

WCT (WCTHG MK)

Construction & Engineering - Construction

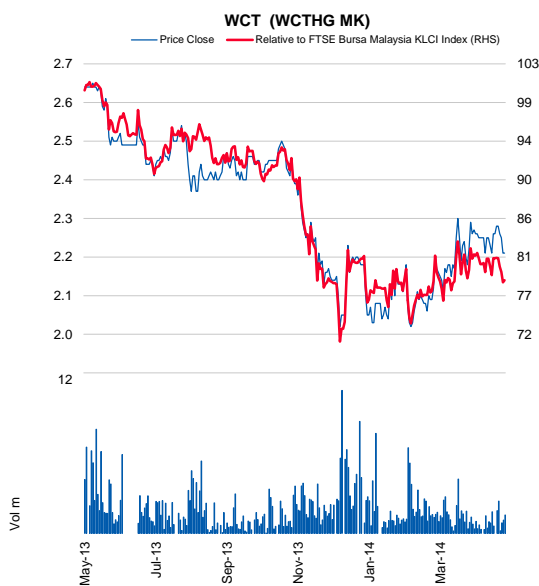
Market Cap: USD746m

Neutral (Maintained)

Target Price: MYR2.23

Price: MYR2.21

Strong 1Q14 May Not Sustain

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	3.19m/0.98m
Cons. Upside (%)	10.9
Upside (%)	0.9
52-wk Price low/high (MYR)	2.02 - 2.65
Free float (%)	60
Share outstanding (m)	1,085
Shareholders (%)	
Taing KH & Wong SW	19.9
EPF	12.9
Lembaga Tabung Haji	6.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.8	(0.5)	4.7	(7.5)	(16.9)
Relative	7.3	(1.3)	2.2	(12.1)	(21.9)

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We maintain our NEUTRAL call, forecasts and FV of MYR2.23 on WCT. Its 1Q14 results met our forecast but missed consensus estimates. WCT is not a good proxy to the buoyant construction sector in Malaysia, as it has yet to secure any work packages from the Klang Valley MRT project. Also, its property business is facing headwinds on the back of the various sector cooling measures.

- ◆ **Within our expectations, but misses consensus.** 1Q14 core net profit of MYR46.3m (excluding forex loss) came in at 33%/24% of our/consensus full-year estimates. We consider the results within our forecast but below market expectations, as we expect weaker quarters ahead. This would be due to: i) WCT's disappointing FY13 construction contract wins of only MYR670m (vis-à-vis its target of MYR2bn) and its inability to win any construction job as yet in FY14, ii) its equally disappointing FY13 property sales of MYR499m (vis-à-vis its target of MYR775m), and iii) the company's expected share of initial losses from the newly opened (and 70%-owned) Gateway@KLIA2 shopping mall, which we project at MYR5m in FY14 before it breaks even in FY15.
- ◆ **Forecasts.** Maintained.
- ◆ **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.** The prospects for the construction sector are strong, underpinned by the MYR73bn Klang Valley MRT project, which will keep industry players busy until 2019. However, WCT is not a good proxy to the construction sector, as it has yet to secure any work packages from the MRT project. In addition, its property business is facing headwinds on the back of the various sector cooling measures introduced by the Government. Our FV is kept unchanged at MYR2.23, which is based on 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)	11.3	13.1	17.5	16.9	14.1
P/B (x)	1.39	1.16	1.09	1.06	1.02
P/CF (x)	525	20	na	18	15
Dividend Yield (%)	0.0	3.0	3.0	3.4	3.4
EV/EBITDA (x)	5.74	4.06	8.46	9.48	8.27
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) (%)				(23.1)	(17.4)

Source: Company data, RHB estimates

Figure 1: WCT's results review

FYE Dec (MYRm)	1QFY13	4QFY13	1QFY14	q-o-q (%)	y-o-y (%)	Comments
Revenue	490.9	280.4	467.2	66.6	(4.8)	A y-o-y decline on depleting construction orderbook. The q-o-q change was normal quarterly fluctuation.
EBITDA	75.8	27.9	74.8	167.7	(1.4)	
<i>EBITDA margin (%)</i>	15.4	10.0	16.0			
Depreciation	(1.4)	(4.9)	(1.4)	(71.7)	0.2	
EBIT	74.4	23.1	73.4	218.1	(1.4)	
<i>EBIT margin (%)</i>	15.2	8.2	15.7			
Interest expense	(14.7)	(19.9)	(15.1)	(24.4)	2.7	
Interest income	0.0	0.0	0.0	nm	nm	
Associates	4.0	7.8	4.6	(41.2)	16.0	
El/Others	1.6	54.5	(6.2)	nm	nm	
Pretax profit	65.4	65.4	56.8	(13.2)	(13.2)	Hurt further by forex losses.
<i>Pretax margin (%)</i>	13.3	23.3	12.1			
Tax	(23.5)	(11.6)	(16.2)	40.2	(31.1)	
<i>Effective tax rate (%)</i>	(36.0)	(17.7)	(28.6)			
Minority interest	1.4	2.5	(0.5)	nm	nm	
Net profit	43.2	56.4	40.1	(28.9)	(7.1)	
Core profit	41.6	1.9	46.3	>100	11.3	Helped by a lower tax, and a low base in 4Q13 due to a kitchen-sinking exercise.
<i>Net margin (%)</i>	8.5	0.7	9.9			

Source: Company data, RHB estimates

Figure 2: WCT's results review (segmental)

FYE Dec (MYRm)	1QFY13	4QFY13	1QFY14	q-o-q (%)	y-o-y (%)	Comments
Revenue	490.9	280.4	467.2	66.6	(4.8)	
Construction	347.6	232.9	327.0	40.4	(5.9)	Y-o-y decline due to a depleting orderbook. Q-o-q change was normal quarterly fluctuation.
Property dev	124.0	32.9	126.4	>100	2.0	Flattish y-o-y performance was an indication of a softening property sector. Q-o-q change was normal quarterly fluctuation.
Property inv	19.3	14.5	13.7	(5.5)	(28.9)	Change in accounting treatment for 70%-owned Paradigm Mall to a "jointly controlled entity". Hence, no more recognition of topline contribution in 1Q14 and 4Q13.
PBT	65.4	65.4	56.8	(13.2)	(13.2)	
Construction	42.8	7.5	36.7	>100	(14.3)	Hurt by forex losses y-o-y. Q-o-q change was normal quarterly fluctuation.
Property dev	28.0	12.1	23.8	96.2	(15.3)	Weaker y-o-y performance was an indication of a softening property sector. Q-o-q change was normal quarterly fluctuation.
Property inv	5.2	58.0	6.8	(88.3)	30.0	Property revaluation surplus in 4Q13.
Net inc/(exp)	(14.7)	(19.9)	(15.1)	(24.4)	2.7	
Associates	4.0	7.8	4.6	(41.2)	16.0	

Source: Company data, RHB estimates

Figure 3: 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, KL	237
TRX 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

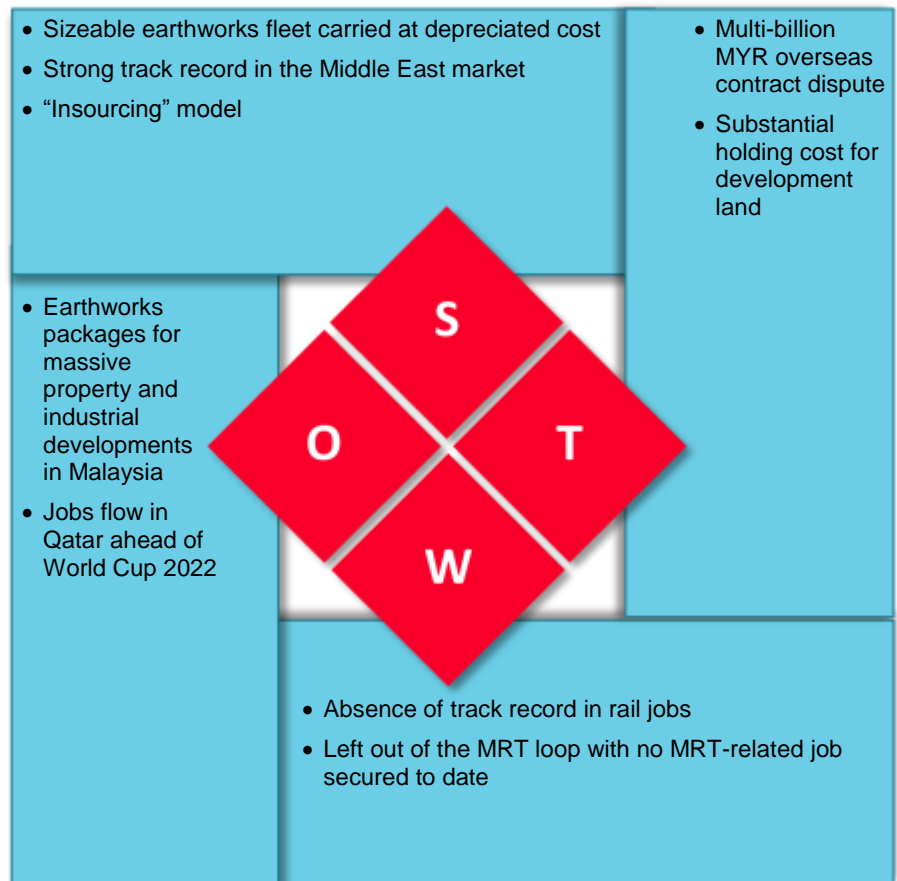
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	790	1,078	973	893	941
Inventories	51	74	76	76	76
Accounts receivable	634	706	707	707	707
Other current assets	913	666	916	916	916
Total current assets	2,388	2,524	2,671	2,591	2,639
Total investments	985	1,528	1,096	1,111	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

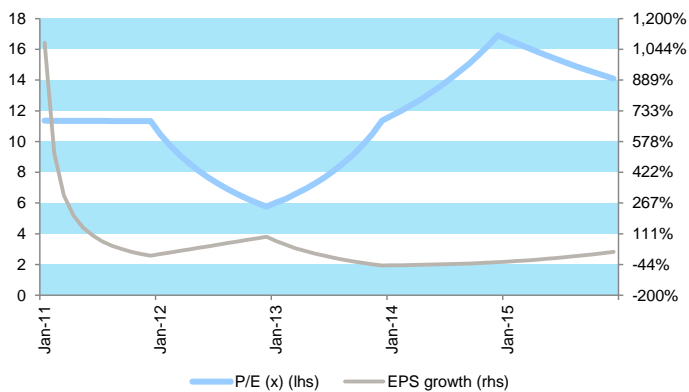
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	(9.9)	1.4	6.1	7.1	19.6
Operating profit growth (%)	(14.8)	4.6	(12.7)	(5.3)	13.8
Net profit growth (%)	10.4	116.2	(45.0)	(28.1)	20.0
EPS growth (%)	0.3	96.2	(49.2)	(32.8)	20.0
Bv per share growth (%)	(2.2)	20.3	6.1	2.7	3.9
Operating 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

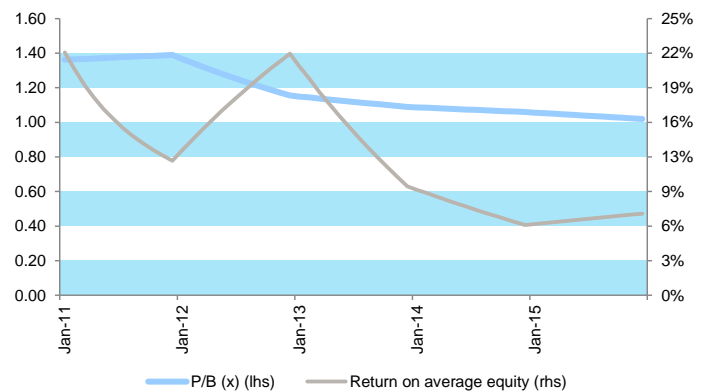


P/E (x) vs EPS growth



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
2014-05-05	Neutral	2.23	2.21
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

Source: RHB estimates, Bloomberg

RHB Guide to Investment Ratings

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