

PP14767/09/2012(030761)

Thursday, November 26, 2015

WCT Holdings Berhad

“Weaker Construction Margin”

Results Review

- Actual vs. expectations.** WCT Holdings Bhd (WCT) recorded 9M15 net profit of RM150 million that gained by 50% y-o-y boosted by higher forex gain of RM122 million vs. 9M14 forex loss of RM2 million. After stripping this out, WCT 9M15 core net profit amounted to RM28 million (-73% y-o-y), below ours and consensus estimates respectively, accounting 22% and 23% of both sides full year net profit forecast. As expected, disappointing 9M15 net profit performance was caused by weaker-than-expected core EBIT contribution from construction segment (-58% y-o-y) injured by lower-than-expected construction works progress as well as higher financing cost during the period.
- Dividend.** No dividend was declared during the quarter.
- Top line.** WCT posted a weaker revenue of RM1.1 billion (-15% y-o-y) in 9M15 mainly hammered by lower contribution from construction and property development segment which dropped to RM827 million (-13% y-o-y) and RM274 million (-21% y-o-y) respectively in tandem with slower-than-expected progress billings during the period. Bottom line wise, WCT core EBIT fell to RM111 million (-33% y-o-y) in 9M15 hammered by the drop in construction segment's 9M15 core EBIT margin to 4% as compared against 9M14 core EBIT margin at 9% in tandem with the decline in revenue as mentioned above.
- Construction outlook.** YTD, WCT already snatched 7th construction projects in 2015 with accumulated value of RM2.7 billion (Lusail development project: RM868 million, Kwasa Damansara township development: RM127 million, TRX-mixed development: RM70 million, TRX-infrastructure and roadway works: RM755 million, Petronas' civil and infrastructure works: RM267

HOLD (TP: RM1.63)

Current Price (RM)	RM1.53
New Target Price (RM)	RM1.63
Previous Target Price (RM)	RM1.62
Previous Recommend.	HOLD
Upside To Target Price	7%
Dividend Yield (FY16)	4%

Stock Code

Bloomberg	WCTHG MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	1,194
Market Cap (RM mn)	1,695
YTD Chg In Share Price	-6%
Beta (x)	1.04
52-week Hi/Lo (RM)	1.95 1.10
3M Average Volume (shrs)	1.49mn
Estimated Free Float	50%

Major Shareholders

WCT Capital	20%
LTH	10%
EPF	8%

million, Petronas' EPCC works: RM316 million and WCE's civil works on Section 3: RM283 million). Moving forward, WCT is aiming to replenish its construction orderbook further from some potential projects including RAPID as well as work packages from LRT3 and KVMRT2. WCT's external orderbook currently stands at RM4.2 billion which could last the group until FY18.

- **Property outlook.** WCT is targeting to achieve RM584 million property sales in FY15 (FY14: RM461 million) underpin by RM505 million of new property project within the Klang Valley area. Besides, it has entered into a Sale and Purchase Agreement with Elite Asia Pacific Sdn Bhd for the acquisition of 3 pieces of freehold land located in Klang, measuring approximately 7.9 hectares (19.5 acres) for RM118.0 million (RM138.7 psf). The land is adjacent to the group's current Laman Greenville development.
- **Change to forecast.** We made adjustment to our earnings by cutting our FY15 and FY16 earnings forecast by 50% and 18% respectively, weighed by lower construction margin impacted by the slower progress billings. Nonetheless, FY16 earnings are forecast to jump by 111% y-o-y respectively driven by i) higher work progress from local project and ii) steady contribution from property investment division.
- **Valuation & recommendation.** We re-value WCT at RM1.63 based on 15x PER (35% premium to average last 3-year PER of 11x) and the stock is a **HOLD**. Key re-rating catalyst on the stock includes i) strong prospect of construction sector in Malaysia and ii) potential acquisition of landbank in Iskandar Malaysia in the near term.

Table 1: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
IJM CORP	Mar	3.35	19	22	16.7	15.3	1.4	1.3	9	2	3.74	Buy
GAMUDA	Jul	4.56	28	29	16.0	15.6	1.7	1.6	12	3	5.80	Buy
WCT	Dec	1.53	10	13	13.3	10.9	0.7	0.7	5	1	1.63	HOLD
SCGB	Dec	1.37	10	10	12.9	12.7	3.9	3.3	NA	NA	1.63	Buy
BENALEC	Jun	0.58	0.04	0.1	9.1	7.7	1.0	1.1	1	1	NR	NR
CREST BUILDER	Dec	1.00	7	8	14.6	11.8	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.88	8	10	9.3	7.9	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.30	16	17	8.0	7.8	0.9	0.8	12	3	NR	NR
MRCB	Dec	1.33	4	7	34.1	20.5	1.2	1.2	15	2	NR	NR
AZRB	Dec	0.65	NA	NA	NA	NA	NA	NA	5	3	NR	NR
YTL CORP	Jun	1.54	11	13	13.5	11.8	1.1	1.0	7	6	NR	NR
Average					14.8	12.2	1.4	1.3	8	3		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	1,560	1,672	1,662	1,578	1,894
EBIT	468	303	203	158	246
PBT	415	254	151	95	189
Net profit	359	198	121	63	133
EPS (sen)	38	18	11	5	11
PBT margin	27%	15%	9%	6%	10%
Net profit margin	23%	12%	7%	4%	7%
PER (x)	6.2	12.8	15.2	28.4	13.5
P/BV (x)	1.2	1.1	0.8	0.7	0.7
DPS (sen)	7	7	6	6	6
Dividend yield	4%	4%	4%	4%	4%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

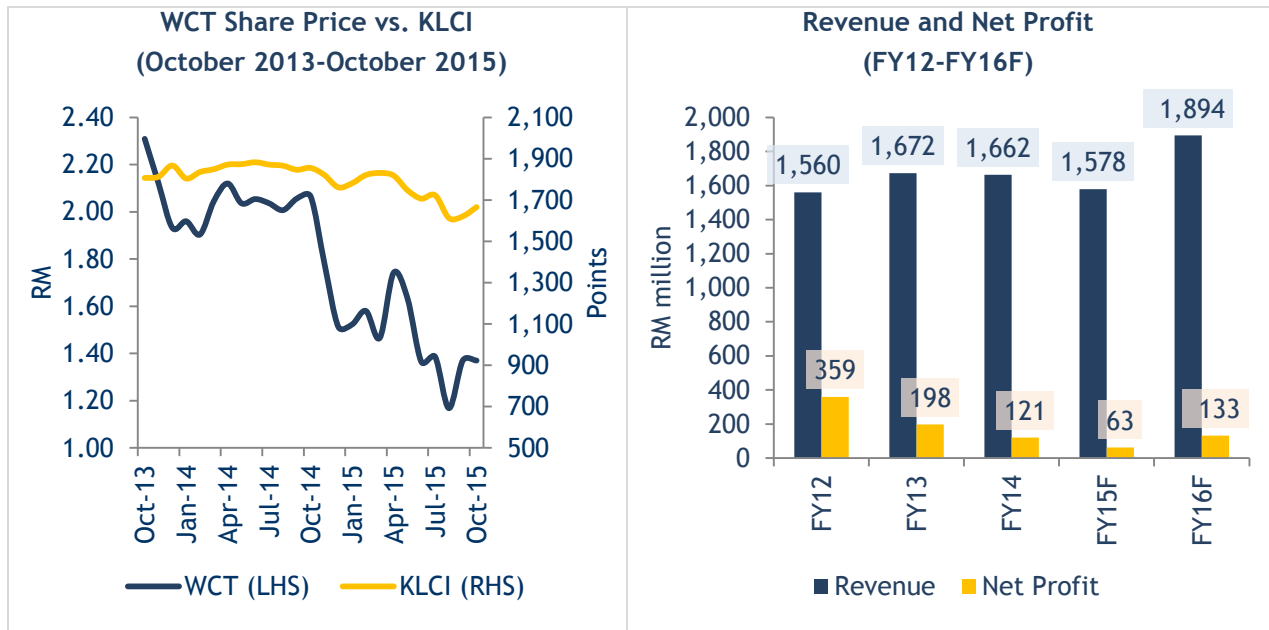
YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	471	422	372	-12%	-21%	1,340	1,146	-15%
EBIT	43	54	120	125%	180%	166	233	40%
Net Interest	(15)	(19)	(21)	10%	45%	(45)	(61)	36%
PBT	32	44	101	130%	212%	135	187	39%
Taxation	(6)	(15)	(15)	3%	152%	(29)	(40)	38%
Net profit	26	31	86	177%	232%	100	150	50%
EPS (sen)	2	3	7	157%	222%	9	13	50%
EBIT margin	9%	13%	32%			12%	20%	
PBT margin	7%	10%	27%			10%	16%	
Net profit margin	5%	7%	23%			7%	13%	
Effective tax rate	19%	34%	15%			21%	21%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Construction	362	336	241	-28%	-33%	949	827	-13%
Property Development	95	72	115	60%	21%	346	274	-21%
Property Investment	14	14	15	8%	12%	44	44	0%
EBIT								
Construction	23	40	91	128%	292%	87	159	83%
Property Development	13	8	25	217%	98%	60	58	-2%
Property Investment	7	6	4	-31%	-45%	20	16	-20%

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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