WCT Holdings

FLASH NOTE

WCTHG MK / WCTE.KL

Market Cap	Avg Daily Turnover	Free Float
US$726.5m	US$0.98m	60.2%
RM2,333m	RM3.18m	971.2 m shares

Current	RM2.15
Target	RM2.26
Prev. Target	RM2.30
Up/Downside	5.3%

STOCK RATING: ADD / **HOLD** / REDUCE

CIMB Analyst(s)

Sharizan ROSELY
T (60) 3 2261 9077
E sharizan.rosely@cimb.com

Share price info

Share price perf. (%)	1M	3M	12M
Relative	-5	-0.2	-24
Absolute	-4.9	1.9	-18.6

Major shareholders	% held
WCT Capital	19.6
EPF	13.9
KWAP	6.2

It's all or nothing in 2H

The main takeaway from WCT's post-1Q14 results briefing was that a subcontract package for the West Coast Expressway (WCE) is now one of the top three potential wins in 2H. This was positive but largely expected and could form the bulk of our unchanged RM800m new jobs assumption for 2014. The other targeted project is phase 2 earthworks for Rapid. Contract replenishment has been disappointing YTD, depressing the share price. EPS forecasts are intact but we trim our RNAV-based target price, still pegged to a 30% discount, as we update for the outstanding land banks. The risk of low success rates for job wins in 2H is balanced by stable prospects for the group's property development and investment arms. Maintain Hold.

What Happened

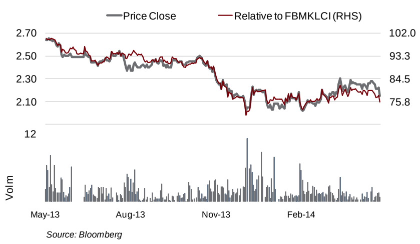
Post-results briefing. WCT's briefing was attended by more than 40 analysts and fund managers. Management was represented by the head of corporate finance, Mr Chong Kian Fah. The main highlights were the group's tender strategies for 2H14, which remain focused on the domestic side. The tender book for jobs in the Gulf Region is zero. With ample capacity to undertake a highway project, management is vying for a subcontract package for the WCE. The group is also expecting the decision on its tender for Rapid's earthworks phase 2 to be made within the next 1-2 months but has hinted that competition could be stiff. The third targeted job is Kwasa Damansara civil works.

What We Think

Hungry for jobs in 2H. The new guidance for domestic tenders did not surprise given recent developments for the WCE and Rapid. We noted management's optimism on the group's chances of order wins. The value of each subcontract package for WCE is likely to be RM300m-400m while the phase 2 earthworks for Rapid could be about the same. The Kwasa Damansara (RRI land) civil works was earlier estimated to be worth up to RM1bn but we believe potential awards could take place in early 2015. Its RM3bn order book is healthy.

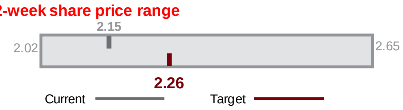
What You Should Do

Stay on the sidelines. Investors should stay on the sidelines pending more excitement on the tender scene. Revival of job flows in 2H is crucial to lift sentiment on the stock. Switch to IJM Corp.



Source: Bloomberg

52-week share price range



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)	11.75	9.61	13.90	12.16	11.76
DPS (RM)	0.070	0.083	0.090	0.090	0.090
Dividend Yield	3.26%	3.84%	4.19%	4.19%	4.19%
EV/EBITDA (x)	10.41	8.96	9.29	8.42	8.45
P/FCFE (x)	17.73	10.33	7.52	8.68	9.30
Net Gearing	39.8%	29.9%	26.6%	23.1%	19.9%
P/BV (x)	1.15	1.23	1.15	1.03	0.92
ROE	11.8%	13.1%	9.0%	9.4%	8.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.98	1.01	0.88

SOURCE: CIMB, COMPANY REPORTS

Briefing highlights

More interest on the construction side. During the briefing, there was less interest in the group's property development and investment side but management reiterated that the response for Gateway at KLIA 2, its retail mall, has been encouraging since its recent opening. Management is now expecting a marginal profit of around RM5m for the full year, compared to its earlier guidance of operating losses. Gateway, which represents WCT's third property investment asset, should contribute RM10m-20m to net profit p.a. from FY15. Property development prospects are backed by unbilled sales of RM533m and a sales target of RM1.2bn for FY14. This will be driven by four new launches in 2H14, mainly in the Klang Valley.

RM800m worth of new jobs in 2H looks realistic. We maintain our RM800m new job assumption for FY14. In spite of weak job flows YTD, the outstanding order book of RM3bn is good for at least the next 2 years. What is crucial is for WCT to secure good profile projects in 2H, which is why it is banking on a subcontract package for WCE, likely to be worth RM300m-400m, and the Rapid earthworks phase 2, likely to be around the same value. Another job that is one of its top three priorities in 2H is the land civil works for Kwasa Damansara (RRI land).

We believe the progress of the WCE and Rapid tenders is likely to be more advanced and anticipate a decision over the course of 2H, with the award for Rapid earthworks likely taking place in the next 1-2 months. We expect the RM2.2bn open tender packages (of the total RM5bn construction value) for WCE to begin the tender process soon. Separately, there has been no encouraging tender development in the Gulf Region, implying that the landscape remains competitive.

Figure 1: Outstanding order book

Gulf States		Malaysia - Engineering & Infrastructure		Malaysia – Building		Total
	RM(mil)		RM(mil)		RM(mil)	RM(mil)
Government Administrative Office, Qatar	479	PLUS Widening	310	KK Medical Centre	203	
New Doha Int'l Airport, Qatar	2	Vale Industrial Civil Works	4	Putrajaya Commercial Office	308	
		Tun Razak Exchange*	157	Ministry of Int'l Trade (MITI)	231	
		Others	15	Tuaran Hospital, Sabah	6	
				Others	70	
Total External	**481**		**486**		**818**	**1,785**
	27%		**27%**		**46%**	**100%**
Total Internal				Property investment		
				-Kelana Jaya	177	
				-Johor Bahru	553	
				Property development		
				-Kelana Jaya	81	
				-Johor Bahru	98	
				-1Medini High-rise	361	**1,270**
TOTAL					**2,088**	**3,055**

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: 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	**Acres**	**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	70.00	100.0%	386.7
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	35.00	100.0%	667.0
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				448.7
Net current assets less dev. properties				1,091.8
Total debt				(1,834.3)
Investment properties				655.2
Total RNAV				**4,171.2**
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				**5,330.8**
Enlarged no. of shares (m)				1,412.9
FD RNAV/share (RM)				**3.77**
RNAV discount				30%
Target price (RM)				**2.26**

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 Invt. & 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

SOURCE: CIMB, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

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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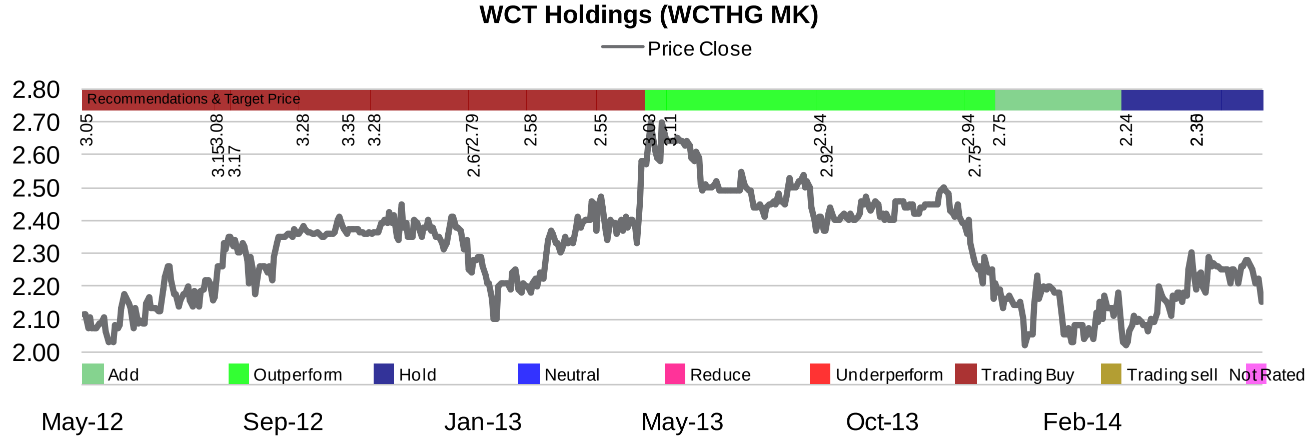
Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2014 1416 companies under coverage for quarter ended on 31 March 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	56.2%	4.6%
Neutral/Hold	28.0%	2.7%
Underperform/Sell/Trading Sell/Reduce	15.8%	1.0%

Spitzer Chart for stock being researched (2 year data)



As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

CIMB Recommendation Framework #1

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.

CIMB Stock Recommendation Framework #2 *

Outperform	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
Neutral	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.
Underperform	The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.
Trading Buy	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.
Trading Sell	The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily*

outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.
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CIMB Stock Recommendation Framework #3 **

Outperform	Expected positive total returns of 10% or more over the next 12 months.
Neutral	Expected total returns of between -10% and +10% over the next 12 months.
Underperform	Expected negative total returns of 10% or more over the next 12 months.
Trading Buy	Expected positive total returns of 10% or more over the next 3 months.
Trading Sell	Expected negative total returns of 10% or more over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

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.