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12-month upside potential

Previous target price	2.88
Revised target price	2.25
Current price (as at 26 Feb)	2.07
Capital upside (%)	8.7
Net dividends (%)	3.3
Total return (%)	12.0

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	2,261.4
Shares outstanding (m)	1,092.5
Free float (%)	47.9
52-week high / low (RM)	2.70 / 2.02
3-mth avg volume ('000)	2,603.1
3-mth avg turnover (RM m)	5.6

Share price performance

	1M	3M	6M
Absolute (%)	2.0	-8.0	-14.5
Relative (%)	-0.5	-8.5	-20.0

Share price chart


Source: Bloomberg

WCT Holdings
Construction
Neutral ↓
Bloomberg Ticker: WCT MK | Bursa Code: 9679

An uphill challenge

We attended WCT's analyst briefing and left feeling unexcited due to lack of clarity on job flow prospects. WCT's orderbook replenishment target of RM2bn this year will prove to be an uphill task to achieve as timing is likely to happen later coupled with the competitive bidding landscape. Property sales target of RM1.2bn could also be challenging given the property cooling measures implemented. We cut earnings by 16-18% and downgrade our rating to NEUTRAL given the unexciting outlook.

4QFY13 analyst briefing

- After clarification with management on certain exceptional items, we estimate core earnings for the quarter at RM2.3m, barely breaking even. This is computed from reported earnings of RM56.4m less net revaluation gains (RM43.7m) and gains from disposal of Swarna tollway (RM10.4m).
- Full year FY13 core earnings are now estimated at RM169.8m which takes into account (i) removal of the abovementioned gains, and (ii) arbitration losses of RM26.3m in 1Q.
- Management said that the poor 4Q results were due to a RM40m provision for the construction division. RM30m of the provisions was for downward revision in margins for certain building jobs in view of the expected increase in raw material prices. The balance RM10m was for doubtful debts for the completed Kudat water supply job.

Muted job flow outlook

- From a sector perspective, we expect to see a slowdown in construction job flows this year as the federal government embarks on fiscal tightening measures. This does not bode well for WCT which tends to compete within this segment for contracts.
- Management said that it is targeting RM2bn in new job wins for FY14 (FY13: RM670m) comprising RM1bn local and RM1bn overseas. We however believe that this target could be an uphill challenge to achieve as (i) the timing of contract flows is likely to happen later rather than sooner, and (ii) the competitive bidding landscape faced.
- WCT has been in talks with IJM to build some portions of the RM5.3bn West Coast Expressway (WCE). As the latter is expected to undertake at least 70% of the job, that leaves only RM1.6bn up for grabs. We believe bidding for the remaining portion of the WCE will be intense as many contractors have expressed interest to undertake it.
- For the Kwasa Damansara land civil works (RM1bn), WCT had previously proposed to undertake the PDP role for entire the job. It has now been clarified that the civil works will be tendered out as a standard contract rather than implemented via the PDP concept. We think it is likely that the civil works will be broken up into smaller packages.
- On RAPID, WCT has submitted its bid for the earthworks Phase 2 (RM300-400m). With recent news reports highlighting that RAPID may not meet its final investment decision (FID) deadline by mid-March, there is risk the earthworks rollout will be delayed.
- Management said that it was unsuccessful in its bid for building works in Putrajaya parcel F (RM400m) and is now looking at parcel Z.
- In terms of new jobs that have entered into WCT's target list, it is looking at the link walk between KL Sentral to the new MRT station (RM100-200m). It is also eyeing hydro dam projects in Sabah and Sarawak.
- Disappointingly, the UMS teaching hospital job in Sabah via PFI (RM700m) which WCT has been negotiating for quite a while has been aborted as the federal government has decided to put PFI jobs on hold.
- Over in Qatar, WCT was also unsuccessful in tendering for a road job (RM1bn) as its bid came in 2nd lowest. There are no outstanding tenders in Qatar but WCT has been prequalified for 2 infra jobs there. Judging from past experience in Qatar, it could take awhile from prequalification to an actual award to materialise.

Property sales fell short of target

- Property sales for FY13 came in at RM499m, falling short of WCT's RM775m target and ours of RM700m. The BBT townships made up 60% of sales and 1Medini at 36%.
- This was due to launch delays for Laman Greenville, Klang and Paradigm service apartments as there were setbacks in obtaining advertising & promotion permit.
- For FY14, management is targeting to achieve RM1.2bn property sales which also takes into account the spillover from FY13's delayed launches. We remain cautious on sales prospects given the property cooling measures implemented and maintain our FY14 sales assumption of RM700m.

Impact on estimates

- We cut our FY14-15 earnings by 16.6% and 17.7% respectively as we factor in (i) lower construction margins in view of expected rise in material prices, and (ii) lower annual orderbook replenishment from RM1.5bn to RM1bn given the pedestal outlook for job flows.

Valuation and recommendation

- Aside our earnings cut, we also reduce our target P/E from 14x to 12x to reflect the less than optimistic job flow prospects and possible slowdown in property sales.
- Along with our earnings cut, our SOP based TP is reduced from RM2.88 to RM2.25, implying FY14-15 P/E of 13.1x and 12x.
- We downgrade our rating on WCT from trading buy to NEUTRAL as the near term outlook appears unexciting.

Figure 1 : Key financial data

FYE 31 Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM m)	1,538.6	1,560.4	1,672.4	1,954.8	1,876.4
EBITDA (RM m)	250.7	263.4	253.5	317.7	343.3
EBIT (RM m)	241.6	256.8	248.6	309.1	334.2
Pretax profit (RM m)	193.3	204.0	200.2	242.9	265.6
Reported net profit (RM m)	166.0	358.9	197.5	187.1	204.5
Core net profit (RM m)	151.7	147.9	169.8	187.1	204.5
EPS (sen)	15.2	32.8	18.1	17.1	18.7
Core EPS (sen)	13.9	13.5	15.5	17.1	18.7
Alliance / Consensus (%)				86.8	81.9
Core EPS growth (%)	0.9	(2.5)	14.8	10.2	9.3
P/E (x)	14.9	15.3	13.3	12.1	11.1
EV/EBITDA (x)	12.7	12.1	12.6	10.1	9.3
ROE (%)	11.2	19.8	9.0	9.3	9.6
Net gearing (%)	40.2	41.2	40.1	43.9	46.8
Net DPS (sen)	5.5	7.0	6.8	6.8	7.5
Net dividend yield (%)	2.7	3.4	3.3	3.3	3.6
BV/share (RM)	1.35	1.66	2.02	1.85	1.96
P/B (x)	1.5	1.2	1.0	1.1	1.1

Source: Alliance Research, Bloomberg

Figure 2 : Earnings revision

	FY14F	FY15F
Previous EPS	20.5	22.7
Revised EPS	17.1	18.7
% change	-16.6%	-17.7%

Source: Alliance Research

Figure 3 : SOP valuation for WCT

SOP Component	RM/m	Multiplier / WACC	WCT's Share	FD Per Share
FY14 earnings	187	12	2,245	1.59
KLIA2IC based on FCFF	237	5.1%	166	0.12
Cash proceeds from warrants	765		765	0.54
Sum of Parts Value			3,176	2.25

Source: Alliance Research

DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

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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