

22 August 2014

# WCT Holdings Bhd

## Lower Construction Revenue

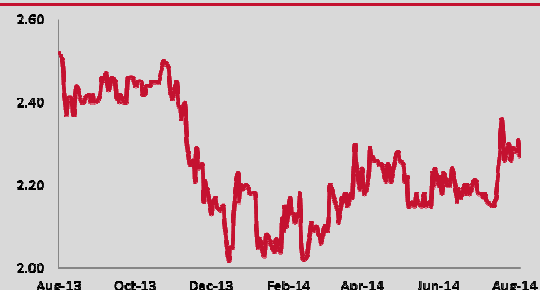
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<b>Period</b>	<ul style="list-style-type: none"> <li>2Q14/1H14</li> </ul>
<b>Actual vs. Expectations</b>	<ul style="list-style-type: none"> <li>The 1H14 core net profit of RM83.1m came in below expectations, making up only 38% and 43% of our full-year forecast and market estimates, respectively. The negative variance was mainly due to lower-than-expected revenue, particularly in construction division. We have overestimated its construction revenue recognition previously.</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>As expected, a first interim DPS of 3.53 sen was declared which up about 47% of our expected 7.5 sen cumulative DPS in FY14.</li> </ul>
<b>Key Results Highlights</b>	<ul style="list-style-type: none"> <li><b>QoQ</b>, 2Q14 revenue and core net profit declined by 14% and 20%, respectively, dragged down by the construction segment. Construction division's revenue which makes up 64% of topline declined by 8% due to slower billings from both Malaysia and Middle East projects. Also, the division's EBIT margin shrunk to 8% from 10% in 1Q14. Nonetheless, the property division's EBIT rose slightly by 5% thanks to stronger margins.</li> <li><b>YoY</b>, 2Q14 net profit declined by 21% mainly due to weaker construction division's margin as compared to that of 2Q13 despite strong property division's performance.</li> <li><b>YTD</b>, overall, both 2H14 revenue and net profit declined by 11% and 7%, respectively, dragged down by slower construction billings and weaker construction margins.</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>YTD, WCT has secured new contracts worth RM342m, boosting its outstanding orderbook to RM1.88b. Nonetheless, we reiterate our main concern that WCT may not meet our expectation of RM1.5b new contracts by end-FY14.</li> <li>On a positive note, WCT is eyeing a few key projects in Malaysia (i.e. WCE (main contract has already been awarded), other RAPID infrastructure works, Kwasa Damansara Land civil works, TRX civil works packages, and some projects in the Gulf States, i.e. Qatar infra works. All in, WCT's outstanding tenderbook stands at RM6.1b.</li> </ul>
<b>Change to Forecasts</b>	<ul style="list-style-type: none"> <li>Despite the earnings miss, we are leaving our forecast unchanged for now (but with downward bias) pending an analysts' briefing today.</li> </ul>
<b>Rating</b>	<p><b>Maintain MARKET PERFORM</b></p> <ul style="list-style-type: none"> <li>Despite the group's strong orderbook, we maintain our MARKET PERFORM rating for now due to its lack of near-term catalysts.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>Maintain our SoP-based TP at RM2.32, implying 13.5x fwd-PER (in-line with mid-cap construction peers of 13-15x).</li> </ul>
<b>Risks to Our Call</b>	<ul style="list-style-type: none"> <li>Lower-than-expected orderbook replenishment</li> <li>Slower-than-expected construction progress</li> <li>Higher-than-expected input costs.</li> </ul>

## MARKET PERFORM ↔

**Price:** RM2.28  
**Target Price:** RM2.32 ↔

### Share Price Performance



KLCI	1,874.81
YTD KLCI chg	0.4%
YTD stock price chg	11.2%

### Stock Information

Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	2,469.0
Issued shares	1,082.9
52-week range (H)	2.52
52-week range (L)	1.99
3-mth avg daily vol:	816,570
Free Float	60%
Beta	0.9

### Major Shareholders

WCT CAPITAL SDN BHD	19.2%
EMPLOYEES PROVIDENT	10.6%
LEMBAGA TABUNG HAJI	9.9%

### Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	1,672.4	2,025.3	1,220.3
EBIT	292.7	367.2	407.9
PBT	254.2	295.1	362.9
<b>Net Profit (NP)</b>	<b>197.5</b>	<b>216.3</b>	<b>266.2</b>
<b>Core net profit</b>	<b>143.8</b>	<b>216.3</b>	<b>266.2</b>
Consensus (NP)	n.a.	193.3	215.5
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	9.3	14.1	17.3
EPS growth (%)	-3%	50%	23%
DPS (sen)	6.8	7.5	7.5
NTA/Share (RM)	1.28	1.42	1.42
PER	23.3	15.5	12.6
BVPS (RM)	1.28	1.42	1.42
Net Gearing (x)	0.4	0.4	0.4
Dividend Yield (%)	3.1	3.4	3.4

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## Result Highlight

Y/E : Dec (RM mn)	2Q14	1Q14	QoQ Chg	2Q13	YoY Chg	6MFY14	6MFY13	YoY Chg
<b>Turnover</b>	<b>401.5</b>	<b>467.2</b>	<b>-14%</b>	<b>482.5</b>	<b>-17%</b>	<b>868.7</b>	<b>973.5</b>	<b>-11%</b>
<b>EBIT</b>	<b>56.2</b>	<b>73.2</b>	<b>-23%</b>	<b>65.3</b>	<b>-14%</b>	<b>129.4</b>	<b>141.5</b>	<b>-9%</b>
Interest expense	(14.8)	(15.1)	-2%	(15.9)	-7%	-29.9	-30.6	-2%
Associates	2.2	4.6	-52%	4.2	-48%	6.8	8.0	-15%
Exceptional items	(2.7)	(6.0)	n.m	10.0	-	(8.7)	10.00	(8.74)
<b>Pretax profit</b>	<b>45.5</b>	<b>56.8</b>	<b>-20%</b>	<b>63.6</b>	<b>-28%</b>	<b>102.2</b>	<b>128.9</b>	<b>-21%</b>
Taxation	(6.4)	(16.2)	-60%	(10.1)	-36%	-22.6	-33.6	-33%
<b>Profit after tax</b>	<b>39.1</b>	<b>40.5</b>	<b>-4%</b>	<b>53.5</b>	<b>-27%</b>	<b>79.6</b>	<b>95.3</b>	<b>-17%</b>
Minority interest	4.8	0.5	954%	(3.2)	-250%	5.2	-4.5	-215%
<b>Net profit</b>	<b>34.3</b>	<b>40.1</b>	<b>-14%</b>	<b>56.7</b>	<b>-39%</b>	<b>74.4</b>	<b>99.9</b>	<b>-26%</b>
<b>Core net profit</b>	<b>37.0</b>	<b>46.1</b>	<b>-20%</b>	<b>46.7</b>	<b>-21%</b>	<b>83.1</b>	<b>89.9</b>	<b>-7%</b>
EPS (sen)	3.1	3.7	-15%	5.2	-40%	6.8	10.2	-33%
DPS (sen)	3.5		n.a	3.5	-	3.53	3.50	-
EBIT margin	14%	16%		14%		15%	15%	
Pretax margin	10%	9%		13%		12%	13%	
Effective tax rate	2%	3%		16%		22%	26%	

Source: Company, Kenanga Research

## Segmental Breakdown

Y/E : Dec (RM mn)	2Q14	1Q14	QoQ Chg	2Q13	YoY Chg	6MFY14	6MFY13	YoY Chg
<b>Revenue</b>								
-Construction	353.1	383.3	-8%	332.3	6%	736.5	703.4	5%
-Property development	127.6	127.4	0%	150.3	-15%	255.0	274.3	-7%
-Property investment	16.7	13.7	22%	13.6	23%	30.5	32.9	-7%
-Elimination	(96.0)	(57.2)	68%	(37.2)	158%	(153.2)	(60.7)	152%
<b>Group Revenue</b>	<b>401.5</b>	<b>467.2</b>	<b>-14%</b>	<b>459.0</b>	<b>-13%</b>	<b>868.7</b>	<b>949.9</b>	<b>-9%</b>
<b>Segment Profit</b>								
-Construction	26.6	36.7	-27%	46.4	-43%	63.3	89.2	-29%
-Property development	24.2	23.0	5%	18.4	31%	47.2	46.5	2%
-Property investment	6.1	6.8	-10%	10.6	-42%	12.9	15.8	-18%
-Elimination	0.0	0.0	n.a.	0.0	n.a.	-	-	n.a.
<b>Group Op Profit</b>	<b>56.9</b>	<b>66.5</b>	<b>-14%</b>	<b>75.4</b>	<b>-24%</b>	<b>123.4</b>	<b>151.5</b>	<b>-19%</b>
<b>EBIT Margin</b>								
-Construction	8%	10%		14%		9%	13%	
-Property development	19%	18%		12%		19%	17%	
-Property investment	36%	49%		78%		42%	48%	
<b>Overall</b>	<b>14%</b>	<b>14%</b>		<b>16%</b>		<b>14%</b>	<b>16%</b>	

Source: Company, Kenanga Research

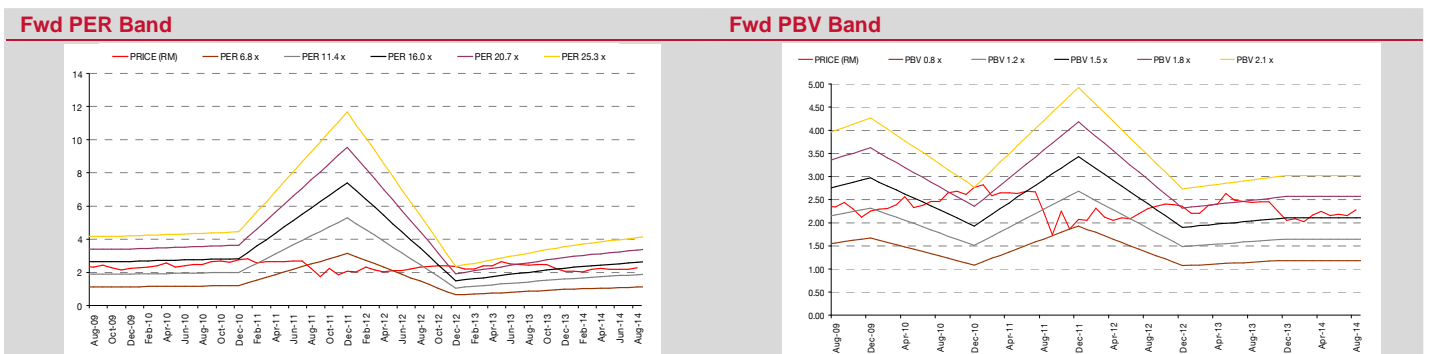
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<b>Sum-of-parts valuation</b>				
<b>Segment</b>	<b>RMm</b>	<b>WACC</b>	<b>PE(x)</b>	<b>RM/share</b>
Construction	138.5		13	1,800.6
Property development	569.7	10%		569.7
Property investment -excl KLIA2 IC	89.0	10%		89.0
KLIA2 Integrated complex	776.1	10%		776.1
Highway concession in India	88.5	11%		88.5
<b>Total</b>				<b>3,324.0</b>
Net cash / (debt)				(867.5)
Proceed from warrants B				257.8
Proceed from warrants C				320.7
Proceed from warrants D				540.8
				<b>3,575.8</b>
<b>Target price</b>				<b>2.32</b>
<i>Source: Company, Kenanga Research</i>				

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	1,538.6	1,560.4	1,655.0	2,025.3	1,220.3	<b>Growth</b>					
EBITDA	242.4	456.7	312.6	376.2	417.9	Turnover (%)	-10%	1%	6%	22%	-40%
Depreciation	80.7	6.5	(9.9)	9.0	10.0	EBITDA (%)	-23%	88%	-32%	20%	11%
Operating Profit	323.0	463.2	302.7	385.2	427.9	Operating Profit (%)	8%	43%	-35%	27%	11%
Other Income	69.4	244.6	140.4	146.4	172.1	PBT (%)	-19%	100%	-39%	16%	23%
Interest Exp	(50.4)	(69.1)	(67.6)	(87.4)	(84.7)	Net Profit (%)	15%	122%	-45%	9%	23%
Associate	0.7	16.0	19.2	15.2	39.7	<b>Profitability (%)</b>					
Exceptional Items	6.5	212.0	53.7	0.0	0.0	EBITDA Margin	16%	29%	19%	19%	34%
PBT	207.5	414.9	254.3	295.1	362.9	Operating Margin	21%	30%	18%	19%	35%
Taxation	(44.6)	(68.3)	(64.5)	(73.8)	(90.7)	PBT Margin	13%	27%	15%	15%	30%
Minority Interest	0.5	(13.2)	(7.8)	5.0	6.0	Net Margin	11%	23%	12%	11%	22%
Net Profit	162.4	359.8	197.6	216.3	266.2	Effective Tax Rate	22%	16%	25%	25%	25%
Core Net Profit	155.9	147.9	143.8	216.3	266.2	ROA	4%	8%	4%	4%	6%
						ROE	11%	20%	10%	10%	11%
<b>Balance Sheet</b>						<b>DuPont Analysis</b>					
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	Net Margin (%)	11%	23%	12%	11%	22%
PPE	277.1	242.6	276.7	299.1	298.3	Assets Turnover (x)	0.3	0.3	0.3	0.4	0.3
Intangible Assets	-	-	-	-	-	Leverage Factor (x)					
Other FA	2,037.4	2,332.7	2,526.5	2,814.4	3,160.6	ROE (%)	11%	20%	10%	10%	11%
Inventories	51.5	49.7	62.0	69.9	35.2	<b>Leverage</b>					
Receivables	521.9	589.9	453.4	693.9	418.1	Debt/Asset (x)	0.4	0.4	0.4	0.3	0.4
Other CA	366.8	413.1	658.5	723.8	644.3	Debt/Equity (x)	1.2	1.1	0.9	0.8	0.7
Cash	1,290.9	1,058.1	888.9	576.8	(151.9)	Net Cash/(Debt)	0.3	0.4	0.5	0.7	1.1
Total Assets	4,545.5	4,686.1	4,866.0	5,177.8	4,404.8	Net Debt/Equity (x)	0.4	0.5	0.5	0.5	0.8
Payables	344.3	324.7	448.8	542.1	270.4	<b>Valuations</b>					
ST Borrowings	376.9	393.3	375.3	363.6	350.8	EPS (sen)	10.6	23.3	12.8	14.1	17.3
Other ST Liability	695.8	182.0	193.5	258.3	123.2	NDPS (sen)	9.5	7.0	6.8	7.5	7.5
LT Borrowings	1,443.6	1,506.4	1,437.3	1,392.7	1,343.6	NTA (RM)	1.0	1.2	1.3	1.4	1.6
Other LT Liability	(49.7)	216.1	174.5	113.6	168.1	PER (x)	20.7	9.3	17.0	15.5	12.6
Minorities Int.	282.6	283.8	287.2	294.2	309.5	Net Div. Yield (%)	4.4	3.2	3.1	3.4	3.4
Net Assets	1,452.0	1,776.7	1,974.2	2,190.5	2,456.7	BVPS (RM)	1.0	1.2	1.3	1.4	1.6
						P/NTA (x)	2.3	1.9	1.7	1.5	1.4
Share Capital	393.5	393.5	393.5	393.5	393.5	EV/EBITDA (x)	11.1	6.0	8.3	6.6	5.4
Reserves	1,077.7	1,383.2	1,580.8	1,797.1	2,063.2						
Equity	1,471.1	1,776.7	1,974.2	2,190.5	2,456.7						
<b>Cashflow Statement</b>											
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E						
Operating CF	295.3	474.1	(8.0)	437.1	316.0						
Investing CF	(200.0)	(200.0)	(360.0)	(360.0)	(360.0)						
Financing CF	(0.8)	(523.5)	95.5	(474.2)	(771.0)						
Change In Cash	94.5	(249.4)	(272.5)	(397.0)	(815.0)						
Free CF	129.7	290.7	(264.7)	162.1	41.3						

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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## Peer Comparison

CORE COVERAGE																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd				(%)	(%)	(x)					
BENALEC HOLDINGS	1.00	795.4	14.2	21.0	12.2	2.0	5.6	1.2	56.0	37.9	65.0	-32.3	71.5	1.25	Outperform	17.06
EVERSENDAI CORP	1.00	770.0	15.1	9.0	7.6	4.0	10.0	0.9	50.9	85.1	101.4	67.2	19.2	1.18	Outperform	-4.33
GAMUDA BHD	4.95	11502.1	17.6	17.5	15.7	2.4	10.0	1.8	652.1	656.0	731.3	0.6	11.5	5.52	Outperform	3.12
IJM CORP BHD	6.64	9754.1	18.1	13.6	11.3	2.3	9.8	1.3	539.1	717.2	860.1	33.0	19.9	7.57	Outperform	14.59
KIMLUN CORP	1.55	465.9	12.8	10.0	8.7	2.5	11.9	1.2	36.4	46.6	53.3	28.0	14.4	1.60	Underperform	-7.51
MUHIBBAH	3.12	1323.0	15.3	15.1	13.2	1.6	10.4	1.6	86.4	87.4	100.1	1.2	14.5	3.30	Outperform	36.84
HOCK SENG LEE	2.00	1099.4	12.9	11.7	9.5	2.0	15.6	1.8	85.2	94.2	116.2	10.6	23.4	2.31	Outperform	6.95
NAIM HOLDINGS	3.79	898.0	22.0	9.4	8.9	1.8	9.0	0.8	40.9	95.6	101.3	133.7	6.0	4.18	Outperform	3.84
WCT HOLDINGS	2.28	2469.0	17.2	11.4	9.3	3.3	14.1	1.6	143.8	216.3	266.2	50.4	23.1	2.32	Market Perform	11.22
<b>Average</b>			<b>16.1</b>	<b>13.2</b>	<b>10.7</b>											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd				(%)	(%)	(x)					
MUDAJAYA	2.51	1352.7	7.8	14.9	9.5	2.7	6.3	0.9	173.7	90.5	141.8	-47.9	56.7	n.a.	Not Rated	-13.45
PROTASCO	1.74	582.2	8.0	9.7	7.4	4.5	15.0	1.5	73.0	60.3	79.1	-17.5	31.3	2.25	TRADING BUY	26.09
PINTARAS JAYA	4.55	729.6	13.9	14.6	12.0	2.7	16.6	2.4	52.3	49.9	60.7	-4.6	21.5	4.78	TRADING BUY	59.09
GABUNGAN AQRS	1.63	578.0	11.3	12.9	11.7	2.0	n.a.	n.a.	51.2	44.9	49.3	-12.4	9.9	n.a.	Not Rated	53.77
GADANG HOLDINGS	1.81	391.6	19.1	6.7	4.2	3.9	19.2	1.3	20.5	58.1	93.2	183.7	60.5	2.00	TAKE PROFIT	72.38
MITRAJAYA HOLDINGS	0.97	382.3	15.2	10.0	7.7	4.1	10.8	1.1	25.1	38.3	49.9	52.6	30.3	1.13	TRADING BUY	92.08
AZRB	0.73	351.9	61.9	21.3	11.7	1.4	n.a.	n.a.	5.7	16.5	30.1	190.3	82.4	n.a.	Not Rated	-3.30
TRC SYNERGY	0.51	244.4	22.9	11.7	7.6	2.4	5.5	0.6	10.7	20.9	32.1	95.9	53.4	n.a.	Not Rated	-3.77
BINA PURI	0.68	120.1	20.6	14.0	7.1	3.0	n.a.	n.a.	5.8	8.6	17.0	47.8	97.7	n.a.	Not Rated	-6.25
<b>Average</b>			<b>20.1</b>	<b>12.9</b>	<b>8.8</b>											

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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