

# WCT Holdings (SELL ↓; EPS ↓)

INDUSTRY: OVERWEIGHT

COMPANY INSIGHT / BRIEFING

27 February 2015

Price Target: RM1.49 (↓)

Share price: RM1.66

## Murky outlook

### Highlights

- **Margins under pressure.** WCT saw its construction EBIT margin shrink to a low of 2.8% in 4QFY14. This was due to the downward revision in its profit margin target for 2 local projects, namely the MITI Headquarters (RM301m) and KK Medical Centre (RM331m). In terms of completion rate, the former is at 66% while the latter at 79%. Collectively, these 2 jobs make up 9% of WCT's outstanding orderbook.
- **Uphill challenge for PTMP's PDP role.** While WCT has bid for RM22.8bn worth of domestic jobs, we highlight that this is concentrated (RM20bn) on the Penang Transport Master Plan (PTMP), putting it in an "all or nothing" situation. Going up against WCT for the PDP role are 3 domestic contractors (including Gamuda) and 2 foreign consortiums. We reckon that securing the PDP role will be an uphill challenge for WCT as (i) it has no PDP experience and (ii) it has a rather minimal track record undertaking jobs in Penang.
- **Better chance with KL118.** WCT, (via a JV with UAE based Arabtec) has submitted its bid for the KL118 tower (RM3bn). In total, 6 consortiums have been shortlisted for the job. We feel that WCT has a decent shot in securing the job by virtue of Arabtec's track record which includes the world's tallest building, the Burj Khaifah. Aside that, WCT is also preparing tenders for subcontract works at RAPID totalling RM1bn and the West Coast Expressway (RM1.3bn).
- **Cautious on property sales.** WCT is targeting RM650m worth of sales in FY15 (FY14: RM461m) backed by RM894m worth of new launches. We feel that this target is tough to achieve given the softening property market sentiment and have assumed RM500m in sales for FY15.

### Risks

- WCT's orderbook of RM2bn implies a cover of only 1.6x FY14 construction revenue, offering little earnings visibility. Orderbook replenishment for the last 2 years of RM670m and RM994m were below its average annual burn rate of RM1.2bn.

### Forecasts

- We further cut our FY15-16 earnings by another 16% and 5% respectively on lower construction margins. This is on top of our previous cut of 13-22% yesterday during our 4QFY14 Earnings Evaluation report which merely captured the slow property sales. Our forecasts are now 30-36% below consensus which appears overly optimistic.

### Rating

**SELL (↓) TP: RM1.49**

- WCT's outlook remains challenging as it faces both slowing orderbook replenishment and property sales, resulting to a murky earnings outlook. Expect further cuts in consensus numbers to eventuate.

### Valuation

- Post earnings cut, our TP is lowered from RM1.64 to RM1.49 based on a unchanged 20% discount to SOP which implies FY15-16 P/E of 13.3x and 12.4x respectively.

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KLCI	1820.9
Expected share price return	-10.2%
Expected dividend return	1.9%
Expected total return	-8.3%

### Share price



### Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,077
Market cap (RM m)	1,788
3-mth avg. volume ('000)	1,317

Price Performance	1M	3M	12M
Absolute	1.2	-9.8	-19.0
Relative	-0.1	-8.7	-18.9

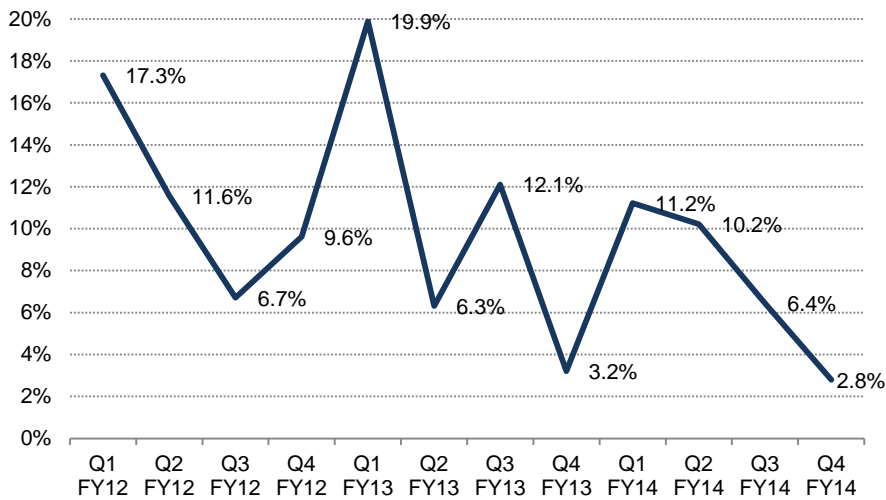
### Major shareholders

WCT Capital	19.3%
Lembaga Tabung Haji	10.0%
Employees Provident Fund	10.0%

### Summary Earnings Table

FYE Jul (RM m)	FY13	FY14	FY15F	FY16F
Revenue	1,655	1,662	1,775	1,690
EBITDA	277	201	258	277
EBIT	267	192	250	269
Profit Before Tax	219	141	185	198
Core PATAMI	162	111	121	129
vs Consensus (%)			(31)	(36)
Core EPS (sen)	15.1	10.3	11.2	12.0
P/E (x)	11.0	16.2	14.8	13.9
Net DPS (sen)	6.8	2.7	4.5	4.8
Net DY (%)	4.1	1.6	2.7	2.9
BV per share	2.05	2.07	2.19	2.26
P/B (x)	0.8	0.8	0.8	0.7
ROE (%)	8.1	5.0	5.3	5.4
Net Gearing (%)	43.0	66.4	39.9	43.0

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**Figure #1 Quarterly construction EBIT margin**

Quarterly financial reports

**Figure #2 Property launch schedule (RM m)**

Development	Type	GDV	Launch
Transtech, Bkt Serendah	Semi D, Bungalow, Industrial factories	189	April
Bandar Parklands A6	Mid cost apartment	64	July
Paradigm Residences (Tower D)	Condominium	307	July
Inanam, Kota Kinabalu	Semi D, Bungalow	200	July
Bandar Parklands A7	Mid cost apartment	48	Sept
Bandar Bkt Tinggi 2	Mid cost apartment	86	Oct
<b>Launches for 2015</b>		<b>894</b>	

WCT

**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
<b>Sum of Parts Value</b>			<b>2,902</b>	<b>2.05</b>
<b>Discount applied</b>		<b>20%</b>	<b>(580)</b>	<b>(0.41)</b>
<b>Target price</b>			<b>2,321</b>	<b>1.64</b>

WCT

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<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	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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