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WCT Holdings WCTE.KL WCTHG MK

EQUITY: ENGINEERING & CONSTRUCTION

4Q14 disappoints again

Quick Note

Global Markets Research

26 February 2015

Rating Remains	Reduce
Target price Remains	MYR 1.90
Closing price 25 February 2015	MYR 1.68

Research analysts

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WCT: 4Q14 first impressions

- Pending more clarity at the analysts' briefing later today, WCT's 4Q14 net income of MYR20mn was in line with our bearish expectations, but significantly below consensus. Headline net income for FY14 of MYR121mn (-39% y-y) was exactly in line with our forecasts, but 18% below consensus. The comparison might look even worse if we back out one-offs like forex gains and revaluation adjustments.

Fig. 1: WCT: FY14 results snapshot

MYR mn	FY14	Nomura FY14F	as % of NMR FY14F	Consensus FY14F	as % of Cons FY14F
Revenue	1,662	1,878	89%	1,764	94%
Adj EBITDA	201	255	79%	268	75%
Reported NPATAMI	121	121	99%	148	82%

Source: Company data, Bloomberg, Nomura estimates

- We expect consensus to continue to cut earnings for FY15F, with **margin pressure** from **property development** and **construction** (57% of orderbook is low-margin building jobs) to continue for the next few quarters.
- New property sales of MYR 461mn which fell short by 25% to management's downward revised lower sales target of MYR617mn. Also, FY14 sales were lower than 9M14 sales of MYR497mn, which included sales by options which implies some options might not have been converted to SPA sales.

Positives: Construction orderbook momentum looks better

Although no new projects were awarded in 4Q14, we find that orderbook replenishment momentum looks much better now, with MYR1bn worth of new projects in FY14, and a strong tender pipeline (see Fig 4). We remain bearish on Qatar jobs as we believe that EBITDA margins tend to be lower due to renegotiations with the project owners.

Management targets MYR650mn sales in 2015

After MYR461mn sales in 2014, management is targeting MYR650mn sales in 2015, +41% y-y.

Divisional highlights - All segments weak, slowdown in property billings, margins falling

Construction

- The outstanding external construction orderbook as at end-FY14 was MYR2bn, implying visibility of ~1.6 years. MYR994mn worth of contracts awarded in FY14, no award in 4Q14.
- While revenues were marginally up y-y in FY14, operating profit was down by double-digits due to margin compression of 4ppt y-y.

Property development

- The company recorded new property sales of MYR461mn which fell short by 25% to management's revised lower sales target of MYR617mn.
- Also the FY14 sales of MYR461 were lower than 9M14 sales of MYR497mn which included sales by options (out of MYR497mn, MYR380mn were SPA sales, and the remaining were bookings / options).
- Unbilled sales were at MYR657mn.

Property investment

- Premiere hotel occupancy rate was at 63%, 2ppt higher than 3Q14. Average footfall at Gateway mall @KLIA2 fell to 101,000 per day from 110,000 per day in 3Q14.
- Earnings are likely to get a MYR10mn boost once MAHB (MAHB MK, Reduce) extends its concession agreement for KLIA2 with the government, which would also imply a higher useful life for the Gateway mall, in our view.

We continue to prefer Gamuda (GAM MK, Buy) and IJM (IJM MK, Buy) over WCT. We are reviewing our TP for WCT.

Fig. 2: WCT: 4Q14 earnings review

MYR mn	4Q14	4Q13	% chg y-y	3Q14	% chg q-q	FY14	FY13	% chg y-y	FY14F	as % of FY14F
Turnover	**322**	**263**	**23%**	**471**	**(32%)**	**1,662**	**1,655**	**0%**	**1,878**	**89%**
Construction	261	233	12%	362	(28%)	1,211	1,168	4%	1,236	98%
Property Development	46	16	194%	95	(52%)	392	425	(8%)	584	67%
Property Investment & Management	16	15	8%	14	13%	60	61	(3%)	58	103%
Operating profit	**26**	**26**	**(1%)**	**43**	**(39%)**	**192**	**258**	**(25%)**	**249**	**77%**
Construction	7	7	(2%)	23	(69%)	94	136	(31%)	101	93%
Property Development	14	12	13%	13	9%	74	94	(21%)	117	63%
Property Investment & Management	5	7	(25%)	7	(27%)	25	29	(13%)	31	81%
Share of profit in associates / JCE	3	8	(68%)	4	(40%)	15	19	(20%)	24	65%
Adjusted Pretax profit	**7**	**14**	**(54%)**	**32**	**(80%)**	**141**	**209**	**(33%)**	**176**	**80%**
Reported NPAT	**20**	**56**	**(64%)**	**26**	**(22%)**	**121**	**198**	**(39%)**	**121**	**99%**
Operating margins (%)	**8%**	**10%**	**-2 ppt**	**9%**	**-1 ppt**	**12%**	**16%**	**-4 ppt**	**13%**	
Construction	3%	3%	0 ppt	6%	-4 ppt	8%	12%	-4 ppt	8%	
Property Development	30%	78%	-48 ppt	13%	17 ppt	19%	22%	-3 ppt	20%	
Property Investment & Management	33%	47%	-14 ppt	51%	-18 ppt	42%	47%	-5 ppt	53%	
Basic Earnings per share (cent)										
Reported basic EPS (cent)	1.86	5.16	(64%)	2.37	(21%)	11.05	18.40	(40%)	11.53	

Source: Company data, Nomura estimates

Fig. 3: WCT: Current orderbook

Gulf States	MYR mn
Government Administrative Office, Qatar	338
New Doha Int'l Airport, Qatar (15%)	2
	340
Malaysia - Civil Engg and Infra	
PLUS Widening	141
Tun Razak Exchange	36
RAPID	335
Others	2
	514
Malaysia - Building	
MyTown Shopping Centre	649
KK Medical Centre	69
Putrajaya Commercial Office	279
Ministry of international Trade (MITI)	102
Jusco Melaka	30
Others	13
	1,142
External orderbook	**1,996**
Outstanding external orderbook	1,996
Orderbook burn rate (FY14)	1,211
IMPLIED CONSTRUCTION EARNINGS VISIBILITY (years)	**1.6**

Source: Company data, Nomura research

Fig. 4: WCT: Potential projects and tenderbook

Major Potential projects	
Tenders Submitted	**Value (MYR mn)**
Local Projects	22,786
Overseas Projects	1,340
Total	24,126
Tenders under preparation	
Local Projects	2,300
Overseas Projects	0
Total	2,300

Construction Contracts Targets 2015

MALAYSIA
Petronas RAPID Pengerang Civil Works
Tun Razak Exchange (TRX)
KL 118
West Coast Expressway
Kwasa Damansara Land Civil Works (PDP)
LRT 3
Mass Rapid Transit 2
KK Water Supply Scheme
KL - JB High Speed Rail
Southern Double Track
Hydro Electric Dam in Sarawak
Hydro Electric Dam in Sabah

MIDDLE EAST
Qatar Roads and Expressways
Qatar Earthworks and Infrastructure works
Government Office Buildings in Qatar

Source: Company data, Nomura research

Fig. 5: Property target launches in 2015

Project	GDV (MYR mn)	Target Launch
Transtech, Bukit Serendah	189	Apr'15
Bandar Parklands	64	Jul'15
Paradigm Residences PJ	307	Jul'15
Inanam, KK	200	Jul'15
Bandar Parklands	48	Spet'15
BBT 2	86	Oct'15
Total	**894**	

Source: Company data

Fig. 6: Shopping malls and hotel occupancy

Paradigm Mall	
Retail space leased	97%
Avg footfalls per day	
Weekday	35,000
Weekend	61,000
Gateway Mall @KLIA2	
Retail space leased	77%
Avg footfalls per day	101,000
Premiere Hotel, Klang	
Occupancy	63%
Avg Room rate per day	MYR 255
Room to F&B Revenue	58 : 42

Source: Company data

Appendix A-1

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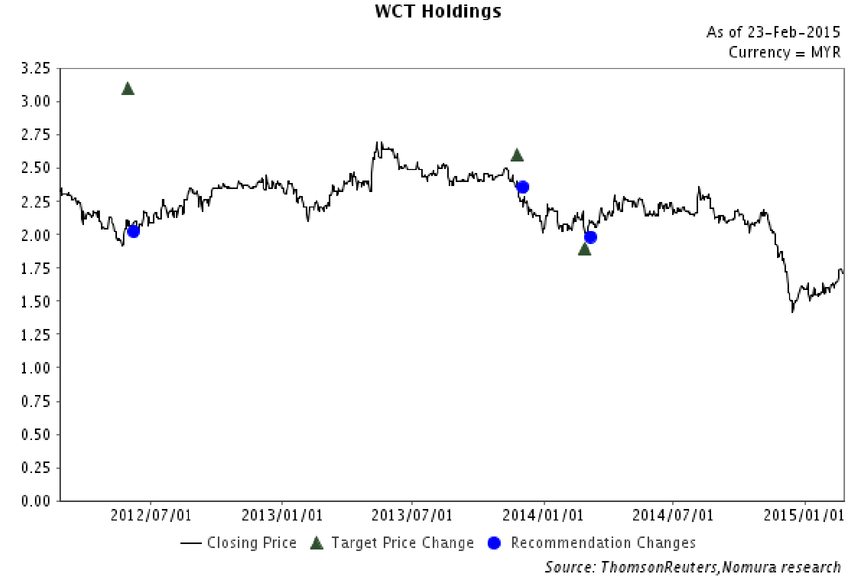
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Gamuda	GAM MK	MYR 5.30	25-Feb-2015	Buy	N/A	
IJM Corp	IJM MK	MYR 7.14	25-Feb-2015	Buy	N/A	
Malaysia Airports Holdings Bhd	MAHB MK	MYR 6.95	25-Feb-2015	Reduce	N/A	
WCT Holdings	WCTHG MK	MYR 1.68	25-Feb-2015	Reduce	N/A	

WCT Holdings (WCTHG MK) **MYR 1.68 (25-Feb-2015)** Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
27-Feb-14	Reduce		2.03
27-Feb-14		1.90	2.03
25-Nov-13	Neutral		2.40
25-Nov-13		2.60	2.40
30-May-12	Buy		2.07
30-May-12		3.10	2.07

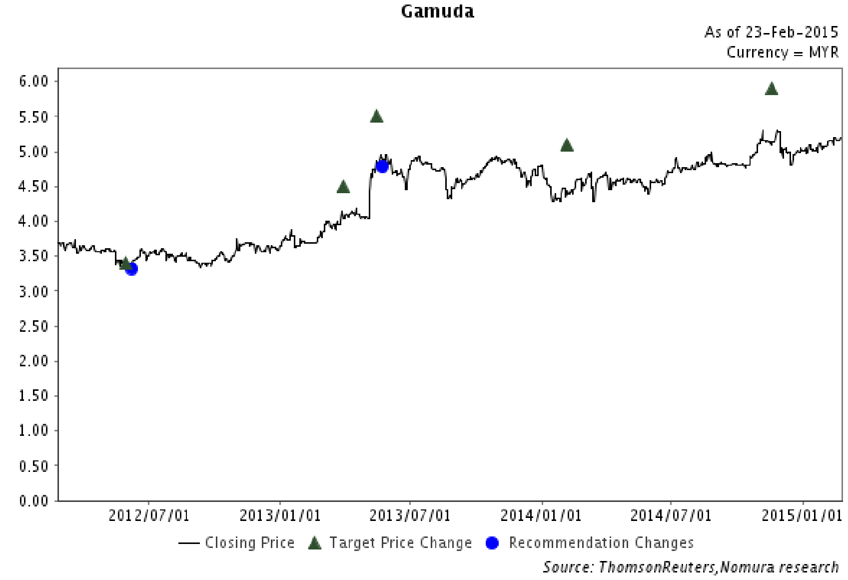
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value WCT using a sum-of-the-parts (SOTP) methodology derived from 1) Construction segment valued at 8.5x PE CY14F 2) NAV of property segment at a 13.4% discount rate; 3) the NAV of investments in malls and hotels at 11% discount rate; 4) NAV of India expressways at 9.2% discount rate; and 5) NAV of KLIA2 IC at 9.4% discount rate. Our SOTP calculation implies a valuation of MYR2.0bn for WCT's businesses. To this we add cash from warrants (~MYR700mn) to arrive at our price target of MYR1.90/share.The benchmark index for this stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Key upside risks to our view stems from 1) New project awards larger than our estimates: We currently build in MYR600mn of total new projects in FY14F/15F/16F each. In case WCT is able to secure projects exceeding our assumed value (like the Kwasa Damansara land civil works, with both having EPF as a major shareholder), there might be upside risk to the stock. 2) Higher-than-expected margins for construction and property development: We have cut our margin assumptions on cost and labour pressures in Malaysia and the Middle East. However, if these were to reverse, it could pose an upside risk. 3) Higher-than-expected property sales 4) Arbitration wins (e.g. the Meydan Racecourse arbitration).

Gamuda (GAM MK) MYR 5.30 (25-Feb-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
19-Nov-14		5.90	5.13
05-Feb-14		5.10	4.39
15-May-13	Buy		4.87
15-May-13		5.50	4.87
29-Mar-13		4.50	4.04
30-May-12	Neutral		3.41
30-May-12		3.40	3.41

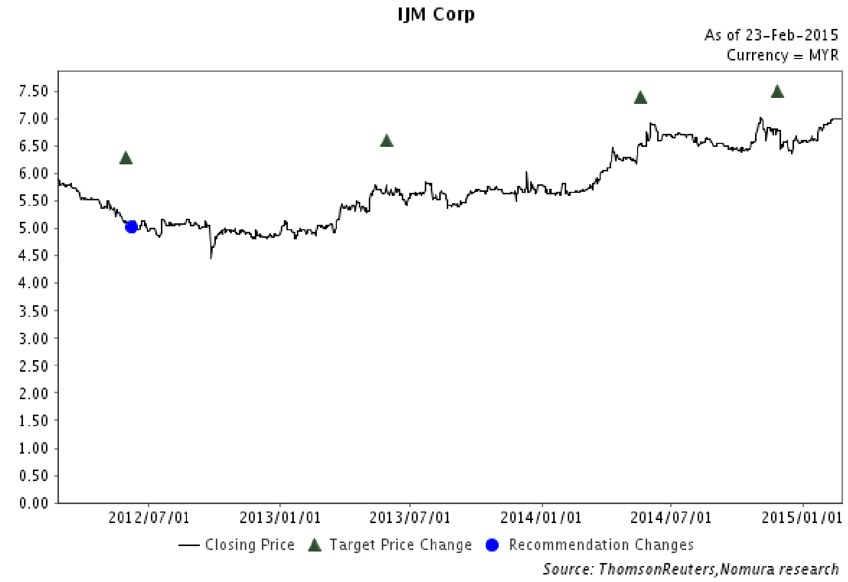
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Gamuda using a sum-of-the-parts methodology derived from: 1) construction business on DCF (FCFE) at a CoE of 9.5%; 2) property business at a 40% discount to RNAV; and 3) infrastructure projects on cash flows discounted at 6-10% costs of equity. We add cash from warrants and arrive at a total equity value of MYR14.2bn, which implies a target price of MYR5.90. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Downside risks include: 1) lower-than-expected construction and property margins; 2) delay in construction project awards, or execution risk (eg, land acquisition/tunnelling delays); 3) losses in the Vietnam property business; and 4) policy uncertainty in Malaysia, invoking WASIA sec 114, or selling SPLASH at below 1x P/B.

IJM Corp (IJM MK) MYR 7.14 (25-Feb-2015) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
26-Nov-14		7.50	6.81
19-May-14		7.40	6.565
29-May-13		6.60	5.786
30-May-12	Buy		5.126
30-May-12		6.30	5.126

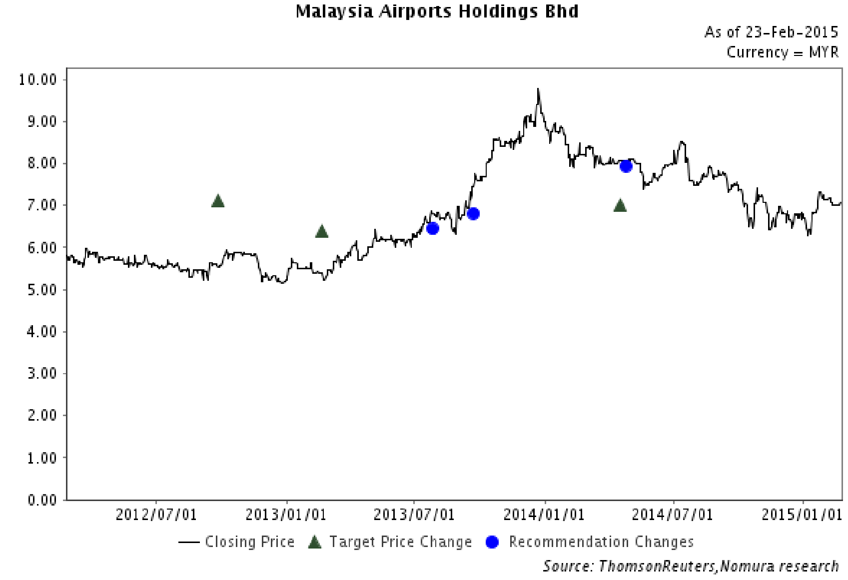
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value IJM using an SOTP-based methodology. We value 1) the construction business at 15x CY15F earnings; 2) the property segment at 35% discount to RNAV; 3) the manufacturing business at 11x CY15F earnings; 4) Indian tollways and the Gautami power plant using price-to-revenue ratios of 3x; 5) Vietnam water at a P/E of 10x on CY15F earnings; 6) Malaysia tollways and kuantan port at DCF of FCFE at a discount rate of 6.5%- 7.7%; and 8) GCO at market value and other investments (Kumpulun and Scomi Group) at the market price. Our SOTP calculation implies a valuation of MYR13.3bn or a target price of MYR7.50. The benchmark index for this stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Risks include 1) lower-than-expected margins from construction and property development; 2) lower-than-expected orderbook inflows or property sales; and 3) lower CPO or building material prices; 4) an unexpected cancellation of projects, e.g., the West Coast Expressway project.

Malaysia Airports Holdings Bhd (MAHB MK) **MYR 6.95 (25-Feb-2015)** Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
17-Apr-14	Reduce		8.08
17-Apr-14		7.00	8.08
14-Sep-13	Not Rated		6.95
18-Jul-13	Neutral		6.58
20-Feb-13		6.40	5.40
26-Sep-12		7.10	5.54

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of MYR7.00 is based on the sum of: 1) the discounted FCF to equity for domestic operations until Feb 2034 (COE: 10%); 2) residual cash; 3) proceeds from the sale of Sepang International Circuit in 2019, discounted at a risk-free rate of 3.5%; 4) our fair value estimates of MAHB's stakes in three foreign airports (Delhi/Hyderabad: 1x book; Sabiha Gokcen: discounted FCFE at cost of equity of 15%); and 5) NPV of FCFE of KLIA2 IC at MAHB's 30% stake. NPV calculations are discounted to end-2014F. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Upside risks to our view: 1) higher-than-expected traffic growth; 2) higher-than-expected LCC PSCs and 3) Malaysia airports concession extended by 25 years.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

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