

WCT (HOLD ↔; EPS ↔)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

23 August 2013

Price Target: RM2.41 (↔)

Share price: RM2.37

Growth due to low earnings base in 2QFY12

Results	<ul style="list-style-type: none"> 1HFY13 core earnings (adjusted for RM17.3m forex gain and RM5.2m disposal loss) grew by 16% to RM87.7m (8.3 sen/share), making up 48% of our forecast but missed streets' estimates by making up 43%.
Deviations	<ul style="list-style-type: none"> Largely in line.
Dividends	<ul style="list-style-type: none"> Net dividend of 3.5 sen/share declared, which is higher than previous corresponding payout of 3.26 sen/share (adjusted for 3-for-20 bonus issue). Ex-date on 10 Sep-13, payment on 26 Sep-13.
Highlights	<ul style="list-style-type: none"> YoY... Revenue in 2Q jumped by 22% mainly due to rebound in construction and property development activities as the construction division had a relatively slow year in FY12. During the quarter, the property division's operating profit fell by 33% to RM18.4m due to higher expenses. Overall, 2Q's core earnings grew by 58% YoY to RM45.9m (4.21 sen/share) on the back of revenue growth and margin expansion. However, it is important to note that 2QFY13's growth was coming from a low earnings base posted in the previous corresponding period. QoQ... Revenue dipped slightly by 2% QoQ largely due to lower construction revenue which dipped by 8%. Core earnings however grew by 10% due to lower effective tax rate arising from lower tax rate for Middle East projects. 1HFY13... Revenue jumped by 32%, underpinned by a strong rebound in construction activities and strong property billings. However, property investment revenue was flat as revenue contribution from Paradigm Mall has been reclassified to equity accounting. Overall, core earnings grew by 16%, boosted by stronger performance in all divisions.
Risks	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Unchanged. Pending analyst briefing later today.
Rating	HOLD (↔) <ul style="list-style-type: none"> Positives: <ul style="list-style-type: none"> (1) Major contract wins; (2) Growing property investment income; (3) Strategic land banking exercise; (4) Listing of property division. Negatives: <ul style="list-style-type: none"> (1) Failure to secure new sizable projects; (2) Slower than expected take up rate for property launches.
Valuation	<ul style="list-style-type: none"> TP maintained at RM2.41 based on unchanged 14x average FY13-14 earnings. Subject to revision after analyst briefing.

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KLCI	1,720.4
Expected share price return	1.7%
Expected dividend return	2.4%
Expected total return	4.1%

Share price

Information

Bloomberg Ticker	WCTHG MK	
Bursa Code	9679	
Issued Shares (m)	1,092	
Market cap (RM m)	2,588	
3-mth avg. volume ('000)	2,040	

Price Performance	1M	3M	12M
Absolute	-2.9	-10.2	2.5
Relative	1.9	-7.5	-1.6

Major shareholders

WCT Capital	19.0%
EPF	11.6%
Lembaga Tabung Haji	5.5%
Free Float	56.9%

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 (%)	2.8	2.8	2.4	2.4
P/E (x)	13.5	6.2	14.0	13.6
FD P/E (x)	17.9	8.1	18.2	17.6
P/B (x)	1.5	1.2	1.3	1.3
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)	2QFY12	1QFY13	2QFY13	QoQ (%)	YoY (%)	Comments
Revenue	396.8	490.9	482.5	-2	22	Made up 30% and 23% of ours and streets' estimates respectively. Refer to segmental.
Construction	266.2	347.6	318.6	-8	20	YoY: Strong rebound in construction activities. QoQ: Fluctuations in construction billings.
Property Development	111.0	124.0	150.3	21	35	YoY/QoQ: Buoyed by strong unbilled property sales.
Property Investment	19.6	19.3	13.6	-30	-31	YoY/QoQ: Lower revenue as Paradigm Mall is reclassified to equity accounting.
Operating Profit	59.5	76.1	75.4	-1	27	Refer to segmental.
Construction	30.8	42.8	46.4	8	51	YoY: Lifted by higher construction margins. QoQ: 1QFY13 was impacted by arbitration losses of RM26.3m which was mitigated by VOs of RM20m.
Property Development	27.4	28.0	18.4	-34	-33	YoY/QoQ: Due to higher expenses.
Property Investment	1.3	5.2	10.6	>100	>100	YoY/QoQ: Lifted by hotel services.
Finance Costs	(15.4)	(14.7)	(15.9)	9	4	Net debt of RM738.6m, translating to net gearing of 34%.
Associates/JCE	3.8	4.0	4.1	4	7	
PBT	47.9	65.4	63.6	-3	33	
PAT	37.0	41.8	53.5	28	45	Lower effective tax rate of 17% due to profits from Middle East and forex translation gain.
PATAMI	39.5	43.2	56.7	31	43	YoY/QoQ: Reversal of MI charge due to losses at subsidiary level for Abu Dhabi F1 and Bahrain fit out projects.
Core Earnings	29.1	41.8	45.9	10	58	EI for 2QFY13: RM10.7m forex gain. EI for 1QFY13: RM6.6m forex gain and RM5.2m disposal loss. EI for 2QFY12: RM10.4m forex gain. Made up 25% and 23% of ours and streets' estimates respectively.
Core EPS (sen)	3.08	4.11	4.21	2	37	Due to dilution from warrants exercised.
Operating Profit Margin (%)	15%	15%	16%	1	4	
Construction	12%	12%	15%	18	26	YoY/QoQ: Quarterly fluctuation in margins.
Property Development	25%	23%	12%	-46	-50	YoY/QoQ: Hit by additional costs incurred.
PBT Ex-Assoc Margin (%)	11%	13%	12%	-1	11	

WCT, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	1HFY12	1HFY13	YoY (%)	Comments
Revenue	738.4	973.5	32	Made up 60% and 47% of ours and streets' estimates respectively. Refer to segmental.
Construction	539.3	666.2	24	Lifted by increased construction activities in 1HFY13.
Property Development	166.3	274.3	65	Buoyed by strong unbilled property sales.
Property Investment	32.8	32.9	0	Flattish revenue as Paradigm Mall is reclassified to equity accounting.
Operating Profit	121.6	151.5	25	Refer to segmental.
Construction	78.1	89.2	14	Due to increase in construction revenue.
Property Development	35.9	46.5	29	Due to increase in property revenue which mitigated poor 2QFY13 performance.
Property Investment	7.7	15.8	>100	Lifted by hotel services.
Finance Costs	(30.8)	(30.6)	-1	Net debt of RM738.6m, translating to net gearing of 34%.
Associates/JCE	8.7	8.1	-7	
PBT	99.5	128.9	30	
PAT	76.8	95.3	24	Effective tax rate of 28%.
PATAMI	79.5	99.9	26	Reversal of MI charge due to losses at subsidiary level for Abu Dhabi F1 and Bahrain fit out projects.
Core Earnings	75.3	87.7	16	EI for 1HFY13: RM17.3m forex gain and RM5.2m disposal loss. EI for 1HFY12: RM4.2m forex gain. Made up 48% and 43% of ours and streets' estimates respectively.
Core EPS (sen)	8.01	8.32	4	Due to dilution from warrants exercised.
Operating Profit Margin (%)	16%	16%	-6	
Construction	14%	13%	-8	
Property Development	22%	17%	-21	Pulled down by poor 2QFY13 margins.
PBT Ex-Assoc Margin (%)	12%	12%	1	

WCT, HLIB

Figure #3 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	1,621.3	2,088.7	-22%	1,875.8	2,279.0	-18%
PATAMI	184.3	201.7	-9%	190.8	231.8	-18%

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)	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2
Revenue	396.8	441.8	380.2	490.9	482.5
COGS	(324.7)	(341.3)	(285.6)	(394.8)	(414.6)
Gross Profit	72.1	100.5	94.5	96.1	67.9
Other Income	18.2	(3.9)	226.1	7.6	30.1
Expenses	(30.8)	(26.3)	(39.1)	(27.7)	(22.6)
Operating Profit	59.5	70.3	281.5	76.1	75.4
Finance Costs	(15.4)	(19.2)	(18.9)	(14.7)	(15.9)
Associates/JCE	3.8	4.4	3.0	4.0	4.1
Profit Before Tax	47.9	55.6	265.5	65.4	63.6
Tax	(10.9)	(18.4)	(28.1)	(23.5)	(10.1)
Net Profit	37.0	37.2	237.4	41.8	53.5
Minority Interests	2.5	3.2	7.2	1.4	3.2
PATAMI	39.5	40.4	244.7	43.2	56.7
Exceptionals	10.4	(13.0)	206.2	1.4	10.7
Core Earnings	29.1	53.3	38.5	41.8	45.9
Core EPS (sen)	3.08	6.49	4.05	4.11	4.21
FD Core EPS (sen)	-	6.48	3.90	3.99	4.09
W. Ave. Shares (m)	822.9	822.2	948.7	1,015.7	1,092.2

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)	14.3	13.5	6.2	14.0	13.6
FD PER (x)	16.5	17.9	8.1	18.2	17.6
Net DPS (sen)	6.6	6.6	6.6	5.7	5.7
Net DY (%)	2.8	2.8	2.8	2.4	2.4
BVPS (RM)	1.4	1.6	1.9	1.8	1.9
P/B (x)	1.7	1.5	1.2	1.3	1.3
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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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.