Hong Leong Investment Bank
A Member of the Hong Leong Group

HLIB Research

PP 9484/12/2012 (031413)

WCT (HOLD ←→, EPS ←→)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

23 May 2013

Price Target: RM2.41 (←→)

Share price: RM2.64

1Q results: Construction rebounds

Results

- 1QFY13 core earnings (adjusted for RM6.6m forex gain) fell by 21% to RM36.6m (3.6 sen/share), making up 20% and 18% of ours and streets' estimates respectively.

Deviations

- Considered largely in line as we expect stronger earnings in the subsequent quarters while 1Q is normally seasonally weaker.

Dividends

- None. Dividends usually declared in 2Q and 4Q.

Highlights

- **YoY…** Revenue jumped by 44%, underpinned by a strong rebound in construction activities, doubling of property billings and higher rental income. However, the performance of core earnings was another story as it contracted by 21%. This is mainly due to the Dukhan Highway arbitration impact which affected the construction division's earnings.
- **QoQ…** Although 1Q should be seasonally weaker, revenue grew by 29%, lifted by the construction division while the other divisions posted seasonal revenue weakness. Nonetheless, sequential earnings growth still fell by 5%.

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 **RM2.41** based on unchanged 14x average FY13-14 earnings. Subject to revision after analyst briefing.

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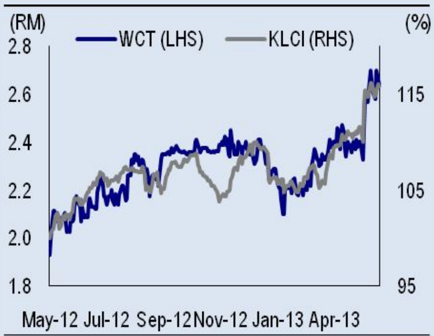
KLCI	1,783.9
Expected share price return	-8.7%
Expected dividend return	2.2%
Expected total return	-6.6%

Share price



Information

Bloomberg Ticker	WCT MK
Bursa Code	9679
Issued Shares (m)	1,092
Market cap (RM m)	2,883
3-mth avg. volume ('000)	3,806

Price Performance	1M	3M	12M
Absolute	10.5	19.5	36.8
Relative	5.3	8.6	18.0

Major shareholders

WCT Capital	19.0%
EPF	11.4%
Lembaga Tabung Haji	7.3%
Free Float	51.2%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012A	2013E	2014E
Revenue	1,539	1,560	1,621	1,876
EBITDA	275	498	324	340
EBIT	235	453	279	296
Profit Before Tax	208	421	245	258
PATAMI	162	365	184	191
EPS (sen)	17.5	38.3	16.9	17.5
FD EPS (sen)	13.3	29.2	13.0	13.5
Net DPS (sen)	6.6	6.6	5.7	5.7
Net DY (%)	2.5	2.5	2.2	2.2
P/E (x)	15.1	6.9	15.6	15.1
FD P/E (x)	19.9	9.0	20.2	19.6
P/B (x)	1.7	1.4	1.5	1.4
Net Gearing (%)	39.7	45.5	52.3	53.3
ROE (%)	11.1	22.2	9.8	9.5
ROA (%)	3.6	7.4	3.5	3.5

HLIB

Figure #1 Quarter results comparison

FYE Dec (RM m)	1QFY12	4QFY12	1QFY13	QoQ (%)	YoY (%)	Comments
Revenue	341.6	380.2	490.9	29	44	Made up 30% and 24% of ours and streets' estimates respectively. Refer to segmental.
Construction	273.0	199.3	347.6	74	27	YoY/QoQ: Strong rebound in construction activities.
Property Development	55.3	152.7	124.0	-19	>100	YoY/QoQ: Affected by timing of progress billings.
Property Investment	13.2	28.2	19.3	-31	47	YoY: Increased contribution from Paradigm Mall. QoQ: Seasonally slower from hotel business.
Operating Profit	62.2	281.5	76.1	-73	22	Refer to segmental.
Construction	47.3	19.2	42.8	>100	-9	YoY: Impacted by Dukhan Highway arbitration. QoQ: Lifted by higher construction activities.
Property Development	8.5	40.0	28.0	-30	>100	YoY/QoQ: Affected by timing of progress billings.
Property Investment	6.4	222.4	5.2	-98	-19	YoY: Affected by fluctuation in margins. QoQ: RM211m revaluation gain for Paradigm Mall in 4QFY12.
Finance Costs	(15.4)	(18.9)	(14.7)	-23	-5	Net debt of RM740.1m, translating to net gearing of 35%.
Associates/JCE	4.8	3.0	4.0	33	-18	
PBT	51.6	265.5	65.4	-75	27	
PAT	39.8	237.4	41.8	-82	5	Effective tax rate of 38%.
PATAMI	40.0	244.7	43.2	-82	8	YoY/QoQ: Reversal of MI charge due to losses at subsidiary level for Abu Dhabi F1 and Bahrain fit out projects.
Core Earnings	46.2	38.5	36.6	-5	-21	EI for 1QFY13: RM6.6m forex gain. EI for 4QFY12: RM211m revaluation gain and RM4.8m forex losses. EI for 1QFY12: RM6.2m forex losses. Made up 20% and 18% of ours and streets' estimates respectively.
Core EPS (sen)	4.94	4.05	3.60	-11	-27	Due to dilution from warrants.
Operating Profit Margin (%)	18%	74%	15%	-79	-15	
Construction	17%	10%	12%	28	-29	YoY/QoQ: Quarterly fluctuation in margins.
Property Development	15%	26%	23%	-14	47	YoY/QoQ: Quarterly fluctuation in margins.
PBT Ex-Assoc Margin (%)	14%	69%	13%	-82	-9	

WCT, HLIB

Figure #2 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	1,621.3	2,087.3	-22%	1,875.8	2,346.8	-20%
PATAMI	184.3	203.5	-9%	190.8	234.6	-19%

Bloomberg, HLIB

Financial Projections for WCT (HOLD; TP: RM2.41)

Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	**1,708.5**	**1,538.6**	**1,560.4**	**1,621.3**	**1,875.8**
EBITDA	354.6	275.1	497.8	324.1	340.3
D&A	(64.8)	(40.2)	(44.4)	(45.2)	(44.5)
EBIT	**289.8**	**234.9**	**453.4**	**278.9**	**295.9**
Interest Income	10.4	22.5	20.1	28.7	23.2
Finance Costs	(50.4)	(66.7)	(68.9)	(77.4)	(76.4)
Associates	17.0	16.8	16.0	15.0	15.0
Exceptionals	-	-	-	-	-
Profit Before Tax	**266.8**	**207.5**	**420.7**	**245.2**	**257.7**
Tax	(47.9)	(44.6)	(69.2)	(48.9)	(54.9)
Net Profit	**218.8**	**162.9**	**351.4**	**196.3**	**202.8**
Minority Interests	(68.5)	(0.5)	13.2	(12.0)	(12.0)
PATMI	**150.3**	**162.4**	**364.6**	**184.3**	**190.8**
Core Earnings	**150.3**	**162.4**	**364.6**	**184.3**	**190.8**
Basic Shares (m)	905.0	926.0	951.6	1,091.0	1,091.0
Core EPS (sen)	16.6	17.5	38.3	16.9	17.5
FD EPS (sen)	14.3	13.3	29.2	13.0	13.5

Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1
Revenue	341.6	396.8	441.8	380.2	490.9
COGS	(263.4)	(324.7)	(341.3)	(285.6)	(394.8)
Gross Profit	78.2	72.1	100.5	94.5	96.1
Other Income	4.2	18.2	(3.9)	226.1	7.6
Expenses	(20.2)	(30.8)	(26.3)	(39.1)	(27.7)
Operating Profit	62.2	59.5	70.3	281.5	76.1
Finance Costs	(15.4)	(15.4)	(19.2)	(18.9)	(14.7)
Associates/JCE	4.8	3.8	4.4	3.0	4.0
Profit Before Tax	51.6	47.9	55.6	265.5	65.4
Tax	(11.8)	(10.9)	(18.4)	(28.1)	(23.5)
Net Profit	39.8	37.0	37.2	237.4	41.8
Minority Interests	0.3	2.5	3.2	7.2	1.4
PATAMI	40.0	39.5	40.4	244.7	43.2
Exceptionals	(6.2)	10.4	(13.0)	206.2	6.6
Core Earnings	46.2	29.1	53.3	38.5	36.6
Core EPS (sen)	4.94	3.54	6.49	4.05	3.60
FD Core EPS (sen)	4.92	-	6.48	3.90	3.50
W. Ave. Shares (m)	813.9	822.9	822.2	948.7	1,015.7

Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
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)	2010A	2011A	2012A	2013E	2014E
PER (x)	15.9	15.1	6.9	15.6	15.1
FD PER (x)	18.4	19.9	9.0	20.2	19.6
Net DPS (sen)	6.6	6.6	6.6	5.7	5.7
Net DY (%)	2.5	2.5	2.5	2.2	2.2
BVPS (RM)	1.4	1.6	1.9	1.8	1.9
P/B (x)	1.9	1.7	1.4	1.5	1.4
NTA/Share (RM)	1.4	1.6	1.9	1.8	1.9
EBITDA Margin (%)	20.8	17.9	31.9	20.0	18.1
EBIT Margin (%)	17.0	15.3	29.1	17.2	15.8
PBT Margin (%)	15.6	13.5	27.0	15.1	13.7
Net Margin (%)	8.8	10.6	23.4	11.4	10.2
ROE (%)	12.0	11.1	22.2	9.8	9.5
ROA (%)	3.3	3.6	7.4	3.5	3.5
Net Gearing (%)	37.5	39.7	45.5	52.3	53.3

Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
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)	2010A	2011A	2012A	2013E	2014E
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

1. As of 23 May 2013, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 23 May 2013, the analyst, Jarod Soon Sien Ming, who prepared this report, has interest in the following securities covered in this report:
(a) -.

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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.