WCT (WCTHG MK)

Sell (from Neutral)

Construction & Engineering - Construction

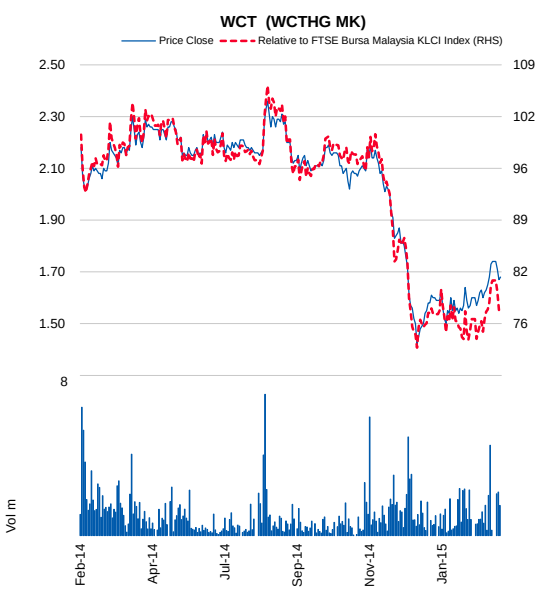
Target Price: MYR1.40

Market Cap: USD502m

Price: MYR1.68

Weaker Construction And Property Profits In FY14

Macro ◆◆◆
Risks ◆◆
Growth ◆
Value ◆



Source: Bloomberg

Avg Turnover (MYR/USD)	1.96m/0.56m
Cons. Upside (%)	27.4
Upside (%)	-16.7
52-wk Price low/high (MYR)	1.42 - 2.36
Free float (%)	60
Share outstanding (m)	1,077
Shareholders (%)	
Taing KH & Wong SW	19.3
EPF	10.2
Lembaga Tabung Haji	10.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.7	7.0	(8.2)	(23.6)	(22.9)
Relative	2.4	6.1	(7.1)	(21.2)	(22.1)

Shariah compliant

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WCT's FY14 results missed expectations as property profits disappointed. We cut our FY15/16 earnings forecasts by 17/16% respectively, TP by 15% to MYR1.40 (17% downside) from MYR1.64 and downgrade our call to SELL from Neutral. WCT has yet to secure any work packages from the Klang Valley MRT project. Also, its property business is facing headwinds amid various cooling measures.

- **A big miss.** WCT's FY14 core net profit of MYR101.8m (excluding disposal losses, forex gains and investment impairment) missed our and consensus estimates by 31% and 30% respectively as its property profits disappointed. Its FY14 core net profit contracted 21% YoY on the back of weaker profits from all divisions, ie construction, property development and property investment.
- **Actively pursuing local and overseas jobs.** Locally, WCT is eyeing the remaining earthworks of the Tun Razak Exchange (MYR300-400m), civil works for a processing plant in Pengerang (MYR1bn), the 118-storey Warisan Merdeka Tower project (MYR2.5bn, via a 40:60 JV with a Middle East-based foreign contractor), earthworks for Kwasa Damansara (MYR1bn) and Line 3 of the light rail transit project (LRT3) (MYR9bn). Overseas, it has submitted bids for various basic infrastructure works (roads, bridges, tunnels etc) worth MYR1bn in Lusail, Qatar.
- **Forecasts.** We cut our FY15/16 earnings forecasts by 17%/16% respectively to factor in lower property development profits.
- **Risks to our view:** i) job wins in FY15F-17F falling short of our MYR1.5bn per annum assumption, ii) higher-than-expected input costs, and iii) weak demand for its property launches.
- **Downgrade to SELL from Neutral.** The prospects for the construction sector are strong, underpinned by the MYR73bn Klang Valley mass rail transit (MRT) project, which should keep industry players busy until 2021. However, WCT is not an ideal proxy as it has yet to secure any Klang Valley MRT job. Its property business is facing headwinds amid various sector cooling measures. We cut our TP by 15% to MYR1.40 (from MYR1.64) based on 12x revised fully-diluted FY15F EPS of 11.7 sen and in line with our benchmark sector 1-year forward target P/Es of 10x-16x. At the current price, the stock is trading at 14x fully-diluted FY15F EPS, which is rich given its rather muted near-term prospects.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	1,655	1,662	1,868	1,734	2,024
Reported net profit (MYRm)	198	121	139	142	160
Recurring net profit (MYRm)	128	102	139	142	160
Recurring net profit growth (%)	(19.1)	(20.8)	36.1	2.4	12.5
Recurring EPS (MYR)	0.13	0.09	0.13	0.13	0.15
DPS (MYR)	0.07	0.02	0.02	0.02	0.02
Recurring P/E (x)	13.3	17.9	13.2	12.9	11.4
P/B (x)	0.83	0.82	0.78	0.74	0.70
P/CF (x)	na	17.8	15.7	15.4	13.4
Dividend Yield (%)	4.0	1.3	1.3	1.3	1.3
EV/EBITDA (x)	7.2	11.9	9.5	9.3	8.4
Return on average equity (%)	9.8	5.4	6.1	5.9	6.3
Net debt to equity (%)	42.0	64.9	58.8	53.1	47.1
Our vs consensus EPS (adjusted) (%)			(20.3)	(23.2)	(13.6)

Source: Company data, RHB

Figure 1: Results review

FYE Dec (MYRm)	4QFY13	3QFY13	4QFY14	QoQ (%)	YoY (%)	FY13	FY14	YoY (%)	Comments
Revenue	**280.4**	**471.1**	**322.4**	**(31.6)**	**15.0**	**1,655.0**	**1,662.2**	**0.4**	Depleting construction orderbook.
EBITDA	78.7	42.4	14.8	**(65.1)**	**(81.2)**	243.1	191.8	**(21.1)**	Weakened margins across the board.
EBITDA Margin (%)	*28.1*	*9.0*	*4.6*			*14.7*	*11.5*		
Depreciation	(4.9)	(3.0)	(3.0)	0.0	(38.8)	(9.9)	(8.2)	(17.8)	
EBIT	**73.8**	**39.5**	**11.9**	**(70.0)**	**(83.9)**	**233.2**	**183.6**	**(21.2)**	
EBIT Margin (%)	*26.3*	*8.4*	*3.7*			*14.1*	*11.0*		
Interest expense	(19.9)	(14.7)	(22.1)	50.7	11.0	(67.6)	(66.7)	(1.4)	
Interest income	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Associates	7.8	4.2	2.5	(40.3)	(68.0)	19.2	15.4	(19.9)	
EI/Others	3.7	3.4	24.3	615.0	552.4	69.5	18.8	(73.0)	
Pretax profit	**65.4**	**32.4**	**16.5**	**(48.9)**	**(74.7)**	**254.2**	**151.1**	**(40.6)**	Hurt further by high base in FY13 due to lumpy exceptional gains.
Pretax Margin (%)	*23.3*	*6.9*	*5.1*			*15.4*	*9.1*		
Tax	(11.6)	(6.1)	0.2	(103.2)	(101.7)	(64.5)	(28.5)	(55.8)	
Effective tax rate (%)	*(17.7)*	*(18.7)*	*1.2*			*(25.4)*	*(18.8)*		
Minority Interest	2.5	(0.5)	3.6	(852.3)	42.7	7.8	(2.1)	nm	
Net Profit	**56.4**	**25.8**	**20.3**	**(21.5)**	**(64.0)**	**197.5**	**120.5**	**(39.0)**	
Core Profit	**52.6**	**22.5**	**(4.0)**	**(117.8)**	**(107.6)**	**128.0**	**101.8**	**(20.5)**	Weaker performance across the board.
Net Margin (%)	*18.8*	*4.8*	*(1.2)*			*7.7*	*6.1*		

Source: Company data, RHB

Figure 2: Results review by segment

FYE Dec (MYRm)	4QFY13	3QFY13	4QFY14	QoQ (%)	YoY (%)	FY13	FY14	YoY (%)	Comments
Revenue	**280.4**	**471.1**	**322.4**	**(31.6)**	**15.0**	**1,655.0**	**1,662.2**	**0.4**	
Construction	232.9	362.1	261.1	(27.9)	12.1	1,168.4	1,210.6	3.6	Depleting orderbook.
Property dev	32.9	95.2	45.6	(52.1)	38.5	425.1	391.7	(7.8)	Softening property sector.
Property inv	14.5	13.8	15.7	13.5	7.6	61.5	59.9	(2.6)	Change in accounting treatment for 70%-owned Paradigm Mall to a "jointly controlled entity", and hence no more recognition of topline contribution in FY14.
PBT	**65.4**	**32.4**	**16.5**	**(49.0)**	**(74.7)**	**254.2**	**151.1**	**(40.6)**	
Construction	7.5	23.3	7.3	(68.7)	(2.2)	129.3	93.9	(27.4)	Hurt by lower margins.
Property dev	12.1	12.6	13.7	9.2	13.4	93.6	73.5	(21.5)	Softening property sector.
Property inv	58.0	7.0	15.1	115.6	(73.9)	79.7	35.0	(56.1)	Change in accounting treatment for 70%-owned Paradigm Mall to a "jointly-controlled entity."
Net inc/(exp)	(19.9)	(14.7)	(22.1)	50.7	11.0	(67.6)	(66.7)	(1.4)	
Associates	7.8	4.2	2.5	(40.3)	(68.0)	19.2	15.4	(19.9)	

Source: Company data, RHB

Figure 3: WCT's outstanding construction orderbook

Project	Outstanding Value (MYRm)
Overseas	
Government administrative building, Doha, Qatar	338
New Doha International Airport, Qatar	2
Subtotal	**340**
Local	
Internal property projects	1,073
MyTown Shopping Centre, KL	649
Roads Package, RAPID, Pengerang, Johor	335
North-South Expressway 4th lane widening (Seremban-Nilai)	141
Commercial office buildings, Precinct 2, Putrajaya	279
Medical Centre, Kota Kinabalu, Sabah	69
New MITI headquarters, KL	102
TRX earthworks	36
Others	45
Subtotal	**2,729**
Total	**3,069**

Source: Company data, RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	1,655	1,662	1,868	1,734	2,024
Cost of sales	(1,375)	(1,447)	(1,571)	(1,437)	(1,709)
Gross profit	**280**	**215**	**297**	**296**	**316**
Gen & admin expenses	(118)	(100)	(120)	(120)	(120)
Other operating costs	71	69	50	50	50
Operating profit	**234**	**184**	**227**	**226**	**246**
Operating EBITDA	244	192	235	235	254
Depreciation of fixed assets	(10)	(8)	(8)	(8)	(8)
Operating EBIT	**234**	**184**	**227**	**226**	**246**
Net income from investments	19	15	31	32	32
Interest expense	(68)	(67)	(72)	(69)	(65)
Exceptional income - net	69	19	-	-	-
Pre-tax profit	**254**	**151**	**185**	**189**	**213**
Taxation	(64)	(28)	(46)	(47)	(53)
Minority interests	8	(2)	-	-	-
Profit after tax & minorities	**198**	**121**	**139**	**142**	**160**
Reported net profit	**198**	**121**	**139**	**142**	**160**
Recurring net profit	**128**	**102**	**139**	**142**	**160**

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	**234**	**184**	**227**	**226**	**246**
Depreciation & amortisation	**10**	**8**	**8**	**8**	**8**
Change in working capital	**(757)**	**-**	**-**	**-**	**-**
Operating cash flow	**(513)**	**192**	**235**	**235**	**254**
Interest received	37	-	-	-	-
Interest paid	(77)	(61)	(72)	(69)	(65)
Tax paid	(64)	(28)	(46)	(47)	(53)
Cash flow from operations	**(618)**	**103**	**116**	**118**	**136**
Capex	(51)	(30)	(30)	(30)	(30)
Other new investments	(173)	-	-	-	-
Other investing cash flow	(15)	-	-	-	-
Cash flow from investing activities	**(239)**	**(30)**	**(30)**	**(30)**	**(30)**
Dividends paid	(73)	(81)	(18)	(18)	(18)
Proceeds from issue of shares	260	-	-	-	-
Increase in debt	1,074	293	-	-	-
Other financing cash flow	(7)	-	-	-	-
Cash flow from financing activities	**1,254**	**212**	**(18)**	**(18)**	**(18)**
Cash at beginning of period	1,078	973	951	1,019	1,089
Total cash generated	**397**	**284**	**68**	**70**	**87**
Forex effects	2	-	-	-	-
Implied cash at end of period	**1,476**	**1,258**	**1,019**	**1,089**	**1,176**

Source: Company data, RHB

Financial Exhibits

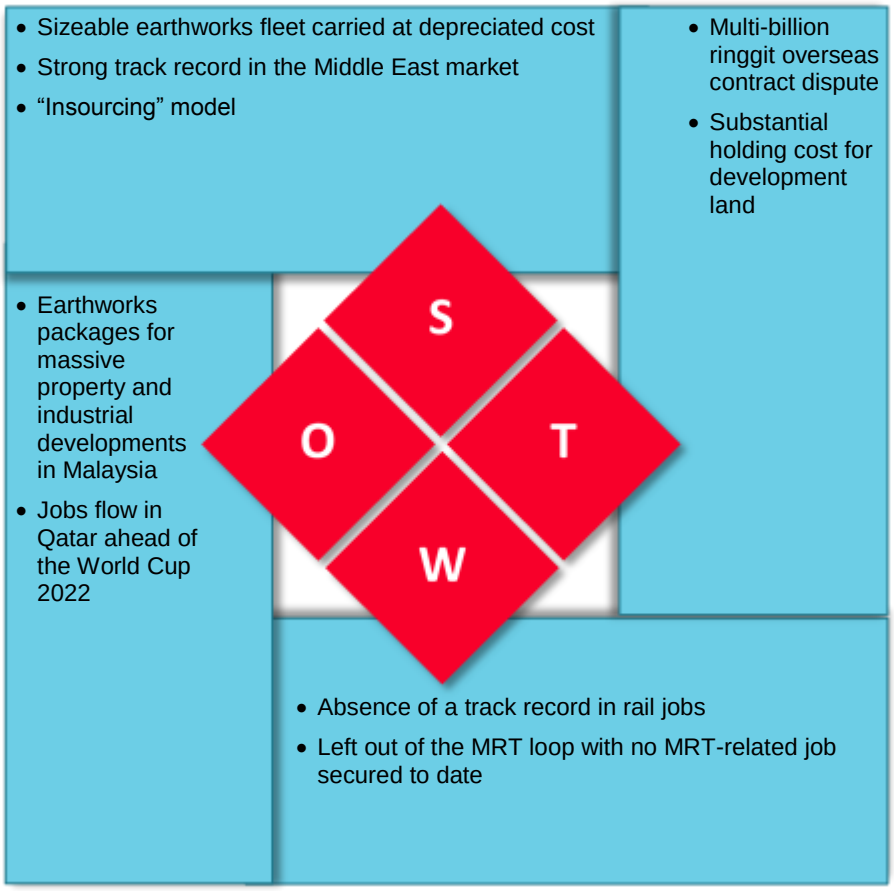
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	973	951	1,019	1,089	1,176
Inventories	76	91	91	91	91
Accounts receivable	707	877	877	877	877
Other current assets	916	800	800	800	800
Total current assets	**2,671**	**2,719**	**2,786**	**2,857**	**2,944**
Total investments	1,096	1,266	1,296	1,328	1,360
Tangible fixed assets	912	1,232	1,253	1,275	1,297
Total other assets	855	986	986	986	986
Total non-current assets	2,863	3,483	3,535	3,588	3,642
Total assets	**5,535**	**6,201**	**6,321**	**6,445**	**6,586**
Short-term debt	369	584	584	584	584
Accounts payable	616	862	862	862	862
Other current liabilities	246	176	176	176	176
Total current liabilities	**1,231**	**1,622**	**1,622**	**1,622**	**1,622**
Total long-term debt	1,553	1,846	1,846	1,846	1,846
Other liabilities	494	452	452	452	452
Total non-current liabilities	**2,047**	**2,298**	**2,298**	**2,298**	**2,298**
Total liabilities	**3,278**	**3,920**	**3,920**	**3,920**	**3,920**
Share capital	546	546	546	546	546
Retained earnings reserve	1,054	1,105	1,225	1,349	1,490
Other reserves	604	576	576	576	576
Shareholders' equity	**2,204**	**2,228**	**2,348**	**2,472**	**2,613**
Minority interests	52	53	53	53	53
Other equity	(0)	(0)	(0)	(0)	(0)
Total equity	**2,256**	**2,281**	**2,401**	**2,524**	**2,666**
Total liabilities & equity	**5,535**	**6,201**	**6,321**	**6,445**	**6,586**

Source: Company data, RHB

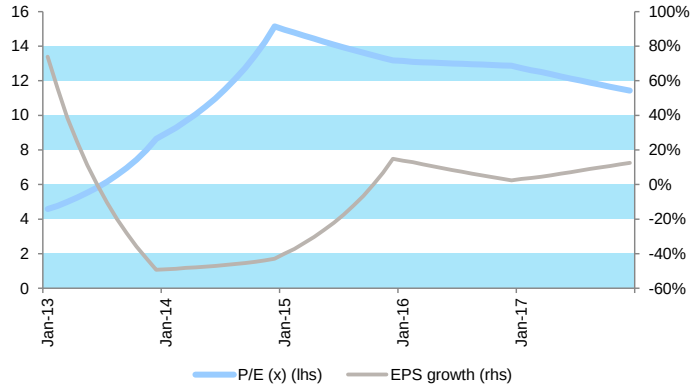
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	6.1	0.4	12.4	(7.2)	16.8
Operating profit growth (%)	(12.7)	(21.4)	23.3	(0.0)	8.5
Net profit growth (%)	(45.0)	(39.0)	14.9	2.4	12.5
EPS growth (%)	(49.2)	(42.9)	14.9	2.4	12.5
Bv per share growth (%)	6.1	1.1	5.4	5.3	5.7
Operating margin (%)	14.1	11.0	12.1	13.1	12.1
Net profit margin (%)	11.9	7.3	7.4	8.2	7.9
Return on average assets (%)	3.6	2.1	2.2	2.2	2.4
Return on average equity (%)	9.8	5.4	6.1	5.9	6.3
Net debt to equity (%)	42.0	64.9	58.8	53.1	47.1
DPS	0.07	0.02	0.02	0.02	0.02
Recurrent cash flow per share	(0.61)	0.09	0.11	0.11	0.12

Source: Company data, RHB

SWOT Analysis

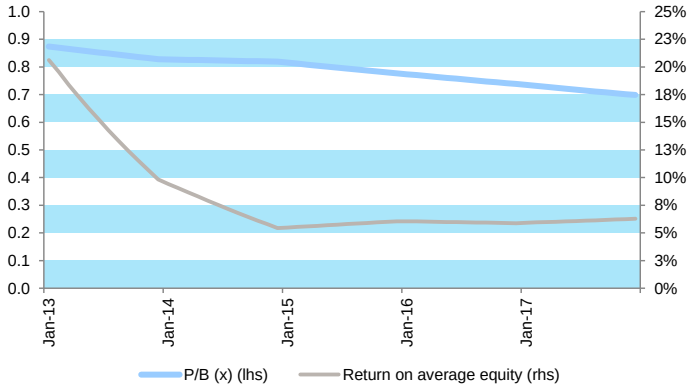


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

WCT is a home-grown construction company that has expanded to the Middle East. It is also engaged in property development and property investment (ie operating shopping malls and hotels).

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommenda	Target Price	Price
2014-12-23	Neutral	1.64	1.55
2014-11-26	Neutral	2.02	1.84
2014-11-25	Neutral	2.02	1.83
2014-10-30	Neutral	2.31	2.09
2014-08-25	Neutral	2.31	2.20
2014-08-22	Neutral	2.31	2.20
2014-07-22	Neutral	2.31	2.17
2014-05-26	Neutral	2.31	2.16
2014-05-23	Neutral	2.23	2.15
2014-05-05	Neutral	2.23	2.21

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
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Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

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