

PP14767/09/2012(030761)

WCT Holdings Berhad

“Property the Culprit”

Results Review

- Actual vs. expectations.** WCT Holdings Bhd (WCT) 6M15 net profit of RM64 million (-14% y-o-y) came in below ours but slightly in line consensus estimates respectively, accounting 38% and 46% 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 property development segment which fell by 29% y-o-y due to lacklustre property demand on GST concern.
- Dividend.** Declared an interim dividend of 2.18sen/share for the period which translates into a dividend payout of 41%, lower than 6M14 payout of 57%.
- Top line.** WCT posted a weaker revenue of RM774 million (-11% y-o-y) in 6M15 mainly hammered by lower contribution from property development segment which dropped to RM159 million (-37% y-o-y) in tandem with softening property market sentiment weighed by GST concern. Construction segment also posted a flat revenue contribution of RM586 million (-0.2% y-o-y) in 6M15 due to slower-than-expected progress billings from overseas’ project.
- Bottom line.** Despite improvement achieved by construction segment in 6M15 (+6% y-o-y), the group’s EBIT declined to RM113 million (-9% y-o-y) injured by weaker contribution from property development segment which recorded a lower EBIT of RM33 million (-29% y-o-y) in tandem with the decline in revenue as mentioned above. Overall, EBIT margin remained flat at 15% in 6M15, more or less the same against 6M14 margin of 14%.

Friday, August 21, 2015

HOLD (TP: RM1.28)

Current Price (RM)	RM1.18
New Target Price (RM)	RM1.28
Previous Target Price (RM)	RM1.54
Previous Recommend.	HOLD
Upside To Target Price	8%
Dividend Yield (FY16)	5%

Stock Code

Bloomberg	WCTHG MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	1,201
Market Cap (RM mn)	1,537
YTD Chg In Share Price	-16%
Beta (x)	0.89
52-week Hi/Lo (RM)	2.21   1.20
3M Average Volume (shrs)	1.49mn
Estimated Free Float	50%

Major Shareholders

WCT Capital	20%
LTH	10%
EPF	8%

- **Construction outlook.** WCT and its JV (70:30), Al-Ali Projects Co (W.L.L.) has secured a contract worth RM1.2 billion (WCT portion: RM868 million) from Lusail Real Estate Development in March 2015. The project involves the construction 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. WCT external orderbook stood at RM2.6 billion which could last the group for the next 3 years. Moving forward, WCT is eying to win some potential job including civil works at RAPID Pengerang (RM500 million), civil works at TRX (RM1.0 billion) and KL118 Tower (RM3.0 billion).
- **Property outlook.** WCT is targeting to achieve RM650 million property sales in FY15 (FY14: RM461 million) as the group is planning to launch RM705 million worth of property project in FY15 of which 72% (RM505 million) within Klang Valley area. Besides, it has entered into a Sale and Purchase Agreement with Gabungan Efektif 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 17% respectively, weighed by lower property sales assumption impacted by the slowdown in property market. Nonetheless, FY15 and FY16 earnings are forecast to jump by 14% and 5% y-o-y respectively driven by i) higher work progress from local project in 2H2015 and ii) steady contribution from property investment division.
- **Valuation & recommendation.** We re-value WCT at RM1.28 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	6.05	40	46	17.0	14.6	1.3	1.2	6	2	8.14	Buy
GAMUDA	Jul	4.10	31	30	15.4	15.7	1.9	1.8	13	3	5.87	Buy
WCT	Dec	1.18	12	14	11.7	10.1	0.7	0.6	5	2	1.28	Hold
SCGB	Dec	1.08	10	10	11.3	12.2	3.7	3.1	NA	NA	1.40	Buy
BENALEC	Jun	0.57	2	5	17.0	12.6	0.8	0.7	-2	0	NR	NR
CREST BUILDER	Dec	0.99	7	8	15.3	12.4	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.82	10	11	10.3	8.9	0.8	0.8	5	1	NR	NR
KIMLUN	Dec	1.15	15	16	8.7	8.1	0.9	0.8	10	3	NR	NR
MRCB	Dec	0.90	5	7	21.0	14.9	1.1	1.1	19	2	NR	NR
AZRB	Dec	0.57	5	7	12.7	9.1	NA	NA	4	3	NR	NR
YTL CORP	Jun	1.48	14	13	13.8	12.4	1.1	1.1	8	6	NR	NR
Average					14.0	11.9	1.4	1.3	8	3		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	1,560	1,672	1,662	1,724	1,810
EBIT	468	303	203	259	281
PBT	415	254	151	190	199
Net profit	359	198	121	138	145
EPS (sen)	38	18	11	11	12
PBT margin	27%	15%	9%	11%	11%
Net profit margin	23%	12%	7%	8%	8%
PER (x)	6.2	12.8	15.2	10.3	9.8
P/BV (x)	1.2	1.1	0.8	0.7	0.6
DPS (sen)	7	7	6	6	6
Dividend yield	4%	4%	4%	5%	5%

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Results Analysis

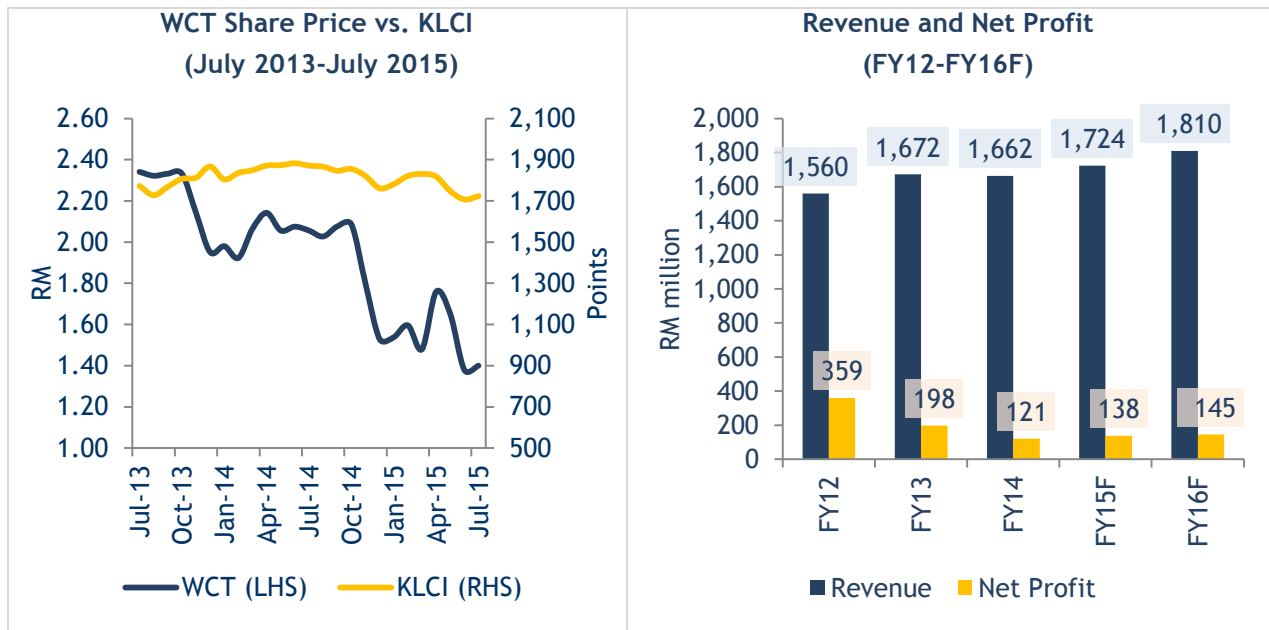
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	401	352	422	20%	5%	869	774	-11%
EBIT	56	59	54	-10%	-5%	123	113	-9%
Net Interest	(15)	(20)	(19)	-3%	31%	(30)	(39)	32%
PBT	45	43	44	2%	-4%	102	87	-15%
Taxation	(6)	(9.5)	(14.9)	57%	131%	(23)	(24)	7%
Net profit	34	33	31	-6%	-9%	74	64	-14%
EPS (sen)	3	3	3	-6%	-8%	7	6	-12%
EBIT margin	14%	17%	13%			14%	15%	
PBT margin	11%	12%	10%			12%	11%	
Net profit margin	9%	9%	7%			9%	8%	
Effective tax rate	14%	22%	34%			22%	28%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue								
Construction	260	250	336	34%	29%	587	586	-0.2%
Property Development	124	87	72	-18%	-42%	251	159	-37%
Property Investment	17	14	14	-1%	-15%	30	29	-6%
EBIT								
Construction	27	27	40	46%	50%	63	67	6%
Property Development	23	26	8	-69%	-66%	47	33	-29%
Property Investment	6	6	6	-10%	-7%	13	12	-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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