

PP14767/09/2012(030761)

Tuesday, May 26, 2015

## WCT Holdings Berhad

### “Expect a Better 2H2015”

#### Results Review

- Actual vs. expectations.** WCT Holdings Bhd (WCT) 1Q15 net profit of RM33 million (-17% y-o-y) came in line with ours and consensus estimates respectively, accounting 20% and 23% of ours and consensus full year net profit forecast. As expected, disappointing net profit for the period was caused by weaker-than-expected EBIT contribution from construction segment which fell by 25% y-o-y due to weaker work recognition especially from the group’s overseas project.
- Dividend.** No dividend was declared during the quarter.
- Top line.** WCT posted a weaker revenue of RM352 million (-25% y-o-y) in 1Q15 mainly hammered by lower contribution from construction segment which dropped to RM250 million (-24% y-o-y) on slower-than-expected progress billings in the Middle East. Furthermore, property development segment also posted a lower revenue contribution of RM87 million (-31% y-o-y) in tandem with the softening in property market sentiment.
- Bottom line.** The group’s EBIT declined to RM59 million (-12% y-o-y) in 1Q15 injured by weaker contribution from construction segment which recorded a lower EBIT of RM27 million in 1Q15 (-25% y-o-y) in tandem with the decline in revenue as mentioned above. Nonetheless, the contribution from construction segment is expected to accelerate in 2H2015 underpins by the group’s new project in Qatar.
- Construction outlook.** WCT and its JV (70:30), Al-Ali Projects Co (W.L.L.) has secured a contract worth RM1.2 billion from Lusail Real Estate Development in March 2015. The project is involving the construction

#### HOLD (TP: RM1.76)

Current Price (RM)	RM1.79
New Target Price (RM)	RM1.76
Previous Target Price (RM)	RM2.04
Previous Recommend.	HOLD
Upside To Target Price	-2%
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)	1,075
Market Cap (RM mn)	1,956
YTD Chg In Share Price	14%
Beta (x)	0.83
52-week Hi/Lo (RM)	2.34   1.38
3M Average Volume (shrs)	1.57mn
Estimated Free Float	34%

#### Major Shareholders

WCT Capital	20%
LTH	10%
EPF	9%

of commercial boulevard road D3, road A4, internal roads, utilities and underground car parks 2,3,4 and 5 for Lusail Development Project in Doha, Qatar. The project is scheduled for completion in 2Q17. We are positive on the new job wins in 2015 which could replenish the group's external orderbook by 61% to RM3.2 billion.

Moving forward, WCT is tendering RM22.8 billion worth of domestic contracts including the RM20 billion on Penang Transport Master Plan (PTMP). We are not too bullish on WCT's prospect to secure a PDP role on PTMP as the group has no PDP experience and will be competing against the other domestic competitors including Gamuda. In addition, WCT is also preparing its bids for RAPID Pengerang civil works (RM1.0 billion) and sub-contract works on West Coast Expressway (RM1.0 billion).

- **Property outlook.** WCT is targeting to achieve RM650 million property sales in FY15 (FY14: RM461 million) as the group is planning to launch RM894 million worth of property project in FY15 of which 78% (RM694 million) within Klang Valley area. Besides, the group is planning to unlock its property investment asset comprising Aeon Bukit Tinggi Mall, Paradigm Mall and Gateway@KLIA2 through REIT exercise with estimated total asset value of RM2.0 billion. The REIT exercise is expected to be materialized in FY16.
- **Change to forecast.** We maintain our FY15 and FY16 earnings forecast as 1Q15 results were within our expectation. Nonetheless, FY15 and FY16 earnings are forecast to jump by 38% and 5% y-o-y respectively driven by i) higher construction jobs wins backed by RM24 billion tenderbook and ii) steady contribution from property investment division.
- **Valuation & recommendation.** We value WCT at RM1.76 based on 11x PER (average last 3-year PER) 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 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	6.97	41	47	20.6	15.8	1.5	1.4	6	2	7.50	Hold
GAMUDA	Jul	5.00	32	32	16.0	16.0	2.0	1.9	13	2	5.87	Buy
WCT	Dec	1.79	13	14	14.6	12.9	0.9	0.9	5	1	1.76	Hold
BENALEC	Jun	0.71	3	6	15.2	12.8	1.0	0.9	0	0	NR	NR
CREST BUILDER	Dec	1.18	11	8	10.9	14.2	0.4	0.0	6	3	NR	NR
EVERSENDAL	Dec	0.73	8	10	9.7	7.4	0.6	0.6	4	1	NR	NR
KIHLUN	Dec	1.29	15	16	8.5	7.8	0.9	0.8	13	2	NR	NR
MRCB	Dec	1.27	6	9	23.7	15.7	1.4	1.4	8	2	NR	NR
AZRB	Dec	0.70	5	7	14.1	10.1	0.0	0.0	5	NA	NR	NR
YTL CORP	Jun	1.62	14	13	13.3	12.8	1.2	1.1	9	6	NR	NR
Average					14.7	12.5	1.0	0.9	7	2		

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	1,851	1,943
EBIT	468	303	203	278	301
PBT	415	254	151	204	214
Net profit	359	198	121	167	175
EPS (sen)	38	18	11	16	16
PBT margin	27%	15%	9%	11%	11%
Net profit margin	23%	12%	7%	9%	9%
PER (x)	6.2	12.8	15.2	11.6	11.0
P/BV (x)	1.2	1.1	0.8	0.9	0.9
DPS (sen)	7	7	6	7	7
Dividend yield	4%	4%	4%	4%	4%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

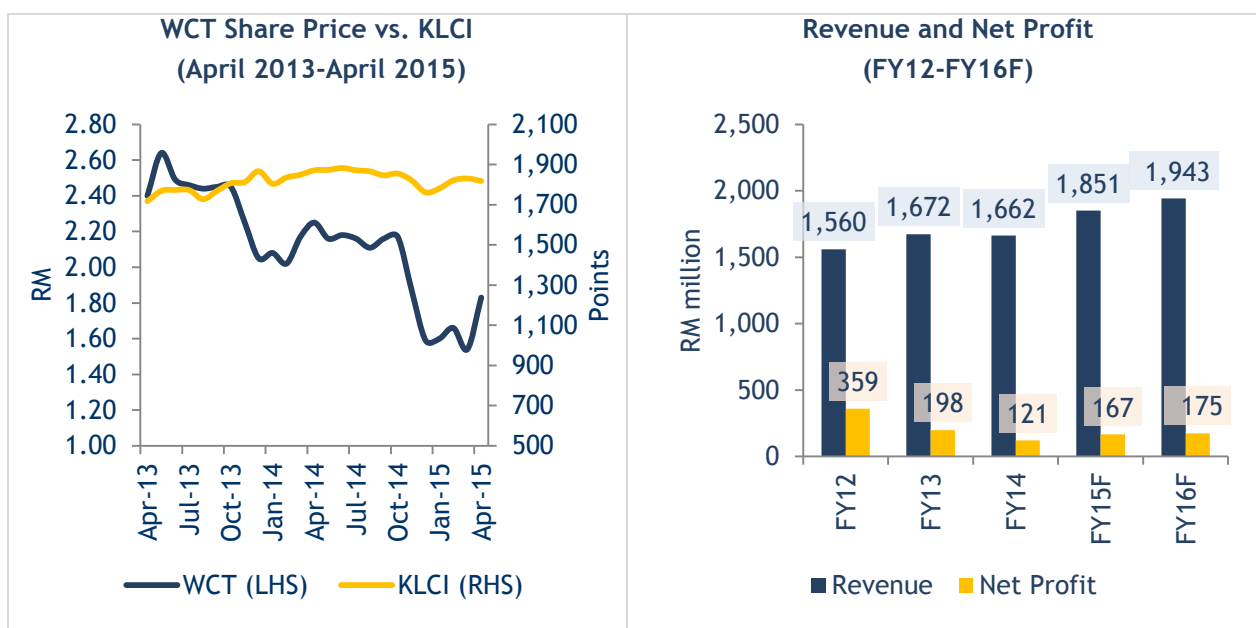
YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	467	322	352	9%	-25%	467	352	-25%
EBIT	67	36	59	64%	-12%	67	59	-12%
Net Interest	(15)	(22)	(20)	-9%	33%	(15)	(20)	33%
PBT	57	17	43	159%	-25%	57	43	-25%
Taxation	(16)	0.2	(9.5)	NM	-42%	(16)	(9.5)	-42%
Net profit	40	20	33	64%	-17%	40	33	-17%
EPS (sen)	4	2	3	66%	-16%	4	3	-16%
EBIT margin	14%	11%	17%			14%	17%	
PBT margin	12%	5%	12%			12%	12%	
Net profit margin	9%	6%	9%			9%	9%	
Effective tax rate	29%	-1%	22%			29%	22%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
<b>Revenue</b>								
Construction	327	261	250	-4%	-24%	327	250	-24%
Property Development	126	46	87	91%	-31%	126	87	-31%
Property Investment	14	16	14	-8%	5%	14	14	5%
<b>EBIT</b>								
Construction	37	7	27	276%	-25%	37	27	-25%
Property Development	24	14	26	87%	8%	24	26	8%
Property Investment	7	15	6	-58%	-7%	7	6	-7%

Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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