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12-month upside potential

Target price	2.88
Current price (as at 25 Feb)	2.18
Capital upside (%)	32.0
Net dividends (%)	3.8
Total return (%)	35.8

Key stock information

Syariah-compliant?	Yes		
Market Cap (RM m)	2,381.6		
Shares outstanding (m)	1,092.5		
Free float (%)	52.9		
52-week high / low (RM)	2.70 / 2.02		
3-mth avg volume ('000)	2,546.0		
3-mth avg turnover (RM m)	5.4		

Share price performance

	1M	3M	6M
Absolute (%)	5.3	-4.0	-8.0
Relative (%)	3.5	-5.3	-15.4

Share price chart


Source: Bloomberg

WCT Holdings

Construction

Trading Buy

Bloomberg Ticker: WCTHG MK | Bursa Code: 9679

4QFY13: Hit hard by provisions

WCT posted FY13 core earnings of RM162m (+9% y-o-y) which was below expectations. 4Q came in the red due to provisions for foreseeable material price increase and bad debts. Construction progress was also hampered by labour shortages. We keep our earnings and TRADING BUY rating (TP: RM2.88) unchanged pending management's further input from today's analyst briefing.

Surprise earnings disappointment

- WCT posted 4QFY13 revenue of RM280.4m (-26.2% y-o-y, -33% q-o-q) and core net loss of -RM6m (4QFY12: core earnings of RM33.7m).
- Core net loss for the quarter was computed based on reported earnings of RM56.4m less revaluation gains (RM52m) and gain from the disposal of the Swarna tollway (RM10.4m).
- For the full year FY13, we estimate core earnings of RM161.5m, after adjusting for (i) the non-core gains recorded in 4Q and (ii) RM26.3m arbitration losses booked in 1Q.
- Numbers disappointed with FY13 core earnings only making up 77.9% of our full year forecast and 84.6% of consensus.

Analysis of results

- The disappointing numbers resulted largely from a significant drag in 4Q numbers, despite first 9 months results coming in above expectations.
- Construction revenue in 4Q continued to decline (-13.5% q-o-q) as we were guided that labour shortages have caused slower work progress.
- Construction EBIT margin for 4Q was exceptionally thin at 3.2%. Management said that it recorded provisions during the quarter amounting to RM40m to account for (i) foreseeable material price increases for its building jobs and (ii) writing off bad debts.
- Management guides that with these provisions for material price increases already "made in advanced", there will no longer be any more adverse margin revisions in the coming quarters.
- Property revenue in 4Q came in at a mere RM32.9m compared to RM120-150m in 1-3Q. This weakness was due to (i) slower recognition due to labour shortages and (ii) it was unable to recognise sales for Laman Greenville, Klang as certain licenses have yet to be issued.

Impact on estimates

- To round it up, the main disappointment came from the RM40m provisions. If this were added back, FY13 core earnings would come in at RM201.5m, inline with our projection of RM207.2m.
- As management guided that there will be no further adverse margin revisions in the coming quarters, we keep our earnings intact for now. Potential downside could stem from continued labour shortages which we will seek to further clarify the situation with management.

Valuation and recommendation

- Pending further takeaways from today's analyst briefing, we maintain our trading buy call and TP of RM2.88 which is based on SOP comprising (i) 14x FY14 earnings and (ii) FCFE valuation of its Gateway@KLIA2 mall. This implies FY14-15 P/E of 14x and 12.7x.



SNAPSHOT OF FINANCIAL RESULTS

Figure 1 : Results commentaries

	4QFY13	4QFY12	% y-o-y change	% q-o-q change	12MFY13	12MFY12	% y-o-y change	Comments
Key financial highlights								
Revenue (RM m)	280.4	380.2	(26.2)	(33.0)	1,672.4	1,560.4	7.2	Y-o-y higher but momentum has been slowing q-o-q due to labour shortage
Operating profit (RM m)	15.2	70.5	(78.5)	(79.4)	240.3	262.5	(8.4)	Lower due to provisions
Pretax profit (RM m)	3.1	54.5	(94.4)	(94.9)	191.9	209.7	(8.5)	
Net profit (RM m)	56.4	244.6	(77.0)	36.4	197.5	358.9	(45.0)	Includes arbitration losses, property revaluation gains and disposal of Swarna toll
Core net profit (RM m)	(6.0)	33.7	(117.8)	(114.5)	161.5	147.9	9.2	Below expectations at 78% of full year
Per share data								
EPS (sen)	5.2	22.4	(77.0)	36.4	18.1	32.8	(45.0)	
Core EPS (sen)	(0.5)	3.1	(117.8)	(114.5)	14.8	13.5	9.2	
Net DPS (sen)	3.3	3.3			6.8	7.0		
BV/share (RM)	2.02	1.66			2.02	1.66		
Margins								
Pretax (%)	1.1	14.3			11.5	13.4		Provisions for foreseeable material price increase dents margins
Net profit (%)	(2.1)	8.9			9.7	9.5		

Source: Company, Alliance Research

Figure 2 : Key financial data

FYE 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	1,538.6	1,560.4	1,672.4	2,119.8	2,246.4
EBITDA (RM m)	250.7	263.4	245.2	365.9	400.4
EBIT (RM m)	241.6	262.5	240.3	357.4	391.4
Pretax profit (RM m)	193.3	209.7	191.9	291.2	322.7
Reported net profit (RM m)	166.0	358.9	197.5	224.2	248.5
Core net profit (RM m)	151.7	147.9	161.5	224.2	248.5
EPS (sen)	15.2	32.8	18.1	20.5	22.7
Core EPS (sen)	13.9	13.5	14.8	20.5	22.7
Alliance / Consensus (%)			108.5	101.8	94.8
Core EPS growth (%)	0.9	(2.5)	9.2	8.2	10.8
P/E (x)	15.7	16.1	14.7	10.6	9.6
EV/EBITDA (x)	13.2	12.6	13.5	9.1	8.3
ROE (%)	11.2	16.3	10.4	11.0	11.3
Net gearing (%)	40.2	33.9	46.3	42.8	43.0
Net DPS (sen)	5.5	7.0	6.8	8.2	9.1
Net dividend yield (%)	2.5	3.2	3.1	3.8	4.2
BV/share (RM)	1.35	1.66	2.02	1.87	2.01
P/B (x)	1.6	1.3	1.1	1.2	1.1

Source: Alliance Research, Bloomberg



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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