



WCT Holdings Bhd

Could Just be a Temporary Setback

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The share price of WCT has declined 32.0% from RM2.28 to RM1.55 since we downgraded the stock to a SELL on 22 August 2014.

The weak share price performance could be due to:

- Disappointing construction order book replenishments in 2013 (RM670mn) and 2014 (RM994mn), versus the target of RM2bn each year as guided by the management.
- Lower-than-expected property sales in 2014; and
- Lower-than-expected construction and property development margins

Going forward, we expect earnings to rebound in 2015, and we see limited downside in the stock, supported by:

- Sufficient outstanding construction order book;
- Sizeable undeveloped landbanks
- Stable recurring income from investment properties

Outstanding construction order book could last till 2017

With the sizeable job win last month for the construction of infrastructure for Lusail Development Project in Qatar, the outstanding order book was bumped up to about RM2.6bn. This translates into 2.1x FY14 construction revenue. With sufficient amount of jobs in hand, the group could afford to be more selective in bidding for new jobs. Among the construction jobs that we think WCT stands reasonable chances of securing include civil works in Pengerang, Iskandar Malaysia, TRX, Kwasa Land and West Coast Expressway.

With ongoing projects in Qatar, we expect WCT to be more competitive in bidding for upcoming jobs in the region, including the USD45bn Lusail City in preparation for 2022 FIFA World Cup in Qatar. Besides, It was reported that the government of Qatar seriously wants F1 grand prix circuit in Lusail in 2016/2017. Having completed circuits in Sepang, Bahrain and Abu Dhabi, we see WCT a favourite to be the contractor for the construction of the circuit should the plan materialize.

Sizeable undeveloped landbanks

While the FY14 property sales of RM461mn was a letdown, the property development division is backed by relatively massive undeveloped landbank of 975acres with projected GDV of RM17.5bn, or 44.7x FY14 property development revenue.

The 57-acre of mix development land in Taman OUG is the crown jewel among the landbanks. It is well-connected by several major highways such as KESAS, MRR2, KL-Seremban Highway, MEX, and Besraya Expressway, and with LRT stations within close proximity. Based on the market value of RM1.25bn for the Taman OUG land, as guided by the management, there would be a revaluation surplus of close to RM682mn, or 62.5sen/share.

TP: RM1.73(+11.6%)

Last traded: RM1.55

HOLD

Share Information

Bloomberg Code	WCTHG MK
Stock Code	9679
Listing	Main Market
Share Cap (mn)	1075.0
Market Cap (RMmn)	1666.2
Par Value	0.50
52-wk Hi/Lo (RM)	2.35/1.38
12-mth Avg Daily Vol ('000 shrs)	1,078.2
Estimated Free Float (%)	34.6
Beta	1.08

Major Shareholders (%)

WCT Capital Sdn Bhd	- 19.53
Lembaga Tabung Haji	- 10.15
Employees Provident Fund	- 9.12
Amanahraya Trustees Bhd	- 8.28
KWAP	- 7.49
Skim Amanah Saham Bumiputera	- 7.19

Forecast Revision

	FY15	FY16
Forecast Revision (%)	-	-
Net profit (RMm)	143.2	148.0
Consensus	144.7	162.9
TA's / Consensus (%)	99.0	90.8
Previous Rating	Sell (Upgraded)	

Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	39.3	43.1
CFPS (sen)	3.0	(4.9)
Price / CFPS (x)	51.7	(31.6)
ROA (%)	2.5	2.5
NTA/Share (RM)	1.9	2.0
Price/NTA (x)	0.8	0.8

Share Performance (%)

Price Change	WCT	FBM KLCI
1 mth	(4.9)	1.5
3 mth	(0.6)	6.9
6 mth	(28.2)	(0.3)
12 mth	(27.2)	(1.2)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

We opine the existing property development earnings may not be a good reflection of the potential in the property development division. More so when the undeveloped landbanks have yet to contribute to the bottom line, but burdened by substantial holding costs of the landbanks. However, we expect the situation to improve after the group starts to launch the Taman OUG mixed development and monetize the asset, targeted in 2H2015.

Stable recurring income from investment properties with potential upside from unlocking of asset value

Besides, the property division is supported by stable recurring income from its investment properties, namely BBT Shopping Mall, Paradigm Mall PJ (70% stake) and KLIA2 Gateway Mall (70%). As Paradigm Mall PJ and KLIA2 Gateway Mall are relatively new, we expect the earnings from these 2 properties to improve arising from rental revision as the malls mature.

As highlighted previously, the group is exploring the option of REITing the 3 shopping mall investment properties with a total estimated property value of more than RM2.0bn. We believe it is just a matter of time for the group to unlock the value of its investment properties. If the plan materializes, the KLIA2 Gateway Mall may see a revaluation surplus of RM400mn to RM500mn (concession for Gateway Mall, KLIA2 was not revalued under the current accounting standards).

Impact

No change to our earnings forecasts.

Valuation

We raise the target PE multiple for its property division from 10x to 12x. We think this is justifiable given i) the sizeable landbanks with huge revaluation surplus; and ii) as the property division is partly supported by stable recurring income from its investment properties, and we believe it is just a matter of timing before WCT REITing its investment properties to unlock the value of the assets.

We roll forward our valuation base year to CY16 and raise our target price to **RM1.73**, from RM1.52 previously, based on unchanged 14x CY16 construction earnings and revised 12x CY16 property earnings. Given the potential 11.2% upside in the share price, we upgrade the stock to **HOLD** from **SELL**.

Financial Statements

Profit & Loss	2013	2014	2015F	2016F	2017F
Revenue	1655.0	1662.2	1427.1	1518.9	1665.0
COGS	(1374.9)	(1428.6)	(1156.0)	(1230.3)	(1348.7)
Gross profit	280.0	233.6	271.1	288.6	316.4
EBITDA	260.6	210.7	263.7	276.6	276.3
Depr & Amort	(9.9)	(8.2)	(7.5)	(8.6)	(9.8)
EBIT	302.7	202.4	256.2	268.0	266.5
Finance cost	(67.6)	(66.7)	(75.1)	(80.6)	(82.9)
Associates	12.1	8.4	12.4	12.5	12.6
PBT	254.2	151.1	193.4	199.9	196.2
Tax	(64.5)	(28.5)	(44.5)	(46.0)	(45.1)
MI	7.8	(2.1)	(5.8)	(6.0)	(5.9)
Net profit	197.5	120.5	143.2	148.0	145.2

Cash Flow	2013	2014	2015F	2016F	2017F
PBT	254.2	151.1	193.4	199.9	196.2
Depr & Amort	9.9	8.2	7.5	8.6	9.8
Tax	(64.4)	(58.8)	(40.1)	(41.7)	(45.1)
Associate and JV	(12.1)	(15.4)	(12.4)	(12.5)	(12.6)
OP before w/cpt change	189.4	178.9	263.7	276.6	276.3
Other Operating CF (net)	(925.6)	(693.0)	(150.6)	(296.4)	(278.2)
CFO	(548.5)	(429.0)	261.6	134.7	146.3

Capex	(24.8)	(2.8)	(55.8)	(58.6)	(61.5)
Others	(214.4)	101.6	(168.3)	(137.3)	(150.8)
CFI	(239.3)	98.8	(224.1)	(195.9)	(212.3)

Net Addition/Rpmt	418.0	498.3	150.8	68.6	119.7
Dividend Paid	(72.9)	(48.8)	(72.0)	(73.2)	(73.2)
Others	249.0	(50.4)	0.0	0.0	0.0
CFF	594.1	399.1	78.8	(4.6)	46.5

Net Cash Flow	(193.7)	68.9	116.3	(65.8)	(19.5)
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Balance Sheet	2013	2014	2015F	2016F	2017F
Fixed Assets	271.7	237.4	366.7	416.7	468.4
Land held for property development	640.4	994.2	706.4	739.4	772.4
Associates + JV	443.3	527.7	467.9	480.4	493.0
Investment Properties	653.0	737.8	910.7	1028.5	1146.3
Others	854.8	985.5	807.1	801.5	801.5
LT Assets	2863.1	3482.6	3258.9	3466.5	3681.7
Inventories	75.6	90.7	19.0	20.2	22.2
Trade and other receivables	990.8	1022.2	600.7	625.2	658.1
Deposits, cash and bank balances	973.4	950.8	1235.6	1169.7	1150.2
Others	631.7	654.8	636.2	622.7	622.7
ST Assets	2671.5	2718.5	2491.4	2437.8	2453.1
Total Assets	5534.6	6201.1	5750.3	5904.4	6134.8

Trade and other payables	842.7	1025.0	628.1	628.5	661.4
ST Borrowings	369.1	584.1	384.1	333.0	333.0
Others	19.5	13.2	27.6	31.9	31.9
ST Liabilities	1231.2	1622.3	1039.8	993.4	1026.3

LT Borrowings	1553.1	1846.4	1788.7	1902.1	2015.5
Others	493.9	451.7	476.4	468.3	460.2
LT Liabilities	2047.0	2298.1	2265.1	2370.4	2475.7

Share Cap	546.2	542.3	571.5	585.9	600.3
Reserves	(515.9)	(465.2)	(363.7)	(289.0)	(217.0)
Share Premium	2174.0	2174.2	2174.0	2174.0	2174.0
Treasury shares		(27.3)			
Shareholder's Funds	2204.3	2227.9	2381.8	2471.0	2557.3
MI	52.1	52.8	63.6	69.6	75.5

Liabilities + Equities	5534.6	6201.1	5750.3	5904.4	6134.8
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Ratios	2013	2014	2015F	2016F	2017F
EBITDA margin (%)	10.9	12.7	11.6	11.7	10.1
Core EPS (sen)	16.0	11.0	11.9	12.1	11.9
Diluted EPS (sen)	15.6	11.0	11.5	11.8	11.6
EPS Growth (%)	1.3	(29.3)	4.1	3.4	(1.9)
PER (x)	10.1	14.1	13.5	13.1	13.3
GDPS (sen)	6.8	6.2	6.0	6.0	6.0
Div Yield (%)	4.4	4.0	3.9	3.9	3.9

Net cash (RMm)	(948.7)	(1479.7)	(937.2)	(1065.3)	(1198.3)
Net gearing (x)	0.4	0.6	0.4	0.4	0.5
ROE (%)	9.0	5.4	6.0	6.0	5.7
ROA (%)	3.6	2.0	2.5	2.5	2.4
NTA/share (RM)	2.0	2.0	1.9	2.0	2.0
P/NTA (x)	0.8	0.8	0.8	0.8	0.8

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