

WCT Holdings

WCTHG MK / WCTE.KL

FLASH NOTE

➤ **Market Cap**
US\$753.7m
RM2,382m

➤ **Avg Daily Turnover**
US\$0.53m
RM1.69m

➤ **Free Float**
60.2%
971.2 m shares

Current **RM2.20**
Target ➤ **RM2.32**
Prev. Target **RM2.32**
Up/Downside **5.7%**

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	1.4	-0.7	-16
Absolute	1.4	-0.9	-7.2

Major shareholders	% held
WCT Capital	19.6
EPF	13.9
KWAP	6.2

Good enough to get by

The negative surprise from WCT's post-results briefing was the downside risk to its full-year property sales target of RM1.2bn, which is pending review. However, this was offset by management's optimism that job flow momentum could pick up at end-2014, after the recent Rapid win. Nonetheless, we continue to believe that our RM800m new domestic job target in 2014 is more realistic compared to WCT's RM1bn. An overseas job win (up to RM1bn tendered) would be a huge bonus and is the only chance for a sizeable new contract, although timing remains uncertain. Gateway at KLIA 2 is expected to begin profit contribution in 2H14, albeit marginal. Our target price remains pegged to a 30% RNAV discount. Maintain Hold. Switch to Gamuda.

What Happened ➤

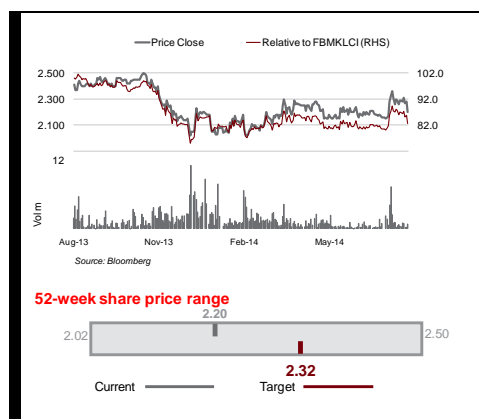
WCT's 2Q14 results briefing was hosted by Head of Corporate Finance Mr Chong Kian Fah. The session was attended by more than 30 analysts and fund managers. The key takeaways were: 1) the list of potential jobs included in the total tender book of RM4.6bn is relatively unchanged. The timing of awards remains uncertain, even for a sizeable potential project in Qatar, 2) likely domestic job wins in the medium term are for subcontract works but this segment is becoming more competitive, 3) management's property sales target of RM1.2bn in FY14 is pending downward revision, dragged by projects in Johor Bahru and Iskandar, 4) total domestic job win target is RM700m by end-2014. However, new tenders such as the Ikano Centre at Cochrane and Warisan Merdeka could progress into 2015.

What We Think ➤

We are encouraged by the group's active tendering for domestic jobs. However, management's indication of rising competition in the subcontract works segment is a slight concern as it could mean thinner margins (vs. typical 5-6%). Nonetheless, WCT's award momentum in 2H14 could be sustained by subcontract works for the West Coast Expressway (WCE) worth c.RM400m. Full submission of tenders is expected soon. Overall potential job wins outlook remains more promising on the domestic side but prospective larger-scale projects are only likely for tenders in Qatar.

What You Should Do ➤

Stay on the sidelines as the timing for further recovery in job flows remains uncertain. We expect the likely downside to FY14 property sales target to be partially offset by property investment and healthy RM3.1bn order book.



Financial Summary

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue (RMm)	1,560	1,672	2,157	2,361	2,665
Operating EBITDA (RMm)	262.4	323.0	312.6	346.8	347.2
Net Profit (RMm)	364.6	197.5	159.0	181.7	187.9
Core EPS (RM)	0.19	0.24	0.16	0.19	0.19
Core EPS Growth	16.0%	22.2%	(30.9%)	14.3%	3.4%
FD Core P/E (x)	12.02	9.83	14.22	12.45	12.04
DPS (RM)	0.070	0.083	0.090	0.090	0.090
Dividend Yield	3.18%	3.75%	4.09%	4.09%	4.09%
EV/EBITDA (x)	10.60	9.11	9.44	8.56	8.59
P/FCFE (x)	18.14	10.57	7.70	8.88	9.51
Net Gearing	39.8%	29.9%	26.6%	23.1%	19.9%
P/BV (x)	1.18	1.26	1.17	1.06	0.94
ROE	11.8%	13.1%	9.0%	9.4%	8.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.99	1.02	0.94

SOURCE: CIMB, COMPANY REPORTS

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Strategy to focus on engineering and infra segments ►

RM4.6bn tender book. In spite of the weak job flows YTD - only the RM342m contract for road works clinched this year - management targets RM700m worth of domestic jobs by end-2014. The potential jobs at the top of WCT's list include the c.RM400m-500m subcontract works for the WCE. Other tenders that emerged in the past 2-3 months were the c.RM800m new Ikano Centre at Cochrane and site preparation works for Merdeka Tower. For domestic jobs, management indicated that the environment is becoming more competitive for medium-sized projects, especially site preparation works. This was a slight concern but could be offset by potentially more wins for infra-related works. Total tender book stood at RM4.6bn. Our unchanged new jobs assumption of RM800m suggests a low success rate for 2014 but this could rise in 2015.

Figure 1: Total order book after the recent Rapid win

Gulf States		Malaysia - Engineering & Infrastructure		Malaysia – Building		Total
	RM(mil)		RM(mil)		RM(mil)	RM(mil)
Government Administrative Office, Qatar	354	PLUS Widening	290	KK Medical Centre	147	
New Doha Int'l Airport, Qatar	2	Tun Razak Exchange	152	Putrajaya Commercial Office	291	
		RAPID - common construction access & permanent road (awarded 18/7/2014)	342	Ministry of Int'l Trade (MITI)	215	
		Others	4	Jusco Melaka - AEON	30	
				UITM	36	
				Others	13	
Total External	356		788		732	1,876
	19%		42%		39%	100%
Total Internal				Property investment		
				-Kelana Jaya	149	
				-Johor Bahru	651	
				Property development		
				-Kelana Jaya	77	
				-1Medini High-rise	276	
TOTAL					1,885	3,029

SOURCE: WCT

Figure 2: Breakdown of tender book

DESCRIPTION		APPROXIMATE PROJECT VALUE RM(Million)
TENDERS SUBMITTED:		
LOCAL PROJECTS		3,101
OVERSEAS PROJECTS		1,500
TOTAL		4,601
TENDERS UNDER PREPARATION:		
LOCAL PROJECTS		220
OVERSEAS PROJECTS		1,300
TOTAL		1,520

SOURCE: WCT

Johor/Iskandar property launches could be revised ►

WCT's RM1.2bn FY14 property sales target is not sustainable. The major drag to WCT's property sales YTD has come from the projects in Johor/Iskandar. Management is in the process of revising its target launches for 2014 and hints that it would cut its RM1.2bn property sales target for 2014. We maintain our RM1bn property sales forecast for FY14, pending the finalised numbers and new schedule for target launches. We roughly estimate that a 10-20% cut to our property sales estimate would result in 4-5% downside risk to our FY14 EPS forecast. However, the weak sales from Iskandar/Johor could be offset by the group's ventures in the Klang Valley, mainly BBT2, Laman Greenville and Paradigm. YTD total property sales stood at RM245m, with unbilled sales of RM537m at end-Jun 2014.

Figure 3: WCT's target launches pending revision

Property Development	GDV (RM'mil)	Target Launch
BBT2 - Shop + Serviced apartment	394	Q3
Bandar Parklands, Klang South	143	Q4
Laman Greenville @ Klang South	530	May 2014 onward
Skylz Jelutong @ Bukit Jelutong, Shah Alam	160	April 2014
Paradigm Residences, Kelana Jaya	483	Q3
A60, The Volt, Medini North, Iskandar Malaysia	502	Q3 onward
Paradigm Johor Bahru, Serviced apartment, Johor	193	Q3
One Medini Garden Villa	20	May 2014
TOTAL	2,425	

SOURCE: WCT

Figure 4: RNAV

Concessions	DCF value		WCT's stake	Value
	(RM m)			(RM m)
PPH, India	230.1		30.0%	69.0
DE, India	147.3		30.0%	44.2
KLIA2 Integrated Complex (25-year, 13% WACC)	717.7		70.0%	502.4
Property - land	Acre	RM/psf		
Bandar Bukit Tinggi 1	16.9	60.00	100.0%	44.2
Bandar Bukit Tinggi 2	35.2	60.00	100.0%	91.9
Bandar Bukit Tinggi 3	126.8	75.00	100.0%	414.3
56-acre new land near BBT 3	56.0	60.00	100.0%	146.4
Bukit Jelutong Commercial Centre	2.3	50.00	100.0%	4.9
1 Medini Residences	11.0	40.00	100.0%	19.2
Medini Commercial	10.3	40.00	100.0%	17.9
Bandar Serendah, Ulu Selangor	39.0	10.00	100.0%	17.0
Rawang Land	437.5	50.00	100.0%	952.9
OUG - mixed development	56.8	45.00	100.0%	111.3
Johor land acquisition (Jalan Skudai)	12.4	40.00	100.0%	21.6
New land in Medini	18.1	40.00	100.0%	31.5
	2015 PAT	P/E		
Construction	102.9	15.9	100.0%	1,635.5
Associated companies & investments				451.4
Net current assets less dev. properties				1,091.8
Total debt (2Q14)				(1,767.1)
Investment properties				659.0
Total RNAV				4,314.3
No. of shares (m)				951.6
No. of outstanding warrants (WB) (m)				139.3
Proceeds from warrants (WB)				348.3
No. of outstanding warrants (WC) (m)				157.2
Proceeds from warrants (WC)				432.3
No. of outstanding warrants (WD) (m)				164.8
Proceeds from warrants (WD)				379.0
Fully-diluted RNAV				5,473.9
Enlarged no. of shares (m)				1,412.9
FD RNAV/share (RM)				3.87
RNAV discount				30%
Target price (RM)				2.32

SOURCES: CIMB, COMPANY REPORTS

Profit & Loss

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Net Revenues	1,672	2,157	2,361	2,665
Gross Profit	441	2,157	2,361	2,665
Operating EBITDA	323	313	347	347
Depreciation And Amortisation	(10)	(19)	(21)	(24)
Operating EBIT	313	293	325	323
Financial Income/(Expense)	(34)	(46)	(46)	(47)
Pretax Income/(Loss) from Assoc.	19	10	10	10
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	298	257	289	287
Exceptional Items	(44)	0	0	0
Pre-tax Profit	254	257	289	287
Taxation	(64)	(57)	(61)	(58)
Exceptional Income - post-tax				
Profit After Tax	190	201	228	229
Minority Interests	8	(42)	(47)	(42)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	197	159	182	188
Recurring Net Profit	230	159	182	188
Fully Diluted Recurring Net Profit	230	159	182	188

Balance Sheet

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Cash And Equivalents	1,346	1,413	1,484	1,558
Total Debtors	1,622	1,427	1,561	1,762
Inventories	86	90	95	100
Total Other Current Assets	305	335	368	405
Total Current Assets	3,358	3,265	3,508	3,824
Fixed Assets	521	612	706	803
Total Investments	1,102	1,157	1,217	1,282
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	631	631	631	631
Total Non-current Assets	2,254	2,400	2,554	2,715
Short-term Debt	662	640	619	600
Current Portion of Long-Term Debt				
Total Creditors	1,152	1,013	1,109	1,252
Other Current Liabilities	72	57	61	58
Total Current Liabilities	1,886	1,710	1,789	1,910
Total Long-term Debt	1,305	1,370	1,439	1,511
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	332	332	332	332
Total Non-current Liabilities	1,637	1,702	1,771	1,843
Total Provisions	10	11	12	13
Total Liabilities	3,533	3,423	3,572	3,765
Shareholders' Equity	1,700	1,823	2,023	2,268
Minority Interests	378	420	466	508
Total Equity	2,078	2,243	2,490	2,776

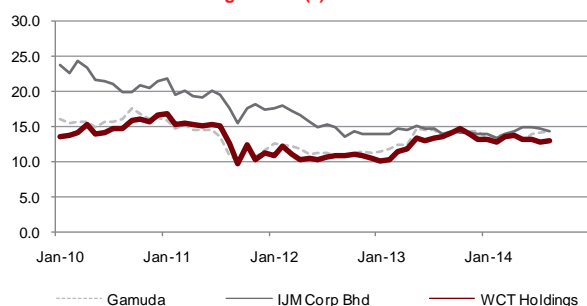
Cash Flow

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
EBITDA	323.0	312.6	346.8	347.2
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(76.1)	21.3	(76.7)	(99.3)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	23.3	23.3	23.3	23.3
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	(58.4)	(71.4)	(55.6)	(59.8)
Cashflow From Operations	211.8	285.8	237.8	211.4
Capex	(88.4)	(91.1)	(91.1)	(91.1)
Disposals Of FAs/subsidiaries	51.2	55.4	59.9	64.9
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	(37.2)	(35.7)	(31.1)	(26.2)
Debt Raised/(repaid)	39.3	43.6	47.9	52.4
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(42.5)	(42.5)	(42.5)	(42.5)
Preferred Dividends				
Other Financing Cashflow	96.4	(183.9)	(141.4)	(121.0)
Cash Flow From Financing	93.3	(182.8)	(136.0)	(111.1)
Total Cash Generated	267.9	67.3	70.6	74.2
Free Cashflow To Equity	214.0	293.7	254.6	237.7
Free Cashflow To Firm	174.6	250.1	206.6	185.3

Key Ratios

	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue Growth	7.2%	29.0%	9.4%	12.9%
Operating EBITDA Growth	23.1%	(3.2%)	10.9%	0.1%
Operating EBITDA Margin	19.3%	14.5%	14.7%	13.0%
Net Cash Per Share (RM)	(0.64)	(0.62)	(0.59)	(0.57)
BVPS (RM)	1.75	1.88	2.08	2.34
Gross Interest Cover	4.63	4.84	5.26	5.13
Effective Tax Rate	25.4%	22.0%	21.0%	20.1%
Net Dividend Payout Ratio	33.7%	51.1%	44.7%	43.2%
Accounts Receivables Days	208.9	195.1	174.7	172.6
Inventory Days	23.7	N/A	N/A	N/A
Accounts Payables Days	268	N/A	N/A	N/A
ROIC (%)	13.4%	10.9%	11.6%	10.6%
ROCE (%)	8.88%	7.41%	7.73%	7.19%

12-month Forward Rolling FD P/E (x)



Key Drivers

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Outstanding Orderbook	2,543	3,043	2,843	2,843
Order Book Depletion	1,000	1,000	1,000	1,000
Orderbook Replenishment	1,500	800	1,000	1,000
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% main prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% 2ndary prod./serv.)	N/A	N/A	N/A	N/A

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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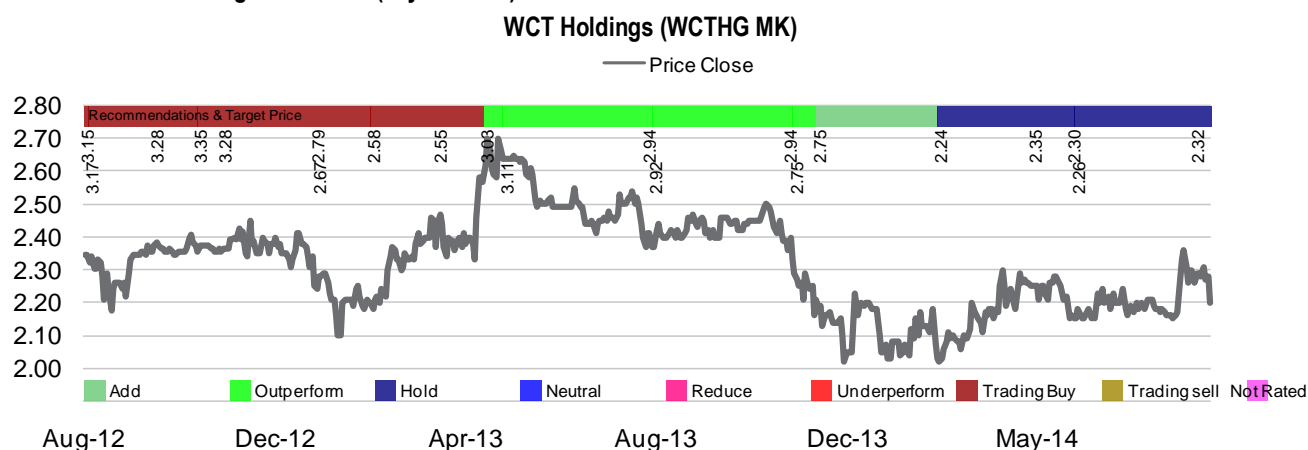
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2014		
1467 companies under coverage for quarter ended on 30 June 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	58.9%	7.2%
Neutral/Hold	27.9%	3.9%
Underperform/Sell/Trading Sell/Reduce	13.2%	1.0%

Spitzer Chart for stock being researched (2 year data)



CIMB Recommendation Framework

STOCK Ratings

Definition

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

SECTOR Ratings

Definition

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

COUNTRY Ratings

Definition

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.

AAV – Good, ADVANC – Excellent, AMATA – Very Good, ANAN – Good, AOT – Excellent, AP – Very Good, BANPU – Excellent, BAY – Excellent, BBL – Excellent, BCH – Good, BCP – Excellent, BEC – Very Good, BGH – not available, BJC – Very Good, BH – Very Good, BIGC – Very Good, BTS – Excellent, CCET – Very Good, CENTEL – Very Good, CK – Excellent, CPALL – Very Good, CPF – Excellent, CPN – Excellent, DELTA – Very Good, DTAC – Excellent, EGCO – Excellent, GLOBAL – Good, GLOW – Very Good, GRAMMY – Excellent, HANA – Excellent, HEMRAJ – Excellent, HMPRO – Very Good, INTUCH – Excellent, ITD – Very Good, IVL – Excellent, JAS – Very Good, KAMART – not available, KBANK – Excellent, KKP – Excellent, KTB – Excellent, LH – Very Good, LPN – Excellent, MAJOR – Very Good, MAKRO – Very Good, MCOT – Excellent, MEGA – not available, MINT – Excellent, PS – Excellent, PSL – Excellent, PTT – Excellent, PTTGC – Excellent, PTTEP – Excellent, QH – Excellent, RATCH – Excellent, ROBINS – Excellent, RS – Excellent, SAMART – Excellent, SC – Excellent, SCB – Excellent, SCC – Excellent, SCCC – Very Good, SIRI – Very Good, SPALI – Excellent, STA – Good, STEC – Very Good, TCAP – Excellent, THAI – Excellent, THCOM – Excellent, TICON – Very Good, TISCO – Excellent, TMB – Excellent, TOP – Excellent, TRUE – Excellent, TTW – Excellent, TUF – Very Good, VGI – Excellent, WORK – Good.