

WCT (WCTHG MK)

Construction & Engineering - Construction

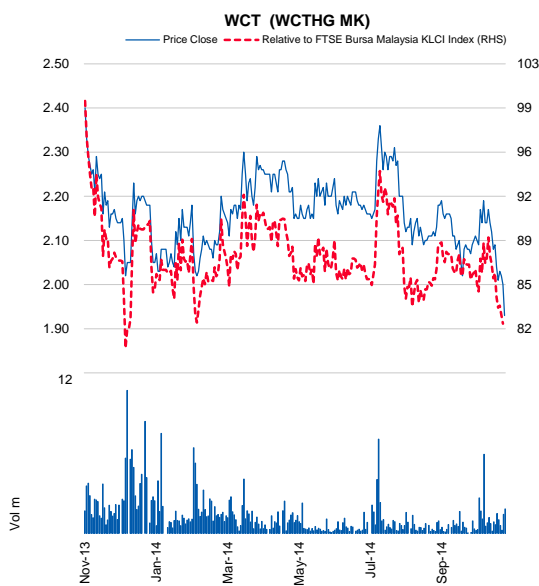
Market Cap: USD626m

Neutral (Maintained)

Target Price: MYR2.02

Price: MYR1.93

9M14 Core Net Profit Declines 16% YoY

 Macro ◆◆◆
 Risks ◆◆
 Growth ◆
 Value ◆


Source: Bloomberg

Avg Turnover (MYR/USD)	1.51m/0.46m
Cons. Upside (%)	20.7
Upside (%)	4.7
52-wk Price low/high (MYR)	1.93 - 2.40
Free float (%)	60
Share outstanding (m)	1,088
Shareholders (%)	
Taing KH & Wong SW	19.9
EPF	12.9
Lembaga Tabung Haji	6.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.9)	(7.2)	(15.4)	(12.7)	(19.3)
Relative	(3.5)	(8.7)	(12.6)	(9.8)	(20.8)

Shariah compliant

Joshua Ng +603 9207 7606

joshuang@rhbgroup.com

WCT's 9M14 results met our forecast but missed consensus estimates. We maintain our NEUTRAL call and earnings forecasts but cut its TP by 13% to MYR2.02 (from MYR2.31), implying a 5% upside. WCT is not an ideal proxy to the construction sector as it has yet to secure any work packages from the Klang Valley MRT project. Also, its property business is facing headwinds amid various cooling measures.

- ◆ **Within our forecast but missed consensus.** WCT's 9M14 core net profit of MYR105.8m (excluding disposal and forex losses, and impairment) came in within our projection (at 71% of our full-year forecast) but missed market expectations (at only 65% of full-year consensus estimates). 9M14 core net profit contracted 16% YoY on the back of weaker profits from all divisions, ie construction, property development and property investment.
- ◆ **Targeting MYR2bn job wins in FY14.** YTD, WCT has secured new jobs worth a total of MYR994m. During an analyst briefing in Aug 2014, WCT reiterated its guidance for MYR2bn construction contract wins in FY14 (*vis-à-vis* our assumption of MYR1.5bn). Locally, it is eyeing work packages from Tun Razak Exchange, Refinery and Petrochemical Integrated Development (RAPID), West Coast Expressway, Kwasa Damansara and Warisan Merdeka Tower. On the overseas front, WCT is bidding for various basic infrastructure works in Lusail, Qatar.
- ◆ **Risks to our view:** i) job wins in FY14-16 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 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 13% to MYR2.02 (from MYR2.31) based on 14x (from 16x) fully-diluted FY15F EPS of 14.5 sen. The reduced multiple is to reflect WCT's low appeal as a proxy to the construction sector, but still in line with our benchmark sector 1-year forward target P/Es of 10-16x.

Forecasts and Valuations	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total turnover (MYRm)	1,560	1,655	1,772	2,120	1,986
Reported net profit (MYRm)	359	198	149	178	180
Recurring net profit (MYRm)	159	128	149	178	180
Recurring net profit growth (%)	(4.4)	(19.1)	16.3	19.0	1.4
Recurring EPS (MYR)	0.17	0.13	0.14	0.16	0.17
DPS (MYR)	0.07	0.07	0.08	0.08	0.08
Recurring P/E (x)	11.4	15.3	14.0	11.8	11.6
P/B (x)	1.01	0.95	0.92	0.89	0.85
P/CF (x)	17.9	na	15.6	13.3	13.2
Dividend Yield (%)	3.4	3.5	3.9	3.9	3.9
EV/EBITDA (x)	3.63	7.67	8.57	7.44	7.32
Return on average equity (%)	21.8	9.8	6.7	7.7	7.5
Net debt to equity (%)	40.0	42.0	39.8	36.4	33.1
Our vs consensus EPS (adjusted) (%)			(8.3)	(3.7)	(12.7)

Source: Company data, RHB

Figure 1: Results review

FYE Dec (MYRm)	3QFY13	2QFY14	3QFY14	QoQ (%)	YoY (%)	9MFY13	9MFY14	YoY (%)	Comments
Revenue	418.5	401.5	471.1	17.3	12.6	1,392.0	1,339.8	(3.7)	Depleting construction orderbook.
EBITDA	85.8	60.9	42.4	(30.4)	(50.5)	215.2	178.1	(17.2)	Weakened margins across the board.
<i>EBITDA Margin (%)</i>	20.5	15.2	9.0			15.5	13.3		
Depreciation	(15.0)	(2.0)	(3.0)	47.5	(80.2)	(5.1)	(6.4)	25.0	
EBIT	70.8	58.9	39.5	(33.0)	(44.2)	210.1	171.8	(18.2)	
<i>EBIT Margin (%)</i>	16.9	14.7	8.4			15.1	12.8		
Interest expense	(17.1)	(14.8)	(14.7)	(0.8)	(14.1)	(47.7)	(44.6)	(6.6)	
Interest income	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Associates	3.3	4.1	4.2	2.4	26.5	11.4	12.9	13.1	
EI/Others	2.9	(2.7)	3.4	nm	17.0	15.1	(5.5)	nm	Forex and disposal losses, and impairment.
Pretax profit	59.9	45.5	32.4	(28.8)	(45.9)	188.8	134.6	(28.7)	Hurt further by exceptional items.
<i>Pretax Margin (%)</i>	14.3	11.3	6.9			13.6	10.0		
Tax	(19.3)	(6.4)	(6.1)	(5.8)	(68.7)	(52.9)	(28.7)	(45.8)	
<i>Effective tax rate (%)</i>	(32.3)	(14.1)	(18.7)			(28.0)	(21.3)		
Minority Interest	0.8	(4.8)	(0.5)	(90.0)	(161.1)	5.3	(5.7)	nm	
Net Profit	41.3	34.3	25.8	(24.6)	(37.5)	141.2	100.2	(29.0)	
Core Profit	38.4	37.0	22.5	(39.4)	(41.6)	126.1	105.8	(16.2)	Helped slightly by a lower tax.
<i>Net Margin (%)</i>	9.2	9.2	4.8			9.1	7.9		

Source: Company data, RHB

Figure 2: Results review - segmental

FYE Dec (MYRm)	3QFY13	2QFY14	3QFY14	QoQ (%)	YoY (%)	9MFY13	9MFY14	YoY (%)	Comments
Revenue	418.5	401.5	471.1	17.3	12.6	1,392.0	1,339.8	(3.7)	
Construction	269.3	260.3	362.1	39.1	34.5	935.5	949.4	1.5	Depleting orderbook.
Property dev	135.2	124.5	95.2	(23.5)	(29.6)	409.5	346.1	(15.5)	Softening property sector.
Property inv	14.0	16.7	13.8	(17.6)	(1.6)	46.9	44.3	(5.7)	Change in accounting treatment for 70%-owned <i>Paradigm Mall</i> to a "jointly controlled entity", and hence no more recognition of topline contribution in FY14.
PBT	59.9	45.5	32.4	(28.8)	(45.9)	188.8	134.6	(28.7)	
Construction	32.6	26.6	23.3	(12.5)	(28.6)	121.8	86.6	(28.9)	Hurt by lower margins and exceptional items.
Property dev	35.0	23.5	12.6	(46.5)	(64.1)	81.5	59.8	(26.6)	Softening property sector.
Property inv	6.0	6.1	7.0	15.1	16.5	21.8	19.9	(8.8)	Change in accounting treatment for 70%-owned <i>Paradigm Mall</i> to a "jointly controlled entity."
Net inc/(exp)	(17.1)	(14.8)	(14.7)	(0.8)	(14.1)	(47.7)	(44.6)	(6.6)	
Associates	3.3	4.1	4.2	2.4	26.5	11.4	12.9	13.1	

Source: Company data, RHB

Figure 3: WCT's outstanding construction orderbook

Project	Outstanding Value (MYRm)
<u>Overseas</u>	
Government administrative building, Doha, Qatar	395
New Doha International Airport, Qatar	2
Subtotal	397
<u>Local</u>	
Internal property projects	1,197
MyTown Shopping Centre, KL	652
Roads Package, RAPID, Pengerang, Johor	342
North-South Expressway 4 th lane widening (Seremban-Nilai)	175
Commercial office buildings, Precinct 2, Putrajaya	287
Medical Centre, Kota Kinabalu, Sabah	101
New MITI headquarters, KL	180
TRX earthworks	101
Others	46
Subtotal	3,081
Total	3,478

Source: Company data, RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total turnover	1,560	1,655	1,772	2,120	1,986
Cost of sales	(1,237)	(1,375)	(1,481)	(1,798)	(1,664)
Gross profit	323	280	291	322	322
Gen & admin expenses	(100)	(118)	(120)	(120)	(120)
Other operating costs	44	71	50	50	50
Operating profit	268	234	221	252	252
Operating EBITDA	274	244	231	262	262
Depreciation of fixed assets	(7)	(10)	(10)	(10)	(10)
Operating EBIT	268	234	221	252	252
Net income from investments	16	19	25	31	32
Interest expense	(69)	(68)	(47)	(45)	(43)
Exceptional income - net	200	69	-	-	-
Pre-tax profit	415	254	199	237	240
Taxation	(69)	(64)	(50)	(59)	(60)
Minority interests	13	8	-	-	-
Profit after tax & minorities	359	198	149	178	180
Reported net profit	359	198	149	178	180
Recurring net profit	159	128	149	178	180

Source: Company data, RHB

Cash flow (MYRm)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Operating profit	268	234	221	252	252
Depreciation & amortisation	7	10	10	10	10
Change in working capital	(81)	(757)	-	-	-
Operating cash flow	193	(513)	231	262	262
Interest received	20	37	-	-	-
Interest paid	(60)	(77)	(47)	(45)	(43)
Tax paid	(52)	(64)	(50)	(59)	(60)
Cash flow from operations	101	(618)	134	157	159
Capex	(48)	(51)	(30)	(30)	(30)
Other new investments	(128)	(173)	-	-	-
Other investing cash flow	(19)	(15)	-	-	-
Cash flow from investing activities	(195)	(239)	(30)	(30)	(30)
Dividends paid	(62)	(73)	(81)	(81)	(81)
Proceeds from issue of shares	40	260	-	-	-
Increase in debt	443	1,074	-	-	-
Other financing cash flow	(15)	(7)	-	-	-
Cash flow from financing activities	407	1,254	(81)	(81)	(81)
Cash at beginning of period	790	1,078	973	996	1,042
Total cash generated	313	397	23	46	47
Forex effects	(18)	2	-	-	-
Implied cash at end of period	1,086	1,476	996	1,042	1,089

Source: Company data, RHB

Financial Exhibits

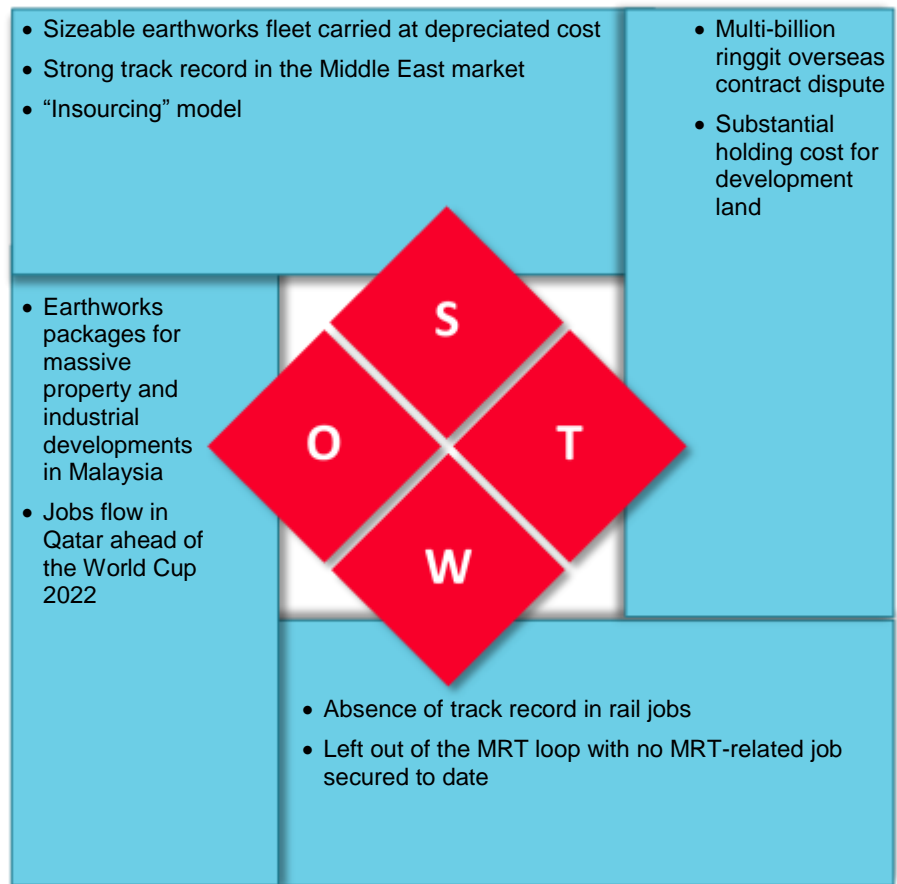
Balance Sheet (MYRm)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Total cash and equivalents	1,078	973	996	1,042	1,089
Inventories	74	76	76	76	76
Accounts receivable	706	707	707	707	707
Other current assets	666	916	916	916	916
Total current assets	2,524	2,671	2,694	2,740	2,787
Total investments	1,528	1,096	1,121	1,152	1,183
Tangible fixed assets	665	912	932	952	972
Total other assets	670	855	855	855	855
Total non-current assets	2,863	2,863	2,908	2,959	3,010
Total assets	5,387	5,535	5,603	5,699	5,798
Short-term debt	931	369	369	369	369
Accounts payable	666	616	616	616	616
Other current liabilities	433	246	246	246	246
Total current liabilities	2,030	1,231	1,231	1,231	1,231
Total long-term debt	893	1,553	1,553	1,553	1,553
Other liabilities	596	494	494	494	494
Total non-current liabilities	1,490	2,047	2,047	2,047	2,047
Total liabilities	3,520	3,278	3,278	3,278	3,278
Share capital	476	546	546	546	546
Retained earnings reserve	941	1,054	1,122	1,218	1,317
Other reserves	394	604	604	604	604
Shareholders' equity	1,810	2,204	2,272	2,369	2,467
Minority interests	57	52	52	52	52
Other equity	0	(0)	(0)	(0)	(0)
Total equity	1,867	2,256	2,324	2,421	2,519
Total liabilities & equity	5,387	5,535	5,603	5,699	5,798

Source: Company data, RHB

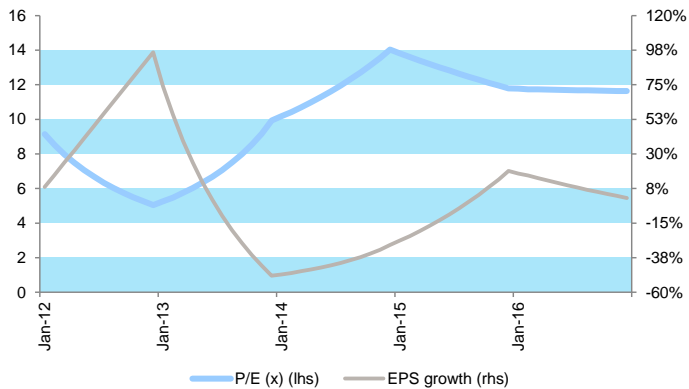
Key Ratios (MYR)	Dec-12	Dec-13	Dec-14F	Dec-15F	Dec-16F
Revenue growth (%)	1.4	6.1	7.1	19.6	(6.3)
Operating profit growth (%)	4.6	(12.7)	(5.3)	13.8	(0.0)
Net profit growth (%)	116.2	(45.0)	(24.4)	19.0	1.4
EPS growth (%)	96.2	(49.2)	(29.2)	19.0	1.4
Bv per share growth (%)	20.3	6.1	3.1	4.2	4.2
Operating margin (%)	17.2	14.1	12.5	11.9	12.7
Net profit margin (%)	23.0	11.9	8.4	8.4	9.1
Return on average assets (%)	7.2	3.6	2.7	3.1	3.1
Return on average equity (%)	21.8	9.8	6.7	7.7	7.5
Net debt to equity (%)	40.0	42.0	39.8	36.4	33.1
DPS	0.07	0.07	0.08	0.08	0.08
Recurrent cash flow per share	0.11	(0.61)	0.12	0.14	0.15

Source: Company data, RHB

SWOT Analysis

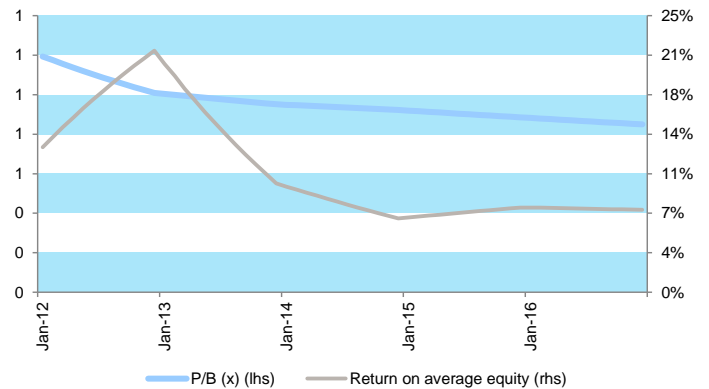


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

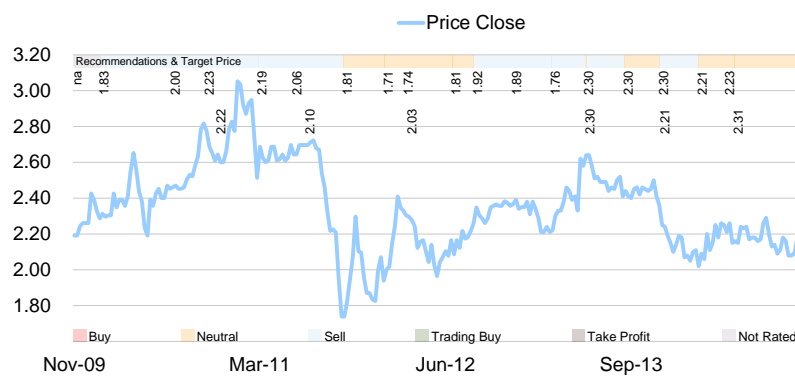


Source: Company data, RHB

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 (operating shopping malls and hotels).

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2014-02-27	Neutral	2.21	2.03
2014-02-26	Neutral	2.21	2.07
2013-11-25	Sell	2.21	2.40

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
Take Profit: Target price has been attained. Look to accumulate at lower levels
Sell: Share price may fall by more than 10% over the next 12 months
Not Rated: Stock is not within regular research coverage

Disclosure & Disclaimer

All research is based on material compiled from data considered to be reliable at the time of writing, but RHB does not make any representation or warranty, express or implied, as to its accuracy, completeness or correctness. No part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. This report is general in nature and has been prepared for information purposes only. It is intended for circulation to the clients of RHB and its related companies. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is for the information of addressees only and is not to be taken in substitution for the exercise of judgment by addressees, who should obtain separate legal or financial advice to independently evaluate the particular investments and strategies.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

RHB, its affiliates and related companies, their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto, and may from time to time add to, or dispose off, or may be materially interested in any such securities. Further, RHB, its affiliates and related companies do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies), as well as solicit such investment, advisory or other services from any entity mentioned in this research report.

RHB and its employees and/or agents do not accept any liability, be it directly, indirectly or consequential losses, loss of profits or damages that may arise from any reliance based on this report or further communication given in relation to this report, including where such losses, loss of profits or damages are alleged to have arisen due to the contents of such report or communication being perceived as defamatory in nature.

The term "RHB" shall denote where applicable, the relevant entity distributing the report in the particular jurisdiction mentioned specifically herein below and shall refer to RHB Research Institute Sdn Bhd, its holding company, affiliates, subsidiaries and related companies.

All Rights Reserved. This report is for the use of intended recipients only and may not be reproduced, distributed or published for any purpose without prior consent of RHB and RHB accepts no liability whatsoever for the actions of third parties in this respect.

Malaysia

This report is published and distributed in Malaysia by RHB Research Institute Sdn Bhd (233327-M), Level 11, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, a wholly-owned subsidiary of RHB Investment Bank Berhad (RHBIB), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Singapore

This report is published and distributed in Singapore by DMG & Partners Research Pte Ltd (Reg. No. 200808705N), a wholly-owned subsidiary of DMG & Partners Securities Pte Ltd, a joint venture between Deutsche Asia Pacific Holdings Pte Ltd (a subsidiary of Deutsche Bank Group) and OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB", which in turn is a wholly-owned subsidiary of RHB Capital Berhad). DMG & Partners Securities Pte Ltd is a Member of the Singapore Exchange Securities Trading Limited. DMG & Partners Securities Pte Ltd may have received compensation from the company covered in this report for its corporate finance or its dealing activities; this report is therefore classified as a non-independent report.

As of 23 November 2014, DMG & Partners Securities Pte Ltd and its subsidiaries, including DMG & Partners Research Pte Ltd do not have proprietary positions in the securities covered in this report, except for:

a) -

As of 23 November 2014, none of the analysts who covered the securities in this report has an interest in such securities, except for:

a) -

Special Distribution by RHB

Where the research report is produced by an RHB entity (excluding DMG & Partners Research Pte Ltd) and distributed in Singapore, it is only distributed to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd

Hong Kong

This report is published and distributed in Hong Kong by RHB OSK Securities Hong Kong Limited ("RHBSHK") (formerly known as OSK Securities Hong Kong Limited), a subsidiary of OSK Investment Bank Berhad, Malaysia which have since merged into RHB Investment Bank Berhad (the merged entity is referred to as "RHBIB"), which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

RHBSHK, RHBIB and/or other affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company. RHBSHK, RHBIB and/or other affiliates may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company.

Risk Disclosure Statements

The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. RHBSHK does not maintain a predetermined schedule for publication of research and will not necessarily update this report

Indonesia

This report is published and distributed in Indonesia by PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Thailand

This report is published and distributed in Thailand by RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL), a subsidiary of OSK Investment Bank Berhad, Malaysia, which have since merged into RHB Investment Bank Berhad, which in turn is a wholly-owned subsidiary of RHB Capital Berhad.

Other Jurisdictions

In any other jurisdictions, this report is intended to be distributed to qualified, accredited and professional investors, in compliance with the law and regulations of the jurisdictions.

Kuala Lumpur	Hong Kong	Singapore
<p>Malaysia Research Office RHB Research Institute Sdn Bhd Level 11, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur Malaysia Tel : +(60) 3 9280 2185 Fax : +(60) 3 9284 8693</p>	<p>RHB OSK Securities Hong Kong Ltd. (formerly known as OSK Securities Hong Kong Ltd.) 12th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908</p>	<p>DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211</p>
Jakarta	Shanghai	Phnom Penh
<p>PT RHB OSK Securities Indonesia (formerly known as PT OSK Nusadana Securities Indonesia) Plaza CIMB Niaga 14th Floor Jl. Jend. Sudirman Kav.25 Jakarta Selatan 12920, Indonesia Tel : +(6221) 2598 6888 Fax : +(6221) 2598 6777</p>	<p>RHB OSK (China) Investment Advisory Co. Ltd. (formerly known as OSK (China) Investment Advisory Co. Ltd.) Suite 4005, CITIC Square 1168 Nanjing West Road Shanghai 20041 China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633</p>	<p>RHB OSK Indochina Securities Limited (formerly known as OSK Indochina Securities Limited) No. 1-3, Street 271 Sangkat Toeuk Thla, Khan Sen Sok Phnom Penh Cambodia Tel: +(855) 23 969 161 Fax: +(855) 23 969 171</p>
Bangkok		
<p>RHB OSK Securities (Thailand) PCL (formerly known as OSK Securities (Thailand) PCL) 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 862 9999 Fax : +(66) 2 108 0999</p>		