

WCT (HOLD ↔; EPS ↔)

INDUSTRY: NEUTRAL

COMPANY BRIEFING

25 November 2013

Price Target: RM2.41 (↔)

Share price: RM2.36

Fundamentals intact despite quiet quarter

Highlights

We attended 9MFY13 briefing with the following salient points:

- **Labour issues...** WCT explained that the weak 3Q core PATAMI (RM38.4m; YoY: -28%, QoQ: -16%) was due to shortage of foreign labours faced by its subcontractors which had resulted in slower than expected progress for both construction and property development projects. The labour shortage was due to the Government's 6P programme to clamp down on illegal immigrants. To resolve this issue, WCT has taken proactive steps to supply foreign labours to its subcontractors.
- **Construction...** Secured an additional RM136m variation order for the Qatar Government Administrative Office project and RM50m for smallish local projects. Hence, bringing YTD new contract wins to RM670m, which is way off the management's annual order book replenishment target of RM2bn (RM1bn local and RM1bn overseas). Overall, external order book is still healthy at RM2.2bn (see Figure #1), translating to 2.2x FY12's construction revenue.
- **Prospects...** Still hopeful of securing a RM1bn Qatar infrastructure project whereby the tender had some specification changes, requiring WCT to submit a fresh bid. The management now expects a decision by early 2014. As for the RM1.6bn Putrajaya Parcel F commercial building project, it is still under negotiations due to the implication of GST charges. WCT's chances remain strong to win a package worth RM300m-400m.
- **Property...** Achieved new property sales of RM237m in 3Q, bringing 9MFY13 new sales to RM462m, 60% of RM775m FY13 sales target. Sales were mainly driven by the launch of Medini Signature Condo (GDV: RM418m) in Aug-13. New launches for Ascent@Paradigm (GDV: RM200m) and Laman Greenville (GDV: RM256m) which are pending for advertisement and sale permit, have achieved bookings of RM80m and RM130m respectively. Overall, unbilled property sales climbed to record high of RM613m, translating to 1.3x FY12's property revenue (see Figure #2).
- **KLIA2...** Management remains hopeful that the new airport will be ready by May-14. 77% of the floor space has been rented out. Gateway@KLIA2 is expected to be completed by year end.

Risks

- Execution risk; Regulatory and political risk (both domestic and overseas); Rising raw material prices; Unexpected downturn in the construction and property sector; and Failure in securing new sizable construction contracts.

Forecasts

- Unchanged.

Rating

HOLD (↔)

- Although we favour WCT for its prudent management as well as growing property and recurring income divisions, major contract wins has been elusive. Coupled with the potential start-up losses from Gateway@KLIA2 and slowdown in the property sector, we are maintaining our **HOLD** call on WCT.

Valuation

- TP maintained at **RM2.41** based on unchanged 14x average FY13-14 earnings.

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KLCI	1,794.5
Expected share price return	2.1%
Expected dividend return	2.4%
Expected total return	4.5%

Share price



Information

Bloomberg Ticker	WCTHG MK
Bursa Code	9679
Issued Shares (m)	1,092
Market cap (RM m)	2,578
3-mth avg. volume ('000)	1,401

Price Performance	1M	3M	12M
Absolute	-3.3	-2.1	-0.2
Relative	-2.0	-6.1	-10.2

Major shareholders

WCT Capital	19.0%
EPF	12.0%
Lembaga Tabung Haji	7.2%
Free Float	55.1%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012A	2013E	2014E
Revenue	1,539	1,560	1,621	1,876
EBITDA	275	498	324	340
EBIT	235	453	279	296
Profit Before Tax	208	421	245	258
PATAMI	162	365	184	191
EPS (sen)	17.5	38.3	16.9	17.5
FD EPS (sen)	13.3	29.2	13.0	13.5
Net DPS (sen)	6.6	6.6	5.7	5.7
Net DY (%)	2.8	2.8	2.4	2.4
P/E (x)	13.6	6.2	14.1	13.7
FD P/E (x)	18.0	8.2	18.3	17.7
P/B (x)	1.5	1.3	1.3	1.3
Net Gearing (%)	39.7	45.5	52.3	53.3
ROE (%)	11.1	22.2	9.8	9.5
ROA (%)	3.6	7.4	3.5	3.5

HLIB

Figure #1 Outstanding order book as of 9MFY13

Projects	Balance Works (RM m)
Government Administrative Office, Qatar	727
New Doha Int'l Airport, Qatar	2
Overseas Total	729
KLIA2 earthworks	3
Vale piling and foundation works	6
Nilai-Seremban 4 th lane widening	349
Tun Razak Exchange, Zone 3	167
Tuaran Hospital, Sabah	18
Riverson Development	265
MITI HQ	251
Putrajaya Commercial Office	315
Others	121
Malaysia Total	1,495
Total	2,224

WCT, HLIB

Figure #2 Unbilled property sales as of 9MFY13

Development	Development Type	Unbilled Sales (RM m)
Bandar Bukit Tinggi 1&2	Integrated Township	79
Bandar Parklands	Integrated Township	131
d'Banyan Residency	Luxury Homes	5
1Medini Residences	High Rise Homes	398
Total		613

WCT, HLIB

Figure #3 HLIB vs Consensus

FYE Dec (RM m)	FY13E			FY14E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	1,621.3	2,004.1	-19%	1,875.8	2,222.2	-16%
PATAMI	184.3	196.6	-6%	190.8	233.3	-18%

Bloomberg, HLIB

Financial Projections for WCT (HOLD; TP: RM2.41)

Income Statement

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	1,708.5	1,538.6	1,560.4	1,621.3	1,875.8
EBITDA	354.6	275.1	497.8	324.1	340.3
D&A	(64.8)	(40.2)	(44.4)	(45.2)	(44.5)
EBIT	289.8	234.9	453.4	278.9	295.9
Interest Income	10.4	22.5	20.1	28.7	23.2
Finance Costs	(50.4)	(66.7)	(68.9)	(77.4)	(76.4)
Associates	17.0	16.8	16.0	15.0	15.0
Exceptionals	-	-	-	-	-
Profit Before Tax	266.8	207.5	420.7	245.2	257.7
Tax	(47.9)	(44.6)	(69.2)	(48.9)	(54.9)
Net Profit	218.8	162.9	351.4	196.3	202.8
Minority Interests	(68.5)	(0.5)	13.2	(12.0)	(12.0)
PATMI	150.3	162.4	364.6	184.3	190.8
Core Earnings	150.3	162.4	364.6	184.3	190.8
Basic Shares (m)	905.0	926.0	951.6	1,091.0	1,091.0
Core EPS (sen)	16.6	17.5	38.3	16.9	17.5
FD EPS (sen)	14.3	13.3	29.2	13.0	13.5

Balance Sheet

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Cash	1,162.4	804.0	1,077.7	836.0	710.1
Receivables	1,754.3	1,740.0	1,696.9	1,821.5	2,084.2
Inventories	74.4	51.4	73.9	65.1	75.3
Development Costs	228.8	289.6	303.6	410.4	573.9
Associates	177.0	159.5	207.5	222.5	237.5
PPE	292.2	270.3	276.2	271.0	266.5
Others	864.5	1,254.8	1,696.4	1,696.4	1,696.4
Total Assets	4,553.5	4,569.6	5,332.2	5,322.9	5,643.9
Payables	1,362.6	1,384.6	1,577.7	1,441.1	1,663.2
Total Debt	1,632.9	1,383.8	1,824.0	1,817.7	1,776.3
Others	26.5	57.0	57.3	57.3	57.3
Total Liabilities	3,022.0	2,825.5	3,459.1	3,316.0	3,496.8
Shareholders' Funds	1,256.4	1,461.5	1,816.2	1,937.9	2,066.1
Minority Interests	275.2	282.6	57.0	69.0	81.0
Total Capital	1,531.5	1,744.1	1,873.1	2,006.9	2,147.1

Cashflow Analysis

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
EBITDA	354.6	275.1	497.8	324.1	340.3
Working Capital	(178.2)	38.4	140.4	(345.6)	(200.7)
Net Interest	(45.6)	(51.8)	(59.2)	(62.3)	(66.7)
Others	(129.7)	(98.2)	(384.9)	(48.9)	(54.9)
CFO	1.1	163.5	194.0	(132.8)	18.0
Capex	(105.1)	(201.9)	(9.1)	(40.0)	(40.0)
Purchase/Disposal	50.1	25.0	(222.9)	-	-
Associate & JV	-	(129.7)	(49.0)	-	-
Others	(0.2)	21.0	11.3	-	-
CFI	(55.2)	(285.6)	(269.6)	(40.0)	(40.0)
Financing	634.5	(249.1)	440.2	(6.4)	(41.4)
Shares Issued	10.7	86.4	7.8	-	-
Dividends	(59.1)	(60.4)	(61.8)	(62.6)	(62.6)
Others	(23.8)	(29.8)	16.9	-	-
CFF	562.3	(252.9)	403.1	(68.9)	(103.9)
Net Cashflow	508.2	(375.0)	327.5	(241.7)	(125.9)

Quarterly Financial Summary

FYE 31 Dec (RM m)	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3
Revenue	441.8	380.2	490.9	482.5	418.5
COGS	(344.9)	(285.6)	(394.8)	(414.6)	(331.0)
Gross Profit	96.9	94.5	96.1	67.9	87.6
Other Income	(3.9)	226.1	7.6	30.1	9.2
Expenses	(22.6)	(39.1)	(27.7)	(22.6)	(23.1)
Operating Profit	70.3	281.5	76.1	75.4	73.7
Finance Costs	(19.2)	(18.9)	(14.7)	(15.9)	(17.1)
Associates/JCE	4.4	3.0	4.0	4.1	3.3
Profit Before Tax	55.6	265.5	65.4	63.6	59.9
Tax	(18.4)	(28.1)	(23.5)	(10.1)	(19.3)
Net Profit	37.2	237.4	41.8	53.5	40.6
Minority Interests	3.2	7.2	1.4	3.2	0.8
PATAMI	40.4	244.7	43.2	56.7	41.3
Exceptionals	(13.0)	206.2	1.4	10.7	2.9
Core Earnings	53.3	38.5	41.8	45.9	38.4
Core EPS (sen)	5.64	4.05	4.11	4.21	3.52
FD Core EPS (sen)	5.64	3.90	3.99	4.09	3.41
W. Ave. Shares (m)	822.2	948.7	1,015.7	1,092.2	1,092.2

Rates and Ratios

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
PER (x)	14.4	13.6	6.2	14.1	13.7
FD PER (x)	16.7	18.0	8.2	18.3	17.7
Net DPS (sen)	6.6	6.6	6.6	5.7	5.7
Net DY (%)	2.7	2.8	2.8	2.4	2.4
BVPS (RM)	1.4	1.6	1.9	1.8	1.9
P/B (x)	1.7	1.5	1.3	1.3	1.3
NTA/Share (RM)	1.4	1.6	1.9	1.8	1.9
EBITDA Margin (%)	20.8	17.9	31.9	20.0	18.1
EBIT Margin (%)	17.0	15.3	29.1	17.2	15.8
PBT Margin (%)	15.6	13.5	27.0	15.1	13.7
Net Margin (%)	8.8	10.6	23.4	11.4	10.2
ROE (%)	12.0	11.1	22.2	9.8	9.5
ROA (%)	3.3	3.6	7.4	3.5	3.5
Net Gearing (%)	37.5	39.7	45.5	52.3	53.3

Assumption Metrics

FYE 31 Dec (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue				1,621.3	1,875.8
Construction				1,105.7	1,187.2
Property				428.0	598.5
Others				87.5	90.2
EBIT Margin (%)				17.2	15.8
Order Book Wins				1,500.0	1,500.0

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