

WCT (WCTHG MK)

Construction & Engineering - Construction

Market Cap: USD751m

Neutral (Maintained)

Target Price: MYR2.23

Price: MYR2.25

Only a Modest Recovery In FY14

 Macro ◆◆◆
 Risks ◆◆
 Growth ◆
 Value ◆


Source: Bloomberg

Avg Turnover (MYR/USD)	3.36m/1.03m
Cons. Upside (%)	5.8
Upside (%)	-0.9
52-wk Price low/high (MYR)	2.02 - 2.70
Free float (%)	60
Share outstanding (m)	1,087
Shareholders (%)	
Taing KH & Wong SW	19.9
EPF	12.9
Lembaga Tabung Haji	6.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.8	6.6	8.2	(8.2)	(5.5)
Relative	10.2	6.1	4.3	(10.6)	(14.4)

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We now project WCT's FY14 core earnings to recover by 11% only (vis-à-vis 32% earlier) on the lack of major contract wins YTD. Also, the postponement of certain property launches in FY13 may result in flattish FY14 property billings. As such, we cut our FY14/15 forecasts by 16%/5% but raise FV by 1% to MYR2.23 (from MYR2.21) as we roll forward our base year to FY15 (from FY14). Maintain NEUTRAL.

- ◆ **Lack of contract wins thus far in FY14.** We now project only a modest 11% recovery in WCT's core earnings in FY14 from our previous forecast of 32%, given that the company has yet to secure any new construction jobs to date. While we keep our assumption that WCT should bag MYR1.5bn worth of new jobs in FY14, it has become increasingly clear that these are more likely to come in during the later part of the financial year rather than the earlier portion. Hence, they are unlikely to contribute significantly in FY14.
- ◆ **Also other factors hampering more significant earnings recovery.** There are also other factors that are hampering a more significant earnings recovery in FY14, namely: i) its three consecutive lacklustre years in terms of construction orderbook replenishment in FY11-13; and ii) the postponement of several key property launches in FY13.
- ◆ **Forecasts.** We cut FY14/15 net profit forecasts by 16%/5% to factor in the less robust construction and property profits as mentioned above.
- ◆ **Risks to our view.** These include: i) new construction contracts secured by WCT in FY14-15 falling short of our MYR1.5bn per annum assumption, ii) higher-than-expected input costs, and iii) weak demand for its property launches.
- ◆ **Maintain NEUTRAL.** WCT is not a good proxy to the construction sector, as it has yet to secure any work packages from the MYR73bn Klang Valley MRT project. Its property business is also facing headwinds on the back of the various sector cooling measures. The company's FV is raised slightly to MYR2.23 (from MYR2.21) as we roll forward our valuation base year to FY15 from FY14. The FV is based on a 16x fully-diluted FY15F EPS of 13.9 sen, in line with our benchmark 1-year forward target P/E's of 10-16x for the construction sector.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	1,539	1,560	1,655	1,772	2,120
Reported net profit (MYRm)	166	359	198	142	170
Recurring net profit (MYRm)	166	159	128	142	170
Recurring net profit growth (%)	10.4	(4.4)	(19.1)	10.5	20.0
Recurring EPS (MYR)	0.20	0.17	0.13	0.13	0.16
DPS (MYR)	0.00	0.07	0.07	0.08	0.08
Recurring P/E (x)	11.5	13.3	17.8	17.2	14.3
P/B (x)	1.42	1.18	1.11	1.08	1.04
P/CF (x)	534	21	na	18	15
Dividend Yield (%)	0.0	2.9	3.0	3.3	3.3
EV/EBITDA (x)	5.82	4.11	8.57	9.60	8.38
Return on average equity (%)	12.1	21.8	9.8	6.4	7.4
Net debt to equity (%)	33.8	40.0	42.0	39.9	36.4
Our vs consensus EPS (adjusted) (%)				(27.4)	(17.4)

Source: Company data, RHB estimates

Only a Modest Recovery In FY14

Lack of contract wins thus far in FY14. We now project only a modest 11% recovery in WCT's core earnings in FY14, vis-à-vis our previous forecast of 32%, as the company has yet to secure any new construction jobs to date. While we are keeping our assumption that WCT should bag MYR1.5bn worth of new jobs in FY14 – vis-à-vis management's guidance for MYR2bn – it is a foregone conclusion that, if they do materialise, they are more likely to come in during the later part of the financial year rather than in the earlier portion. This means these new jobs are unlikely to hit major billing milestones and, hence, contribute significantly in FY14. FY13 was a trough year for WCT, with a 19% contraction in core earnings. This was on the back of a kitchen-sinking exercise at its construction division where certain provisions were made. These included those for bad debts and those arising from downward margins revisions for ongoing contracts on rising input cost expectations.

Other factors also hampering more significant earnings recovery. There are also other factors that are hampering a more significant earnings recovery for WCT in FY14. Firstly, the company had three consecutive lacklustre years in terms of construction orderbook replenishment. It only managed to land external contracts worth MYR670m in FY13, MYR1.1bn in FY12 (excluding a cancelled highway job in Oman) and MYR187m in FY11 vs its usual targets of MYR1.5-2.0bn per annum. Secondly, in FY13, while WCT had planned to put into the market new property projects worth MYR1bn in total, in the end it only managed to launch about 40% of them due to design changes and the resulting delays in getting the necessary approvals to market such products.

Gateway@KLIA2 a long-term story. As we had expected, WCT's latest shopping mall, ie the 350,000sq ft Gateway@KLIA2, did not live up to be a re-rating catalyst to the company's share price on its official opening on 2 May. We project for WCT to account for a share of loss amounting to MYR5m from this 70%-owned entity in FY14 due to start-up costs before it is expected to breakeven in FY15.

Forecasts. We cut FY14/15 net profit forecasts by 16%/5% to factor in the less robust construction and property profits as mentioned above.

Risks to our view. These include: i) new construction contracts secured by WCT in FY14-15 falling short of our MYR1.5bn per annum assumption, ii) higher-than-expected input costs, and iii) weak demand for the company's property launches.

Maintain NEUTRAL. The prospects for the construction sector in Malaysia are strong, underpinned by an extended upcycle driven by the MYR73bn Klang Valley MRT project that should keep players busy until 2021. However, WCT is not a good proxy to the sector as it has yet to secure any work packages from this mega project. Also, its property business is facing headwinds on the back of various cooling measures introduced by the Government since end-2013. FV is raised slightly to MYR2.23 (from MYR2.21) as we roll forward our valuation base year to FY15 from FY14. The FV is based on a 16x fully-diluted FY15F EPS of 13.9 sen, in line with our benchmark 1-year forward target P/Es of 10-16x for the construction sector.

Figure 1: WCT's outstanding construction orderbook

Project	Outstanding value (MYRm)
<u>Overseas</u>	
Government administrative building, Doha, Qatar	628
New Doha International Airport, Qatar	2
Subtotal	630
<u>Local</u>	
Johor Bahru project (internal job)	651
Medin project (internal job)	365
North-South Expressway 4 th lane widening (Seremban-Nilai)	322
Paradigm project (internal job)	306
Commercial office buildings, Precinct 2, Putrajaya	315
Medical Centre, Kota Kinabalu, Sabah	248
New MITI headquarters, Kuala Lumpur	237
Tun Razak Exchange earthworks	162
Others	173
Subtotal	2,779
Total	3,409

Source: Company data, RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	1,539	1,560	1,655	1,772	2,120
Cost of sales	(1,242)	(1,237)	(1,375)	(1,481)	(1,798)
Gross profit	297	323	280	291	322
Gen & admin expenses	(109)	(100)	(118)	(120)	(120)
Other operating costs	68	44	71	50	50
Operating profit	256	268	234	221	252
Operating EBITDA	265	274	244	231	262
Depreciation of fixed assets	(9)	(7)	(10)	(10)	(10)
Operating EBIT	256	268	234	221	252
Net income from investments	18	16	19	15	21
Interest expense	(67)	(69)	(68)	(47)	(45)
Exceptional income - net	-	200	69	-	-
Pre-tax profit	208	415	254	189	227
Taxation	(41)	(69)	(64)	(47)	(57)
Minority interests	(1)	13	8	-	-
Profit after tax & minorities	166	359	198	142	170
Reported net profit	166	359	198	142	170
Recurring net profit	166	159	128	142	170

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	256	268	234	221	252
Depreciation & amortisation	9	7	10	10	10
Change in working capital	(200)	(81)	(757)	-	-
Operating cash flow	65	193	(513)	231	262
Interest received	23	20	37	-	-
Interest paid	(51)	(60)	(77)	(47)	(45)
Tax paid	(33)	(52)	(64)	(47)	(57)
Cash flow from operations	4	101	(618)	137	160
Capex	(16)	(48)	(51)	(30)	(30)
Other new investments	(186)	(128)	(173)	-	-
Other investing cash flow	62	(19)	(15)	-	-
Cash flow from investing activities	(140)	(195)	(239)	(30)	(30)
Dividends paid	(60)	(62)	(73)	(81)	(81)
Proceeds from issue of shares	86	40	260	-	-
Increase in debt	(264)	443	1,074	-	-
Other financing cash flow	(14)	(15)	(7)	-	-
Cash flow from financing activities	(253)	407	1,254	(81)	(81)
Cash at beginning of period	1,162	790	1,078	973	893
Total cash generated	(389)	313	397	25	48
Forex effects	14	(18)	2	-	-
Implied cash at end of period	787	1,086	1,476	999	941

Source: Company data, RHB estimates

Financial Exhibits

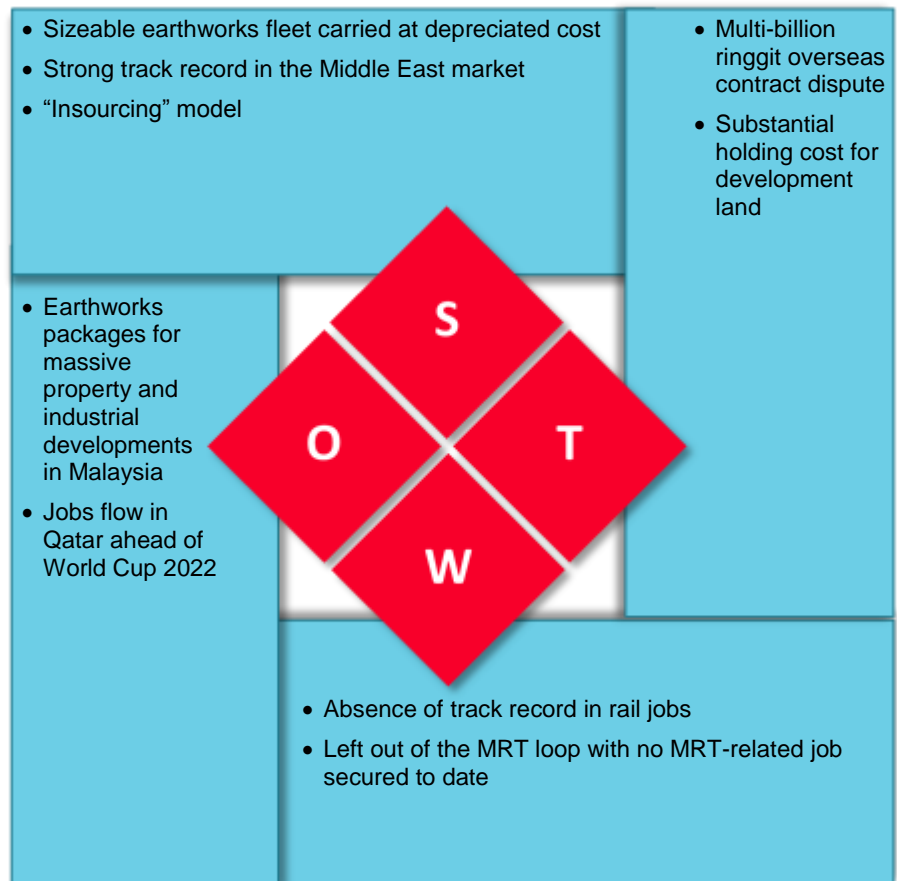
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	790	1,078	973	893	941
Inventories	51	74	76	76	76
Accounts receivable	634	706	707	707	707
Other current assets	913	666	916	916	916
Total current assets	2,388	2,524	2,671	2,591	2,639
Total investments	985	1,528	1,096	1,111	1,132
Tangible fixed assets	537	665	912	932	952
Total other assets	660	670	855	855	855
Total non-current assets	2,181	2,863	2,863	2,898	2,939
Total assets	4,570	5,387	5,535	5,489	5,578
Short-term debt	466	931	369	263	263
Accounts payable	562	666	616	616	616
Other current liabilities	403	433	246	246	246
Total current liabilities	1,432	2,030	1,231	1,125	1,125
Total long-term debt	918	893	1,553	1,553	1,553
Other liabilities	461	596	494	494	494
Total non-current liabilities	1,379	1,490	2,047	2,047	2,047
Total liabilities	2,811	3,520	3,278	3,172	3,172
Share capital	403	476	546	546	546
Retained earnings reserve	658	941	1,054	1,115	1,204
Other reserves	415	394	604	604	604
Shareholders' equity	1,476	1,810	2,204	2,265	2,354
Minority interests	283	57	52	52	52
Other equity	-	0	(0)	(0)	(0)
Total equity	1,759	1,867	2,256	2,317	2,406
Total liabilities & equity	4,570	5,387	5,535	5,489	5,578

Source: Company data, RHB estimates

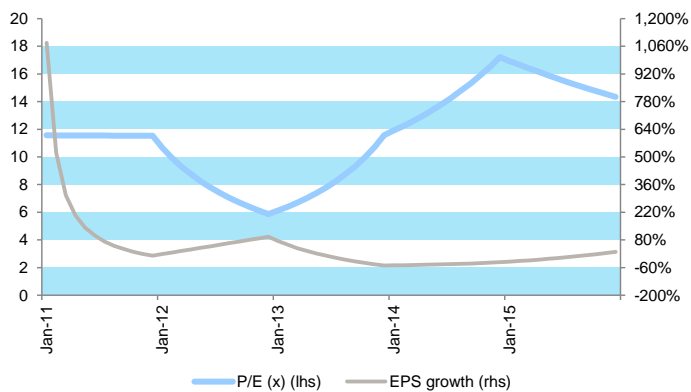
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	(9.9)	1.4	6.1	7.1	19.6
Operating profit growth (%)	(14.8)	4.6	(12.7)	(5.3)	13.8
Net profit growth (%)	10.4	116.2	(45.0)	(28.1)	20.0
EPS growth (%)	0.3	96.2	(49.2)	(32.8)	20.0
Bv per share growth (%)	(2.2)	20.3	6.1	2.7	3.9
Operating margin (%)	16.6	17.2	14.1	12.5	11.9
Net profit margin (%)	10.8	23.0	11.9	8.0	8.0
Return on average assets (%)	3.6	7.2	3.6	2.6	3.1
Return on average equity (%)	12.1	21.8	9.8	6.4	7.4
Net debt to equity (%)	33.8	40.0	42.0	39.9	36.4
DPS	0.00	0.07	0.07	0.08	0.08
Recurrent cash flow per share	0.00	0.11	(0.61)	0.13	0.15

Source: Company data, RHB estimates

SWOT Analysis

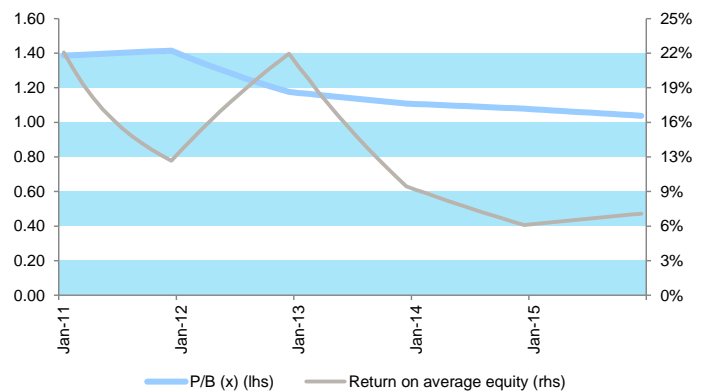


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

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 (operating shopping malls and hotels).

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2014-02-27	Neutral	2.21	2.03
2014-02-26	Neutral	2.21	2.07
2013-11-25	Sell	2.21	2.40
2013-11-22	Sell	2.30	2.36
2013-08-26	Neutral	2.30	2.41
2013-08-23	Sell	2.30	2.41
2013-05-23	Sell	2.30	2.64
2013-05-20	Neutral	2.30	2.70
2013-03-19	Sell	1.76	2.31
2013-02-27	Sell	1.76	2.18

Source: RHB estimates, Bloomberg

RHB Guide to Investment Ratings

- Buy:** Share price may exceed 10% over the next 12 months
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