



WCT HOLDINGS BERHAD

Outperform

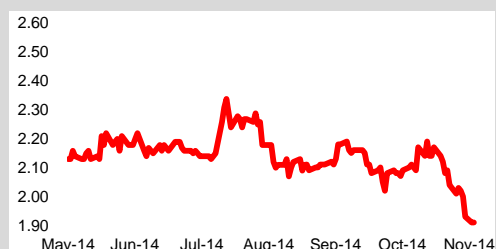
DESCRIPTION

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 RM1.89
Expected Return 32%

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

SHARE PRICE CHART



52 Week Range (RM) RM1.91 – RM2.40
 3-Month Average Vol ('000) 785.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-8.6	-11.8	-9.7
Relative Returns	-9.4	-10.9	-8.5

KEY STOCK DATA

Market Capitalisation (RM m)	2,077.6
No. of Shares (m)	1,087.8

MAJOR SHAREHOLDERS

	%
WCT Capital SB	19.3
Employees Provident Fund	10.0
Lembaga Tabung Haji	10.0

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Lower Margins

In 3QFY14, WCT Holdings (WCT) netted a disappointing net profit of RM25.8m (-35.5% QoQ, -37.5% YoY), which was below our and consensus expectations. YTD, the Group's net profit of RM100.2m (-29.0% YoY) accounted only c.60% and 61% of our and consensus estimates. The earnings drag was primarily caused by lower margins from the Group's construction business which was partly due to additional costs incurred for the completion of New Doha International Airport project.

- **RM994m job replenishment** was within our expectations after the building job secured recently. We have assumed c.RM1bn in new jobs for FY14, and thus far the Group has clinched two projects namely the RM342m infrastructure project in Pengerang and RM625m building project for IKEA, located at Jalan Cochrane. Other projects eyed are Warisan Merdeka, civil works at Kwasa Damansara land, West Coast Expressway and MRT2. As for Gulf States jobs, WCT is still hopeful that new jobs estimated c.RM1bn could be added this year. We understand that the Group has submitted tenders worth some RM4bn, with half of it coming from the Middle East. Meanwhile, tenders under preparation are said to be worth c.RM3bn.
- **Sales target cut to RM617m from RM1.2bn.** As indicated in our earlier report, WCT's sales target for FY14 of RM1.2bn was considered stretched but the new sales target was worse than expected. We believe this is due delays in the launches. WCT has now toned down the target new launches to RM1.85 from RM2.4bn previously. Unbilled sales stood at RM589m (from Q2: RM537m). As for landbank, WCT has c.760 acres of undeveloped land with projected GDV of RM17.6bn to be developed in the next 10-15 years.
- **Maintain Outperform** but lowering our SOTP-derived TP to RM2.50 after revising our earnings downwards by 13.6% to 16.6% to factor in the lower margin and weaker property sales. That said, 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.

KEY FORECAST TABLE

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F	CAGR (%)
Revenue	1,560.4	1,655.0	1,862.3	2,120.6	2,251.2	7.6
Operating Profit	473.5	302.7	258.0	289.1	303.3	(8.5)
Pre-tax Profit	420.6	254.2	181.4	195.4	203.5	(13.5)
Net Profit	364.6	197.5	140.1	152.1	157.9	(15.4)
EPS (Sen)	26.0	14.1	10.0	10.8	11.3	(15.4)
P/E (x)	8.0	14.8	20.9	19.3	18.6	
DPS (Sen)	9.5	9.5	9.5	9.5	9.5	
Dividend Yield (%)	4.5	4.5	4.5	4.5	4.5	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

<u>FYE Dec (RM m)</u>	<u>3Q14</u>	<u>3Q13</u>	<u>2Q14</u>	<u>QoQ chg</u> <u>(%)</u>	<u>YoY chg</u> <u>(%)</u>	<u>YTD</u> <u>FY13</u>	<u>YTD</u> <u>FY12</u>	<u>YoY chg</u> <u>(%)</u>	<u>Comments</u>
Revenue	471.1	418.5	401.5	17.3	12.6	1339.8	1392.0	-3.7	
Cost of sales	-424.7	-331.0	-325.5	30.5	28.3	-1134.7	-1145.1	-0.9	
Gross profit	46.4	87.6	76.0	-39.0	-47.0	205.1	246.9	-16.9	
Other income	18.3	9.2	3.9	371.6	98.3	27.6	46.9	-41.1	
Other expenses	-21.8	-23.1	-23.7	-7.9	-5.6	-66.4	-68.7	-3.3	
Operating profit	42.9	73.7	56.2	-23.7	-41.8	166.3	225.1	-26.1	
Finance costs	-14.7	-17.1	-14.8	-0.8	-14.1	-44.6	-47.7	-6.6	
Share of results of associates	4.2	3.3	4.1	2.4	26.5	12.9	11.4	13.1	
Pre-tax profit	32.4	59.9	45.5	-28.8	-45.9	134.6	188.8	-28.7	
Tax	-6.1	-19.3	-6.4	-5.8	-68.7	-28.7	-52.9	-45.8	
Net profit	26.3	40.6	39.1	-32.6	-35.1	105.9	135.9	-22.1	
PATAMI	25.8	41.3	40.1	-35.5	-37.5	100.2	141.2	-29.0	Hit by lower margins and provisions for ME project

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F
Revenue	1,560.4	1,655.0	1,862.3	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	181.4	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	140.1	152.1	157.9

Growth

Revenue (%)	15.4	15.4	12.5	13.9	6.2
Gross Profit (%)	19.4	19.4	34.4	8.6	-6.8
Net Profit	20.9	20.9	-29.1	8.6	3.9

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2012A	2013A	2014F	2015F	2016F
Property, Plant & Equipment	276.2	271.7	315.1	354.5	395.1
Cash and Cash Equivalents	1,077.7	973.4	1,160.5	1,518.7	1,385.9
Receivables	1,051.9	990.8	1,233.4	1,404.4	1,490.9
Other Assets	2,926.3	3,298.8	3,411.1	3,551.0	3,621.4
Total Assets	5,332.2	5,534.6	6,120.0	6,828.6	6,893.2
Payables	1,030.9	842.7	948.3	1,079.8	1,146.3
Borrowings	1,824.0	1,922.1	2,267.7	2,689.9	2,565.2
Tax payable	50.3	41.5	37.8	37.8	37.8
Other Liabilities	553.9	471.9	532.7	603.9	639.9
Total Liabilities	3,459.1	3,278.3	3,786.6	4,411.5	4,389.3
Shareholders' Equity	1,873.1	2,256.4	2,333.4	2,417.0	2,503.9
Total Equity and Liabilities	5,332.2	5,534.6	6,120.0	6,828.5	6,893.2

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2012A	2013A	2014F	2015F	2016F
Book Value Per Share	1.9	2.2	2.0	1.7	1.7
NTA Per Share	1.9	2.2	2.0	1.7	1.7
EPS (Sen)	26.0	14.1	10.0	10.8	11.3
DPS (Sen)	9.5	9.5	9.5	9.5	9.5
Payout Ratio (%)	36.6	67.5	95.2	87.6	84.4
ROA (%)	3.1	6.3	3.1	2.0	2.2
ROE (%)	22.9	9.0	6.1	6.4	6.4

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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