

WCT (WCTHG MK) DRAFT

Industrial - Engineering & Construction

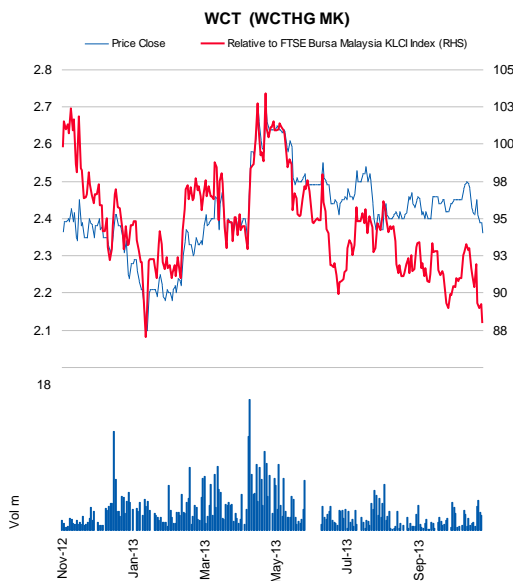
Market Cap: USD801m

Sell (Maintained)

Target Price: MYR2.21

Price: MYR2.41

Guidance For FY13 Contract Wins Halved

Macro
Risks
Growth
Value


Source: Bloomberg

Avg Turnover (MYR/USD)	3.24m/1.00m
Cons. Upside (%)	na
Upside (%)	-6.4
52-wk Price low/high (MYR)	2.10 - 2.70
Free float (%)	60

Shareholders (%)	
Taing KH & Wong SW	19.99.9
EPF	12.9
Lembaga Tabung Haji	6.5

Shariah compliant

We trim our FY14 forecast by 4% and FV by 4% to MYR2.21 from MYR2.30, and maintain our SELL call. This follows an analyst briefing last Friday, during which WCT cut its guidance for FY13 contract wins by half to MYR1bn from MYR2bn. WCT is not good proxy to the construction sector in Malaysia as it has yet to secure any work packages from the Klang Valley MRT project.

- ◆ **MYR1bn Qatari job won't happen this year.** WCT cut its guidance for FY13 contract wins by half to MYR1bn from MYR2bn as the outcome of bids for a road/bridge job in Qatar - worth about MYR1bn - is unlikely to be announced this year. YTD, WCT has secured new contracts worth a total of MYR670m, which implies contract wins of at least MYR230m before the year is out. We believe these could potentially come from work packages relating to a "building cluster" job in Putrajaya.
- ◆ **FY13 property sales target of MYR775m still good.** WCT said that it is still on track to meet its FY13 property sales target of MYR775m, backed by MYR1bn in new launches, despite various measures introduced by the Government recently to cool off the property sector. As at end-3QFY13, the group already chalked up MYR462m in property sales. While acknowledging that there has been "an obvious slowdown in sales" post the announcement of the measures, WCT expects buyers to return upon the emergence of "more clarity on the measures".
- ◆ **Forecasts.** We trim our FY14 net profit forecast by 4% to factor in a lower assumption for FY13 contract wins of MYR1bn vs MYR1.5bn.
- ◆ **Maintain SELL.** The construction sector prospects are strong, underpinned by an extended upcycle driven by the MYR73bn Klang Valley MRT project, which will keep players busy until 2019. However, WCT is not good proxy to the sector as it has yet to secure any work packages from the mega project. Also, given its rich valuations, we believe investors should only revisit the stock on dips. Our FV is trimmed by 4% to MYR2.21 (from MYR2.30), based on a 16x revised fully-diluted FY14 EPS of 13.8 sen, in line with our benchmark 1-year forward target P/E of 10-16x for the construction sector.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	1,709	1,539	1,560	2,205	2,424
Reported net profit (MYRm)	150	166	359	168	169
Recurring net profit (MYRm)	150	166	183	168	169
Recurring net profit growth (%)	na	10.4	10.3	(8.2)	0.6
Core EPS (MYR)	0.19	0.20	0.20	0.17	0.16
DPS (MYR)	0.00	0.00	0.00	0.08	0.08
Dividend Yield (%)	0.0	0.0	0.0	3.2	3.2
Core P/E (x)	12.1	12.1	12.1	14.3	15.2
Return on average equity (%)	23.9	12.1	21.8	8.5	7.7
P/B (x)	1.45	1.48	1.23	1.19	1.14
P/CF (x)	1,633	560	25	19	19
EV/EBITDA (x)	4.84	6.03	4.38	4.78	5.14
Net debt to equity (%)	30.7	33.8	40.0	21.4	19.5
Our vs consensus EPS (%)				(8.1)	(25.9)

Source: Company data, RHB Estimates

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Guidance For FY13 Contract Wins Halved

Highlights. The key takeaways from WCT's analyst briefing last Friday are: i) WCT cut its guidance for FY13 contract wins by half to MYR1bn from MYR2bn, and ii) it is still on track to meet its FY13 property sales target of MYR775m despite various measures introduced by the Government recently to cool off the property sector.

MYR1bn Qatari job won't happen this year. WCT cut its guidance for FY13 contract wins by half to MYR1bn from MYR2bn (we had assumed MYR1.5bn), as the outcome of bids for a road/bridge job in Qatar worth about MYR1bn is unlikely to be announced this year. WCT had earlier emerged one of the three finalists for this job. The company said the finalists were recently asked to submit a "fresh quotation" for the job. YTD, WCT has secured new contracts totaling MYR670m comprising: i) a Putrajaya building job (MYR315m), ii) the earthworks package for Zone 3 of Phase 1 of Tun Razak Exchange (MYR169), iii) additional works for the Qatari government administrative office (MYR136m), and iv) additional works for various local jobs (MYR50m). This implies contract wins of at least MYR230m before the year is out. WCT hinted that these are likely to be local jobs, which we believe could potentially come from work packages of a "building cluster" job in Putrajaya known as "Parcel F" worth about MYR1bn.

FY13 property sales target of MYR775m still good. WCT said that it is still on track to meet its FY13 property sales target of MYR775m (vis-à-vis MYR700m achieved in FY12), despite recent Government measures to cool off the property sector. Property sales in FY13 will be backed largely by MYR1bn new launches coming from Medini, Iskandar (MYR418m), the Klang area, i.e. Bukit Tinggi 2, Bandar Parklands and Laman Greenville (MYR507m) and Bukit Jelutong, Shah Alam (MYR120m). As at end-3QFY13, WCT already achieved MYR462m property sales, boosting its unbilled property sales to MYR613m (from MYR480m three months ago). While acknowledging that there has been "an obvious slowdown in sales" post the announcement of the measures, WCT expects buyers to return as "more clarity on the measures" emerge (for instance, an exemption from the MYR1m price cap for foreign property buyers in Medini, Iskandar). In our earnings forecasts, we assume property turnover and EBIT of MYR350-500m and MYR70-100m per annum in FY13-14.

Forecasts. FY14 net profit forecast is trimmed by 4% to factor in a lower assumption on FY13 contract wins of MYR1bn from MYR1.5bn.

Risks to our view. These include: i) new construction contracts secured in FY13-14 to beat our targets of MYR1bn and 1.5bn respectively, and ii) lower-than-expected input costs.

Maintain SELL. The prospects for the construction sector are strong, underpinned by an extended upcycle driven by the MYR73bn Klang Valley MRT project which will keep players busy until 2019. However, WCT is not good proxy to the sector as it has yet to secure any work packages from the mega project. Also, given its rich valuations, we believe investors should only revisit the stock on dips. Our FV is trimmed by 4% to MYR2.21 (from MYR2.30) based on 16x revised fully-diluted FY14 EPS of 13.8sen, in line with our benchmark 1-year forward target P/E of 10-16x for the construction sector.

Figure 1: Outstanding construction orderbook

Project	Outstanding Value (MYRm)
<u>Overseas</u>	
Government administrative building, Doha, Qatar	727
New Doha International Airport, Qatar	2
Subtotal	729
<u>Local</u>	
North-South Expressway 4 th lane widening (Seremban-Nilai)	349
<i>The Paradigm</i> (Internal job)	321
Commercial office buildings, Precinct 2, Putrajaya	315
Medical Centre, Kota Kinabalu, Sabah	265
New MITI headquarters, KL	251
<i>1Medini Residences</i> (Internal job)	198
TRX earthworks	167
Others	148
Subtotal	2,014
Total	2,743

Source: Company data, RHB Estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	1,709	1,539	1,560	2,205	2,424
Cost of sales	(1,379)	(1,242)	(1,221)	(1,892)	(2,105)
Gross profit	330	297	340	313	320
Gen & admin expenses	(91)	(109)	(116)	(120)	(120)
Other operating costs	62	68	34	50	50
Operating profit	300	256	257	243	250
Operating EBITDA	316	265	263	249	256
Depreciation of fixed assets	(16)	(9)	(7)	(7)	(7)
Operating EBIT	300	256	257	243	250
Net income from investments	17	18	16	10	10
Interest expense	(50)	(67)	(69)	(31)	(23)
Exceptional income - net	-	-	211	-	-
Pre-tax profit	267	208	415	222	237
Taxation	(48)	(41)	(69)	(56)	(59)
Minority interests	(68)	(1)	13	2	(8)
Profit after tax & minorities	150	166	359	168	169
Reported net profit	150	166	359	168	169
Recurring net profit	150	166	183	168	169

Source: Company data, RHB Estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	300	256	257	243	250
Depreciation & amortisation	16	9	7	7	7
Change in working capital	(270)	(200)	(85)	(40)	(40)
Operating cash flow	46	65	178	209	216
Interest received	10	23	20	-	-
Interest paid	(42)	(51)	(56)	(31)	(23)
Tax paid	(14)	(33)	(52)	(56)	(59)
Cash flow from operations	1	4	90	123	134
Capex	(38)	(16)	(48)	(30)	(30)
Other new investments	(67)	(186)	(128)	-	-
Other investing cash flow	50	62	(7)	-	-
Cash flow from investing activities	(55)	(140)	(183)	(30)	(30)
Dividends paid	(59)	(60)	(62)	(81)	(81)
Proceeds from issue of shares	11	86	40	259	-
Increase in debt	626	(264)	439	-	-
Other financing cash flow	(16)	(14)	(15)	-	-
Cash flow from financing activities	562	(253)	403	177	(81)
Cash at beginning of period	-	1,162	790	1,069	1,340
Total cash generated	508	(389)	310	270	22
Forex effects	(55)	14	(18)	-	-
Implied cash at end of period	453	787	1,082	1,340	1,362

Source: Company data, RHB Estimates

Financial Exhibits

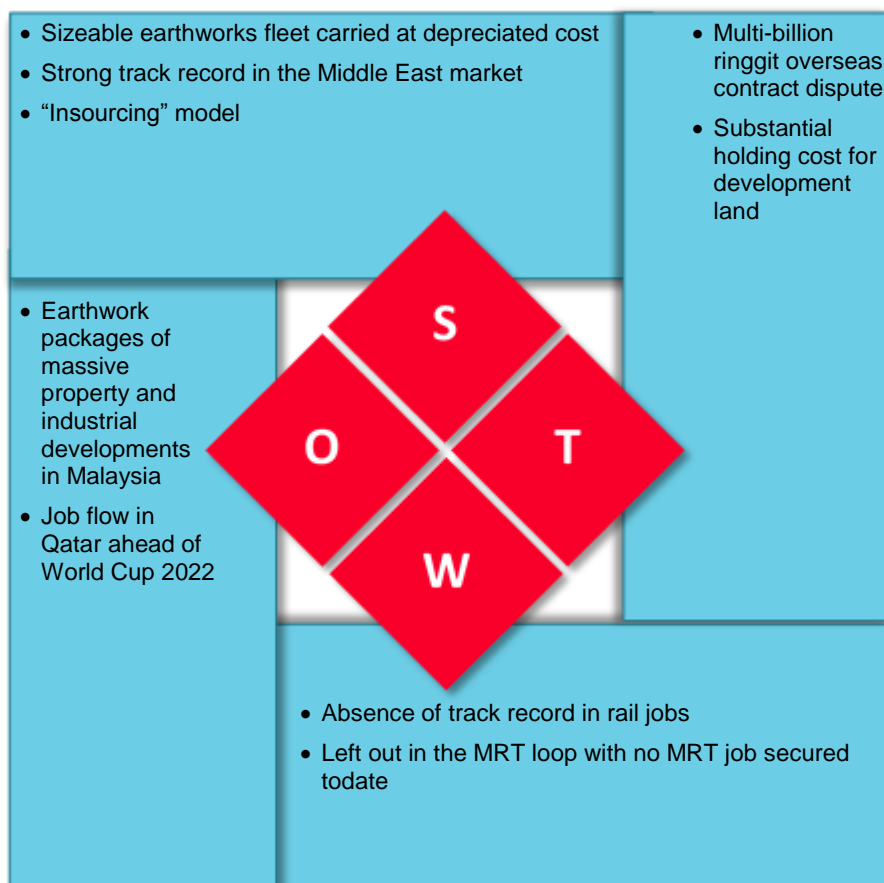
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	1,162	790	1,072	1,343	1,365
Inventories	74	51	74	74	74
Accounts receivable	855	634	706	706	706
Other current assets	518	913	666	706	746
Total current assets	2,609	2,388	2,519	2,829	2,892
Total investments	801	985	1,528	1,538	1,548
Tangible fixed assets	513	537	665	688	712
Total other assets	631	660	670	667	667
Total non-current assets	1,944	2,181	2,863	2,894	2,927
Total assets	4,553	4,570	5,382	5,723	5,819
Short-term debt	505	466	925	922	922
Accounts payable	803	562	666	666	666
Other current liabilities	229	403	433	433	433
Total current liabilities	1,537	1,432	2,024	2,022	2,022
Total long-term debt	1,127	918	893	893	893
Other liabilities	357	461	596	596	596
Total non-current liabilities	1,485	1,379	1,490	1,490	1,490
Total liabilities	3,022	2,811	3,514	3,511	3,511
Share capital	393	403	476	616	616
Retained earnings reserve	481	658	941	1,027	1,115
Other reserves	382	415	394	513	513
Shareholders' equity	1,256	1,476	1,810	2,156	2,244
Minority interests	275	283	57	55	64
Other equity	-	-	(0)	0	(0)
Total equity	1,532	1,759	1,867	2,212	2,307
Total liabilities & equity	4,553	4,570	5,382	5,723	5,819

Source: Company data, RHB Estimates

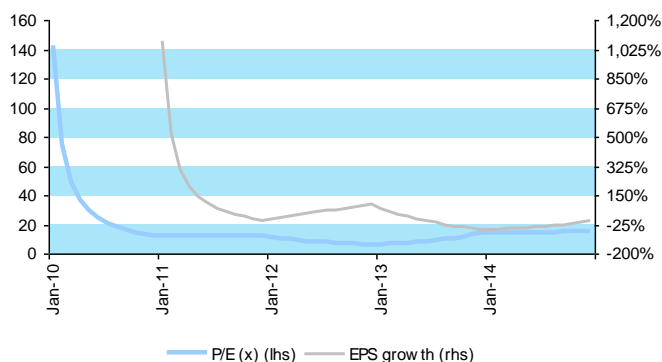
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	0.0	(9.9)	1.4	41.3	10.0
Operating profit growth (%)	0.0	(14.8)	0.4	(5.5)	2.9
Net profit growth (%)	0.0	10.4	116.2	(53.2)	0.6
EPS growth (%)	0.0	0.3	96.2	(56.8)	(5.9)
Bv per share growth (%)	0.0	(2.2)	20.3	3.8	4.1
Operating margin (%)	17.6	16.6	16.5	11.0	10.3
Net profit margin (%)	8.8	10.8	23.0	7.6	7.0
Return on average assets (%)	6.6	3.6	7.2	3.0	2.9
Return on average equity (%)	23.9	12.1	21.8	8.5	7.7
Net debt to equity (%)	30.7	33.8	40.0	21.4	19.5
DPS	0.00	0.00	0.00	0.08	0.08
Recurrent cash flow per share	0.00	0.00	0.10	0.12	0.12

Source: Company data, RHB Estimates

SWOT Analysis

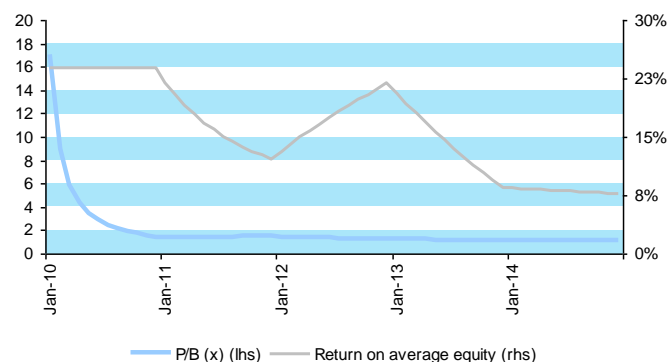


P/E (x) vs EPS growth



Source: Company data, RHB Estimates

P/BV (x) vs ROAE



Source: Company data, RHB Estimates

Company Profile

WCT is a home-grown construction company that has also expanded to the Middle East. It is also engaged in property development and property investment (operating shopping malls and hotels).

Recommendation Chart



Source: RHB Estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-11-22	Sell	2.30	2.36
2013-08-26	Neutral	2.30	2.41
2013-08-23	Sell	2.30	2.41
2013-05-23	Sell	2.30	2.64
2013-05-20	Neutral	2.30	2.70
2013-03-19	Sell	1.76	2.31
2013-02-27	Sell	1.76	2.18
2013-02-26	Sell	1.76	2.20
2012-11-22	Sell	1.89	2.37
2012-08-17	Sell	1.92	2.26

Source : RHB Estimates, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months
Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral: Share price may fall within the range of +/- 10% over the next 12 months
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