



WCT Holdings

WCTHG MK / WCTE.KL

4QFY13 RESULTS NOTE

Market Cap US\$726.0m <small>RM2,382m</small>	Avg Daily Turnover US\$1.50m <small>RM4.93m</small>	Free Float 60.2% <small>971.2 m shares</small>
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Current	RM2.18
Target	RM2.24
Prev. Target	RM2.75
Up/Downside	2.7%

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	3.6	-11.2	-13.6
Absolute	5.3	-9.2	-0.9

Major shareholders	% held
WCT Capital	19.6
EPF	13.9
KWAP	6.2

Taking the wind out of its sails

FY13 results came in at 71% of our full-year forecast and 80% of consensus. It missed expectations due to provisions for construction margins. Results aside, management's more subdued outlook on order book growth was a negative surprise. Losing the tender for the Qatar infra project was a letdown and may limit its chances of securing other sizeable overseas projects in 2014. This leaves the domestic construction segment as the only driver, balanced by the group's property development and investments. We slash FY14-16 EPS by c.28% as we remove overseas wins and assume lower construction margins. Our target price is lower as we apply a higher 40% RNAV discount (30% before). We downgrade from an Add to a Hold. Switch to Mudajaya.

Fair value gain partially offsets provisions in 4Q ▶

Below expectations. FY13's core net profit was below expectations, coming in at 71% of our and 80% of consensus' full-year numbers. The main deviation came from the estimated RM13m-15m provisions for the markdown in construction margins due to rising costs, partially offset by property revaluation gains. This dragged down its full-year EBIT margin to 9.7% vs. our forecast of 12.9%. The decline was mitigated by stronger margins for its property development and investments. FY13 core earnings declined 5%.

Job visibility has turned less attractive ▶

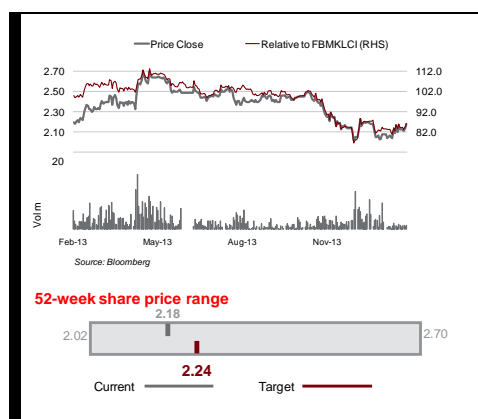
Overseas order flows slowing down? We understand that WCT did not succeed in its tender for the c.RM1bn infra project in Qatar. This is a negative surprise as guidance was that WCT was among the frontrunners given its strong track record in the Gulf Region. We are disappointed that this tender did not go through as it forms the bulk of our RM1.5bn job win assumption for 2014. We also gather that the long-awaited RM700m-800m hospital project in Sabah has been deferred. We expect more details from today's briefing.

Share price recovery unlikely in the medium-term ▶

Muted in the medium-term. It appears that the group has turned less aggressive and more selective in bidding for jobs. The stock is down 21% from its 52-week peak of RM2.70, but a strong recovery in share price looks unlikely. The group's more aggressive strategy for its property development and investment ventures should limit the downside to its share price.

FYE Dec (RM m)	4QFY13	4QFY12	yoy %	qoq %	4QFY13	4QFY12	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY13F	Comments
Revenue	280.4	381.7	(26.5)	(33.0)	1,672.4	1,560.5	7.2	2,802.6	Driven by construction and propert dev.
Operating costs	(296.4)	(332.1)	(10.8)	(16.3)	(1,510.1)	(1,337.4)	13	(2,440.3)	Correspondingly lower costs
EBIT	(16.0)	49.6	(132.2)	(124.8)	162.2	223.2	(27.3)	362.3	Below
EBIT margin (%)	(5.7)	13.0	(143.8)	(137.0)	9.7	14.3	(32.2)	12.9	Provision and markdown on margins
EBIT	(16.0)	49.6	(132.2)	(124.8)	162.2	223.2	(27.3)	340.3	Below
Interest expense	(19.9)	(18.9)	5.2	16.6	(67.6)	(68.9)	(1.8)	(59.5)	Borrowings stood at RM1bn
Interest & invt inc	93.5	226.2	(58.7)	914.4	140.4	244.6	(92.2)	14.2	Cash stood at RM1.9bn
Associates' contrib	7.8	3.0	162.5	135.9	19.2	16.0	171.4	9.1	Above expectations
Exceptionals	26.0	197.4	(86.8)	#DIV/0!	43.6	197.4	28.8	(26.2)	Boosted by property revaluation gain
Pretax profit	65.4	259.8	(74.8)	9.2	254.2	414.9	(38.7)	299.9	Broadly in line
Tax	(11.6)	(28.1)	(59)	(40)	(64.5)	(69.2)	(6.9)	(71.7)	
Tax rate (%)	17.7	10.8	63	(45)	25.4	16.7	52.0	23.9	Broadly in line
Minority interests	2.5	7.2	(65.5)	222	7.8	13.2	(40.7)	(36.7)	Above
Net profit	56.4	239.0	(76.4)	36.4	197.5	358.9	(45.0)	191.4	FY13 core net profit made up 71% of our
Core net profit	30.4	41.6	(27.0)	(26.5)	154.0	161.5	(4.6)	217.6	full year forecast and 80% of consensus
EPS (sen)	5.2	25.3	(79.6)	36.5	18.4	38.0	(51.6)	20.0	
Core EPS (sen)	2.8	4.4	(36.8)	(26.5)	14.3	17.1	(16.1)	23.0	

SOURCE: CIMB, COMPANY REPORTS



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)	11.91	9.74	14.09	12.33	11.93
DPS (RM)	0.070	0.083	0.090	0.090	0.090
Dividend Yield	3.21%	3.78%	4.13%	4.13%	4.13%
EV/EBITDA (x)	10.52	9.05	9.38	8.51	8.53
P/FCFE (x)	17.97	10.48	7.63	8.80	9.43
Net Gearing	39.8%	29.9%	26.6%	23.1%	19.9%
P/BV (x)	1.17	1.25	1.16	1.05	0.93
ROE	11.8%	13.1%	9.0%	9.4%	8.8%
% Change In Core EPS Estimates			(28.2%)	(25.6%)	(27.6%)
CIMB/consensus EPS (x)			0.81	0.79	0.94

SOURCE: CIMB, COMPANY REPORTS

Not turning the corner; Downgrade to Hold ►

Muted recovery play in 2014? Recall that we remained positive on WCT throughout 2H13 despite weak order flows as we were expecting a lumpy c.RM1bn infra project in Qatar to reverse the group's fortunes for 2014. Our conversation with management revealed that the group had lost the tender. This was a negative surprise and could signal rising competition in the Gulf Region, in spite of the group's strong track record there. Outlook for 2014 shifts to the domestic front but the value of jobs and EBIT margins are likely to be lower. Furthermore, we also understand that the RM700m-800m hospital project in Sabah will not go ahead as planned under the private finance initiative (PFI).

Our RM1.5bn-2bn assumed value of jobs secured p.a. does not look achievable. We believe newsflow on the construction side could turn out to be unexciting for WCT over the medium term. However, the group's property development and investment divisions could provide some support. We cut our 2014 new order book assumption by 40% to RM800m, and 2015-16 new jobs assumption by 25-30% to RM1bn p.a. We have assumed a lower construction EBIT margin of 9-10% (12-13% previously) for the next 2-3 years. We downgrade our rating from an Add to a Hold, with a lower target price of RM2.24, based on higher RNAV discount of 40%, from 30% previously. For exposure to mid-cap contractors, we advocate a switch to Mudajaya.

Figure 1: 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)	433.0		70.0%	303.1
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	40.00	100.0%	762.3
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				443.3
Net current assets less dev. properties				1,114.6
Total debt (4QFY13)				(1,922.1)
Investment properties				653.0
Total RNAV				4,113.9
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				5,273.4
Enlarged no. of shares (m)				1,412.9
FD RNAV/share (RM)				3.73
RNAV discount				30%
Target price (RM)				2.24

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
Total Financial Income/(Expense)	(34)	(46)	(46)	(47)
Total Pretax Income/(Loss) from Assoc.	19	10	10	10
Total 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

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

Rolling FD P/E (x)



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

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%

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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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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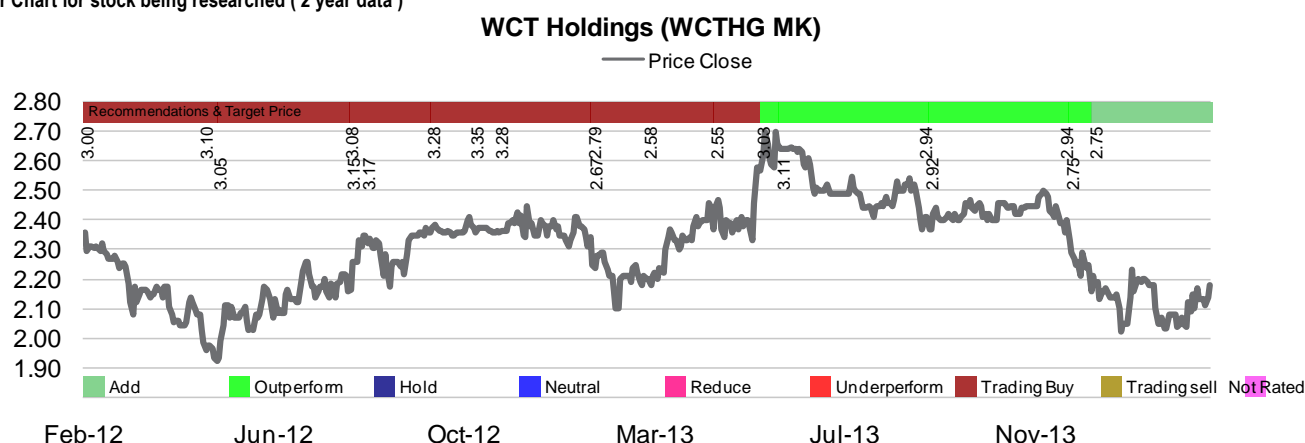
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Distribution of stock ratings and investment banking clients for quarter ended on 31 January 2014		
1336 companies under coverage for quarter ended on 31 January 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	51.1%	6.9%
Neutral/Hold	32.7%	6.0%
Underperform/Sell/Trading Sell/Reduce	16.2%	5.5%

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.*
CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

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, 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.