

26 May 2014 | Briefing Note

WCT Holdings Berhad

Better quarters ahead

Maintain BUY

Unchanged Target Price (TP): RM2.88

INVESTMENT HIGHLIGHTS

- The Group's 1QFY14 net profit declined due to slow progress in construction works.
- Its property sales also dropped due to festive season and the implementation Real Property Gains Tax (RPGT).
- **Maintain BUY with an unchanged TP of RM2.88 per share.**

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

Slow progress in construction works. The management verified that the decline in Group's revenue and net profit in 1QFY14 (-3.1%yoy and -4.8%yoy) were due to slow progress in civil works at Tun Razak Exchange following changes in the design and workscope to accommodate MRT works. Apart from that, it was also as a result of delays in PLUS highway widening works due to land acquisition issue. Nonetheless, the land issue is expected to be solved soon and its outstanding works of RM310m is likely to be completed in the mid next year.

Property development remains sustainable. In 1QFY14, WCTH's property sales were slightly behind in meeting its full-year target sales of RM1.2b. Its property sales have only met 18.2% or RM218m during the quarter due to festive season and the impact over the implementation of RPGT. The majority of its sales came from Laman Greenville (RM120m) located in Bayuemas and the rest were in Bandar Bukit Tinggi, Medini and Paradigm Residences. Nonetheless, the Management is of the view that its sales would continue grow moderately on the back of RM2.3b launch this year.

Investment reaps the fruit. Although the Group achieved a lower occupancy rate of 54% at Premiere Hotel in 1QFY14, the contribution is minor to the bottomline growth. In fact, the segment's EBIT still managed to grow well at 30%yoy. This could suggest its major property investments have started to reap fruits particularly Paradigm Mall, Aeon Bandar Bukit Tinggi and recently opened Gateway Mall KLIA2. We understand that the Gateway Mall has received better-than-expected take-up rate (currently, 80% tenanted) and is expected to fetch net profit of between RM5m and RM6m for its 70% stake this year.

RETURN STATS

Price (23 rd May 2014)	RM2.15
Target Price	RM2.88
Expected Share Price Return	+34.0%
Expected Dividend Yield	+4.7%
Expected Total Return	+38.7%

STOCK INFO

KLCI	1,869.22
Bursa / Bloomberg	9679 / WCTH MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,085.2
Par Value (RM)	0.50
Market cap. (RM'm)	2,333.1
Price over NA	1.05x
52-wk price Range	RM1.99–RM2.72
Beta (against KLCI)	0.97x
3-mth Avg Daily Vol	1.54m
3-mth Avg Daily Value	RM3.30m
Major Shareholders:	
WCT Capital S/B	19.16%
EPF	10.66%
LTH	9.42%
AmanahRaya Trustees	8.12%
ASB	6.98%
KWAP	6.82%

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	12.5	10.6
Net Dividend (sen)	7.0	3.8	10.0	8.9	10.0
Net Dividend Yield (%)	3.4	1.6	4.9	4.1	4.7


Source: Company, MIDFR

Potential major project in the pipeline. The Group continued to aggressively bid for new jobs in Malaysia and the Middle East in order to expand its depleting external outstanding orderbook of RM1.8b. The management is targeting some RM2.0b in new contract wins this year, with a 50:50 mix between Malaysia and the Middle East. The potential projects are as follow:

Malaysia	
	Status
West Coast Expressway	To participate in remaining six packages worth RM2.2b.
Kwasa Damansara Land	To participate in infra works worth RM1.0b.
	Invited and already in the tendering process for 64-acre property development project. The successful bidder has to pay approximately RM100m for infra works.
Petronas RAPID Pengerang Civil Works	Already submitted the tender for earthworks Phase 2 worth approximately RM400m. Outcome will be in the next two months. Other bidders are Gadang and a private company.
Putrajaya Buildings	In the tendering process, but margin is likely to be very thin.
Warisan Tower	Collected the tender and looking for partner.
Mass Rapid Transit 2	-
KK Water Supply Scheme	At proposal stage
KL-JB High Speed Rail	-
Southern Double Track	-
Hydro Electric Dam in Sarawak	-
Hydro Electric Dam in Sabah	-
Gulf States	
	Status
Qatar Roads and Expressway	JV with a local partner and is in the last leg of bidding
Qatar Earthworks and Infrastructure works	
Government Office Buildings in Qatar	-

Source: Company, MIDFR

Earnings unchanged. At this juncture, we make no changes to our earnings forecasts as the results were within our expectation. Should WCT failed to secure any job this year, we will make some downward revisions in our FY14 and FY15 earnings forecast. However, we believe any setback in the construction segment to be partially cushioned by recurring income from the property investment.

Reiterate BUY. At target price of RM2.88, the stock valuation remains attractive with significant share price upside potential. We reaffirm our BUY recommendation. We continue to like WCT for its buoyant property segment and its potential orderbook replenishment. 

SUM-OF-PARTS VALUATION

Segments	Effective Interest	Method	Market Value
Construction	Various	FY14F PER of 10.1x	1,219.1
<u>Concessions</u>			
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

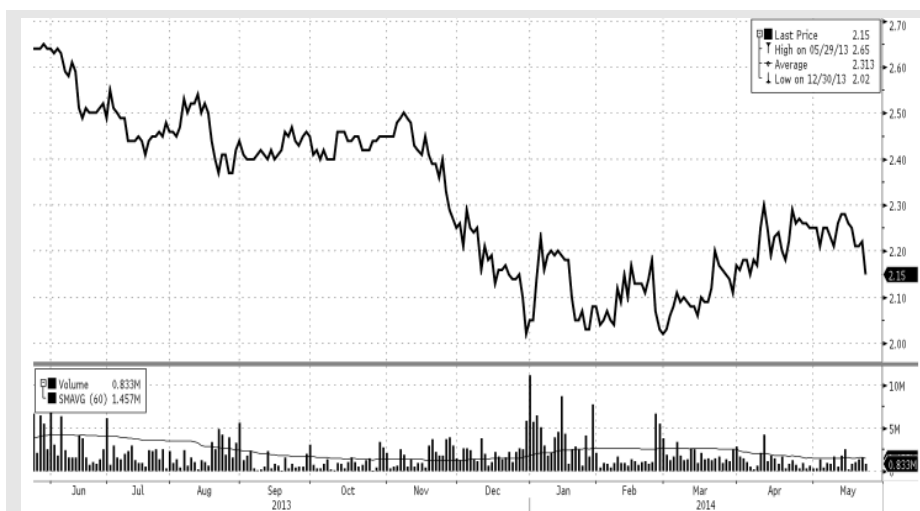
Source: Company, MIDFR

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



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LAMAN GREENVILLE @ BAYUEMAS, KLANG SOUTH



PHASE 2 SEMI-D



Lot Size: 40 x 80
Gross Built Area: 3,151 sq ft

PHASE 2 BUNGALOW



Lot Size: 60 x 80
Gross Built Area: 4,602 sq ft

PHASE 3 BUNGALOW



Lot Size: 60 x 80
Gross Built Area: 4,556 sq ft

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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.