

WCT Holdings (HOLD ↔; EPS ↓)
INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION
26 February 2015
Price Target: RM1.64 (↓)
Share price: RM1.68
4Q results: A let down
Results

- WCT reported 4QFY14 results with revenue of RM322m (+23% YoY, -32% QoQ) and core PATMI (after removing RM10m in revaluation gains) of RM10m (YoY: core loss of RM5m in 4QFY13, QoQ: -60%).
- For the full year ended FY14, core PATMI amounted to RM111m, declined 32% YoY. This missed our forecast by 22% and consensus by 25%.

Deviation

- The disappointment stemmed from a weaker than expected 4Q which saw revenue decline by 32% QoQ. Segmentally, construction revenue fell 28% and property by 52% QoQ.

Dividends

- A final dividend was declared which comprised: (i) 1 sen cash DPS and (ii) distribution of treasury shares on a basis of 1 for every 100 shares held.

Highlights

- Thinning orderbook.** WCT's orderbook currently stands at RM2bn, implying a cover of only 1.6x on FY14 construction revenue which makes its earnings visibility look rather murky. This thinning orderbook balance resulted from new job wins coming in below its "burn rate" for 2 consecutive years. While job wins stood at RM994m and RM670m for FY13-14, this was below the burn rate of around RM1.2bn.
- Tenders may not reflect replenishment outlook.** While WCT may have tendered for a whopping RM24bn worth of projects (RM23bn domestic and RM1bn overseas), we believe the bulk of this sum is concentrated on the PDP role for the Penang Transport Master Plan. We believe that such a concentrated tender book is unreflective on its orderbook replenishment potential, which in recent times, has been rather pedestal.
- Property sales slump.** FY14 property sales ended at RM461m, a 31% decline YoY. On a brighter note, unbilled sales are at RM657m, which provides a decent cover of 1.7x FY14 property revenue. WCT is gunning for RM650m worth of sales in FY15, a tall order, in our view.

Risks

- Stiff competition for jobs that it is bidding for and slow property sales.

Forecasts

- We cut FY15-16 by 13% and 22% as we impute lower property revenue as a result of slower than expected sales.

Rating
HOLD, TP: RM1.64 (↓)

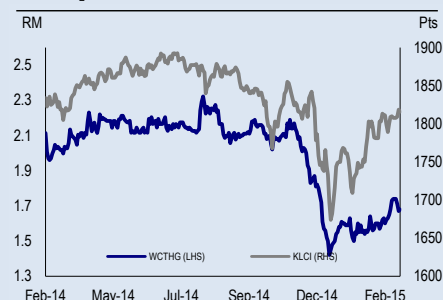
- While WCT's results were a let-down and its outlook remains challenging, its saving grace comes from the value of its investment properties.

Valuation

- Apart from our earnings cut, we also widen our SOP discount from 10% to 20% to reflect its challenging outlook.
- Our SOP based TP is reduced from RM2.04 to RM1.64, implying FY14-15 P/E of 12.3x and 13.2x respectively.

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KLCI	1815.9
Expected share price return	-2.4%
Expected dividend return	1.9%
Expected total return	-0.5%

Share price

Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,077
Market cap (RM m)	1,809
3-mth avg. volume ('000)	1,318
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	7.0	-8.2	-22.2
Relative	6.3	-7.0	-21.4

Major shareholders

WCT Capital	19.5
Lembaga Tabung Haji	10.1
Employees Provident Fund	9.3

Summary Earnings Table

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F
Revenue	1,655	1,662	1,775	1,690
EBITDA	277	201	294	288
EBIT	267	192	286	280
Profit Before Tax	219	141	221	209
Core PATAMI	162	111	144	136
vs Consensus (%)			(17)	(33)
Core EPS (sen)	15.1	10.3	13.3	12.6
P/E (x)	11.1	16.4	12.6	13.3
Net DPS (sen)	6.8	2.7	5.3	5.0
Net DY (%)	4.0	1.6	3.2	3.0
BV per share	2.05	2.07	2.20	2.28
P/B (x)	0.8	0.8	0.8	0.7
ROE (%)	8.1	5.0	6.2	5.6
Net Gearing (%)	43.0	66.4	40.1	42.3

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY14	4QFY13	3QFY14	YoY	QoQ	Comments
Revenue	322.4	263.0	471.1	22.6	(31.6)	Construction and property declines by 28% and 52% QoQ.
EBIT	26.1	16.1	42.9	62.7	(39.0)	Higher YoY mainly due to low base effect last year arising from provisions. Lower QoQ due to topline fall and margin erosion.
Finance cost	(22.1)	(19.9)	(14.7)	11.0	50.7	
Associates & JVs	2.5	7.8	4.2	(68.0)	(40.3)	Mainly from Paradigm Mall and Gateway@klia2.
PBT	6.5	4.0	32.4	64.9	(79.8)	
PAT	6.7	(7.6)	26.3	n.m.	(74.5)	
PATMI - core	10.3	(5.1)	25.8	n.m.	(60.2)	Losses last year due to provisions.
PATMI - reported	20.3	56.4	25.8	(64.0)	(21.5)	Includes RM10m revaluation gains. RM62m EI for last year.
EPS - core	1.0	(0.5)	2.4			
EBIT margin	8.1	6.1	9.1			
PBT margin	2.0	1.5	6.9			

WCT, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	12MFY13	12MFY14	YoY (%)	Comments
Revenue	1,339.8	1,392.0	(3.7)	Flat due to the drag in 4Q.
EBIT	166.3	251.4	(33.9)	Lower on margin compression for construction and property.
Finance cost	(44.6)	(47.7)	(6.6)	
Associates & JVs	12.9	11.4	13.1	Mainly from Paradigm Mall and Gateway@klia2.
PBT	134.6	215.1	(37.4)	
PAT	105.9	162.2	(34.7)	
PATMI - core	100.2	167.5	(40.1)	Full year missed by 22%.
PATMI - reported	100.2	141.2	(29.0)	Includes RM10m revaluation gains. Net EI for last year at RM35m.
EPS - core	9.2	15.4	(40.1)	
EBIT margin	12.4	18.1		
PBT margin	10.0	15.5		

WCT, HLIB

Figure #3 SOP valuation for WCT

SOP Component	RM/m	Multiplier/ WACC	WCT's Share	FD Per Share
FY15 earnings	136	12	1,632	1.16
Gateway@klia2 based on DCF	237	5.1%	166	0.12
Paradigm Mall based on cap rate	329	7.0%	231	0.16
Premiere Hotel Klang based on DCF	185	8.5%	185	0.13
Cash proceeds from warrants	688		688	0.49
Sum of Parts Value			2,902	2.05
Discount applied		20%	(580)	(0.41)
Target price			2,321	1.64

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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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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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.
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