

Sequential improvement

WCT's net profit jumped 64% QoQ to RM33m in 1Q15, driven by a rebound in construction and property development earnings following a weak 4Q14 performance. But the result is still lagging market and our expectations. Core net profit declined 70% YoY to RM14m in 1Q15 after excluding forex gain of 19m. We expect sequential improvement in core earnings supported by a burgeoning construction order book and unbilled property sales. We retain our BUY call with RM2.12 target price, based on a target 2016 PE of 14x.

Below expectations

Net profit of RM33m in 1Q15 comprises 23% of consensus full-year forecast of RM144m and 21% of our RM157m estimate. We maintain our earnings forecasts on expectation of better performance in subsequent quarters as new construction projects worth RM868m secured in 1Q15 start to contribute to earnings. Key risk to our earnings forecasts are delays in implementation of new contracts and slow property sales.

Strong construction order book and property launch pipeline

Outstanding construction order book of RM3.64bn and unbilled property sales of RM658m will support earnings growth in FY15-17E. WCT achieved property pre-sales of RM127m in 1Q15. It expects new project launches such as Paradigm Residences PJ in 2H15 to drive pre-sales and achieve its full-year target of RM650m.

Good prospects for construction

WCT and Arabtec joint venture is reported to be one of two frontrunners for the KL118 Tower project. Based on a 50% share of works worth RM3bn, this project will lift WCT's construction order book by RM1.5bn. WCT is also in the running for more contracts in Petronas RAPID and Tun Razak Exchange. It is also bidding for the Line Rail Transit Line 3 project and will bid for the upcoming Klang Valley Mass Rapid Transit Line 2 project.

Still a BUY

We maintain our **BUY** rating with an unchanged target price of RM2.12 based on an unchanged 14x 2016E EPS. The proposed rights issue would be EPS-dilutive but shareholders have been offered a low rights issue price of RM1.00 and bonus warrants. Potential news flow of new construction contract awards will support WCT's share price outperformance.

Earnings & Valuation Summary

FYE 31 Dec	2012	2014	2015E	2016E	2017E
Revenue (RMm)	1,672.4	1,662.2	1,810.0	1,820.0	1,920.0
EBITDA (RMm)	224.8	187.9	260.7	267.3	292.3
Pretax profit (RMm)	227.9	151.1	213.7	222.3	249.3
Net profit (RMm)	171.2	120.5	157.0	164.5	185.7
EPS (sen)	18.1	12.2	14.4	15.1	17.0
PER (x)	9.9	14.7	12.5	11.9	10.5
Core net profit (RMm)	197.5	108.4	157.0	163.5	183.7
Core EPS (sen)	18.1	9.9	14.4	15.1	17.0
Core EPS growth (%)	10.3	(45.1)	44.8	4.8	12.9
Core PER (x)	9.9	18.0	12.5	12.0	10.6
Net DPS (sen)	6.8	7.5	7.5	7.5	7.5
Dividend Yield (%)	3.8	4.2	4.2	4.2	4.2
EV/EBITDA (x)	12.6	18.3	12.5	12.7	12.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.1	1.0	1.1

Source: Company, Affin Hwang estimates, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

WCT Holdings

WCTHG MK

Sector: Construction & Infra

RM1.79 @ 25 May 2015

BUY (maintain)

Upside: 18.4%

Price Target: RM2.12

Previous Target: RM2.12



Price Performance

	1M	3M	12M
Absolute	+1.0%	+7.6%	-15.1%
Rel to KLCI	+6.4%	+10.6%	-10.2%

Stock Data

Issued shares (m)	1,085.7
Mkt cap (RMm)/(US\$m)	1,943/538
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	1.37-2.32
Est free float	35%
BV per share (RM)	2.11
P/BV (x)	0.8
Net cash/ (debt) (RMm) (1Q15)	(1,641.8)
ROE (2015E)	6.9%
Derivatives	Yes
(Warr 11/16, WP RM0.18, EP RM2.04)	
(Warr 12/17, WP RM0.26, EP RM2.25)	
Shariah Compliant	Yes

Top 3 Key Shareholders

WCT Capital	19.5%
Lembaga Tabung Haji	10.2%
EPF Board	9.5%

Source: Affin Hwang, Bloomberg

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Outthink. Outperform.

Figure 1: Result comparison

FYE 31 Dec (RMm)	1Q15	QoQ % chg	YoY % chg	Comment
Revenue	351.6	9.1	(24.7)	YoY decline as several construction projects were completed last year while property progress billings were lower. QoQ increase was due to a rebound in property progress billings
Op costs	(331.0)	(4.2)	(16.6)	
EBITDA	20.6	(189.5)	(70.6)	QoQ rebound in construction and property earnings
EBITDA margin (%)	5.9	NM	(9.1ppt)	
Depn and amort	(1.8)	0.2	32.6	
Forex gain (losses)	18.5	(39.3)	(412.5)	
EBIT	37.3	573.2	(40.8)	
Int expense	(20.0)	(9.6)	32.8	
Int and other inc	21.6	(47.8)	294.9	
Associates	3.5	39.3	(24.1)	
Exceptional items	0.4	(103.5)	(130.9)	
Pretax profit	42.7	158.6	(24.7)	QoQ jump is mainly due to higher operating profit
Core pretax	23.9	(876.3)	(62.6)	
Tax	(9.4)	(4,995.9)	(41.7)	
Tax rate (%)	24.1	NM	(7.0ppt)	Lower than statutory tax rate in 1Q15 due to certain income exempted from tax
Minority interests	(0.1)	(102.3)	(81.8)	
Net profit	33.2	63.7	(17.1)	
EPS (sen)	3.1	67.0	(15.3)	
Core net profit	14.4	2,013.2	(69.6)	After excluding forex and other one-off gains

Figure 2: Segmental operating profit breakdown

FYE 31 Dec (RMm)	1Q14	2Q14	3Q14	4Q14	4Q14	2013	2014
Engineering & construction	36.7	26.6	23.3	7.3	27.4	129.3	93.9
Property development	23.8	23.5	12.6	13.7	25.6	93.6	73.5
Property investment	6.8	6.1	7.0	15.1	6.3	79.7	35.0
Total	67.2	56.2	42.9	36.1	59.3	302.7	202.4

Figure 3: Segmental operating profit margin

FYE 31 Dec (%)	1Q14	2Q14	3Q14	4Q14	1Q15	2013	2014
Engineering & construction	11.2	10.2	6.4	2.8	11.0	11.1	7.8
Property development	18.8	18.9	13.2	30.1	29.3	22.0	18.8
Others	49.2	36.4	50.9	96.6	43.6	129.7	58.4
Total	14.4	14.0	9.1	11.2	16.9	18.3	12.2

FINANCIAL SUMMARY – WCT HOLDINGS

Profit & Loss Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Revenue	1,672.4	1,662.2	1,810.0	1,820.0	1,920.0
Operating expenses	(1,447.5)	(1,474.3)	(1,549.3)	(1,552.7)	(1,627.7)
EBITDA	224.8	187.9	260.7	267.3	292.3
Depreciation	(9.9)	(8.2)	(18.0)	(18.0)	(18.0)
EBIT	214.9	179.7	242.7	249.3	274.3
Net int income/(expense)	(34.5)	(47.0)	(48.0)	(48.0)	(48.0)
Associates' contribution	19.2	15.4	15.0	15.0	15.0
Pretax profit	227.9	151.1	213.7	222.3	249.3
Tax	(64.5)	(28.5)	(53.2)	(55.4)	(62.1)
Minority interest	7.8	(2.1)	(3.5)	(2.5)	(1.5)
Net profit	171.2	120.5	157.0	164.5	185.7

Balance Sheet Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Fixed assets	271.7	237.4	249.2	261.7	274.8
Other long term assets	2,493.2	3,245.2	3,061.6	3,174.6	3,290.2
Total non-current assets	2,764.8	3,482.6	3,310.8	3,436.3	3,565.0
Cash and equivalents	1,039.1	950.8	1,202.2	1,167.5	1,144.4
Stocks	75.6	90.7	95.2	100.0	105.0
Debtors	1,089.1	1,022.2	1,099.6	1,183.0	1,272.8
Other current assets	566.0	654.8	664.5	677.4	692.4
Total current assets	2,769.8	2,718.5	3,061.5	3,127.9	3,214.6
Creditors	842.7	1,025.0	1,050.4	1,076.5	1,103.4
Short term borrowings	369.1	584.1	634.1	684.1	734.1
Other current liabilities	19.5	13.2	15.4	17.0	19.9
Total current liabilities	1,231.2	1,622.3	1,699.9	1,777.6	1,857.5
Long term borrowings	1,553.1	1,846.4	1,883.3	1,921.0	1,959.4
Other long term liabilities	493.9	451.7	445.2	439.1	433.4
Total long term liabilities	2,047.0	2,298.1	2,328.6	2,360.1	2,392.8
Shareholders' Funds	2,204.3	2,227.9	2,291.2	2,373.7	2,476.5
Minority interests	52.1	52.8	52.8	52.8	52.8

Cash Flow Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
EBIT	214.9	179.7	242.7	249.3	274.3
Depreciation & amortisation	9.9	8.2	18.0	18.0	18.0
Working capital changes	(633.6)	(502.9)	(75.1)	(83.7)	(91.5)
Cash tax paid	(64.4)	(58.8)	(53.2)	(55.4)	(62.1)
Others	(75.3)	(55.2)	(71.9)	(72.1)	(72.4)
Cashflow from operation	(548.5)	(429.0)	60.6	56.2	66.3
Capex	(9.9)	(8.2)	(18.0)	(18.0)	(18.0)
Disposal/(purchases)	(198.3)	(71.2)	(122.4)	(125.5)	(128.7)
Others	(31.1)	178.1	29.7	29.7	29.7
Cash flow from investing	(239.3)	98.8	(110.7)	(113.8)	(117.0)
Debt raised/(repaid)	407.3	498.3	89.9	90.7	91.4
Equity raised/(repaid)	10.6	0.2	4.0	4.0	4.0
Net interest income/(exp)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	176.1	(99.3)	(81.9)	(81.9)	(81.9)
Cash flow from financing	594.1	399.1	12.0	12.8	13.5
Free Cash Flow	(756.7)	(508.4)	(79.8)	(87.3)	(80.4)

Source: Company data, Affin Hwang estimates

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Growth					
Revenue (%)	7.2	(0.6)	8.9	0.6	5.5
EBITDA (%)	(50.0)	(16.4)	38.7	2.5	9.4
Core net profit (%)	26.6	(45.1)	44.8	4.1	12.4
Profitability					
EBITDA margin (%)	13.4	11.3	14.4	14.7	15.2
PBT margin (%)	13.6	9.1	11.8	12.2	13.0
Net profit margin (%)	10.2	7.3	8.7	9.0	9.7
Effective tax rate (%)	28.3	18.8	24.9	24.9	24.9
ROA (%)	3.1	1.9	2.5	2.5	2.7
Core ROE (%)	9.8	4.9	6.9	7.0	7.6
ROCE (%)	5.5	4.1	5.1	5.1	5.4
Dividend payout ratio (%)	37.3	61.4	52.2	49.8	44.1
Liquidity					
Current ratio (x)	2.2	1.7	1.8	1.8	1.7
Op. cash flow (RMm)	(548.5)	(429.0)	60.6	56.2	66.3
Free cashflow (RMm)	(756.7)	(508.4)	(79.8)	(87.3)	(80.4)
FCF/share (sen)	(69.3)	(46.5)	(7.3)	(8.0)	(7.4)
Asset management					
Debtors turnover (days)	237.7	224.5	221.7	237.2	242.0
Stock turnover (days)	16.5	19.9	19.2	20.1	20.0
Creditors turnover (days)	183.9	225.1	211.8	215.9	209.8
Capital structure					
Net gearing (%)	40.1	66.4	57.4	60.6	62.6
Interest cover (x)	3.3	2.3	3.3	3.3	3.7

Quarterly Profit & Loss

FYE 31 Dec (RMm)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	280.2	467.2	401.5	471.1	322.4
Operating expenses	(275.8)	(410.0)	(348.2)	(438.1)	(295.5)
EBITDA	4.4	57.2	53.3	33.0	27.0
Depreciation	(4.9)	(1.4)	(2.0)	(3.0)	(1.8)
EBIT	(16.0)	61.7	52.3	24.6	(5.3)
Net int income/(expense)	73.6	(9.6)	(10.9)	3.6	19.3
Associates' contribution	7.8	4.6	4.1	4.2	2.5
Exceptional items	(11.3)	(1.2)	(2.7)	(2.0)	(10.8)
Pretax profit	65.4	56.7	45.5	32.4	16.5
Tax	(11.6)	(16.2)	(6.4)	(6.1)	0.2
Minority interest	2.5	(0.5)	(4.8)	(0.5)	3.6
Net profit	56.4	40.1	34.3	25.8	20.3
Core net profit	52.2	47.2	38.1	22.4	0.7
Margins (%)					
EBITDA	1.6	12.2	13.3	7.0	8.4
PBT	23.3	12.1	11.3	6.9	5.1
Net profit	20.1	8.6	8.5	5.5	6.3

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

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