



WCT HOLDINGS BERHAD

Outperform

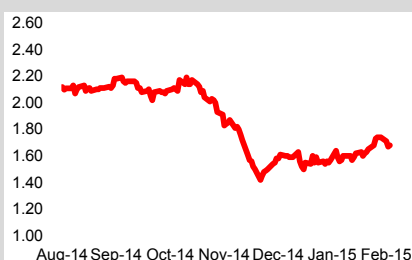
DESCRIPTION

Malaysian construction company with core businesses in civil engineering construction, property development and investment and management of properties and concession assets.

12-Month Target Price RM2.50
Current Price RM1.68
Expected Return 49%

Market Main
Sector Construction
Bursa Code 9679
Bloomberg Ticker WCTHG MK
Shariah-compliant Yes

SHARE PRICE CHART



52 Week Range (RM) RM1.38 – RM2.35
 3-Month Average Vol ('000) 1,317.3

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	7.0	-8.2	-22.4
Relative Returns	1.3	-7.4	-20.9

KEY STOCK DATA

Market Capitalisation (RM m)	1,809.0
No. of Shares (m)	1,076.8

MAJOR SHAREHOLDERS

	%
WCT Capital SB	19.5
Employees Provident Fund	10.1
Lembaga Tabung Haji	9.3

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Below Expectations

WCT Holdings' weak earnings continued into Q4, hit by lower margins from both construction and property. Its 4QFY14 net profit contracted to RM20.3m (-49.4 QoQ, -64.0 YoY), which was below expectations. In FY14, the Group registered an underwhelming performance after netting RM120.5m (-39.0% YoY) for the full year which was 86% and 82% of our and consensus estimates. Operating margins for construction and property divisions dropped from 11% and 21% in FY13 to 5% and 18% in FY14. Separately, WCT announced a final single tier dividend which comprise of cash dividend of 1 sen and share dividend of one treasury share for every 100 shares held.

- **RM994m job replenishment in FY14.** There's no new jobs added since Q3. Hence, the replenishment rate was within our expectations of RM1bn of new jobs for FY14. Recall that Group clinched two projects namely the RM342m infrastructure project in Pengerang and RM625m building project for IKEA, located at Jalan Cochrane in FY14. Projects eyed this year include Warisan Merdeka, civil works at Kwasa Damansara land, West Coast Expressway and MRT2. As for overseas job, we understand that WCT is trying to secure jobs worth RM1bn in FY15, which admittedly still disappointing with no meaningful contracts secured yet. We understand that the Group has submitted tenders worth some RM24bn, with RM22.8bn local bids and the rest from the Middle East. Outstanding orderbook stood at RM2.2bn as at 4QFY14.
- **RM461m property sales in FY14.** WCT missed its already toned down sales target of RM617m, with some launches deferred due to difficult trading environment especially in Iskandar, Johor. Unbilled sales stood at RM657m and its sales target for FY15 is RM650m which will be coming from new launches worth RM894m. Going forward, WCT has c.975 acres of undeveloped land with projected GDV of RM17.5bn to be developed in the next 10-15 years.
- **Maintain Outperform** and our SOTP-derived TP to RM2.50. Earnings are kept unchanged for now. We still like WCT for its strategic shift towards a more sustainable business model of growing recurring income. Albeit the high capital commitment, WCT's track record of delivering investment grade assets such as the Paradigm Mall is expected to improve the quality of the Group's earnings in the longer term. Also, if the proposed REIT materializes, it could unlock the value of the Group and lighten the balance sheet

KEY FORECAST TABLE

FYE Dec (RM m)	2012A	2013A	2014A	2015F	2016F	CAGR (%)
Revenue	1,560.4	1,655.0	1,662.2	2,120.6	2,251.2	7.6
Operating Profit	473.5	302.7	202.4	289.1	303.3	(8.5)
Pre-tax Profit	420.6	254.2	151.1	195.4	203.5	(13.5)
Net Profit	364.6	197.5	120.5	152.1	157.9	(15.4)
EPS (Sen)	26.0	14.1	8.6	10.8	11.3	(15.4)
P/E (x)	6.5	11.9	19.6	19.3	18.6	
DPS (Sen)	9.5	9.5	1.0	3.0	3.0	
Dividend Yield (%)	5.7	5.7	0.6	1.8	1.8	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>4Q14</u>	<u>4Q13</u>	<u>3Q14</u>	<u>QoQ chg (%)</u>	<u>YoY chg (%)</u>	<u>YTD FY14</u>	<u>YTD FY13</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	322.4	263.0	471.1	-31.6	22.6	1662.2	1655.0	0.4	
Cost of sales	-293.9	-229.9	-424.7	-30.8	27.9	-1428.6	-1374.9	3.9	
Gross profit	28.5	33.1	46.4	-38.6	-13.9	233.6	280.0	-16.6	
Other income	41.4	93.5	18.3	126.6	-55.7	69.1	140.4	-50.8	
Other expenses	-33.8	-49.1	-21.8	54.9	-31.2	-100.2	-117.8	-14.9	
Operating profit	36.1	77.5	42.9	-15.7	-53.4	202.4	302.7	-33.1	
Finance costs	-22.1	-19.9	-14.7	50.7	11.0	-66.7	-67.6	-1.4	
Share of results of associates	2.5	7.8	4.2	-40.0	-67.9	15.4	19.2	-19.9	
Pre-tax profit	16.5	65.4	32.4	-48.9	-74.7	151.1	254.2	-40.6	
Tax	0.2	-11.6	-6.1	-103.2	-101.7	-28.5	-64.5	-55.8	
Net profit	16.7	53.9	26.3	-36.4	-68.9	122.7	189.8	-35.4	
PATAMI	20.3	56.4	40.1	-49.4	-64.0	120.5	197.5	-39.0	

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2012A	2013A	2014A	2015F	2016F
Revenue	1,560.4	1,655.0	1,662.2	2,120.6	2,251.2
Gross Profit	345.3	280.0	376.4	408.8	380.9
Operating expenses	128.1	22.7	-87.2	-105.5	-57.6
Operating Profit	473.5	302.7	289.1	303.3	323.3
Other Gains / (Losses)	16.0	19.2	3.8	10.4	-7.2
Finance Costs	-68.9	-67.6	-111.5	-118.2	-112.6
Pre-tax Profit	420.6	254.2	151.1	195.4	203.5
Income Tax	-69.2	-64.5	-46.9	-48.8	-55.1
Effective Tax Rate (%)	16.5	25.4	25.9	25.0	27.1
Minorities	13.2	7.8	3.5	3.3	3.2
Net Profit	364.6	197.5	120.5	152.1	157.9
Growth					
Revenue (%)	15.4	15.4	0.4	27.6	6.2
Gross Profit (%)	19.4	19.4	34.4	8.6	-6.8
Net Profit	20.9	20.9	-39.0	8.6	3.9

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2012A	2013A	2014A	2015F	2016F
Property, Plant & Equipment	276.2	271.7	237.4	276.8	317.3
Cash and Cash Equivalents	1,077.7	973.4	950.8	1,518.7	1,385.9
Receivables	1,051.9	990.8	1,022.2	1,404.4	1,490.9
Other Assets	2,926.3	3,298.8	3,990.7	3,551.0	3,621.4
Total Assets	5,332.2	5,534.6	6,201.1	6,828.6	6,893.2
Payables	1,030.9	842.7	862.1	1,079.8	1,146.3
Borrowings	1,824.0	1,922.1	2,430.5	2,689.9	2,565.2
Tax payable	50.3	41.5	37.8	35.4	35.4
Other Liabilities	553.9	471.9	589.9	603.9	639.9
Total Liabilities	3,459.1	3,278.3	3,920.4	4,411.5	4,389.3
Shareholders' Equity	1,873.1	2,256.4	2,280.7	2,417.0	2,503.9
Total Equity and Liabilities	5,332.2	5,534.6	6,201.1	6,828.6	6,893.2

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2012A	2013A	2014A	2015F	2016F
Book Value Per Share	1.5	2.0	2.1	2.1	2.2
NTA Per Share	1.5	2.0	2.1	2.1	2.2
EPS (Sen)	26.0	14.1	8.6	10.7	11.1
DPS (Sen)	9.5	9.5	1.0	3.0	3.0
Payout Ratio (%)	36.6	67.5	11.6	28.0	26.9
ROA (%)	3.1	6.3	3.1	1.7	2.1
ROE (%)	22.9	9.0	5.4	6.5	6.5

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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