WCT (HOLD ←→; EPS ←→)

INDUSTRY: NEUTRAL
COMPANY INSIGHT/ BRIEFING

25 August 2014
Price Target: RM2.26 (←→)
Share price: RM2.20

Expecting a quiet year

Highlights

We attended WCT's 2QFY14 briefing and came away feeling NEUTRAL about its near term outlook.

- **Soft 2Q results…** 2Q performance was weak with both revenue and core earnings declining by 17% YoY and 19% YoY respectively. This was due to weak contribution from both the construction and property development division as the former has yet to significantly replenish its order book while new property sales for the latter has been slow.
- **Construction…** Insofar, WCT has only secured one project worth RM342m for the construction of RAPID's common access road. This is a far cry from its annual order book replenishment target of RM1bn local jobs and RM1bn overseas jobs. Despite the disappointing new contract wins over the past few years, management reiterated its prudent stance when bidding for contracts.
- Overall, WCT has tendered for RM4.6bn worth of contracts whereby overseas prospects comprises of RM1.5bn. The division has **RM1.88bn** outstanding order book, translating to **1.6x** FY13's construction revenue.
- **Property…** Achieved only RM245m of property sales (inclusive of bookings) which is disappointing compared to its FY14 sales target of RM1.2bn. Management acknowledged that sales in Johor, especially for high rise is extremely slow and will be revising lower its FY14 property sales target and "re-size" its units which is within the affordable range. On a positive note, Paradigm Residences, Kelana Jaya, which has a GDV of RM483m has finally obtained the necessary permits and will be officially launched soon. Overall, the division has an unbilled property sales of **RM537m**, translating to **1.2x** FY13's property revenue.
- **Gateway to profits…** With KLIA2 finally in operation, its shopping mall (Gateway) has shown encouraging numbers. However, management remains cautious as it is expecting some start-up teething operational issues. Overall, it expects Gateway to contribute small profit for FY14.

Risks

- Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; Unexpected downturn in the construction and property sector; and Failure in securing new sizable construction contracts.

Forecasts

- Unchanged.

Rating

HOLD (←→)

- We remain NEUTRAL on WCT's near term outlook given: (1) Major contract wins have been elusive; (2) RM1.2bn property sales target may be too bullish given the slowdown in property sector, particularly in Johor; and (3) Potential start-up losses from Gateway@KLIA2. All in, we are maintaining our **HOLD** call on the company due to the lack of upside catalyst(s).

Valuation

- TP maintained at **RM2.26** based on unchanged 14x average FY14-15 earnings.

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KLCI	1,871.0
Expected share price return	2.7%
Expected dividend return	3.0%
Expected total return	5.8%

Share price

Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,083
Market cap (RM m)	2,382
3-mth avg. volume ('000)	793
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	1.9	2.3	-8.7
Relative	2.2	2.2	-16.0

Major shareholders

WCT Capital	19.2
EPF	10.6
Lembaga Tabung Haji	9.9
Amanah Trustee	8.1

Summary Earnings Table

FYE Dec (RM m)	2012A	2013A	2014E	2015E
Revenue	1,560	1,672	1,635	1,664
EBITDA	498	315	307	308
EBIT	453	270	263	264
Profit Before Tax	421	254	236	246
PATAMI	365	198	176	176
EPS (sen)	38.3	18.1	16.1	16.1
FD EPS (sen)	29.2	14.0	12.4	12.5
Net DPS (sen)	6.9	6.7	6.7	6.7
Net DY (%)	3.1	3.1	3.1	3.1
P/E (x)	5.7	12.2	13.7	13.6
FD P/E (x)	7.5	15.8	17.7	17.6
P/B (x)	1.2	1.1	1.0	1.0
Net Gearing (%)	45.5	43.9	22.6	18.8
ROE (%)	22.2	9.8	7.8	7.5
ROA (%)	7.4	3.6	3.1	3.1

HLIB

Financial Projections for WCT (HOLD; TP: RM2.26)

Income Statement

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	**1,538.6**	**1,560.4**	**1,672.4**	**1,635.4**	**1,664.2**
EBITDA	275.1	497.8	314.7	307.2	307.5
D&A	(40.2)	(44.4)	(45.2)	(44.6)	(43.9)
EBIT	**234.9**	**453.4**	**269.5**	**262.6**	**263.6**
Interest Income	22.5	20.1	33.2	36.1	38.2
Finance Costs	(66.7)	(68.9)	(67.6)	(82.6)	(76.0)
Associates	16.8	16.0	19.2	20.0	20.0
Exceptionals	-	-	-	-	-
Profit Before Tax	**207.5**	**420.7**	**254.2**	**236.1**	**245.8**
Tax	(44.6)	(69.2)	(64.5)	(48.3)	(56.4)
Net Profit	**162.9**	**351.4**	**189.8**	**187.9**	**189.3**
Minority Interests	(0.5)	13.2	7.8	(12.0)	(13.0)
PATMI	**162.4**	**364.6**	**197.5**	**175.9**	**176.3**
Core Earnings	**162.4**	**364.6**	**197.5**	**175.9**	**176.3**
Basic Shares (m)	926.0	951.6	1,092.5	1,092.5	1,092.5
Core EPS (sen)	17.5	38.3	18.1	16.1	16.1
FD EPS (sen)	13.3	29.2	14.0	12.4	12.5

Quarterly Financial Summary

FYE 31 Dec (RM m)	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Revenue	482.5	418.5	280.4	467.2	401.5
COGS	(414.6)	(331.0)	(247.3)	(384.5)	(325.5)
Gross Profit	67.9	87.6	33.1	82.7	76.0
Other Income	30.1	9.2	93.5	5.5	3.9
Expenses	(22.6)	(23.1)	(49.1)	(21.0)	(23.7)
Operating Profit	75.4	73.7	77.5	67.2	56.2
Finance Costs	(15.9)	(17.1)	(19.9)	(15.1)	(14.8)
Associates/JCE	4.1	3.3	7.8	4.6	4.1
Profit Before Tax	63.6	59.9	65.4	56.8	45.5
Tax	(10.1)	(19.3)	(11.6)	(16.2)	(6.4)
Net Profit	53.5	40.6	53.9	40.5	39.1
Minority Interests	3.2	0.8	2.5	0.5	(4.8)
PATAMI	56.7	41.3	56.4	41.0	34.3
Exceptionals	10.7	2.9	61.5	(5.9)	(2.7)
Core Earnings	45.9	38.4	(5.2)	46.9	37.0
Core EPS (sen)	4.21	3.52	(0.47)	4.29	3.40
FD Core EPS (sen)	4.09	3.41	(0.46)	4.27	3.37
W. Ave. Shares (m)	1,092.2	1,092.2	1,092.4	1,092.5	1,090.8

Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Cash	804.0	1,077.7	1,039.1	1,370.6	1,173.5
Receivables	1,740.0	1,696.9	2,082.5	1,836.2	1,862.3
Inventories	51.4	73.9	75.6	65.7	66.8
Development Costs	289.6	303.6	304.6	441.2	470.5
Associates	159.5	207.5	443.3	463.3	483.3
PPE	270.3	276.2	271.7	267.1	263.2
Others	1,254.8	1,696.4	1,317.9	1,317.9	1,317.9
Total Assets	**4,569.6**	**5,332.2**	**5,534.6**	**5,762.0**	**5,637.4**
Payables	1,384.6	1,577.7	1,298.8	1,453.4	1,477.9
Total Debt	1,383.8	1,824.0	1,922.1	1,880.8	1,616.1
Others	57.0	57.3	57.3	57.3	57.3
Total Liabilities	**2,825.5**	**3,459.1**	**3,278.3**	**3,391.5**	**3,151.3**
Shareholders' Funds	1,461.5	1,816.2	2,204.3	2,306.4	2,409.0
Minority Interests	282.6	57.0	52.1	64.1	77.1
Total Capital	**1,744.1**	**1,873.1**	**2,256.4**	**2,370.5**	**2,486.1**

Rates and Ratios

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
PER (x)	12.5	5.7	12.2	13.7	13.6
FD PER (x)	16.6	7.5	15.8	17.7	17.6
Net DPS (sen)	6.6	6.9	6.7	6.7	6.7
Net DY (%)	3.0	3.1	3.1	3.1	3.1
BVPS (RM)	1.6	1.9	2.0	2.1	2.2
P/B (x)	1.4	1.2	1.1	1.0	1.0
NTA/Share (RM)	1.6	1.9	2.0	2.1	2.2
EBITDA Margin (%)	17.9	31.9	18.8	18.8	18.5
EBIT Margin (%)	15.3	29.1	16.1	16.1	15.8
PBT Margin (%)	13.5	27.0	15.2	14.4	14.8
Net Margin (%)	10.6	23.4	11.8	10.8	10.6
ROE (%)	11.1	22.2	9.8	7.8	7.5
ROA (%)	3.6	7.4	3.6	3.1	3.1
Net Gearing (%)	39.7	45.5	43.9	22.6	18.8

Cashflow Analysis

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
EBITDA	275.1	497.8	314.7	307.2	307.5
Working Capital	38.4	140.4	(667.2)	286.7	(20.6)
Net Interest	(51.8)	(59.2)	(60.8)	(58.9)	(49.3)
Others	(98.2)	(384.9)	(51.0)	(48.3)	(56.4)
CFO	**163.5**	**194.0**	**(464.2)**	**486.6**	**181.2**
Capex	(201.9)	(9.1)	(34.6)	(40.0)	(40.0)
Purchase/Disposal	25.0	(222.9)	8.5	-	-
Associate & JV	(129.7)	(49.0)	97.1	-	-
Others	21.0	11.3	(91.0)	-	-
CFI	**(285.6)**	**(269.6)**	**(19.9)**	**(40.0)**	**(40.0)**
Financing	(249.1)	440.2	406.6	(41.4)	(264.6)
Shares Issued	86.4	7.8	259.6	-	-
Dividends	(60.4)	(61.8)	(72.9)	(73.7)	(73.7)
Others	(29.8)	16.9	-	-	-
CFF	**(252.9)**	**403.1**	**593.4**	**(115.1)**	**(338.4)**
Net Cashflow	**(375.0)**	**327.5**	**109.2**	**331.5**	**(197.1)**

Assumption Metrics

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	**1,538.6**	**1,560.4**	**1,672.4**	**1,635.4**	**1,664.2**
Construction	1,206.8	1,012.4	1,168.4	1,110.7	1,105.7
Property	279.5	463.0	442.5	460.1	490.6
Others	52.3	85.0	61.5	64.6	67.8
EBIT Margin (%)	16.7	30.3	18.1	16.1	15.8
Order Book Wins	500.0	1,500.0	1,500.0	1,500.0	1,500.0

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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