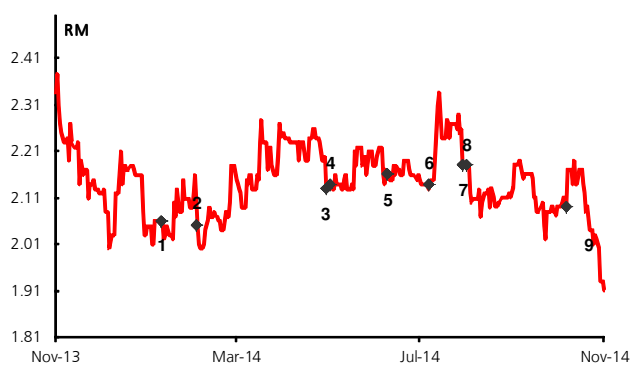
Project delays

- Delays in project execution will lead to slower-than-expected revenue recognition.

Slower property sales

- Property cooling measures implemented may slow down sales.

Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	03 Feb 14	2.06	3.32	Buy
2:	26 Feb 14	2.05	2.97	Buy
3:	23 May 14	2.13	2.32	Hold
4:	26 May 14	2.14	2.32	Hold
5:	03 Jul 14	2.16	2.32	Hold
6:	31 Jul 14	2.14	2.32	Hold
7:	22 Aug 14	2.18	2.32	Hold
8:	25 Aug 14	2.18	2.27	Hold
9:	30 Oct 14	2.09	2.27	Hold

Source: AllianceDBS

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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