

Result Snapshot

WCT Holdings

Bloomberg: WCTHG MK | Reuters: WCTE.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

23 May 2014

HOLD RM2.22 KLCI : 1,877.03

Price Target : 12-Month RM 2.35 (Prev RM 3.00)

Analyst

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Result Summary

FY Dec (RM m)	1Q 2014	1Q 2013	4Q 2013	yoy % chg	qoq % chg
P&L Items					
Turnover	467.2	490.9	280.4	(4.8)	66.6
Gross Profit	82.7	122.4	33.1	(32.4)	149.8
Opg Profit	67.2	102.4	15.2	(34.3)	342.9
EBITDA	74.2	107.7	27.9	(31.1)	166.4
Net Profit	40.1	43.2	55.5	(7.1)	(27.7)
Core Net Profit	40.1	69.5	-6.0	(42.3)	n.m.
Other Data					
Gross Margin (%)	17.7	24.9	11.8		
Opg Margin (%)	14.4	20.8	5.4		
Net Margin (%)	8.6	8.8	19.8		
Core Margin (%)	8.6	-2.1	14.1		

Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	1,655	1,885	1,947	1,978
Operating Profit	267	334	353	376
EBITDA	297	361	380	405
Net Pft (Pre Ex.)	162	178	187	199
EPS (sen)	18.2	16.4	17.2	18.3
EPS Pre Ex. (sen)	14.9	16.4	17.2	18.3
EPS Gth (%)	(45)	(10)	5	6
EPS Gth Pre Ex (%)	10	10	5	6
Net DPS (sen)	6.7	6.6	6.9	7.3
BV Per Share (sen)	202.7	212.6	222.9	233.9
PE (X)	12.2	13.6	12.9	12.1
PE Pre Ex. (X)	14.9	13.6	12.9	12.1
EV/EBITDA (X)	11.3	9.1	8.8	8.4
Net Div Yield (%)	3.0	3.0	3.1	3.3
P/Book Value (X)	1.1	1.0	1.0	0.9
Net Debt/Equity (X)	0.4	0.3	0.3	0.4
ROAE (%)	9.8	7.9	7.9	8.0

At A Glance

Issued Capital (m shrs)	1,085
Mkt. Cap (RMm/US\$m)	2,410 / 750
Avg. Daily Vol.('000)	1,529

Price Relative



Source: Company, AllianceDBS

Slow start

- 1QFY14 earnings in line at 23% of full year estimate
- RM1.8bn orderbook showing signs of diminishing earnings visibility
- Job wins target (RM2bn) an uphill challenge
- Maintain HOLD rating, cut TP to RM2.35 TP; no rerating catalyst

Highlights

Slow start. WCT booked RM467m revenue in 1QFY14 (-5% y-o-y, +67% q-o-q) and RM40m net profit (-7% y-o-y, -28% q-o-q). Core earnings would have dropped by a larger percentage (-42% y-o-y) if arbitration losses incurred last year were added back. Overall, 1QFY14 profit is 23% of our forecast (21% of consensus), which is in line premised on stronger quarters ahead.

Weaker margins. EBIT and core net margins were weaker at 14% and 9%, respectively (FY13: 21% and 14%). This was largely attributed to the property segment.

Our View

Thinning orderbook. WCT's orderbook is at RM1.8bn, implying 1.6x FY13 construction revenue. Unless job wins start flowing in soon, earnings visibility based on the current orderbook will start to drop. They have not secured any job wins so far this year. While management is targeting to win RM2bn worth of jobs this year (RM1bn domestic and RM1bn overseas), this will be an uphill challenge given the competitive bidding landscape.

Slow on job wins. Management believes it has a decent chance of securing earthworks (RM300-400m) for the RAPID project given its strong track record for such jobs. We understand WCT's closest contender is Gadang which is currently executing the earthworks for Phase 1. Management said there are currently no outstanding tenders in the Middle East. As such, hitting its RM1bn target for overseas jobs this year could prove to be a daunting task.

Recommendation

HOLD with RM2.35 TP. Our TP is based on a 10% discount to our SOP valuation, implying 14.3x and 13.6x FY14-15 PE. Although this is lower than its 5-year mean multiple of 15x, it is fair given the lacklustre outlook for job wins.

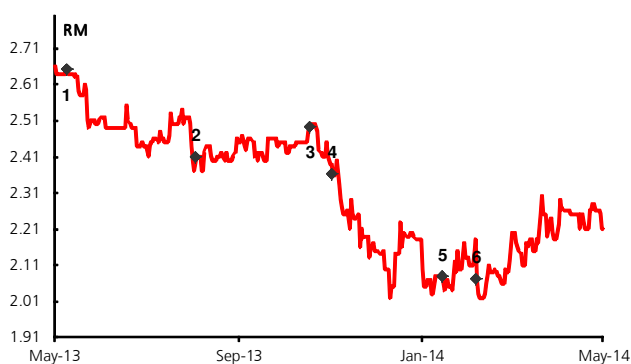
WCT Holdings

Sum of Parts (SOP) valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY14 earnings	171	14	2,391	1.69
Gateway@klia2 based on DCF	237	5.1%	166	0.12
Paradigm Mall based on cap rate	329	7.0%	231	0.16
Premiere Hotel Klang based on DCF	225	7.5%	225	0.16
Cash proceeds from warrants	688		688	0.49
Sum of Parts Value			3,702	2.62
Discount applied		10%	(370)	(0.26)
Target price			3,331	2.35

Source: AllianceDBS

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	29 May 13	2.65	3.35	Buy
2:	23 Aug 13	2.41	3.35	Buy
3:	07 Nov 13	2.49	3.35	Buy
4:	22 Nov 13	2.36	3.35	Buy
5:	03 Feb 14	2.08	3.35	Buy
6:	26 Feb 14	2.07	3.00	Buy

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

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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