

WCT Holdings Bhd

Below Expectations

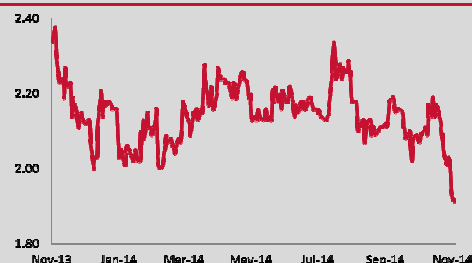
By Iqbal Zainal | mdiqbal@kenanga.com.my

Period	<ul style="list-style-type: none"> 3Q14/9M14
Actual vs. Expectations	<ul style="list-style-type: none"> WCT's 9M14 core net profit of RM103.6m came in below expectations; making up 64% and 63%, of our and market estimates, respectively. The negative variance was due to lower-than-expected EBIT margins in both construction (9M14: 7% vs 10%) and property (17% vs 22%) divisions.
Dividends	<ul style="list-style-type: none"> None as expected.
Key Results Highlights	<ul style="list-style-type: none"> QoQ, 3Q14 revenue was up by 17% driven by construction division's higher turnover (+46%) amidst construction progress. However, WCT's net profit declined 45% on the back of lower margins for both construction and property divisions. As for construction, EBIT margins dropped to 5% from 8% dragged down by additional costs (approximately RM8.0m) incurred in completing New Doha International Airport project. Meanwhile, for property division, margins eroded to 13% from 19% as a result of slower billings and higher costs. Similarly, 3Q14 core net profit fell by 51% YoY and 21% YTD, dragged down by lower margins for both construction and property divisions.
Outlook	<ul style="list-style-type: none"> Although the group has strong orderbook of RM3.5b (external: RM2.3b), which will drive the group's top line in the next 3 years, we reiterate our concerns over the group's earnings outlook on the following factors: (i) flattish property sales due to slowdown in property market and (ii) declining trend in construction and property margins. Nonetheless, management also updated that the group's tenderbook currently stands at RM3.1b driven by some major domestic projects namely Kwasa Damansara earthworks (RM1.0b), Petronas RAPID works, TRX, Warisan Merdeka and infrastructure jobs in Qatar (RM1.0b).
Change to Forecasts	<ul style="list-style-type: none"> Revised downwards FY14-FY15 earnings forecasts by 19% each to reflect the declining margins in both construction (adjust from 10% to 7%) and property (adjust from 22% to 20%) divisions. Post adjustments, our FY14-FY15E EBIT margins dropped to 12% from 15% previously.
Rating	<p>Maintain MARKET PERFORM</p> <ul style="list-style-type: none"> While we are wary on the group's earnings outlook, the group might surprise us with significant new contract flows in the near-to-medium term given its strong tenderbook of about RM3.1b.
Valuation	<ul style="list-style-type: none"> Post-earnings revision, our SoP-based TP is adjusted lower to RM2.02 (from RM2.27), implying fwd-PER of 18.0x FY15 FD EPS.
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: RM1.91
Target Price: RM2.02 ↓

Share Price Performance



KLCI	1,833.77
YTD KLCI chg	-1.8%
YTD stock price chg	-5.9%

Stock Information

Bloomberg Ticker	WCTHG MK Equity
Market Cap (RM m)	2,077.6
Issued shares	1,087.8
52-week range (H)	2.40
52-week range (L)	1.91
3-mth avg daily vol:	762,700
Free Float	61%
Beta	1.0

Major Shareholders

WCT CAPITAL SDN BHD	19.3%
EMPLOYEES PROVIDENT	10.1%
LEMBAGA TABUNG HAJI	10.0%

Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	1,655.0	1,739.1	1,769.6
EBIT	302.7	203.4	212.7
PBT	254.2	164.7	199.7
Net Profit (NP)	197.5	132.5	158.8
Core net profit	143.8	132.5	158.8
Consensus (NP)	n.a.	164.3	189.1
Earnings Revision	n.a.	-19%	-19%
FD EPS (sen)	10.2	9.4	11.2
EPS growth (%)	-3%	-8%	20%
DPS (sen)	6.8	7.5	7.5
NTA/Share (RM)	1.60	1.69	1.82
PER	18.8	20.4	17.0
BVPS (RM)	1.60	1.69	1.82
Net Gearing (x)	0.3	0.3	0.4
Dividend Yield (%)	3.5	3.9	3.9

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Result Highlight

Y/E : Dec (RM mn)	3Q14	2Q14	QoQ Chg	3Q13	YoY Chg	9MFY14	9MFY13	YoY Chg
Turnover	471.1	401.5	17%	418.5	13%	1,339.8	1,392.0	-4%
EBIT	42.9	56.2	-24%	73.7	-42%	172.3	215.2	-20%
Interest expense	(14.7)	(14.8)	-1%	(17.1)	-14%	(44.6)	(47.7)	-7%
Associates	3.5	2.2	59%	3.3	5%	10.3	11.3	-9%
Exceptional items	5.4	(2.7)	n.m	0.0	n.m	(3.3)	10.0	n.m
Pretax profit	32.4	45.5	-29%	59.9	-46%	134.6	188.8	-29%
Taxation	(6.1)	(6.4)	-6%	(19.3)	-69%	(28.7)	(52.9)	-46%
Profit after tax	26.3	39.1	-33%	40.6	-35%	105.9	135.9	-22%
Minority interest	0.5	4.8	-90%	(0.8)	-161%	5.7	(5.3)	>100%
Net profit	25.8	34.3	-25%	41.3	-37%	100.2	141.2	-29%
Core net profit	20.4	37.0	-45%	41.3	-51%	103.6	131.2	-21%
EPS (sen)	1.8	2.4	-25%	3.8	-52%	7.1	12.8	-45%
DPS (sen)	0.0	3.5	n.m	0.0	n.m	3.5	3.5	n.m
EBIT margin	14%	16%		18%		13%	15%	
Pretax margin	10%	9%		14%		10%	14%	
Effective tax rate	2%	3%		32%		21%	28%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : Dec (RM mn)	3Q14	2Q14	QoQ Chg	3Q13	YoY Chg	9MFY14	9MFY13	YoY Chg
Revenue								
-Construction	516.3	353.1	46%	374.8	38%	1,252.8	1,078.2	16%
-Property development	97.9	127.6	-23%	135.2	-28%	352.8	409.5	-14%
-Property investment	13.8	16.7	-18%	14.0	-2%	44.3	46.9	-6%
-Elimination	(156.9)	(96.0)	63%	(82.0)	91%	(310.1)	(142.7)	117%
Group Revenue	471.1	401.5	17%	442.0	7%	1,339.8	1,392.0	-4%
Segment Profit								
-Construction	23.3	26.6	-13%	32.6	-29%	86.6	121.8	-29%
-Property development	12.6	24.2	-48%	35.0	-64%	59.8	81.5	-27%
-Property investment	7.0	6.1	15%	6.0	16%	19.9	21.8	-9%
-Elimination	0.0	0.0	n.m.	0.0	n.m	-	-	n.m
Group EBIT	42.9	56.9	-25%	73.7	-42%	166.3	225.1	-26%
EBIT Margin								
-Construction	5%	8%		9%		7%	11%	
-Property development	13%	19%		26%		17%	20%	
-Property investment	51%	36%		43%		45%	46%	
Overall	9%	14%		17%		12%	16%	

Source: Company, Kenanga Research

Table 1: Sum-of-parts valuation

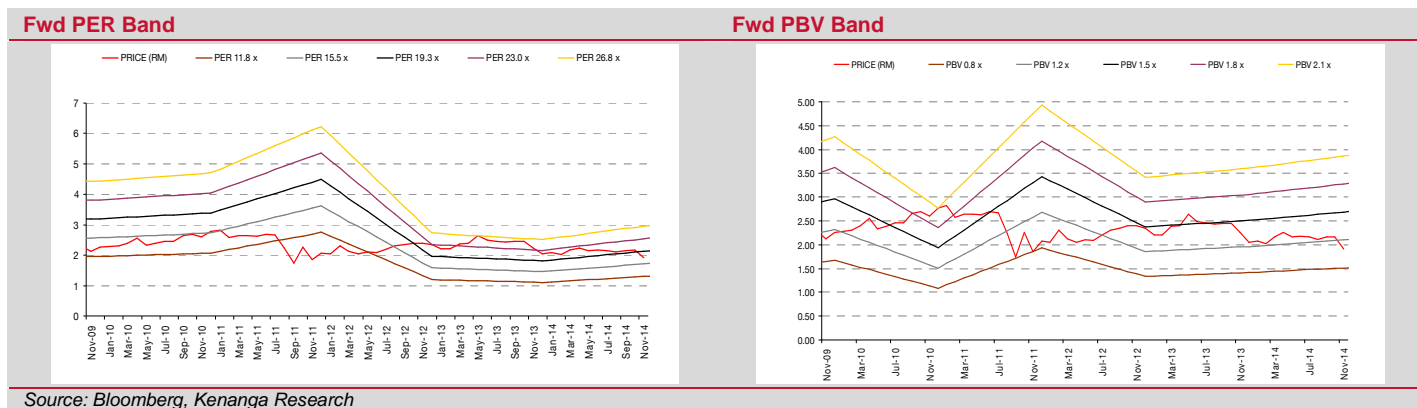
Segment	Stake	Method	Value (RMm)
Construction	100%	PE of 12x	788.8
Property development	100%	RNAV of 50% discount	664.0
Property investment -excl KLIA2 IC	Various	Book Value	473.9
KLIA2 Integrated complex	70%	DCF	435.9
Highway concession in India	30%	Book Value	128.3
Sub Total			2,490.8
Proceed from warrants (C and D)			688.5
Total			3,179.3
No of FD shares			1,413.1
SOP/share			2.25
Target Price (after 10% holding discount)			2.02
Implied PE (x)			18.0

Source: Kenanga Research

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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	1,739.1	1,769.6	Growth					
EBITDA	266.6	474.3	312.6	213.4	222.6	Turnover (%)	-10%	1%	6%	5%	2%
Depreciation	9.1	6.5	9.9	14.0	15.0	EBITDA (%)	-16%	78%	-34%	-32%	4%
Operating Profit	257.4	467.8	302.7	203.4	212.7	Operating Profit (%)	-14%	82%	-35%	-33%	5%
Other Income	69.4	244.6	140.4	96.7	96.7	PBT (%)	-19%	100%	-39%	-35%	21%
Interest Exp	-66.7	-68.9	-67.6	-61.0	-59.7	Net Profit (%)	15%	-9%	-3%	-8%	20%
Associate	16.8	16.8	12.1	15.2	39.7						
Exceptional Items	-	-	-	-	-	Profitability (%)					
PBT	207.5	414.9	254.2	164.7	199.7	EBITDA Margin	17%	30%	19%	12%	13%
Taxation	-44.6	-69.2	-64.5	-41.2	-49.9	Operating Margin	17%	30%	18%	12%	12%
Minority Interest	0.5	-13.2	-7.8	-9.0	-9.0	PBT Margin	13%	27%	15%	9%	11%
Net Profit	162.4	358.9	197.5	132.5	158.8	Net Margin	11%	23%	12%	8%	9%
Core Net Profit	162.4	147.9	143.8	132.5	158.8	Effective Tax Rate	21%	17%	25%	25%	25%
						ROA	4%	7%	4%	2%	3%
						ROE	9%	19%	9%	6%	6%
Balance Sheet											
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	DuPont Analysis					
PPE	270.3	276.2	271.7	277.6	273.9	Net Margin (%)	11%	23%	12%	8%	9%
Intangible Assets	(1.0)	-	-	-	-	Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Other FA	2,040.3	2,586.5	2,591.5	2,633.8	2,647.6	Leverage Factor (x)	2.6	2.9	2.5	2.4	2.2
Inventories	51.4	73.9	75.6	74.7	75.1	ROE (%)	9%	19%	9%	6%	6%
Receivables	634.1	706.4	706.8	706.6	706.7						
Other CA	770.5	666.4	915.7	912.5	914.1	Leverage					
Cash	804.0	1,077.7	973.4	1,025.6	999.5	Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
Total Assets	4,569.6	5,387.0	5,534.6	5,630.7	5,616.9	Debt/Equity (x)	0.8	1.0	0.9	0.7	0.6
Payables	562.3	666.3	615.8	641.0	628.4	Net Cash/(Debt)	0.4	0.4	0.5	0.4	0.4
ST Borrowings	466.1	930.7	369.1	369.1	369.1	Net Debt/Equity (x)	0.3	0.4	0.4	0.3	0.2
Other ST Liability	403.2	432.9	246.4	339.6	293.0						
LT Borrowings	917.7	893.3	1,553.1	1,397.8	1,258.0	Valuations					
Other LT Liability	476.1	596.4	493.9	493.9	493.9	EPS (sen)	11.5	10.5	10.2	9.4	11.2
Minorities Int.	282.6	57.0	52.1	52.1	53.1	DPS (sen)	9.5	7.0	6.8	7.5	7.5
Net Assets	1,744.1	1,867.4	2,256.4	2,389.2	2,574.5	NTA (RM)	1.23	1.32	1.60	1.69	1.82
						PER (x)	16.6	18.3	18.8	20.4	17.0
Share Capital	402.6	475.8	546.2	546.2	546.2	Net Div. Yield (%)	5.0	3.7	3.5	3.9	3.9
Reserves	643.5	940.6	(515.9)	(383.0)	(198.7)	BVPS (RM)	1.23	1.32	1.60	1.69	1.82
Equity	1,744.1	1,867.4	2,256.4	2,389.2	2,574.5	P/NTA (x)	1.5	1.4	1.2	1.1	1.0
						EV/EBITDA (x)	2.2	1.6	3.0	3.5	2.8
Cashflow Statement											
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E						
Operating CF	163.5	89.8	126.7	108.3	117.5						
Investing CF	(285.6)	(180.6)	(233.1)	(206.9)	(220.0)						
Financing CF	(252.9)	403.3	75.2	239.2	157.2						
Change In Cash	(375.0)	312.5	(31.2)	140.6	54.7						
Free CF	788.7	1,069.5	929.1	999.3	964.2						

Source: 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)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
BENALEC HOLDINGS	0.79	631.2	17.9	9.7	8.9	2.5	11.6	1.1	35.3	65.0	71.2	84.1	9.5	1.25	Outperform	-7.1
EVERSENDAL CORP	0.75	576.6	11.3	17.2	5.7	5.4	3.9	0.7	50.9	33.5	101.4	-34.2	202.7	1.11	Outperform	-28.4
GAMUDA BHD	5.21	12150.8	17.1	16.6	16.7	2.3	15.7	2.6	712.3	731.3	727.3	2.7	-0.5	5.52	Outperform	8.5
IJM CORP BHD	6.81	10142.1	18.8	14.1	11.8	2.2	9.7	1.4	539.1	717.2	860.1	33.0	19.9	7.57	Outperform	17.5
KIMLUN CORP	1.36	408.8	11.2	10.5	7.8	2.4	10.8	1.1	36.4	39.1	52.3	7.4	33.8	1.57	Underperform	-18.8
MUHIKBAH	2.34	1004.1	11.6	11.2	9.7	2.1	10.5	1.2	86.4	89.5	103.8	3.6	16.0	3.63	Outperform	2.6
HOCK SENG LEE	1.86	1022.1	12.0	10.9	8.8	2.2	15.6	1.7	85.2	94.2	116.2	10.6	23.4	2.31	Outperform	-0.5
NAIM HOLDINGS	3.12	739.3	18.1	7.7	7.3	2.2	9.0	0.7	40.9	95.6	101.3	133.7	6.0	4.18	Outperform	-14.5
WCT HOLDINGS	1.91	2077.6	14.4	15.7	13.1	3.9	7.2	1.1	143.8	132.5	158.8	-7.9	19.8	2.02	Market Perform	-5.9
Average			14.7	12.6	10.0											
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	1.89	1017.6	5.9	19.1	8.7	3.0	3.6	0.7	173.7	53.3	117.6	-69.3	120.8	N.A.	Not Rated	-34.8
PROTASCO	1.62	543.1	7.4	9.3	6.8	6.2	14.4	1.4	73.0	58.1	79.7	-20.4	37.2	2.25	TRADING BUY	17.4
PINTARAS JAYA	4.50	726.6	13.4	11.9	11.0	3.3	17.9	2.1	54.2	61.0	66.1	12.4	8.4	4.78	TRADING BUY	57.3
GABUNGAN AQRS	1.64	639.5	12.5	13.6	11.3	2.0	N.A.	N.A.	51.2	47.0	56.5	-8.3	20.3	N.A.	Not Rated	54.7
GADANG HOLDINGS	1.64	354.8	17.4	5.4	3.8	4.5	21.6	1.2	20.4	65.4	92.7	221.0	41.7	2.00	TAKE PROFIT	56.2
MITRAJAYA HOLDINGS	1.08	425.6	14.9	9.9	7.7	3.1	11.7	1.2	28.7	43.2	55.0	50.6	27.3	1.13	TRADING BUY	113.9
AZRB	0.71	342.3	63.3	20.7	11.4	1.4	N.A.	N.A.	5.4	16.5	30.1	205.4	82.4	N.A.	Not Rated	-5.9
TRC SYNERGY	0.47	223.4	20.9	13.3	7.7	2.6	4.4	0.6	10.7	16.8	29.1	57.4	72.8	N.A.	Not Rated	-12.3
BINA PURI	0.63	112.1	19.3	16.7	6.9	3.2	N.A.	N.A.	5.8	6.7	16.3	15.1	143.3	N.A.	Not Rated	-12.5
Average			19.4	13.3	8.4											

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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