

WCT Holdings Bhd (WCTHG MK)

Share Price: MYR2.22

MCap (USD): 755M

Malaysia

Target Price: MYR2.55 (+15%)

ADTV (USD): 0.9M

Construction

BUY

(Unchanged)

Earnings rebounded

- 1Q14 results were within our and consensus estimates.
- The rebound could signify labour shortage issue resolved.
- Maintain BUY with an unchanged SOP-based TP of MYR2.55.

What's New

WCT's 1Q14 core net profit after stripping off forex loss was MYR46m (+26% YoY, +10% QoQ), accounting for 24% of our and consensus full-year forecasts. 1Q14 construction works recognition rebounded strongly by 40% QoQ (-6% YoY). Excluding forex losses/gains, the 1Q14 construction core EBIT improved 18% YoY (+7% QoQ) as EBIT margins increased 2.6ppt YoY (-4.1ppt QoQ).

Meanwhile, property development 1Q14 EBIT increased 96% QoQ (-15% YoY) as progress billings surged 284% QoQ (+2% YoY) but partly offset by weaker 1Q14 EBIT margins (-18ppt QoQ, -4ppt YoY) which could be due to the product mix.

What's Our View

The strong QoQ rebound in construction works recognition and property development progress billings could be an indication that its labour shortage issue, that began in 3Q13, has been resolved.

WCT is targeting to clinch earthworks from a few major projects including RAPID at Pengerang and Rubber Research Institute Land property development in Sg Buloh at Greater KL. It is also eyeing subcontracting jobs from WCE that were opened for tender recently. In Qatar, WCT is also bidding for two infrastructure jobs. All these would bode well for its construction orderbook replenishment in 2014. WCT's outstanding construction orderbook is estimated to be MYR1.79b as of end-Mar 2014. Elsewhere, property sales was MYR218m in 1Q14, lifting unbilled sales to MYR533m, with sales target for 2014 remaining at MYR1.2b.

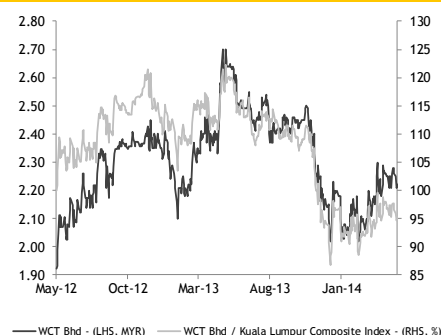
There is no change to our earnings forecasts. Reiterate BUY at an unchanged SOP-based TP of MYR2.55.

FYE Dec (MYR m)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	1,560.4	1,655.0	1,661.3	1,712.1	1,740.5
EBITDA	254.0	282.4	303.5	326.2	369.5
Core net profit	158.7	200.5	193.3	201.5	235.2
Core EPS (sen)	16.8	18.7	17.7	18.4	21.5
Core EPS growth (%)	6.8	11.1	(5.3)	4.2	16.7
Net DPS (sen)	6.5	6.8	6.8	6.8	6.8
Core P/E (x)	13.2	11.9	12.5	12.0	10.3
P/BV (x)	1.2	1.1	1.0	1.0	0.9
Net dividend yield (%)	2.9	3.0	3.0	3.0	3.0
ROAE (%)	8.8	9.7	8.3	8.2	9.0
ROAA (%)	3.2	3.7	3.4	3.5	4.1
EV/EBITDA (x)	11.9	11.1	10.0	9.1	7.7
Net debt/equity (%)	41.0	40.1	23.8	18.6	12.4

Key Data

Shariah status	Yes
52w high/low (MYR)	2.65/2.02
3m avg turnover (USDm)	0.9
Free float (%)	76.9
Issued shares (m)	1,092
Market capitalization	MYR2.4B
Major shareholders:	
-Cash Carat Sdn. Bhd.	19.0%
-Employees Provident Fund	10.9%
-Lembaga Tabung Haji	9.3%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(3.1)	5.2	(15.9)
Relative to index (%)	(3.6)	2.6	(20.1)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	6	9	1
Maybank Consensus		% +/-	
Target Price (MYR)	2.55	2.43	5.2
'14 PATMI (MYRm)	193	195	(1.1)
'15 PATMI (MYRm)	202	220	(8.3)

Source: FactSet; Maybank

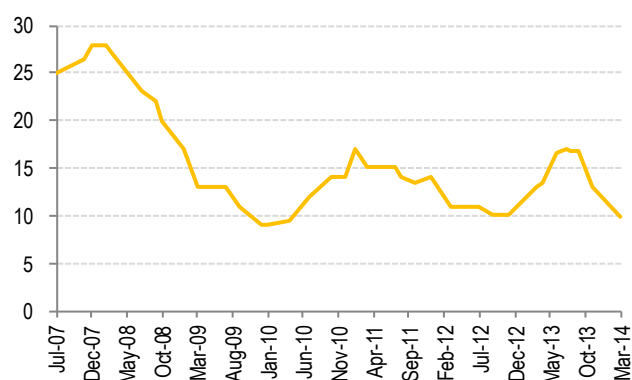
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Results Summary Table

FY Dec (MYR m)	Quarterly				
	1Q14	1Q13	% YoY	4Q13	% QoQ
Turnover	467.2	490.9	(4.8)	280.4	66.6
EBIT	67.2	76.1	(11.6)	77.5	(13.3)
Interest expense	(15.1)	(14.7)	2.7	(19.9)	(24.4)
Associates	4.6	4.0	16.0	7.8	(41.2)
Pre-tax profits	56.8	65.4	(13.2)	65.4	(13.2)
Tax	(16.2)	(23.5)	(31.1)	(11.6)	40.2
Minority Interests	(0.5)	1.4	(133.4)	2.5	(118.0)
Net profit	40.1	43.2	(7.1)	56.4	(28.9)
Net profit (ex-forex, ex-EI)	46.0	36.6	25.6	41.9	9.7
	1Q14	1Q13	+/- ppt	4Q13	+/- ppt
<i>EBIT margin (%)</i>	14.4	15.5	(1.1)	27.7	(13.3)
<i>Pretax margin (%)</i>	12.1	13.3	(1.2)	23.3	(11.2)
<i>Tax rate (%)</i>	28.6	36.0	(7.4)	17.7	10.9
Revenue:	1Q14	1Q13	% YoY	4Q13	% QoQ
Construction	327.0	347.6	(5.9)	232.9	40.4
Property devt	126.4	124.0	2.0	32.9	283.8
Property investment	13.7	19.3	(28.9)	14.5	(5.5)
Total	467.2	490.9	(4.8)	280.4	66.6
EBIT					
Construction	36.7	42.8	(14.3)	7.5	392.1
Property devt	23.8	28.0	(15.3)	12.1	96.2
Property investment	6.8	5.2	30.0	58.0	(88.3)
Total	67.2	76.1	(11.6)	77.5	(13.3)
EBIT margin (%)	1Q14	1Q13	+/- ppt	4Q13	+/- ppt
Construction	11.2	12.3	(1.1)	3.2	8.0
Property devt	18.8	22.6	(3.8)	36.8	(18.0)
Property investment	49.2	26.9	22.3	398.5	(349.3)
Total	14.4	15.5	(1.1)	27.7	(13.3)

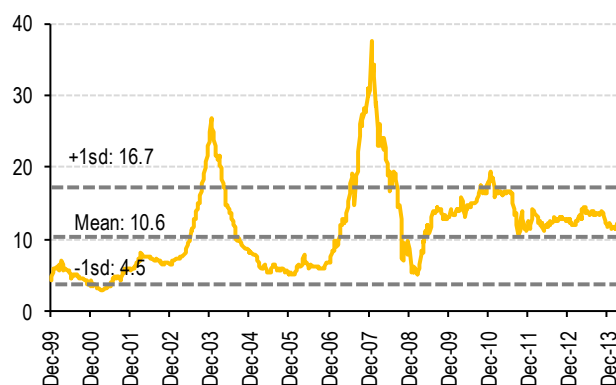
Sources: Company, Maybank KE

WCT: Foreign shareholding (9.9% @ Mar 2014)



Sources: Company, Maybank KE

WCT: One-year forward rolling PER



Sources: Bloomberg, Maybank KE

WCT's Sum-Of-Parts valuation

	<i>2015F net profit</i>	<i>PER target</i>	<i>WCT's stake</i>	<i>Value</i>	
Construction	70.7	12.0	100.0%	848.4	12x 2015 PER
Property investment	31.5	12.0	100.0%	378.3	12x 2015 PER
		<i>DCF value</i>	<i>WCT's stake</i>	<i>Value</i>	
Property development		1,420.7	100.0%	1,420.7	40% discount on RNAV
Gateway@KLIA2 concession		398.7	70.0%	279.1	DCF

Total SOP				2,926.5	
Cash proceeds from warrants				688.5	

Fully Diluted (FD) SOP				3,615.0	
				=====	
SOP/sh (MYR)				2.78	
FD SOP/sh (MYR)				2.56	
FD SOP/sh (MYR) - Rounded				2.55	
<i>Number of shares</i>				1,052.0	
<i>FD number of shares</i>				1,413.1	

Source: Maybank KE

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Key Metrics					
P/E (reported) (x)	5.8	12.1	12.5	12.0	10.3
Core P/E (x)	13.2	11.9	12.5	12.0	10.3
P/BV (x)	1.2	1.1	1.0	1.0	0.9
P/NTA (x)	1.2	1.1	1.0	1.0	0.9
Net dividend yield (%)	2.9	3.0	3.0	3.0	3.0
FCF yield (%)	2.9	nm	19.3	9.9	11.2
EV/EBITDA (x)	11.9	11.1	10.0	9.1	7.7
EV/EBIT (x)	12.2	11.5	10.4	9.4	7.9

INCOME STATEMENT (MYR m)

Revenue	1,560.4	1,655.0	1,661.3	1,712.1	1,740.5
Gross profit	316.5	270.1	270.6	278.7	283.0
EBITDA	254.0	282.4	303.5	326.2	369.5
Depreciation	(6.5)	(9.9)	(10.4)	(11.0)	(11.5)
EBIT	247.5	272.4	293.1	315.2	358.0
Net interest income / (exp)	(48.8)	(34.5)	(46.8)	(51.9)	(49.0)
Associates & JV	16.0	19.2	20.2	21.2	22.2
Exceptionals	200.2	(2.9)	0.0	0.0	0.0
Pretax profit	414.9	254.2	266.4	284.5	331.2
Income tax	(69.2)	(64.5)	(66.6)	(71.1)	(82.8)
Minorities	13.2	7.8	(6.5)	(11.9)	(13.2)
Reported net profit	358.9	197.5	193.3	201.5	235.2
Core net profit	158.7	200.5	193.3	201.5	235.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,077.7	1,039.1	1,168.7	1,065.7	1,098.3
Accounts receivable	977.1	1,089.1	1,098.1	1,131.6	1,150.4
Inventory	73.9	75.6	76.7	79.0	80.3
Property, Plant & Equip (net)	276.2	271.7	291.2	310.3	328.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	207.2	443.3	463.4	484.6	506.8
Other assets	2,774.9	2,615.9	2,615.9	2,615.9	2,615.9
Total assets	5,387.0	5,534.6	5,714.0	5,687.1	5,780.5
ST interest bearing debt	930.7	369.1	269.1	169.1	69.1
Accounts payable	1,083.4	842.7	1,096.0	1,129.5	1,148.3
LT interest bearing debt	890.1	1,553.1	1,453.1	1,353.1	1,353.1
Other liabilities	615.4	513.4	513.4	513.4	513.4
Total Liabilities	3,519.6	3,278.3	3,331.5	3,165.0	3,083.8
Shareholders Equity	1,810.5	2,204.3	2,323.9	2,451.7	2,613.1
Minority Interest	57.0	52.1	58.6	70.4	83.7
Total shareholder equity	1,867.4	2,256.4	2,382.4	2,522.1	2,696.7

CASH FLOW (MYR m)

Pretax profit	414.9	254.2	266.4	284.5	331.2
Depreciation & amortisation	6.5	9.9	10.4	11.0	11.5
Adj net interest (income)/exp	48.8	34.5	46.8	51.9	49.0
Change in working capital	(311.2)	(944.3)	242.1	(5.4)	(6.3)
Cash taxes paid	(69.2)	(64.5)	(66.6)	(71.1)	(82.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	89.8	(710.1)	499.2	270.8	302.6
Capex	(28.3)	(23.1)	(30.0)	(30.0)	(30.0)
Free cash flow	61.6	(733.3)	469.2	240.8	272.6
Dividends paid	(61.8)	(72.9)	(73.7)	(73.7)	(73.7)
Equity raised / (purchased)	40.4	259.6	0.0	0.0	0.0
Change in Debt	424.5	406.6	(200.0)	(200.0)	(100.0)
Other invest/financing cash flow	(241.3)	3.2	(65.9)	(70.0)	(66.2)
Net cash flow	223.4	(136.7)	129.5	(102.9)	32.6

FYE 31 Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.4	6.1	0.4	3.1	1.7
EBITDA growth	14.6	11.2	7.5	7.5	13.3
EBIT growth	16.4	10.1	7.6	7.6	13.6
Pretax growth	99.9	(38.7)	4.8	6.8	16.4
Reported net profit growth	116.2	(45.0)	(2.1)	4.2	16.7
Core net profit growth	9.2	26.3	(3.6)	4.2	16.7
Profitability ratios (%)					
EBITDA margin	16.3	17.1	18.3	19.0	21.2
EBIT margin	15.9	16.5	17.6	18.4	20.6
Pretax profit margin	26.6	15.4	16.0	16.6	19.0
Payout ratio	17.1	36.7	38.1	36.6	31.4
DuPont analysis					
Net profit margin (%)	23.0	11.9	11.6	11.8	13.5
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	3.0	2.5	2.5	2.3	2.2
ROAE (%)	8.8	9.7	8.3	8.2	9.0
ROAA (%)	3.2	3.7	3.4	3.5	4.1
Liquidity & Efficiency					
Cash conversion cycle	(19.8)	(6.2)	5.7	(25.5)	(25.6)
Days receivable outstanding	257.6	224.7	237.0	234.4	236.0
Days inventory outstanding	18.1	19.4	19.7	19.6	19.7
Days payables outstanding	295.5	250.3	250.9	279.5	281.3
Dividend cover (x)	5.8	2.7	2.6	2.7	3.2
Current ratio (x)	1.2	2.2	2.1	2.2	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.7	1.7	1.8	1.9
Net debt/equity (%)	41.0	40.1	23.8	18.6	12.4
Net interest cover (x)	5.1	7.9	6.3	6.1	7.3
Debt/EBITDA (x)	7.2	6.8	5.7	4.7	3.8
Capex/revenue (%)	1.8	1.4	1.8	1.8	1.7
Net debt/ (net cash)	743.1	883.0	553.5	456.4	323.8

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