

13 March 2015 | Corporate Update

WCT Holdings Berhad

Retracement in share price an opportunity to accumulate

INVESTMENT HIGHLIGHTS

- The share price of WCT Holdings (WCTH) had declined 8% since February 18 to RM1.60 yesterday. We believe this was due to its lower-than-expected FY14 results.
- Stronger jobs in the pipeline is expected to help the Group to exceed our new jobs assumption of RM1.0b.
- Overall, we maintain our earnings forecast at this juncture. Nonetheless, we upgrade our recommendation to BUY with an unchanged TP of RM1.84 due to the share price weakness.

Share price undervalued. We note that the share price of WCTH has declined 8% since February 18 to RM1.60 yesterday, after reaching a two-month high of RM1.74. We opine that the retracement was related to its weaker FY14 results which was dragged by lower margins across all segments. In addition, its share price has not reacted positively to the news of the Group having secured RM1.2b Qatar projects recently. We expect its share price to rebound as we opine that the Group's potential earnings growth has yet to be fully appreciated. The improvement in earnings is expected to be supported by stronger jobs in the pipeline and its investment properties.

Expect the Group to exceed our new jobs assumption. The contract win for Qatar project has surprised us as we did not account it into our list of projects this year. It has taken almost two years to secure contract from the Middle East. As a first job win this year, it has already replenished 85% of our new jobs assumption of RM1.0b. We are looking at an operating profit margin between 6% and 8% for the project, which will deliver a profit of around RM51m-RM68m. We understand the Group is targeting to secure RM1.0b each for subcontract works within the RAPID project and infra works within Tun Razak Exchange. This could almost guarantee that WCTH will exceed our estimated new construction jobs in FY15.

On the other positives, the on-going REITs plan is still on track to be implemented this year. The Group's REIT is expected to be valued at RM3.0b. We expect proceeds of RM1.0b from the REIT to be used to pare down its RM1.2b outstanding debt of its three assets which will be injected into the REIT.

Upgrade to BUY. Overall, we leave our earnings forecast unchanged at this juncture pending further clarity on the timing of the potential contracts. In view of the recent weakness in the share price, we upgrade our recommendation on WCTH to BUY with an unchanged TP of RM1.84.



Upgrade to BUY (from NEUTRAL)

Unchanged Target Price (TP): RM1.84

RETURN STATS

Price (12 March 2015)	RM1.60
Target Price	RM1.84
Expected Share Price Return	15.0%
Expected Dividend Yield	2.8%
Expected Total Return	+17.8%

STOCK INFO

KLCI	1,786.87
Bursa / Bloomberg	9679 / WCTHG MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,076.1
Par Value (RM)	0.50
Market cap. (RM'm)	1,721.7
Price over NTA	0.78x
52-wk price Range	RM1.38–RM2.35
Beta (against KLCI)	1.13x
3-mth Avg Daily Vol	1.47m
3-mth Avg Daily Value	RM2.35m
Major Shareholders	
WCT Capital SB	19.51%
EPF	10.14%
LTH	9.23%
AmanahRaya Trustees	8.27%
ASB	7.42%
KWAP	7.18%

INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	1,560.4	1,655.0	1,662.2	1,696.0	1,752.1
EBIT (RM'm)	256.9	259.0	193.0	193.4	209.8
Pre-tax profit (RM'm)	204.0	210.5	141.7	174.0	190.7
Normalised PATAMI (RM'm)	147.8	153.8	111.1	150.7	165.1
FD EPS (sen)	15.0	13.7	10.1	13.7	15.0
EPS growth (%)	-9.0	-8.2	-26.6	35.6	9.6
PER (x)	6.1	14.8	18.9	11.7	10.7
Dividend (sen)	6.5	6.8	2.5	4.0	4.5
Dividend Yield (%)	3.2	2.9	1.2	2.1	2.8

Source: Company data, forecasts by MIDFR

SUM-OF-PARTS VALUATION (SOP)

Segments	Basis	Indicative value (RM'm)	Per share (RM)
Engineering & construction	FY15 PER of 12x	811.1	0.74
Concessions			
Indian Tollways	DCF valuation (WACC: 8%)	117.5	0.11
KLIA2 Gateway Mall	DCF valuation (WACC: 10%)	328.5	0.30
Property Development			
On-going & undeveloped landbanks	DCF of future profit + surplus of book value	1,724.8	1.57
Property Investment			
AEON BT, Paradigm Mall & Premiere Hotel	DCF valuation (WACC: 9.5%)	523.5	0.48
SOP		3,505.4	3.18
Net debt		-1,479.7	-1.34
Total SOP			1.84
Enlarged share capital (mil)			1,101.4

Source: Forecasts by MIDFR

DAILY PRICE CHART



Hafiz Hassan
mohd.hafiz@midf.com.my
03-2772 1668

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.