COMPANY RESEARCH | Results Review

Maybank IB Research

February 26, 2015

WCT Holdings (WCTHG MK)

Share Price: MYR1.68	MCap (USD): 509M	Malaysia	BUY (Unchanged)
Target Price: MYR2.20 (+31%)	ADTV (USD): 0.6M	Construction	

Tepid results: Call/TP under review

- 4Q14 results were below expectations.
- Shortfall could be led by one-off impairments from its construction projects.
- BUY call and MYR2.20 TP are put under review.

What's New

WCT's 4Q14 core net loss of MYR9m brought 2014 core net profit to MYR97m (-52% YoY), accounting for 68%/66% of our/consensus full-year forecasts. The significant shortfall could be due to undisclosed one-off impairments from its construction projects. Meanwhile, its property progress billings and construction EBIT margins were also below expectation in 4Q14.

4Q14 construction EBIT dropped 69% QoQ (-2% YoY) as EBIT margin was 3.6ppt lower QoQ (-0.4ppt YoY) and construction works recognition normalised (-28% QoQ, +12% YoY). Elsewhere, property development 4Q14 EBIT grew 9% QoQ (+13% YoY) as its property EBIT margin improved in 4Q14 (+17ppt QoQ, -78ppt YoY) but offset by slower 4Q14 progress billings that fell 52% QoQ (+194% YoY).

What's Our View

WCT has clinched MYR994m new construction contracts in 2014 and its outstanding orderbook stood at MYR3.1b as of end-Dec 2014. Going forward, WCT is a potential beneficiary of mega infrastructure projects as it is vying for the PDP role of LRT 3 and Penang Transport Master Plan. However, the tepid 4Q14 results would have adverse impact on investor's sentiment on the stock.

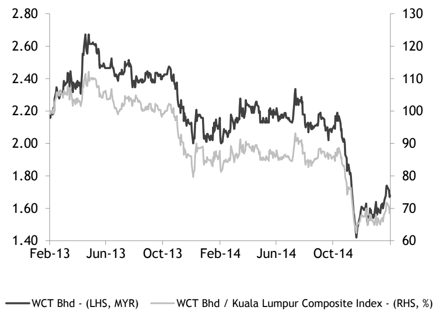
Therefore, we put our BUY call and MYR2.20 SOP-based TP under review, pending further clarification on the weak results during the analyst briefing today. WCT also announced a single tier interim dividend of 1sen/sh and a 1-for-100 treasury shares distribution that is equivalent to 2.68sen/sh, bringing total FY14 dividends to 6.21sen/sh which is in line with our expectation.

FYE Dec (MYR m)	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue	1,560.4	1,655.0	1,662.2	1,594.0	1,594.1
EBITDA	254.0	282.4	147.5	216.9	242.8
Core net profit	158.7	200.5	97.0	144.0	163.1
Core EPS (sen)	16.8	18.7	8.9	13.2	14.9
Core EPS growth (%)	6.8	11.1	(52.4)	48.3	13.3
Net DPS (sen)	6.5	6.8	6.2	6.2	6.2
Core P/E (x)	10.0	9.0	18.9	12.7	11.3
P/BV (x)	0.9	0.8	0.8	0.8	0.8
Net dividend yield (%)	3.9	4.0	3.7	3.7	3.7
ROAE (%)	9.7	10.0	4.4	6.5	7.3
ROAA (%)	3.2	3.7	1.7	2.3	2.7
EV/EBITDA (x)	11.8	11.0	22.8	15.6	14.1
Net debt/equity (%)	41.0	40.1	66.4	66.6	68.2

Key Data

Shariah status	Yes
52w high/low (MYR)	2.34/1.42
3m avg turnover (USDm)	0.6
Free float (%)	77.3
Issued shares (m)	1,093
Market capitalization	MYR1.8B
Major shareholders:	
-Cash Carat Sdn. Bhd.	19.0%
-Permodalan Nasional Bhd.	13.2%
-Lembaga Tabung Haji	9.9%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	7.0	(8.2)	(22.2)
Relative to index (%)	6.3	(7.0)	(21.4)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	6	6	2
	Maybank	Consensus	% +/-
Target Price (MYR)	2.20	2.19	0.5
'14 PATMI (MYRm)	121	198	(39.0)
'15 PATMI (MYRm)	144	145	(0.5)

Source: FactSet; Maybank

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WCT: Results Summary Table

	Quarterly					Cumulative		
FY Dec (MYR m)	**4Q14**	**4Q13**	***% YoY***	**3Q14**	***% QoQ***	**2014**	**2013**	***% YoY***
Turnover	322.4	263.0	22.6	471.1	(31.6)	1,662.2	1,655.0	*0.4*
EBIT	36.1	77.5	(53.4)	42.9	(15.7)	202.4	302.7	*(33.1)*
Interest expense	(22.1)	(19.9)	*11.0*	(14.7)	50.7	(66.7)	(67.6)	*(1.4)*
Associates	2.5	7.8	*(68.0)*	4.2	(40.3)	15.4	19.2	*(19.9)*
Pre-tax profits	**16.5**	**65.4**	***(74.7)***	**32.4**	**(48.9)**	**151.1**	**254.2**	***(40.6)***
Tax	0.2	(11.6)	*(101.7)*	(6.1)	(103.2)	(28.5)	(64.5)	*(55.8)*
Minority Interests	3.6	2.5	*42.7*	(0.5)	(852.3)	(2.1)	7.8	*(127.1)*
Net profit	**20.3**	**56.4**	***(64.0)***	**25.8**	**(21.5)**	**120.5**	**197.5**	***(39.0)***
Net profit (ex-forex, ex-EL)	**(8.8)**	**53.9**	***(116.2)***	**22.5**	**(139.0)**	**97.0**	**200.5**	***(51.6)***
	4Q14	**4Q13**	**+/- ppt**	**3Q14**	**+/- ppt**	**2014**	**2013**	**+/- ppt**
EBIT margin (%)	*11.2*	*29.5*	*(18.3)*	*9.1*	*2.1*	*12.2*	*18.3*	*(6.1)*
Pretax margin (%)	*5.1*	*24.9*	*(19.7)*	*6.9*	*(1.7)*	*9.1*	*15.4*	*(6.3)*
Tax rate (%)	*(1.2)*	*17.7*	*(18.8)*	*18.7*	*(19.9)*	*18.8*	*25.4*	*(6.5)*
Revenue:	**4Q14**	**4Q13**	***% YoY***	**3Q14**	***% QoQ***	**2014**	**2013**	***% YoY***
Construction	261.1	232.9	*12.1*	362.1	*(27.9)*	1,210.6	1,168.4	*3.6*
Property devt	45.6	15.5	*193.7*	95.2	*(52.1)*	391.7	425.1	*(7.8)*
Property investment	15.7	14.5	*7.6*	13.8	*13.5*	59.9	61.5	*(2.6)*
Total	**322.4**	**263.0**	***22.6***	**471.1**	***(31.6)***	**1,662.2**	**1,655.0**	***0.4***
EBIT								
Construction	7.3	7.5	*(2.2)*	23.3	*(68.7)*	93.9	129.3	*(27.4)*
Property devt	13.7	12.1	*13.4*	12.6	*9.3*	73.5	93.6	*(21.5)*
Property investment	15.1	58.0	*(73.9)*	7.0	*115.7*	35.0	79.7	*(56.1)*
Total	**36.2**	**77.5**	**(53.4)**	**42.9**	***(15.6)***	**202.4**	**302.7**	***(33.1)***
EBIT margin (%)	**4Q14**	**4Q13**	***+/- ppt***	**3Q14**	***+/- ppt***	**2014**	**2013**	***+/- ppt***
Construction	2.8	3.2	(0.4)	6.4	*(3.6)*	7.8	11.1	*(3.3)*
Property devt	30.1	77.9	(47.8)	13.2	*16.9*	18.8	22.0	*(3.3)*
Property investment	96.6	398.5	(301.9)	50.9	*45.8*	58.4	129.7	*(71.3)*
Total	**11.2**	**29.5**	***(18.3)***	**9.1**	***2.1***	**12.2**	**18.3**	***(6.1)***

Source: Company, Maybank KE

FYE 31 Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Key Metrics					
P/E (reported) (x)	4.4	9.1	15.2	12.7	11.3
Core P/E (x)	10.0	9.0	18.9	12.7	11.3
P/BV (x)	0.9	0.8	0.8	0.8	0.8
P/NTA (x)	0.9	0.8	0.8	0.8	0.8
Net dividend yield (%)	3.9	4.0	3.7	3.7	3.7
FCF yield (%)	3.9	nm	nm	7.1	5.2
EV/EBITDA (x)	11.8	11.0	22.8	15.6	14.1
EV/EBIT (x)	12.1	11.4	24.2	16.2	14.6
INCOME STATEMENT (MYR m)					
Revenue	1,560.4	1,655.0	1,662.2	1,594.0	1,594.1
Gross profit	316.5	270.1	225.4	215.4	215.0
EBITDA	254.0	282.4	147.5	216.9	242.8
Depreciation	(6.5)	(9.9)	(8.2)	(8.6)	(9.0)
EBIT	247.5	272.4	139.3	208.3	233.8
Net interest income /(exp)	(48.8)	(34.5)	(27.1)	(28.5)	(28.2)
Associates & JV	16.0	19.2	15.4	21.2	22.3
Exceptionals	200.2	(2.9)	23.5	0.0	0.0
Pretax profit	414.9	254.2	151.1	201.0	227.9
Income tax	(69.2)	(64.5)	(28.5)	(50.3)	(57.0)
Minorities	13.2	7.8	(2.1)	(6.7)	(7.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	358.9	197.5	120.5	144.0	163.1
Core net profit	158.7	200.5	97.0	144.0	163.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	1,077.7	1,039.1	950.8	747.3	611.9
Accounts receivable	977.1	1,089.1	1,022.2	1,053.5	1,053.7
Inventory	73.9	75.6	90.7	76.1	76.1
Property, Plant & Equip (net)	276.2	271.7	237.4	258.8	279.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	207.2	443.3	527.7	548.9	571.2
Other assets	2,774.9	2,615.9	3,372.2	3,372.2	3,372.2
Total assets	**5,387.0**	**5,534.6**	**6,201.1**	**6,056.9**	**5,964.9**
ST interest bearing debt	930.7	369.1	584.1	484.1	384.1
Accounts payable	1,083.4	842.7	1,025.0	1,074.1	1,074.2
LT interest bearing debt	890.1	1,553.1	1,846.4	1,746.4	1,746.4
Other liabilities	615.0	513.0	465.0	465.0	465.0
Total Liabilities	**3,519.6**	**3,278.3**	**3,920.4**	**3,769.5**	**3,669.6**
Shareholders Equity	1,810.5	2,204.3	2,227.9	2,227.9	2,227.9
Minority Interest	57.0	52.1	52.8	59.5	67.3
Total shareholder equity	**1,867.4**	**2,256.4**	**2,280.7**	**2,287.4**	**2,295.2**
Total liabilities and equity	**5,387.0**	**5,534.6**	**6,201.1**	**6,056.9**	**5,964.9**
CASH FLOW (MYR m)					
Pretax profit	414.9	254.2	151.1	201.0	227.9
Depreciation & amortisation	6.5	9.9	8.2	8.6	9.0
Adj net interest (income)/exp	48.8	34.5	27.1	28.5	28.2
Change in working capital	(311.2)	(944.3)	(586.9)	(27.4)	(81.8)
Cash taxes paid	(69.2)	(64.5)	(28.5)	(50.3)	(57.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	89.8	(710.1)	(429.0)	160.5	126.3
Capex	(28.3)	(23.1)	(71.2)	(30.0)	(30.0)
Free cash flow	61.6	(733.3)	(500.2)	130.5	96.3
Dividends paid	(61.8)	(72.9)	(48.8)	(67.8)	(67.8)
Equity raised / (purchased)	40.4	259.6	(50.4)	0.0	0.0
Change in Debt	424.5	406.6	498.3	(200.0)	(100.0)
Other invest/financing cash flow	(241.3)	3.2	170.0	(66.2)	(63.9)
Net cash flow	223.4	(136.7)	68.9	(203.5)	(135.5)

FYE 31 Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.4	6.1	0.4	(4.1)	0.0
EBITDA growth	14.6	11.2	(47.8)	47.1	11.9
EBIT growth	16.4	10.1	(48.9)	49.6	12.2
Pretax growth	99.9	(38.7)	(40.6)	33.0	13.4
Reported net profit growth	116.2	(45.0)	(39.0)	19.5	13.3
Core net profit growth	9.2	26.3	(51.6)	48.5	13.3
Profitability ratios (%)					
EBITDA margin	16.3	17.1	8.9	13.6	15.2
EBIT margin	15.9	16.5	8.4	13.1	14.7
Pretax profit margin	26.6	15.4	9.1	12.6	14.3
Payout ratio	17.1	36.7	56.2	47.1	41.6
DuPont analysis					
Net profit margin (%)	23.0	11.9	7.3	9.0	10.2
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	3.0	2.5	2.8	2.7	2.7
ROAE (%)	9.7	10.0	4.4	6.5	7.3
ROAA (%)	3.2	3.7	1.7	2.3	2.7
Liquidity & Efficiency					
Cash conversion cycle	(19.8)	(6.2)	15.5	(17.9)	(22.6)
Days receivable outstanding	257.6	224.7	228.6	234.4	237.9
Days inventory outstanding	18.1	19.4	20.8	21.8	19.9
Days payables outstanding	295.5	250.3	234.0	274.1	280.4
Dividend cover (x)	5.8	2.7	1.8	2.1	2.4
Current ratio (x)	1.2	2.2	1.7	1.6	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.7	1.6	1.6	1.6
Net debt/equity (%)	41.0	40.1	66.4	66.6	68.2
Net interest cover (x)	5.1	7.9	5.1	7.3	8.3
Debt/EBITDA (x)	7.2	6.8	16.5	10.3	8.8
Capex/revenue (%)	1.8	1.4	4.3	1.9	1.9
Net debt/ (net cash)	743.1	883.0	1,479.7	1,483.2	1,518.7

Source: Company; Maybank

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