

23 May 2014 | 1QFY14 Results Review

## WCT Holdings Berhad

1QFY14 earnings eases

**Maintain BUY**

**Unchanged Target Price (TP): RM2.88**

### INVESTMENT HIGHLIGHTS

- 1QFY14 earnings came in within ours and market consensus expectations.
- Lower revenue contributions from property progress billings and local construction works.
- Pending clarifications from management in a briefing later today, we make no changes to our forecast.
- Reaffirm our BUY recommendation with an unchanged TP of RM2.88

**1QFY14 earnings number met expectation.** WCTH reported 1QFY14 revenue of RM327.0m (-4.8%yoy, +66.6%qoq) and earnings of RM40.5m (-3.4%yoy, -24.7%qoq). Meanwhile, margins squeezed across all divisions with total EBIT and net margins at 14.4% (-1.1pyoy and -13.3pqoq) and 8.7% (+0.2pyoy and -10.5pqoq) respectively. Overall, the results were within ours (-3.4%) and market consensus (-4%) expectation.

**Earnings at satisfactory level.** We opine that the year-on-year decline in 1QFY14 earnings was attributable to slower progress billing of property development and also construction works particularly civil works at Tun Razak Exchange, Ministry of International Trade building and PLUS highway widening. Apart from that, it is likely to be also a result of lower occupancy rate at Premiere Hotel. Nonetheless, we believe this result is satisfactory and we are rather sanguine on the Group's prospects going forward.

**Potential catalyst.** Management is targeting some RM2b in new contract wins this year, with a 50:50 mix between Malaysia and the Middle East. Domestically, management appears to be keen on the West Coast Expressway construction package and Kwasa Damansara civil works. Apart from domestic jobs, it is also looking at earthworks, road and bridge works in the Gulf states worth RM1b.

**No change to forecasts.** We make no changes to our forecast pending guidance from the management in an analyst briefing later today.

**Maintain BUY.** We reiterate our BUY recommendation on WCT Holdings with an unchanged target price of RM2.88. We expect WCT's growth prospect to continue to be backed by its strong outstanding orderbook of RM1.8b, in addition to prospective new contracts to be secured this year and unbilled property sales of >RM500m.

RETURN STATS	
Price (22 <sup>nd</sup> May 2014)	RM2.22
Target Price	RM2.88
Expected Share Price Return	+29.7%
Expected Dividend Yield	+3.7%
<b>Expected Total Return</b>	<b>+33.4%</b>

STOCK INFO	
KLCI	1,875.12
Bursa / Bloomberg	9679 / WCTH MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,085.5
Par Value (RM)	0.50
Market cap. (RM'm)	2,409.8
Price over NTA	1.10x
52-wk price Range	RM1.99–RM2.72
Beta (against KLCI)	0.97x
3-mth Avg Daily Vol	1.53m
3-mth Avg Daily Value	RM3.28m
Major Shareholders	
WCT Capital SB	19.15%
EPF	10.67%
LTH	9.41%
KWAP	8.12%



## INVESTMENT STATISTICS

FYE December	FY11	FY12	FY13	FY14F
Revenue (RM'm)	1,538.6	1,560.4	1,672.4	2,208.8
EBIT (RM'm)	215.2	438.6	241.5	311.4
Pretax Profit (RM'm)	207.5	414.9	254.2	240.6
Net Profit (RM'm)	166.5	345.7	189.8	187.7
Net Profit Margin (%)	10.8	22.2	11.3	8.5
EPS (sen)	15.6	38.0	18.4	17.2
EPS growth	-25.0	143.6	-51.6	-6.5
PER (x)	13.2	6.2	11.1	12.9
Net Dividend (sen)	7.0	3.8	6.8	8.9
Net Dividend Yield (%)	3.4	1.6	3.2	3.7

Source: Company, Forecasts by MIDFR

## 1QFY14 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	1Q14	YoY	QoQ	3M14	YoY	
<b>Revenue</b>	<b>467.2</b>	<b>-4.8%</b>	<b>66.6%</b>	<b>467.2</b>	<b>-4.8%</b>	<b>Accounted 21% of ours estimates</b>
<b>Gross profit</b>	<b>82.7</b>	<b>-9.5%</b>	<b>149.8%</b>	<b>82.7</b>	<b>-9.5%</b>	
Other income	5.5	-28.4%	-94.1%	5.5	-28.4%	QoQ: Lower due to higher base effect following fair value gain
Other expenses	-4.1	-39.0%	-84.1%	-4.1	-39.0%	
Admin expenses	-16.9	3.3%	-28.2%	-16.9	3.3%	
<b>EBIT</b>	<b>67.2</b>	<b>-11.6%</b>	<b>-13.3%</b>	<b>67.2</b>	<b>-11.6%</b>	<b>Refer to segmental</b>
Finance costs	-15.1	2.7%	-24.4%	-15.1	2.7%	
Associates	2.4	-38.3%	19.0%	2.4	-38.3%	
JVs	2.2	>100%	-61.8%	2.2	>100%	
<b>Pre-tax profit</b>	<b>56.8</b>	<b>-13.2%</b>	<b>-13.2%</b>	<b>56.8</b>	<b>-13.2%</b>	<b>As above</b>
Taxation	-16.2	-31.1%	40.2%	-16.2	-31.1%	
<b>PATAMI</b>	<b>40.5</b>	<b>-3.1%</b>	<b>-24.7%</b>	<b>40.5</b>	<b>-3.1%</b>	<b>As above</b>
EPS (sen)	3.7	-11.4%	-29.3%	3.7	-11.4%	
	<b>1Q14</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>3M14</b>	<b>+/- ppts</b>	
EBIT margin	14.4%	-1.1	-13.3	14.4%	-1.1	
Pre-tax margin	12.1%	-1.2	-11.2	12.1%	-1.2	
Net profit margin	8.7%	0.2	-10.5	8.7%	0.2	
Effective tax rate	28.6%	-7.4	10.9	28.6%	-7.4	

Segmental Breakdown						
Revenue	1Q14	YoY	QoQ	3M14	YoY	Comments
Civil eng. & construction	327.0	-5.9%	40.4%	327.0	-5.9%	QoQ: Lower contribution from local division
Property development	126.4	2.0%	>100%	126.4	2.0%	
Property investment	13.7	-28.9%	-5.5%	13.7	-28.9%	
<b>TOTAL</b>	<b>467.2</b>	<b>-4.8%</b>	<b>66.6%</b>	<b>467.2</b>	<b>-4.8%</b>	
<b>EBIT</b>	<b>1Q14</b>	<b>YoY</b>	<b>QoQ</b>	<b>3M14</b>	<b>YoY</b>	
Civil eng. & construction	36.7	-14.3%	>100%	36.7	-14.3%	As above
Property development	23.8	-15.3%	96.2%	23.8	-15.3%	
Property investment	6.8	30.0%	-88.3%	6.8	30.0%	
<b>TOTAL</b>	<b>67.2</b>	<b>-11.6%</b>	<b>-13.3%</b>	<b>67.2</b>	<b>-11.6%</b>	
<b>EBIT Margin</b>	<b>1Q14</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>3M14</b>	<b>+/- ppts</b>	
Civil eng. & construction	13.6%	-2.0	11.3	3.9%	-1.3	
Property development	8.8%	-1.4	5.0	2.5%	-0.9	
Property investment	2.5%	0.6	-15.7	0.7%	0.1	

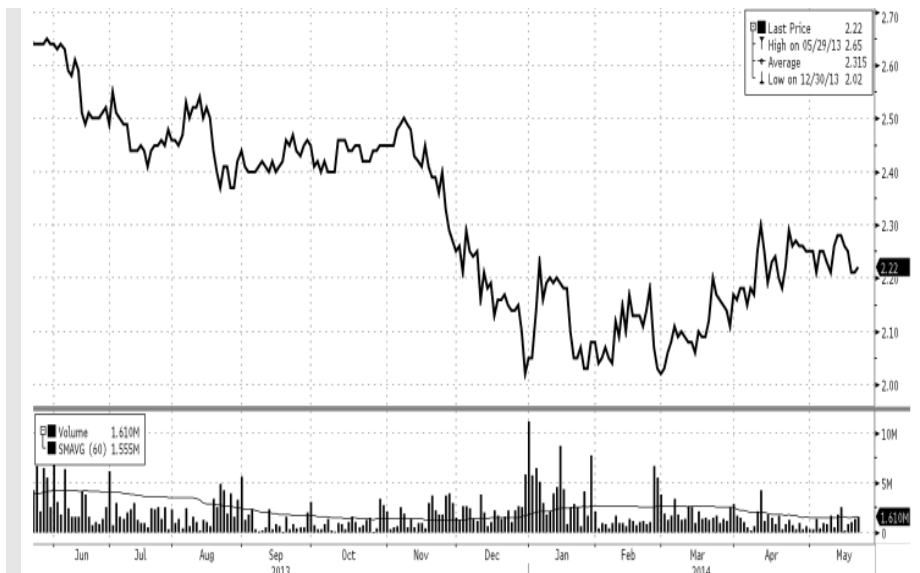
Source: Company, MIDFR

## SUM-OF-PARTS VALUATION

Segments	Effective Interest	Basis	Market Value
Construction	Various	FY14F PER of 10.1x	1,219.1
<b>Concessions</b>			
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
<b>Net Asset Value</b>			<b>3,336.1</b>
Net debt			-432.0
Cash proceeds from warrants			393.1
<b>Total</b>			<b>3,297.2</b>
Enlarged share capital			1,143.8
<b>SOP / share</b>			<b>2.88</b>

Source: Forecasts by MIDFR

## DAILY PRICE CHART



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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.