WCT (HOLD ←→; EPS ←→)

INDUSTRY: NEUTRAL
EARNINGS EVALUATION

23 May 2014
Price Target: RM2.26 (←→)
Share price: RM2.22

1Q results: Going back to normal

Results

- 1Q14 core earnings (adjusted for RM5.9m forex loss) was up 12% yoy and recovered from RM0.5m loss in 4Q13, making up 27% and 22% of ours and streets' forecasts respectively.

Deviations

- None.

Dividends

- None for 1Q, as is customary.

Highlights

- **QoQ...** Following a disappointing 4Q13 (which we attribute to slower construction and property billings, and provisions made in the construction), revenue posted a strong sequential recovery (+67% qoq), as progress billings for construction and property normalised (+40% qoq and +287% qoq respectively).
- **YoY...** Topline and bottomline were weaker yoy due to weaker performance from the local division of the construction segment. However, operating earnings for the property division remained stable yoy.

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, pending analyst briefing later today.

Rating

HOLD (←→)

- Positives:
  (1) Major contract wins; (2) Growing property investment income; (3) Strategic land banking exercise; (4) Listing of property division.
- Negatives:
  (1) Failure to secure new sizable projects; (2) Slower than expected take up rate for property launches.

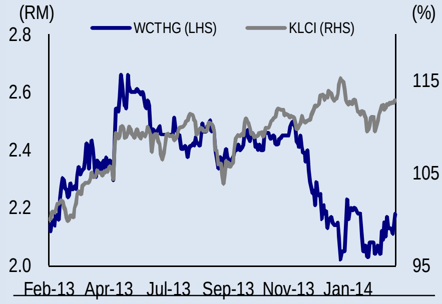
Valuation

- TP maintained at **RM2.26** based on unchanged 14x average FY13-14 earnings. Subject to revision post analyst briefing.

Low Yee Huap, CFA
YHLow@hlib.hongleong.com.my
(603) 2168 1078

KLCI	1875.1
Expected share price return	8.6%
Expected dividend return	3.0%
Expected total return	11.6%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,085
Market cap (RM m)	2,410
3-mth avg. volume ('000)	1,529

Price Performance	1M	3M	12M
Absolute	-3.1	5.2	-15.9
Relative	-3.5	2.7	-20.0

Major shareholders

WCT Capital	19.03%
EPF	10.83%
Lembaga Tabung Haji	9.41%
KWAP	6.23%

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)	5.8	12.2	12.9	12.8
FD P/E (x)	7.6	15.8	16.6	16.6
P/B (x)	1.2	1.1	1.0	0.9
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

Figure #1 Quarter results comparison

FYE Dec (RM m)	1Q13	4Q13	1Q14	QoQ	YoY	Comments
Revenue	490.9	280.4	467.2	67	-5	Made up 27% and 22% of ours and streets' estimates respectively. Refer to segmental.
Construction	347.6	232.9	327.0	40	-6	YoY: Weaker progress billings from the local division. QoQ: 1Q was seasonally stronger.
Property Development	124.0	32.9	127.4	287	3	YoY/QoQ: Sudden surge in property billings.
Property Investment	19.3	14.5	13.7	-6	-29	YoY: Lower revenue as Paradigm Mall is reclassified to equity accounting.
Operating Profit	76.1	77.5	67.2	-13	-12	Refer to segmental.
Construction	42.8	7.5	36.7	392	-14	YoY/QoQ: Hit by provisions for future costing increases.
Property Development	23.6	12.1	23.8	96	1	YoY/QoQ: Dragged down by decline in property revenue.
Property Investment	9.7	58.0	6.8	-88	-30	QoQ: Lower due to revaluation gain of RM211m in 4QFY12.
Finance Costs	(14.7)	(19.9)	(15.1)	-24	3	Net debt climbed to RM1.06bn (net gearing: 46%) from RM883.0m (net gearing: 39%) in 4QFY13.
Associates/JCE	4.0	7.8	4.6	-41	16	YoY: Lifted by Paradigm Mall contribution.
PBT	65.4	65.4	56.8	-13	-13	
PAT	41.8	53.9	40.5	-25	-3	
PATAMI	43.2	56.4	41.0	-27	-5	
Core Earnings	41.8	(5.2)	46.9	-1,006	12	EI for 1QFY14: RM5.9m forex loss. EI for 4QFY13: RM7.5m forex gain and RM52m revaluation gain. EI for 1QFY13: RM6.6m forex gain and RM5.2m disposal loss.
Core EPS (sen)	4.11	(0.47)	4.29	-1,006	4	
Operating Profit Margin (%)	15%	28%	14%	-48	-7	
Construction	12%	3%	11%	250	-9	YoY: Weaker contribution from local division. QoQ: Previous quarter weighed down by provision for future costing increases.
Property Development	19%	37%	19%	-49	-2	
PBT Ex-Assoc Margin (%)	13%	21%	11%	-46	-11	

WCT, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	3M13	3M14	YoY	Comments
Revenue	490.9	467.2	-5	Made up 27% and 22% of ours and streets' estimates respectively. Refer to segmental.
Construction	347.6	327.0	-6	Weaker contribution from local division.
Property Development	124.0	127.4	3	Steady yoy.
Property Investment	19.3	13.7	-29	Revenue declined as Paradigm Mall is reclassified to equity accounting.
Operating Profit	76.1	67.2	-12	Refer to segmental.
Construction	42.8	36.7	-14	Due weaker billing margin
Property Development	23.6	23.8	1	
Property Investment	9.7	6.8	-30	No revaluation gain this quarter.
Finance Costs	(14.7)	(15.1)	3	
Associates/JCE	4.0	4.6	16	
PBT	65.4	56.8	-13	
PAT	41.8	40.5	-3	
PATAMI	43.2	41.0	-5	Reversal of MI charge due to losses at subsidiary level for Middle East projects.
Core Earnings	41.8	46.9	12	EI for FY14: RM5.9 forex loss EI for FY13: RM6.6m forex gain and RM5.2m disposal loss
Core EPS (sen)	4.11	4.29	4	
Operating Profit Margin (%)	15%	14%	-7	
Construction	12%	11%	-9	
Property Development	19%	19%	-2	
PBT Ex-Assoc Margin (%)	13%	11%	-11	

WCT, 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)	1Q13	2Q13	3Q13	4Q13	1Q14
Revenue	490.9	482.5	418.5	280.4	467.2
COGS	(394.8)	(414.6)	(331.0)	(247.3)	(384.5)
Gross Profit	96.1	67.9	87.6	33.1	82.7
Other Income	7.6	30.1	9.2	93.5	5.5
Expenses	(27.7)	(22.6)	(23.1)	(49.1)	(21.0)
Operating Profit	76.1	75.4	73.7	77.5	67.2
Finance Costs	(14.7)	(15.9)	(17.1)	(19.9)	(15.1)
Associates/JCE	4.0	4.1	3.3	7.8	4.6
Profit Before Tax	65.4	63.6	59.9	65.4	56.8
Tax	(23.5)	(10.1)	(19.3)	(11.6)	(16.2)
Net Profit	41.8	53.5	40.6	53.9	40.5
Minority Interests	1.4	3.2	0.8	2.5	0.5
PATAMI	43.2	56.7	41.3	56.4	41.0
Exceptionals	1.4	10.7	2.9	61.5	(5.9)
Core Earnings	41.8	45.9	38.4	(5.2)	46.9
Core EPS (sen)	4.11	4.21	3.52	(0.47)	4.29
FD Core EPS (sen)	3.99	4.09	3.41	(0.46)	4.27
W. Ave. Shares (m)	1,015.7	1,092.2	1,092.2	1,092.4	1,092.5

Balance Sheet

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Cash	1,162.4	804.0	1,077.7	836.0	710.1
Receivables	1,754.3	1,740.0	1,696.9	1,821.5	2,084.2
Inventories	74.4	51.4	73.9	65.1	75.3
Development Costs	228.8	289.6	303.6	410.4	573.9
Associates	177.0	159.5	207.5	222.5	237.5
PPE	292.2	270.3	276.2	271.0	266.5
Others	864.5	1,254.8	1,696.4	1,696.4	1,696.4
Total Assets	**4,553.5**	**4,569.6**	**5,332.2**	**5,322.9**	**5,643.9**
Payables	1,362.6	1,384.6	1,577.7	1,441.1	1,663.2
Total Debt	1,632.9	1,383.8	1,824.0	1,817.7	1,776.3
Others	26.5	57.0	57.3	57.3	57.3
Total Liabilities	**3,022.0**	**2,825.5**	**3,459.1**	**3,316.0**	**3,496.8**
Shareholders' Funds	1,256.4	1,461.5	1,816.2	1,937.9	2,066.1
Minority Interests	275.2	282.6	57.0	69.0	81.0
Total Capital	**1,531.5**	**1,744.1**	**1,873.1**	**2,006.9**	**2,147.1**

Rates and Ratios

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
PER (x)	12.7	5.8	12.3	12.9	12.8
FD PER (x)	16.7	7.6	15.9	16.6	16.6
Net DPS (sen)	6.6	6.9	6.7	6.7	6.7
Net DY (%)	3.0	3.1	3.0	3.0	3.0
BVPS (RM)	1.6	1.9	2.0	2.1	2.2
P/B (x)	1.4	1.2	1.1	1.0	0.9
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	354.6	275.1	497.8	324.1	340.3
Working Capital	(178.2)	38.4	140.4	(345.6)	(200.7)
Net Interest	(45.6)	(51.8)	(59.2)	(62.3)	(66.7)
Others	(129.7)	(98.2)	(384.9)	(48.9)	(54.9)
CFO	**1.1**	**163.5**	**194.0**	**(132.8)**	**18.0**
Capex	(105.1)	(201.9)	(9.1)	(40.0)	(40.0)
Purchase/Disposal	50.1	25.0	(222.9)	-	-
Associate & JV	-	(129.7)	(49.0)	-	-
Others	(0.2)	21.0	11.3	-	-
CFI	**(55.2)**	**(285.6)**	**(269.6)**	**(40.0)**	**(40.0)**
Financing	634.5	(249.1)	440.2	(6.4)	(41.4)
Shares Issued	10.7	86.4	7.8	-	-
Dividends	(59.1)	(60.4)	(61.8)	(62.6)	(62.6)
Others	(23.8)	(29.8)	16.9	-	-
CFF	**562.3**	**(252.9)**	**403.1**	**(68.9)**	**(103.9)**
Net Cashflow	**508.2**	**(375.0)**	**327.5**	**(241.7)**	**(125.9)**

Assumption Metrics

FYE 31 Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue				**1,621.3**	**1,875.8**
Construction				1,105.7	1,187.2
Property				428.0	598.5
Others				87.5	90.2
EBIT Margin (%)				17.2	15.8
Order Book Wins				1,500.0	1,500.0

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 23 May 2014, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 23 May 2014, the analyst, Jarod Soon Sien Ming, who prepared this report, has interest in the following securities covered in this report:
(a) -.

Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
Level 23, Menara HLA
No. 3, Jalan Kia Peng
50450 Kuala Lumpur
Tel 603 2168 1168 / 603 2710 1168
Fax 603 2161 3880

Equity rating definitions

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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.