

COMPANY UPDATE

WCT Holdings (WCTHG MK)

Emerging Long-term Play

Key takeaways from WCT Holdings' post-1Q14 results briefing: a) the construction division could see some orderbook replenishment from the remaining WCE projects and from large-scale earthworks projects, and b) the group is targeting to launch RM2.3b worth of projects, mostly in 2H14. An emerging REITable asset play, we believe WCT should begin re-rating from 4Q14 onwards.. Maintain HOLD. Target price: RM2.50. Entry price: RM2.15.

WHAT'S NEW

- Recap of 1Q14 results.** WCT Holdings (WCT) reported 1Q14 revenue of RM467.2m (+79.0% qoq, -5.6% yoy) and net profit of RM40.1m (+28.9% qoq, -7.1% yoy). Excluding a forex loss of RM5.9m, 1Q14 net profit accounted for 23% of our full-year RM200m estimate and 24% of consensus estimate of RM194m. Revenue increased mainly due to higher progress billings in the construction and property divisions, while the property investment division's revenue dipped due to the partial sale of the Paradigm Mall that was completed in 2Q13.
- Construction division remained healthy.** The construction division recorded revenue of RM383.3m (+64.6% qoq, -12.9% yoy) and EBIT of RM36.7m. Contribution from the division was healthy mainly due to a strong outstanding construction orderbook of about RM3b. EBIT margin for the division stood healthy at 9.6%, driven by earthwork jobs that typically carry higher margins.
- Property development boosted earnings.** In 1Q14, the property development arm recorded revenue of RM127.4m (+>100% qoq, -11.5% yoy) and EBIT of RM23.8m (+96.2% qoq, -15.3% yoy). EBIT margin for the division declined to 18.7% (from 25% in 4Q13) as the progress for its 1Medini residences is still at the early billing stage.
- Orderbook of RM3.0b.** WCT's orderbook stood at RM3b as at 31 Mar 14, implying 1.5x 2013 construction revenue. Of this, 15.8% is from the Middle East while the balance is domestic jobs (including internal jobs – The Paradigm in Johor Bahru, and 1Medini High-rise).

KEY FINANCIALS

Year to 31 Dec (RMm)	2012	2013	2014F	2015F	2016F
Net turnover	1,560	1,672	1,571	1,751	1,958
EBITDA	340	313	317	333	379
Operating profit	333	303	309	321	364
Net profit (rep./act.)	359	198	200	219	252
Net profit (adj.)	350	188	200	219	252
EPS (sen)	26.9	15.4	16.3	17.6	19.9
PE (x)	8.0	14.0	13.2	12.2	10.8
P/B (x)	1.3	1.1	1.0	1.0	0.9
EV/EBITDA (x)	9.1	9.9	9.8	9.3	8.2
Dividend yield (%)	0.0	4.7	4.7	5.1	5.6
Net margin (%)	23.0	11.8	12.7	12.5	12.9
Net debt/(cash) to equity (%)	41.2	40.1	30.7	32.2	29.2
Interest cover (x)	4.9	4.6	6.0	6.7	7.8
ROE (%)	21.9	9.8	8.9	9.3	10.3
Consensus net profit	-	-	192	212	241
UOBKH/Consensus (x)	-	-	1.04	1.03	1.04

Source: WCT Holdings, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM2.15
Target Price	RM2.50
Upside	+16.3%

COMPANY DESCRIPTION

Construction company with growing focus in property development.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WCTHG MK
Shares issued (m):	1,085.2
Market cap (RMm):	2,333.1
Market cap (US\$m):	726.5
3-mth avg daily t'over (US\$m):	1.0

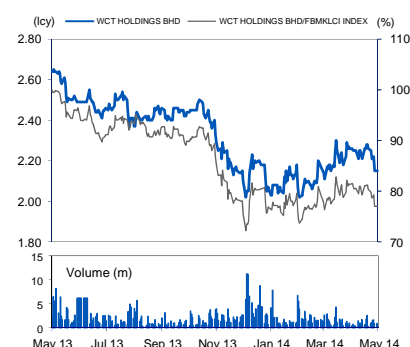
Price Performance (%)

52-week high/low	RM2.65/RM2.02			
1mth	3mth	6mth	1yr	YTD
(4.9)	1.9	(8.9)	(18.6)	4.9

Major Shareholders

WCT Capital	19.6
EPF	13.9
KWAP	6.2
FY14 NAV/Share (RM)	2.10
FY14 Net Debt/Share (RM)	0.65

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Expect decent contract wins in 2014.** We believe there should be room for earnings upgrade if the company secures more construction order wins. Currently, we are conservatively estimating order wins of RM900m (vs the company's target of RM1.5b). We reckon WCT would still be primed to secure more contracts next year, such as: a) the remaining works of the WCE Expressway (estimated at RM2.2b) b) civil earthworks at the RRI Land (worth RM1b for 2,000 acres), and c) Petronas RAPID civil works (RM500m).
- **Property development would be the next key driver.** We continue to see its property development arm growing stronger to eclipse the construction division. To-date, the group managed to clinch RM106m worth of sales, or about 30% of its 2014 sales target of RM775m. This year, the company is looking to launch RM2.3b worth of projects, evenly spread out between landed and high-rise residential properties in the Klang Valley and Iskandar Malaysia, which would mostly be in 2H14. Unbilled sales stand at RM533m, or about 0.8x its 2013 property development revenue. We estimate development profits would contribute 51-56% of WCT's pre-tax profit (PBT) in 2014-16.
- **Investment property arm to have significant value.** In the long term, we foresee a significant re-rating catalyst for WCT to be the value of its investment properties. Thus far, the company is operating a hotel and three key malls, which include the recently opened Gateway@klia2 shopping mall and the Paradigm Mall in Kelana Jaya (combined value of RM1.2b, based on our estimate). Also in the pipeline is another two shopping malls – Paradigm Mall JB (completion in mid-15) and Paradigm Mall OUG (completion in 2017). If it decides to list these assets under a REIT, it will unlock more value to shareholders although this may only materialise in the longer term. We believe share price would steadily appreciate to reflect the eventual REITing of its investment properties (value in excess of RM3.5b) although we believe WCT would likely only leverage on a REIT listing in 3-4 years' time.
- **Foreign shareholdings stood at 9.9%** as of 15 May 14, down 3.5ppt from the 13.4% as at end-Mar 14.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.
- Major risks include execution risk, weaker property sales due to the recent regulatory change, and rising raw material prices.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM2.50**, based on SOTP valuation and implying 14x 2015F PE. We believe our target price could rise as we move towards 2H14 if the company wins more sizeable construction jobs and when contributions from Gateway@klia2 can be appreciated. A good entry price is RM2.15.

SHARE PRICE CATALYST

- Good take-up rate of property development projects.
- Winning new construction jobs.
- Listing of its properties, unlocking more value.

SOTP VALUATION

	(RMm)
Property development	1,007.6
Construction	720.3
Investment property	1,556.2
Concession KLIA 2	415.1
Less: Net debt @FY14	(770.9)
Proceeds from warrants	800.3
Total SOP value	3,728.5
FD shares outstanding	1,413.0
SOP/share (RM)	2.64
Target price (RM) - 20% discount to SOP	2.50
Implied 2015F PE	14.8

Source: UOB Kay Hian

OUTSTANDING ORDERBOOK (INTERNATIONAL)

Overseas Projects	(RMm)
Gov Admin Office, Qatar	479
New Doha Int'l Airport, Qatar	2
Total	481

Source: WCT, UOB Kay Hian

OUTSTANDING ORDERBOOK (DOMESTIC)

Domestic Projects	(RMm)
PLUS Widening	310
KK Medical Centre	203
Putrajaya Commercial Office	308
Ministry of Int'l Trade (MITI)	231
Tun Razak Exchange	157
Others	576
Internal construction	1,270
Total	3,055

Source: WCT, UOB Kay Hian

UPCOMING LAUNCHES

Upcoming Launches	RMm
BBT - Commercial/Residential	394
Bandar Parklands - Resi	143
Laman Greenville - Resi	439
Skyz Jelutong - HR Residential	146
Paradigm Residences - HR Residential	483
A60, Medini North - HR Residential	502
Paradigm JB - HR Residential	193
One Medini Garden Villa	20
Total	2,320

Source: WCT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Net turnover	1,672	1,571	1,751	1,958
EBITDA	313	317	333	379
Deprec. & amort.	10	8	11	15
EBIT	303	309	321	364
Associate contributions	19	15	19	19
Net interest income/(expense)	(68)	(53)	(49)	(49)
Pre-tax profit	254	271	292	336
Tax	(64)	(70)	(73)	(84)
Minorities	8	0	0	0
Net profit	198	200	219	252
Net profit (adj.)	188	200	219	252

CASH FLOW

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Operating	(710)	287	202	314
Pre-tax profit	254	271	292	336
Tax	(65)	(70)	(73)	(84)
Deprec. & amort.	10	8	11	15
Associates	0	0	0	0
Working capital changes	(830)	(21)	(129)	(52)
Non-cash items	n.a.	n.a.	n.a.	n.a.
Other operating cashflows	(80)	100	100	100
Investing	(20)	(150)	(150)	(150)
Capex (growth)	(60)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	131	0	0	0
Others	(91)	0	0	0
Financing	593	(159)	(169)	(180)
Dividend payments	(73)	(109)	(120)	(131)
Issue of shares	0	0	0	0
Proceeds from borrowings	407	100	100	100
Loan repayment	0	(150)	(150)	(150)
Others/interest paid	260	0	1	1
Net cash inflow (outflow)	(137)	(22)	(118)	(16)
Beginning cash & cash equivalent	1,078	1,039	1,017	901
Changes due to forex impact	98	0	2	2
Ending cash & cash equivalent	1,039	1,017	901	888

BALANCE SHEET

Year to 31 Dec (RMm)	2013	2014F	2015F	2016F
Fixed assets	272	412	554	692
Other LT assets	2,493	2,561	2,557	2,576
Cash/ST investment	1,039	1,017	901	888
Other current assets	1,731	1,532	1,611	1,700
Total assets	5,535	5,522	5,623	5,856
ST debt	369	319	269	219
Other current liabilities	862	976	926	963
LT debt	1,553	1,403	1,403	1,403
Other LT liabilities	494	476	579	704
Shareholders' equity	2,204	2,295	2,394	2,515
Minority interest	52	52	52	52
Total liabilities & equity	5,535	5,522	5,623	5,856

KEY METRICS

Year to 31 Dec (%)	2013	2014F	2015F	2016F
Profitability				
EBITDA margin	18.7	20.1	19.0	19.3
Pre-tax margin	15.2	17.2	16.7	17.1
Net margin	11.8	12.7	12.5	12.9
ROA	3.6	3.6	3.9	4.4
ROE	9.8	8.9	9.3	10.3
Growth				
Turnover	7.2	(6.0)	11.4	11.8
EBITDA	(7.9)	1.3	5.1	13.8
Pre-tax profit	(38.7)	6.4	8.1	14.8
Net profit	(45.0)	1.3	9.5	14.8
Net profit (adj.)	(46.4)	6.7	9.5	14.8
EPS	(42.7)	5.8	8.3	13.0
Leverage				
Debt to total capital	46.0	42.3	40.6	38.7
Debt to equity	87.2	75.0	69.8	64.5
Net debt/(cash) to equity	40.1	30.7	32.2	29.2
Interest cover (x)	4.6	6.0	6.7	7.8

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