



WCT Holdings Bhd

2015 Expected to Remain Challenging

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TP: RM1.67 (-8.7%)

Last traded: RM1.83

SELL

We attended the 3Q14 results briefing conducted by the management and below are the key takeaways from the briefing.

Impacted by weak construction and property development margins

The weak performance of the construction and property development divisions resulted in 40.1% drop in 9M14 core net profit to RM100.2mn. The management explained that the lower construction margin (-5.7% pts to 9.1%) was due to additional cost of about RM8mn incurred for the completion of New Doha International Airport project. Besides, the construction margin was also affected by bigger share of building works that carry lower margin as compared to civil works. As 56% out of its total outstanding construction order book is building works, we expect the margin to remain low in the foreseeable future.

The drop in property development margin in 3Q14 (YoY: -12.7% pts to 13.2%; QoQ: -5.7% pts) was dragged by 1Medini development that carries lower margin. The 2 towers of 1Medini development which contributes significantly in 3Q14 revenue generated about 12% of margin versus its normal property development margin of 20%. Going forward, the property margin is expected to improve as projects of higher margin kicks in. However, the margin is expected to be affected when GST is implemented.

Management maintaining new construction order target of RM2bn

To date, WCT has secured RM994mn of new construction jobs in FY14. The management maintains its construction order book replenishment target of RM2bn for FY14. It has achieved its target of securing RM1bn of local construction job. The remaining target of RM1bn for overseas jobs could potentially come from the infrastructure works for a commercial development in Lusail, Qatar. At the moment, we are maintaining our order book replenishment assumptions of RM1.5bn in FY15.

WCT's external outstanding order book stood at RM2.3bn (see Exhibit 1), translating into 2.0x FY13 construction turnover.

Potential job wins in near future include some civil works in Petronas RAPID Pengerang of up to RM1.0bn, civil works at TRX with estimated contract sum of RM300mn to RM400mn, Warisan Merdeka building works worth RM2.0bn - RM3.0bn (JV with Arabtec, which involved in the construction of Burj Khalifa, the world's tallest building) and up to RM1.0bn of civil works for Kwasa Damansara Land.

Share Information

Bloomberg Code	WCTHG MK
Stock Code	9679
Listing	Main Market
Share Cap (mn)	1087.8
Market Cap (RMmn)	1990.7
Par Value	0.50
52-wk Hi/Lo (RM)	2.40/1.91
12-mth Avg Daily Vol ('000 shrs)	1,408.8
Estimated Free Float (%)	34.9
Beta	0.97

Major Shareholders (%)

WCT Capital Sdn Bhd	19.30
Employees Provident Fund	10.07
Lembaga Tabung Haji	10.03
Amanahraya Trustees Bhd	8.18
Skim Amanah Saham Bumiputera	7.10
KWAP	6.89

Forecast Revision

	FY14	FY15
Forecast Revision (%)	-	-
Net profit (RMm)	144.7	156.8
Consensus	152.0	178.1
TA's / Consensus (%)	95.2	88.0
Previous Rating	Sell (Maintained)	

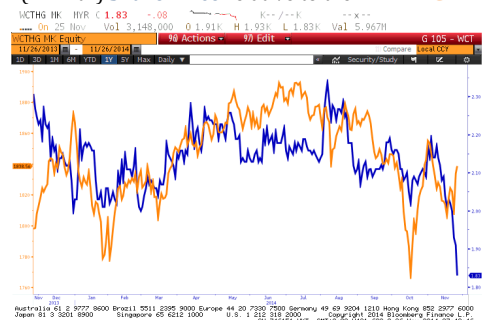
Financial Indicators

	FY14	FY15
Net Debt / Equity (%)	39.5	41.4
CFPS (sen)	8.9	4.0
Price / CFPS (x)	20.6	46.0
ROA (%)	2.6	2.7
NTA/Share (RM)	2.0	1.9
Price/NTA (x)	0.9	1.0

Share Performance (%)

Price Change	WCT	FBM KLCI
1 mth	(12.4)	1.1
3 mth	(16.0)	(1.7)
6 mth	(14.0)	(1.6)
12 mth	(21.7)	2.5

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



Source: Bloomberg

Softening in property market

As of November 14, it has recorded sales of RM497mn (inclusive of sales by option), mainly derived from Laman Greenville and Paradigm Residence. Unbilled sales inched higher from RM537mn to RM589mn as compared to a quarter ago.

As the sentiment in the property market has turned more cautious after various cooling measures being implemented by the government, the management highlighted that the take-up rates for its property development projects have been affected. Two of its major developments, Laman Greenville@Klang South (GDV RM542mn) and The Azure Residences in Kelana Jaya (GDV RM490mn) achieved take-up rates of only 50% and 46%. Given the cautious property sentiment, the management slashed its property sales forecast by almost half, from RM1.2bn to RM617mn. Meanwhile, we are maintaining our FY14 sales forecast at RM650mn.

REITing its shopping malls to unlock value?

The group is exploring the option of REITing its three shopping mall investment properties i.e. i) BBT shopping mall, Klang; ii) Paradigm Mall, PJ; and iii) Gateway Mall, KLIA2 with a total estimated property value of more than RM2.0bn.

The management targets to REIT the properties by end of 2015. If this exercise goes through, it will unlock the value of its investment properties as the Gateway Mall, KLIA2 may see a revaluation surplus of RM400mn to RM500mn (concession for Gateway Mall, KLIA2 was not revalued under the current accounting standards). However, to fully release the value of its property assets, the management is likely to proceed with the REIT plan only if Malaysia Airport Holdings Berhad manages to secure the extension of its airport operating agreement with the government.

Forecast

No change to our earnings forecasts

Valuation

No change to our target price of **RM1.67/share**, based on unchanged 14x CY15 construction earnings and 10x CY15 property earnings. While the successful REITing of its investment properties could provide a re-rating catalyst to the group, the plan is still at preliminary stage at the moment. Potential downside could come from lower-than-expected construction job wins, suppressed construction and property development margins, and slower property sales amid cautious sentiment. As such, we maintain our **SELL** call on **WCT**.

Financial Statements

Profit & Loss	2012	2013	2014F	2015F	2016F
Revenue	1560.4	1655.0	1786.7	1572.5	1702.7
COGS	(1237.3)	(1374.9)	(1465.1)	(1273.7)	(1379.1)
Gross profit	323.0	280.0	321.6	298.8	323.5
EBITDA	268.1	260.6	255.9	282.1	296.4
Depr & Amort	(6.5)	(9.9)	(6.4)	(7.5)	(8.6)
EBIT	467.8	302.7	249.5	274.6	287.8
Finance cost	(68.9)	(67.6)	(71.3)	(75.1)	(80.6)
Associates	16.8	12.1	12.2	12.4	12.5
PBT	414.9	254.2	190.4	211.9	219.7
Tax	(69.2)	(64.5)	(40.0)	(48.7)	(50.5)
MI	13.2	7.8	(5.7)	(6.4)	(6.6)
Net profit	358.9	197.5	144.7	156.8	162.6

Cash Flow	2012	2013	2014F	2015F	2016F
PBT	414.9	254.2	190.4	211.9	219.7
Depr & Amort	6.5	9.9	6.4	7.5	8.6
Tax	(52.2)	(64.4)	(36.2)	(44.3)	(46.2)
Associate and JV	(16.8)	(12.1)	(12.2)	(12.4)	(12.5)
OP before w/cpt change	241.8	189.4	255.9	282.1	296.4
Other Operating CF (net)	(504.0)	(925.6)	(89.3)	(170.9)	(316.7)
CFO	90.3	(548.5)	315.0	273.9	149.4

Capex	(48.4)	(50.6)	(53.2)	(55.8)	(58.6)
Others	(146.5)	(188.6)	(159.9)	(168.3)	(137.3)
CFI	(194.9)	(239.3)	(213.0)	(224.1)	(195.9)

Net Addition/Rpmt	461.1	418.0	107.6	150.8	68.6
Dividend Paid	(61.8)	(72.9)	(63.7)	(120.0)	(122.0)
Others	7.8	249.0	0.0	0.0	0.0
CFF	407.1	594.1	43.9	30.8	(53.4)

Net Cash Flow	302.5	(193.7)	145.8	80.6	(99.9)
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Balance Sheet	2012	2013	2014F	2015F	2016F
Fixed Assets	276.2	271.7	318.4	366.7	416.7
Land held for property development	388.5	640.4	673.4	706.4	739.4
Associates + JV	207.2	443.3	455.5	467.9	480.4
Investment Properties	1311.5	653.0	776.2	910.7	1028.5
Others	679.4	854.8	880.3	807.1	801.5
LT Assets	2862.7	2863.1	3103.8	3258.9	3466.5
Inventories	73.9	75.6	24.1	20.9	22.7
Trade and other receivables	977.1	990.8	675.6	633.0	666.5
Deposits, cash and bank balances	1077.7	973.4	1119.2	1199.8	1099.9
Others	395.6	631.7	635.4	636.2	622.7
ST Assets	2524.3	2671.5	2454.3	2489.9	2411.8
Total Assets	5387.0	5534.6	5558.1	5748.7	5878.3

Trade and other payables	1083.4	842.7	668.1	660.4	669.8
ST Borrowings	930.7	369.1	357.8	384.1	333.0
Others	15.8	19.5	23.2	27.6	31.9
ST Liabilities	2029.9	1231.2	1049.1	1072.1	1034.7
LT Borrowings	893.3	1553.1	1668.2	1788.7	1902.1
Others	596.4	493.9	485.6	476.4	468.3
LT Liabilities	1489.8	2047.0	2153.8	2265.1	2370.4

Share Cap	475.8	546.2	558.3	571.5	585.9
Reserves	940.6	(515.9)	(434.9)	(398.1)	(357.5)
Share Premium	394.1	2174.0	2174.0	2174.0	2174.0
Shareholder's Funds	1810.5	2204.3	2297.4	2347.4	2402.4
MI	57.0	52.1	57.8	64.1	70.7

Liabilities + Equities	5387.0	5534.6	5558.1	5748.7	5878.3
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Ratios	2012	2013	2014F	2015F	2016F
EBITDA margin (%)	11.4	10.9	10.2	11.4	11.5
Core EPS (sen)	16.3	16.0	13.1	13.1	13.3
Diluted EPS (sen)	15.6	15.6	12.6	12.5	13.0
EPS Growth (%)	(3.2)	1.3	(18.3)	(0.3)	3.7
PER (x)	12.6	12.4	15.2	15.2	14.7
GDPS (sen)	6.5	6.8	5.8	10.0	10.0
Div Yield (%)	3.4	3.5	3.0	5.2	5.2
Net cash (RMm)	(746.3)	(948.7)	(906.7)	(973.0)	(1135.2)
Net gearing (x)	0.4	0.4	0.4	0.4	0.5
ROE (%)	19.8	9.0	6.3	6.7	6.8
ROA (%)	6.7	3.6	2.6	2.7	2.8
NTA/share (RM)	1.8	2.0	2.0	1.9	1.9
P/NTA (x)	1.1	1.0	1.0	1.0	1.0

Appendix

Exhibit 1: Outstanding Order Book

Project	Outstanding value (RMmn)
Overseas	
Government Administrative Office, Qatar	395
New Doha Intl Airport Qatar	2
Total for Overseas (17%)	397
Local	
Civil Engineering & Infrastructure	
PLUS widening	175
Tun Razak Exchange	101
RAPID	342
Others	2
Sub-Total (27%)	620
Building	
MyTown Shopping Centre	652
KK Medical Centre & Riverson	101
Putrajaya Commercial Office	287
MITI Headquarters	180
UITM	36
Others	8
Sub-Total (56%)	1,264
Total for Local (83%)	1884
Total for External (100%)	2281
Internal	
Property investment	
Kelana Jaya	165
Johor Bahru	531
Property development	
Kelana Jaya	143
Johor Bahru	99
1 Medini High-rise	259
Sub-Total	1197
Est. outstanding order book as at 30 June 14	3478

Source: WCT, TA Research

Exhibit 2: New launches scheduled in 2014

Project	GDV (RMmn)
BBT2 – Shop + Serviced apartment	394
Laman Greenville @ Klang South	542
Skyz Jelutong @ Bukit Jelutong, Shah Alam	160
Paradigm Residences, Kelana Jaya	490
Brio Residence, Johor	241
One Medini Garden Villa	23
TOTAL	1,850

Source: WCT, TA Research

Exhibit 3: Ongoing Property Development

Project	Land Area	Land Developed	Total GDV	Sales	Billing
	(acre)	(acre)	(RM mn)	(RM mn)	(RM mn)
Bandar Bukit Tinggi 1	347	330	2,196	1,124	1,121
Bandar Bukit Tinggi 2	562	527	2,671	1,507	1,430
Bandar Parklands	427	352	4,382	1,203	1,172
d'Banyan Residency	22	22	269	263	258
1 Medini Residency	11	11	807	501	151
Laman Greenville	56	56	542	114	31
Skyz Jelutong	2	2	160	14	2
Paradigm Residence	2	2	490	31	3
TOTAL	1,429	1,302	11,517	4,757	4,168

Source: WCT, TA Research

Exhibit 4: Land Bank with Potential GDP

Location	Land Bank (acre)	Outstanding Land (acre)	Projected Development Value (RM mn)
Integrated Township			
Bandar Bukit Tinggi, Klang	1,336	122	5,249
Rawang, Selangor	468	468	1,200
Luxury Homes			
Inanam, Kota Kinabalu	22	22	200
Industrial			
Bandar Serendah, Selangor	39	39	270
Mixed-Commercial			
Medini Business District,			
Iskandar Malaysia	21	21	3,000
A60 - Medini North, Iskandar Malaysia	18	18	1,500
OUG, Kuala Lumpur	57	57	4,900
Jalan Skudai, Johor Bahru	12	12	1,300
TOTAL	1,973	759	17,619

Source: WCT, TA Research

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