

25 August 2014 | 2QFY14 Briefing Note

WCT Holdings Berhad

Challenging times to persist

Maintain BUY

Revised Target Price (TP): RM2.59

(previously RM2.88)

INVESTMENT HIGHLIGHTS

- **Management indicated that construction job wins and property sales will get tougher moving forward**
- **At this juncture, we maintain our earnings forecast.**
- **Maintain BUY with a revised TP of RM2.59 per share.**

We attended WCT Holdings' (WCTH) briefing last Friday. Key takeaways are as follows:

Construction job wins getting tougher. The management indicated that due to the mushrooming of contractors in the industry, competition will continue to be very stiff (i.e. to compete with Gadang for civil works at RAPID Pengerang, Johor). We reckon contractors will need to be efficient to compete and win construction jobs at the lowest possible margins in order to remain competitive locally and overseas. As a result, we expect the Group to face difficulties in meeting the order book replenishment target of RM2.0b and with material prices expected to escalate, this will lead to margin compression moving forward. To-date, WCTH has only replenished RM341.9m worth of contracts this year, accounting for 17.1% of our RM2.0b order book replenishment assumption in FY14.

Job prospects. Although WCTH's new order book has been dry in 1HCY14, we expect the Group to secure a job to build Ikano Mall at Jalan Cochraine, worth approximately between RM700-RM800m in the coming months. Apart from that, we can expect the Group to secure subcontracts worth almost RM1.0b from Technip or Korean companies within the RAPID site at end-of this year or early next year to drive its local job replenishment. We noted that these foreign companies will need to occupy more land for their processing plant over there. As such, WCTH expects to secure road subcontracts or foundation works i.e. civil and infra works. Meanwhile, Management remains optimistic to secure road and bridges projects in Qatar, worth RM1.0b within these six months.

More challenging times ahead for property development. With the strict regulations and property policy measures by Bank Negara Malaysia to curb excessive property prices, management has expressed their plans to revisit its high-sky property sales target of RM1.2b with a view of slow down in the demand in particularly high rise residential properties, adjustment of bigger built up to smaller sized properties and to adjust timing of launches i.e. The Volt in Medini, Iskandar. The Management also indicated that the Group's property sales this year will be derived from Bandar Bukit Tinggi 2, Bandar Parklands, Laman Greenville in Klang South and Paradigm Residences.

RETURN STATS	
Price (22 nd August 2014)	RM2.20
Target Price	RM2.59
Expected Share Price Return	+17.7%
Expected Dividend Yield	+4.5%
Expected Total Return	+22.2%

STOCK INFO	
KLCI	1,870.99
Bursa / Bloomberg	9679 / WCTH MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,082.9
Par Value (RM)	0.50
Market cap. (RM'm)	2,382.3
Price over NA	1.07x
52-wk price Range	RM1.99–RM2.52
Beta (against KLCI)	0.87x
3-mth Avg Daily Vol	0.79m
3-mth Avg Daily Value	RM1.77m
Major Shareholders:	
WCT Capital S/B	19.20%
EPF	10.58%
LTH	9.86%
AmanahRaya Trustees	8.13%
ASB	7.06%
KWAP	6.62%


INVESTMENT STATISTICS

FYE December	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	1,538.6	1,560.4	1,672.4	2,208.8	2,251.8
EBIT (RM'm)	215.2	438.6	241.5	311.4	333.1
Pre-tax Profit (RM'm)	207.5	414.9	254.2	240.6	302.2
Net Profit (RM'm)	166.5	345.7	189.8	187.7	220.4
Net Profit Margin (%)	10.8	22.2	11.3	8.5	9.8
EPS (sen)	15.6	38.0	18.4	17.2	20.3
EPS growth	-25.0	143.6	-51.6	-6.5	18.0
PER (x)	13.2	6.2	11.1	12.8	10.8
Net Dividend (sen)	7.0	3.8	10.0	8.9	10.0
Net Dividend Yield (%)	3.4	1.6	4.9	4.0	4.5

Source: Company, MIDFR

VALUATION AND RECOMMENDATION

Earnings unchanged. At this juncture, we make no changes to our earnings forecasts as we anticipate recovery in the local and overseas construction billings.

Maintain BUY with a cautious view. With four months left, there is uncertainty of the Group in securing another RM1.65b worth of jobs to meet its construction order book target. As such, we take a conservative stance on FY14 WCTH's TP by discounting the target price by 10%. In the meantime, we will be watch WCTH's construction order book replenishment closely and will not make any downward revisions in our FY14 and FY15 earnings forecast as yet until the official 3QFY14 results has been released in Nov'14. However, we believe the setback in the construction segment will be partially cushioned by recurring income from its property investments. 

SUM-OF-PARTS VALUATION

Segments	Effective Interest	Method	Market Value
Construction	Various	FY14F PER of 10.1x	1,219.1
Concessions			
Indian Tollways	30.0%	DCF (WACC: 7.5%)	112.4
KLIA2 Integrated Complex	70.0%	DCF (WACC: 10%)	320.1
Property Development	Various	DCF (WACC: 10%)	1,114.4
Property Investment	Various	DCF (WACC: 10%)	570.1
Net Asset Value			3,336.1
Net debt			-432.0
Cash proceeds from warrants			393.1
Total			3,297.2
Enlarged share capital			1,143.8
SOP / share			2.88
Discount			10%
SOP / share			2.59

Source: Company, MIDFR

EXTERNAL CONSTRUCTION ORDERBOOK

Gulf States		Malaysia: Engineering & Infrastructure		Malaysia: Building		Total (RM'm)
	RM'm		RM'm		RM'm	
Government Admin Office in Qatar	354.0	PLUS Widening	290.0	KK Medical Centre	147.0	
New Doha International Airport in Qatar	2.0	Tun Razak Exchange	152.0	Putrajaya Commercial Office	291.0	
		RAPID - Common construction access & permanent road	342.0	Ministry of Internatinal Trade (MITI)	215.0	
		Others	4.0	Jusco Melaka - AEON	30.0	
				UITM	36.0	
				Others	13.0	
Total	356.0		788.0		732.0	1,876.0

Source: Company, MIDFR

TENDERS SUBMITTED

Tenders Submitted	Approximate Project Value (RM'm)
Local projects	3,101
Overseas projects	1,500
Total	4,601
Tenders Under Preparation	Approximate Project Value (RM'm)
Local projects	220
Overseas projects	1,300
Total	1,502

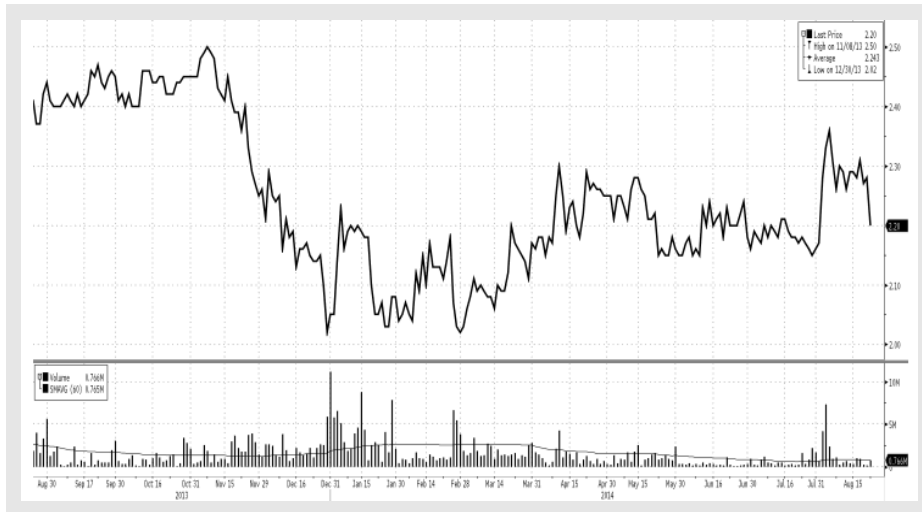
Source: Company, MIDFR

TARGET NEW PROPERTY LAUNCHES FOR 2014

Property Development	GDV (RM'm)
BBT: Shop and Serviced apartment	394.0
Bandar Parklands, Klang South	143.0
Laman Greenville, Bayuemas, Klang South	439.0
Skyz Jelutong, Bukit Jelutong, Shah Alam	146.0
Paradigm Residences, Kelana Jaya	483.0
A60, The Volt, Medini North, Iskandar	502.0
Paradigm Johor Bahru, Serviced apartment	193.0
One Medini Garden Villa	20.0
Total	2,320.0

Source: Company, MIDFR

DAILY PRICE CHART



Syed Muhammed Kifni | Hafiz Hassan
mohd.hafiz@midf.com.my
03-2772 1668

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.