

26 February 2015

WCT Holdings Bhd

Below Expectations

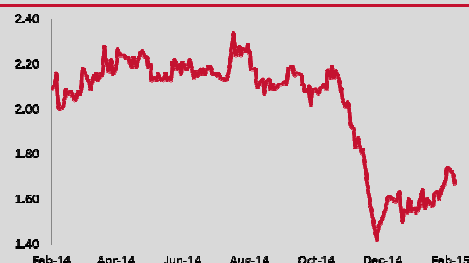
By Iqbal Zainal | mdiqbal@kenanga.com.my

Period	<ul style="list-style-type: none"> 4Q14/FY14
Actual vs. Expectations	<ul style="list-style-type: none"> FY14 core net profit of RM120.5m came in below expectations, making up 91% and 81%, of our and market estimates, respectively. The negative variance was due to lower-than-expected: (i) construction margins, (ii) property margins, and (iii) property investment income which we believe were dragged down by higher costs from KLIA2 Integrated Gateway. On the flip side, the group secured RM994m worth of new contracts in FY14 which is in line with our assumption of RM1.0b.
Dividends	<ul style="list-style-type: none"> Below expectation. Final DPS of 2.7 sen was declared. In total, WCT has declared 6.2 sen DPS, lower than our forecast of 7.5 sen.
Key Results Highlights	<ul style="list-style-type: none"> QoQ, 4Q14 revenue and core net profit declined by 32% and 17%, respectively, dragged down by: (i) weak construction and property revenue following slower billings, and (ii) poor construction margins. Construction EBIT margins eroded to 3% from 6% mainly due to lower margins achieved in local building projects. YoY, 4Q14 core net profit recovered to RM17.0m from mere RM2.3m in 4Q13 due to low base effect. To recap, WCT made about RM30m provisions for its construction division in 4Q13. YTD, while FY14 revenue was flat (-1%), core net profit declined by 10% dragged down by poor construction margins and slower property billings.
Outlook	<ul style="list-style-type: none"> While we like the group for its strong orderbook of RM3.1b (external: RM2.0b), which will drive the group's top line in the next three years, we reiterate our concerns over the group's earnings outlook on the following factors: (i) declining trend in construction and property margins, and (ii) flattish property sales due to slowdown in property market. Nonetheless, the group's tenderbook currently stands at RM2.3b driven by some major domestic projects namely Petronas RAPID works, TRX, and KL118 (Warisan Merdeka).
Change to Forecasts	<ul style="list-style-type: none"> Following consecutive rounds of earnings disappointments, we have opted to lower our FY15E core earnings by 8.1% after adjusting lower: (i) our construction EBIT margins assumption to 6% from 7%, and (ii) property EBIT margins assumption to 19% from 20%. We also introduce our FY16E earnings of RM151.7m, representing 6.8% growth. Note that we assume WCT to secure new contract worth RM1.0b and RM1.5b in FY15 and FY16, respectively.
Rating	Maintain MARKET PERFORM
Valuation	<ul style="list-style-type: none"> We lower our SoP-based TP to RM1.73 from RM2.02 previously after: (i) earnings revision, and (ii) widening our SoP discount to 20% from 10% after observing persistent earnings disappointment. Our new TP implies fwd-PER of 13.3x FY15 EPS, in line with its 5-year historical average fwd-PER.
Risks to Our Call	<ul style="list-style-type: none"> Significantly higher-than-expected new contracts flows Higher-than-expected construction margins Higher-than-expected property sales.

MARKET PERFORM ↔

Price: RM1.68
Target Price: RM1.73 ↓

Share Price Performance



KLCI	1,815.86
YTD KLCI chg	3.1%
YTD stock price chg	5.7%

Stock Information

Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	1,809.0
Issued shares	1,076.8
52-week range (H)	2.35
52-week range (L)	1.38
3-mth avg daily vol:	1,318,034
Free Float	61%
Beta	1.1

Major Shareholders

WCT CAPITAL SDN BHD	19.3%
LEMBAGA TABUNG HAJI	10.0%
EMPLOYEES PROVIDENT	10.0%

Summary Earnings Table

FY Dec (RM'm)	2014A	2015E	2016E
Turnover	1,662.2	1,739.6	1,851.2
EBIT	202.4	206.9	243.3
PBT	151.1	192.2	205.1
Net Profit (NP)	120.5	142.0	151.7
Core net profit	120.5	142.0	151.7
Consensus (NP)	147.7	173.9	202.1
Earnings Revision	n.a	-8%	n.a
Basic EPS	11.0	13.0	13.9
FD EPS (sen)	8.5	10.1	10.7
EPS growth (%)	-16%	18%	6.8%
DPS (sen)	7.50	7.50	8.50
NTA/Share (RM)	1.69	1.82	1.88
Basic PER (x)	15.2	12.9	12.1
FD PER (x)	19.7	16.7	15.7
BVPS (RM)	1.69	1.82	1.88
Net Gearing (x)	0.3	0.2	0.2
Dividend Yield (%)	4.5	4.5	5.1

26 February 2015

Result Highlight

Y/E : Dec (RM mn)	4Q14	3Q14	QoQ Chg	4Q13	YoY Chg	FY14	FY13	YoY Chg
Turnover	322.4	471.1	-32%	280.4	15%	1,662.2	1,672.4	-1%
EBIT	36.1	42.9	-16%	23.4	54%	208.4	238.6	-13%
Interest expense	(22.1)	(14.7)	51%	(19.9)	11%	(66.7)	(67.6)	-1%
Associates	0.4	3.5	-90%	7.8	-95%	10.6	19.1	-45%
Exceptional items	3.3	5.4	n.m	54.1	-	(0.0)	64.1	-2%
Pretax profit	16.5	32.4	-49%	65.4	-75%	151.1	254.2	-41%
Taxation	0.2	(6.1)	-103%	(11.6)	-102%	(28.5)	(64.5)	-56%
Profit after tax	16.7	26.3	-36%	53.9	-69%	122.6	189.8	-35%
Minority interest	3.6	(0.5)	-852%	2.5	43%	(2.1)	7.8	-127%
Net profit	20.3	25.8	-22%	56.4	-64%	120.5	197.5	-39%
Core net profit	17.0	20.4	-17%	2.3	652%	120.5	133.4	-10%
EPS (sen)	1.4	1.8	-22%	4.0	-64%	8.5	16.8	-49%
DPS (sen)	2.7	0.0	n.m	3.3	-17%	6.2	6.8	-8%
EBIT margin	14%	16%		8%		13%	14%	
Pretax margin	10%	9%		23%		9%	15%	
Effective tax rate	2%	3%		18%		19%	25%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : Dec (RM mn)	4Q14	3Q14	QoQ Chg	4Q13	YoY Chg	FY14	FY13	YoY Chg
Revenue								
-Construction	261.1	362.1	-28%	232.9	12%	1,210.6	1,168.4	4%
-Property development	45.6	95.2	-52%	32.9	39%	391.7	442.5	-11%
-Property investment	15.7	13.8	13%	14.5	8%	59.9	61.5	-3%
Group Revenue	322.4	471.1	-32%	280.4	15%	1,662.2	1,672.4	-1%
Segment Profit								
-Construction	7.3	23.3	-69%	7.5	-2%	93.9	129.3	-27%
-Property development	13.7	12.6	9%	12.1	13%	73.5	93.6	-21%
-Property investment	15.1	7.0	116%	58.0	-74%	35.0	79.7	-56%
Group EBIT	36.1	42.9	-16%	77.5	-53%	202.4	302.7	-33%
EBIT Margin								
-Construction	3%	6%		3%		8%	11%	
-Property development	30%	13%		37%		19%	21%	
-Property investment	97%	51%		399%		58%	130%	
Overall	11%	9%						

Source: Company, Kenanga Research

Table 1: Sum-of-parts valuation

Segment	Stake	Method	Value (RMm)
Construction	100%	FY15 PE of 11x	670.0
Property development	100%	RNAV of 50% discount	664.0
Property investment -excl KLIA2 IC	Various	Book Value	473.9
KLIA2 Integrated complex	70%	DCF	435.9
Highway concession in India	30%	Book Value	128.3
Sub Total			2,372.1
Proceed from warrants (C and D)			688.5
Total			3,060.5
No of FD shares			1,413.1
SOP/share			2.17
Target Price (after 10% holding discount)			1.73
Implied Basic PE (x)			13.3
Implied FD PE (x)			17.2

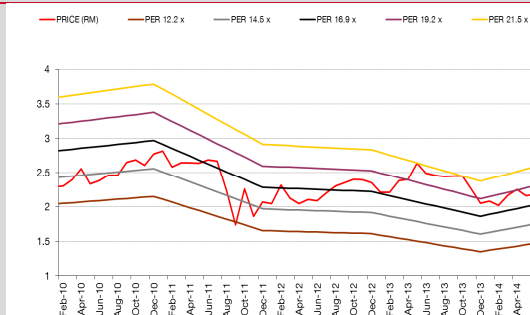
Source: Kenanga Research

26 February 2015

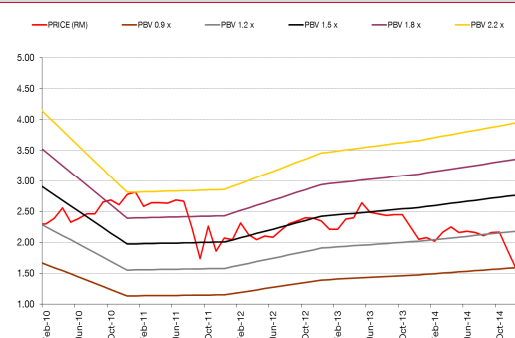
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2015E	FY Dec (RM m)	2012A	2013A	2014A	2015E	2015E
Revenue	1,560.4	1,655.0	1,662.2	1,739.6	1,851.2	Growth					
EBITDA	474.3	312.6	202.4	215.0	251.4	Turnover (%)	1%	6%	0%	5%	6%
Depreciation	6.5	9.9	8.1	15.0	14.0	EBITDA (%)	78%	-34%	-35%	6%	17%
Operating Profit	467.8	302.7	202.4	206.9	243.3	Operating Profit (%)	82%	-35%	-33%	2%	18%
Other Income	244.6	140.4	69.1	69.1	69.1	PBT (%)	100%	-39%	-41%	27%	7%
Interest Exp	-68.9	-67.6	-66.7	-59.7	-66.3	Net Profit (%)	-9%	-3%	-16%	18%	7%
Associate	16.8	12.1	8.4	15.0	20.0	Profitability (%)					
Exceptional Items	-	-	-	-	-	EBITDA Margin	30%	19%	12%	12%	14%
PBT	414.9	254.2	151.1	192.2	205.1	Operating Margin	30%	18%	12%	12%	13%
Taxation	-69.2	-64.5	-28.5	-48.1	-51.3	PBT Margin	27%	15%	9%	11%	11%
Minority Interest	-13.2	-7.8	2.1	2.1	2.1	Net Margin	23%	12%	7%	8%	8%
Net Profit	358.9	197.5	120.5	142.0	151.7	Effective Tax Rate	17%	25%	19%	25%	25%
Core Net Profit	147.9	143.8	120.5	142.0	151.7	ROA	7%	4%	2%	3%	3%
Balance Sheet						ROE	19%	9%	5%	6%	6%
FY Dec (RM m)	2012A	2013A	2014E	2015E	2015E	DuPont Analysis					
PPE	276.2	271.7	277.6	273.9	274.8	Net Margin (%)	23%	12%	7%	8%	8%
Intangible Assets	-	-	-	-	1.0	Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Other FA	2,586.5	2,591.5	2,633.8	2,647.6	2,624.6	Leverage Factor (x)	2.9	2.5	2.4	2.2	2.1
Inventories	73.9	75.6	74.7	75.1	74.9	ROE (%)	19%	9%	5%	6%	6%
Receivables	706.4	706.8	706.6	706.7	706.6	Leverage					
Other CA	666.4	915.7	912.5	914.1	913.3	Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
Cash	1,077.7	973.4	1,025.6	999.5	1,012.5	Debt/Equity (x)	1.0	0.9	0.7	0.6	0.6
Total Assets	5,387.0	5,534.6	5,630.7	5,616.9	5,607.8	Net Cash/(Debt)	0.4	0.5	0.4	0.4	0.3
Payables	666.3	615.8	641.0	628.4	634.7	Net Debt/Equity (x)	0.4	0.4	0.3	0.2	0.2
ST Borrowings	930.7	369.1	369.1	369.1	369.1	Valuations					
Other ST Liability	432.9	246.4	339.6	293.0	316.3	Basic EPS (sen)	13.5	13.2	11.0	13.0	13.9
LT Borrowings	893.3	1,553.1	1,397.8	1,258.0	1,132.2	FD EPS (sen)	10.5	10.2	8.5	10.1	10.7
Other LT Liability	596.4	493.9	493.9	493.9	493.9	DPS (sen)	7.0	6.8	7.5	7.5	8.5
Minorities Int.	57.0	52.1	52.1	53.1	54.1	NTA (RM)	1.32	1.60	1.69	1.82	1.88
Net Assets	1,867.4	2,256.4	2,389.2	2,574.5	2,661.5	Basic PER (x)	13.5	13.2	11.0	13.0	13.9
Share Capital	475.8	546.2	546.2	546.2	546.2	FD PER (x)	16.1	16.5	19.7	16.7	15.7
Reserves	940.6	(515.9)	(383.0)	(198.7)	(112.7)	Net Div. Yield (%)	4.2	4.0	4.5	4.5	5.1
Equity	1,867.4	2,256.4	2,389.2	2,574.5	2,661.5	BVPS (RM)	1.32	1.60	1.69	1.82	1.88
Cashflow Statement						P/NTA (x)	1.3	1.1	1.0	0.9	0.9
FY Dec (RM m)	2012A	2013A	2014E	2015E	2015E	EV/EBITDA (x)	1.6	3.0	3.7	2.9	1.9
Operating CF	89.8	126.7	108.3	117.5	112.9						
Investing CF	(180.6)	(233.1)	(206.9)	(220.0)	(213.4)						
Financing CF	403.3	75.2	239.2	157.2	198.2						
Change In Cash	312.5	(31.2)	140.6	54.7	97.7						
Free CF	1,069.5	929.1	999.3	964.2	981.7						

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

26 February 2015

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)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
BENALEC HOLDINGS	0.84	671.3	19.0	10.3	9.4	2.4	11.6	1.2	35.3	65.0	71.2	84.1	9.5	0.83	Market Perform	48.67
EVERSENDAL CORP	0.62	475.9	9.4	16.1	8.7	6.5	3.6	0.6	50.9	29.6	54.6	-41.8	84.5	0.60	Underperform	-21.15
GAMUDA BHD	5.30	12446.9	17.3	18.1	17.9	2.3	14.6	2.7	719.4	687.2	694.3	-4.5	1.0	5.29	Outperform	5.79
IJM CORP BHD	7.14	10690.6	19.8	16.5	13.9	2.1	8.8	1.4	539.1	648.7	770.4	20.3	18.8	7.68	Outperform	8.68
KIMLUN CORP	1.29	387.7	10.7	11.9	8.5	2.3	9.0	1.1	36.4	32.6	45.4	-10.4	39.3	1.28	Underperform	8.40
MUHIKBAH	2.29	989.0	11.4	11.3	11.4	2.2	10.3	1.2	86.4	87.7	86.4	1.6	-1.5	2.80	Outperform	22.46
HOCK SENG LEE	1.83	1005.6	11.8	12.6	9.9	2.2	12.9	1.6	85.2	80.1	101.6	-6.0	26.8	2.20	Outperform	7.65
NAIM HOLDINGS	3.28	777.2	19.0	6.3	7.7	2.1	11.4	0.7	40.9	123.7	101.3	202.4	-18.1	3.62	Outperform	10.07
WCT HOLDINGS	1.68	1809.0	15.0	12.7	11.9	4.5	7.2	0.9	120.5	142.0	151.7	17.9	6.8	1.73	Market Perform	5.66
MMC CORP BHD	2.60	7917.2	34.0	24.6	23.7	0.0	4.3	1.0	232.6	322.4	334.7	38.6	3.8	3.03	Outperform	8.79
Average			16.7	14.0	12.3											
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)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.66	893.7	5.1	19.6	9.9	1.8	3.2	0.6	173.7	45.5	90.6	-73.8	99.1	N.A.	Not Rated	14.48
PROTASCO	1.71	573.3	7.9	9.8	6.6	5.8	11.7	1.1	73.0	58.8	86.8	-19.6	47.7	2.25	TRADING BUY	20.42
PINTARAS JAYA	4.38	707.3	13.0	11.7	10.7	3.4	17.8	2.1	54.2	60.6	66.1	11.7	9.1	4.78	TRADING BUY	17.43
GABUNGAN AQRS	1.26	489.4	9.5	9.3	7.1	2.7	n.a.	n.a.	51.4	52.5	69.3	2.2	32.0	N.A.	Not Rated	0.80
GADANG HOLDINGS	1.54	333.2	7.5	4.1	2.9	5.8	27.0	1.1	44.4	81.7	114.0	84.1	39.5	2.00	TAKE PROFIT	14.07
MITRAJAYA HOLDINGS	1.65	650.3	22.7	4.3	4.1	3.1	6.3	0.3	28.7	152.5	157.0	432.2	3.0	1.13	TRADING BUY	68.37
AZRB	0.70	337.4	62.5	29.3	12.5	1.4	n.a.	n.a.	5.4	11.5	26.9	112.8	133.9	N.A.	Not Rated	3.70
TRC SYNERGY	0.43	206.6	20.8	13.5	7.4	2.8	4.0	0.5	10.0	15.3	27.9	54.0	81.7	N.A.	Not Rated	13.16
BINA PURI	0.55	102.0	17.5	11.3	6.0	3.6	n.a.	n.a.	5.8	9.0	17.0	54.7	88.9	N.A.	Not Rated	1.85
Average			18.5	12.5	7.5											

Source: Kenanga Research

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research