WCT (HOLD ←→; EPS ←→)

INDUSTRY: NEUTRAL
EARNINGS EVALUATION

26 February 2014
Price Target: RM2.41 (Under Review)
Share price: RM2.18

4Q results: Provisions hit core earnings

Results

- FY13 core earnings (adjusted for RM27.7m forex gain, RM5.2m disposal loss and RM52m revaluation gain) slumped by 26% to RM123.0m (11.5 sen/share), missing estimates by making up 67% and 64% of ours and streets' forecasts respectively.

Deviations

- Due to unexpected provisions in the construction division and slower than expected property billings in the final quarter.

Dividends

- Net dividend of 3.25 sen/share declared. Hence, bringing full year dividends to 6.75 sen/share (2Q: 3.5 sen), exceeding our dividend estimates of 5.7 sen/share and translating to ~60% core payout ratio. Payment date to be determined during AGM.

Highlights

- **4Q review…** In what was supposedly a seasonally strong quarter, revenue fell by 26% YoY and 33% QoQ to RM280.4m The decline was mainly due to slower construction and property billings whereby the latter posted quarterly revenue of only RM32.9m, as opposed to expectations of more than RM100m.
- Provisions were made in the construction division in anticipation of higher costing going forward. Hence, construction operating margins fell to 3% from 12% in the previous quarter while property operating profit declined largely in line with revenue. Overall, 4Q core earnings (after adjusting for RM7.48m forex gain and RM52m revaluation gain) swung to losses of RM3.1m (0.3 sen/share).
- **FY13 review…** Despite the weak 4Q performance, revenue grew by 7% to RM1.67bn, lifted mainly by construction revenue which grew by 15% to RM1.17bn and mitigated the impact of a 4% property revenue decline to RM442.5m. Overall, full year earnings were weighed down by 4Q's poor showing whereby FY13 core earnings (adjusted for RM27.7m forex gain, RM5.2m disposal loss and RM52m revaluation gain) slumped by 26% to RM123.0m (11.5 sen/share).

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

- Under review, subject to revision post analyst briefing.

Rating

HOLD (←→)

- We are taken aback by the temporary setback in 4Q results. Although WCT's fundamentals remain intact, major contract wins has been elusive. Coupled with the potential start-up losses from Gateway@KLIA2 and slowdown in the property sector, we are maintaining our **HOLD** call on WCT due to the lack of upside catalysts.

Valuation

- TP maintained at **RM2.41** based on unchanged 14x average FY13-14 earnings. Subject to revision post analyst briefing.

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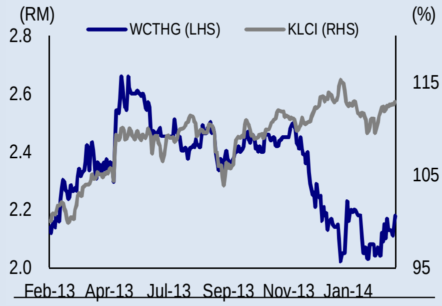
KLCI	1833.8
Expected share price return	10.6%
Expected dividend return	2.6%
Expected total return	13.2%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,092
Market cap (RM m)	2,382
3-mth avg. volume ('000)	2,522

Price Performance	1M	3M	12M
Absolute	5.3	-6.4	-0.9
Relative	3.5	-8.3	-12.2

Major shareholders

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

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 (%)	3.0	3.0	2.6	2.6
P/E (x)	12.4	5.7	12.9	12.5
FD P/E (x)	16.4	7.5	16.7	16.1
P/B (x)	1.4	1.1	1.2	1.2
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

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Figure #1 Quarter results comparison

FYE Dec (RM m)	4QFY12	3QFY13	4QFY13	QoQ (%)	YoY (%)	Comments
Revenue	380.2	418.5	280.4	-33	-26	Made up 17% and 14% of ours and streets' estimates respectively.
						Refer to segmental.
Construction	199.3	269.3	232.9	-14	17	YoY: Lifter by stronger progress billings.
						QoQ: Lack of construction progress although 4Q should be seasonally stronger.
Property Development	152.7	135.2	32.9	-76	-78	YoY/QoQ: Sudden drop in property billings.
Property Investment	28.2	14.0	14.5	4	-48	YoY: Lower revenue as Paradigm Mall is reclassified to equity accounting.
Operating Profit	281.5	73.7	77.5	5	-72	Refer to segmental.
Construction	19.2	32.6	7.5	-77	-61	YoY/QoQ: Hit by provisions for future costing increases.
Property Development	40.0	35.0	12.1	-65	-70	YoY/QoQ: Dragged down by decline in property revenue.
Property Investment	222.4	6.0	58.0	>100	-74	YoY: Lower due to revaluation gain of RM211m in 4QFY12.
						QoQ: Lifted by revaluation gain of RM52m.
Finance Costs	(18.9)	(17.1)	(19.9)	17	5	Net debt climbed to RM883.0m (net gearing: 39%) from RM773.8m (net gearing: 35%) in 3QFY13.
Associates/JCE	3.0	3.3	7.8	>100	>100	YoY/QoQ: Lifted by Paradigm Mall contribution.
PBT	265.5	59.9	65.4	9	-75	
PAT	237.4	40.6	53.9	33	-77	Effective tax rate of 20%.
PATAMI	244.7	41.3	56.4	36	-77	
Core Earnings	38.5	38.4	(3.1)	n/a	n/a	EI for 4QFY13: RM7.5m forex gain and RM52m revaluation gain.
						EI for 3QFY13: RM2.9m forex gain.
						EI for 4QFY12: RM4.8m forex loss and RM211m revaluation gain.
Core EPS (sen)	4.05	3.52	(0.29)	n/a	n/a	
Operating Profit Margin (%)	74%	18%	28%	57	-63	
Construction	10%	12%	3%	-74	-67	YoY/QoQ: Weight down by provision for future costing increases.
Property Development	26%	26%	37%	42	40	
PBT Ex-Assoc Margin (%)	69%	14%	21%	52	-70	

WCT, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY12	FY13	YoY (%)	Comments
Revenue	1,560.4	1,672.4	7	Made up 103% and 85% of ours and streets' estimates respectively. Refer to segmental.
Construction	1,012.4	1,168.4	15	Lifted by increased construction activities, mainly in 1HFY13.
Property Development	463.0	442.5	-4	Sudden drop in property billings in 4Q.
Property Investment	85.0	61.5	-28	Revenue declined as Paradigm Mall is reclassified to equity accounting.
Operating Profit	473.5	302.7	-36	Refer to segmental.
Construction	115.7	129.3	12	Due to increase in construction billings.
Property Development	117.5	93.6	-20	Due to lower property revenue and margin.
Property Investment	240.4	79.7	-67	Lower revaluation gain of RM52m.
Finance Costs	(68.9)	(67.6)	-2	Net debt of RM883.0m, translating to net gearing of 39%.
Associates/JCE	16.0	19.2	20	
PBT	420.7	254.2	-40	
PAT	351.4	189.8	-46	Effective tax rate of 27%.
PATAMI	364.6	197.5	-46	Reversal of MI charge due to losses at subsidiary level for Middle East projects.
Core Earnings	167.1	123.0	-26	EI for FY13: RM27.7m forex gain, RM5.2m disposal loss, and RM52m revaluation gain. EI for FY12: RM13.6m forex loss, RM211m revaluation gain. Made up 67% and 64% of ours and streets' estimates respectively.
Core EPS (sen)	17.70	11.46	-35	Due to dilution from warrants exercised.
Operating Profit Margin (%)	30%	18%	-40	
Construction	11%	11%	-3	
Property Development	25%	21%	-17	
PBT Ex-Assoc Margin (%)	26%	14%	-46	

WCT, 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)	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Revenue	380.2	490.9	482.5	418.5	280.4
COGS	(285.6)	(394.8)	(414.6)	(331.0)	(247.3)
Gross Profit	94.5	96.1	67.9	87.6	33.1
Other Income	226.1	7.6	30.1	9.2	93.5
Expenses	(39.1)	(27.7)	(22.6)	(23.1)	(49.1)
Operating Profit	281.5	76.1	75.4	73.7	77.5
Finance Costs	(18.9)	(14.7)	(15.9)	(17.1)	(19.9)
Associates/JCE	3.0	4.0	4.1	3.3	7.8
Profit Before Tax	265.5	65.4	63.6	59.9	65.4
Tax	(28.1)	(23.5)	(10.1)	(19.3)	(11.6)
Net Profit	237.4	41.8	53.5	40.6	53.9
Minority Interests	7.2	1.4	3.2	0.8	2.5
PATAMI	244.7	43.2	56.7	41.3	56.4
Exceptionals	206.2	1.4	10.7	2.9	59.5
Core Earnings	38.5	41.8	45.9	38.4	(3.1)
Core EPS (sen)	4.05	4.11	4.21	3.52	(0.29)
FD Core EPS (sen)	3.90	3.99	4.09	3.41	(0.28)
W. Ave. Shares (m)	948.7	1,015.7	1,092.2	1,092.2	1,092.4

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)	13.1	12.4	5.7	12.9	12.5
FD PER (x)	15.2	16.4	7.5	16.7	16.1
Net DPS (sen)	6.6	6.6	6.6	5.7	5.7
Net DY (%)	3.0	3.0	3.0	2.6	2.6
BVPS (RM)	1.4	1.6	1.9	1.8	1.9
P/B (x)	1.6	1.4	1.1	1.2	1.2
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

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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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