

26 February 2015 | 4QFY14 Results Review

WCT Holdings Berhad

Lower margins taking toll

Maintain NEUTRAL

Reduced Target Price (TP): RM1.84

(previously RM1.90)

INVESTMENT HIGHLIGHTS

- **FY14 earnings were below ours and market consensus estimates.**
- **The underperformance was due to thinner operating margin across all segments.**
- **We have adjusted downwards our FY15 earnings forecast on account of lower margin of the high-end property projects. We also introduce FY16 numbers with a single digit growth.**
- **Hence, we maintain NEUTRAL recommendation with a revised TP of RM1.84.**

Disappointing end to 2014. Stripping the fair value gain of RM9.4m, WCTH's FY14 bottom line of RM111.1m (-27.8%yoy) came in below ours and consensus expectations, accounting for only 83% and 75% of ours and consensus' full year forecasts respectively. Margins were compressed across all divisions with EBIT and PATAMI margins falling to 11.6% and 6.7% respectively (from 15.5% and 9.2% in FY13). Management has proposed a final single tier dividend of 1.0sen per share and share dividend on the basis of one (1) treasury shares for each 100 shares held in current quarter. This brings cumulative cash dividend to 2.5sen in FY14.

Earnings dragged by lower contributions from key segments. We opine the decline in 4QFY14 earnings of RM10.9m (-18.5%yoy and -58%qoq) was mainly due to the following:

- Persistent slower progress billing of property development at RM45.6m (-52%qoq) because of lack of contractor availability to undertake the job.
- Thinner operating property margin as a result of slow down in the demand in particularly high rise residential properties and adjustment of bigger built up to smaller sized that aforementioned projects
- Lower margin of building projects specifically MITI office building and Kota Kinabalu Medical Centre.

Earnings growth remains positive. Pursuant to this, we have adjusted downwards our FY15 earnings by 11% as we foresee lower margin for the remaining unbilled sales of high end residential project would be dragged into next year. However, we believe WCTH's earnings growth would recover positively going forward.

RETURN STATS	
Price (25 February 2015)	RM1.68
Target Price	RM1.84
Expected Share Price Return	9.5%
Expected Dividend Yield	2.1%
Expected Total Return	+11.6%

STOCK INFO	
KLCI	1,815.86
Bursa / Bloomberg	9679 / WCTHG MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,076.8
Par Value (RM)	0.50
Market cap. (RM'm)	1,809.0
Price over NTA	0.82x
52-wk price Range	RM1.38–RM2.35
Beta (against KLCI)	1.13x
3-mth Avg Daily Vol	1.32m
3-mth Avg Daily Value	RM2.16m
Major Shareholders	
WCT Capital SB	19.50%
EPF	10.13%
LTH	9.30%
AmanahRaya Trustees	8.26%
ASB	7.18%
KWAP	7.14%

INVESTMENT STATISTICS


FYE Dec	FY12	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	1,560.4	1,655.0	1,662.2	1,696.0	1,752.1
EBIT (RM'm)	256.9	259.0	193.0	193.4	209.8
Pre-tax profit (RM'm)	204.0	210.5	141.7	174.0	190.7
Normalised PATAMI (RM'm)	147.8	153.8	111.1	150.7	165.1
FD EPS (sen)	15.0	13.7	10.1	13.7	15.0
EPS growth (%)	-9.0	-8.2	-26.6	35.6	9.5
PER (x)	6.1	14.8	18.9	12.3	11.2
Dividend (sen)	6.5	6.8	2.5	4.0	4.5
Dividend Yield (%)	3.2	2.9	1.2	2.1	2.7

Source: Company data, forecasts by MIDFR

We expect FY15 earnings will be backed by (1) its outstanding orderbook of RM2b, (2) property unbilled sales of RM657.0m and (3) improvement in KLIA2 Gateway Mall earnings contributions. We also introduce FY16 numbers with a single digit growth of 9.5%.

Should they win bigger construction project of >RM1b this year, it will be earnings surprise to both our forecasts and valuation respectively. With competition for local projects have been intense, we expect the Group will secure Qatar infrastructure projects worth RM1.0b sooner than later to avoid dry in its order book. Apart from aforesaid catalyst, we believe injection investment assets into REIT this year would be another angle to look at as the exercise would pare down its gearing and unlock its assets value higher.

VALUATION AND RECOMMENDATION

Maintain NEUTRAL. After updating balance sheet as well, we have reduced our target price to RM1.84 per share. Hence, we maintain our NEUTRAL recommendation on WCTH. 

SUM-OF-PARTS VALUATION (SOP)

Segments	Basis	Indicative value (RM'm)	Per share (RM)
Engineering & construction	FY15 PER of 12x	811.1	0.74
Concessions			
Indian Tollways	DCF valuation (WACC: 8%)	117.5	0.11
KLIA2 Gateway Mall	DCF valuation (WACC: 10%)	328.5	0.30
Property Development			
On-going & undeveloped landbanks	DCF of future profit + surplus of book value	1,724.8	1.57
Property Investment			
AEON BT, Paradigm Mall & Premiere Hotel	DCF valuation (WACC: 9.5%)	523.5	0.48
Total SOP		3,505.4	3.18
Net debt		-1,479.7	-1.34
Total SOP			1.84
Enlarged share capital (mil)			1,101.4

Source: Forecasts by MIDFR

4QFY14 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative	
	4Q14	YoY	QoQ	12M14	YoY
Revenue	322.4	15.0%	-31.6%	1,662.2	-0.6%
Gross profit	28.5	-13.9%	-38.6%	233.6	-16.6%
Other income	41.4	-55.7%	>100%	69.1	-50.8%
Other expenses	-12.7	-50.3%	>100%	-27.4	-36.7%
Admin expenses	-21.1	-10.5%	25.9%	-72.8	-2.2%
EBIT	26.7	-22.5%	-37.6%	193.0	-25.5%
Finance costs	-22.1	11.0%	50.7%	-66.7	-1.4%
Associates	0.4	-82.1%	-89.8%	8.4	-30.8%
JVs	2.1	-63.2%	>100%	7.0	-1.2%
Pre-tax profit	7.1	-68.2%	-78.0%	141.7	-32.7%
Taxation	0.2	>-100%	>-100%	-28.5	-55.8%
Normalised PATAMI	10.9	-18.5%	-57.9%	111.1	-27.8%
EPS (sen)	1.9	-63.1%	-20.9%	11.0	-37.7%
	4Q14	+/- ppts	+/- ppts	12M14	+/- ppts
EBIT margin	8.3%	-4.0	-0.8	11.6%	-3.9
Pre-tax margin	2.2%	-5.8	-4.7	8.5%	-4.1
Net profit margin	3.4%	-1.4	-2.1	6.7%	-2.5
Effective tax rate	-2.7%	-54.3	-21.4	20.1%	-10.5

Segmental Breakdown					
Revenue	4Q14	YoY	QoQ	12M14	YoY
Civil eng. & construction	261.1	12.1%	-27.9%	1,210.6	3.6%
Property development	45.6	38.5%	-52.1%	391.7	-11.5%
Property investment	15.7	7.6%	13.5%	59.9	-2.6%
TOTAL	322.4	15.0%	-31.6%	1,662.2	-0.6%
EBIT	4Q14	YoY	QoQ	12M14	YoY
Civil eng. & construction	7.3	-2.2%	-68.7%	93.9	-27.4%
Property development	13.7	13.4%	9.3%	73.5	-21.5%
Property investment	15.1	-73.9%	>100%	35.0	-56.1%
TOTAL	26.7	-53.4%	-15.7%	193.0	-33.1%
EBIT Margin	4Q14	+/- ppts	+/- ppts	12M14	+/- ppts
Civil eng. & construction	2.7%	0.0	-4.6	10.0%	-5.9
Property development	5.1%	0.7	1.2	7.9%	-3.7
Property investment	5.6%	-15.6	3.4	3.7%	-6.1

Source: Company data, MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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EXTERNAL OUTSTANDING CONSTRUCTION ORDERBOOK

Gulf States		Malaysia				Total (RM'm)
	RM'm	Infrastructure	RM'm	Building	RM'm	
Government Admin Office in Qatar	338.0	PLUS Widening	141.0	MyTown Shopping Centre	649.0	
New Doha International Airport in Qatar	2.0	Tun Razak Exchange	36.0	KK Medical Centre	69.0	
		RAPID - Common construction access & permanent road	335.0	Putrajaya Commercial Office	279.0	
		Others	2.0	Ministry of International Trade and Industry (MITI)	102.0	
				UITM	30.0	
				Others	13.0	
Total	340.0		514.0		1,142.0	1,996.0

Source: Company data, MIDFR

TARGET NEW PROPERTY LAUNCHES 2015

Property Development	GDV (RM'm)
Transtech, Bukit Serendah (Semi-D/Bungalow Industrial Factory)	189.0
Bandar Parklands (A6, Medium Cost Apartment)	64.0
Paradigm Residences PJ (Tower D)	307.0
Inanam, KK (Semi-D & Bungalow)	200.0
Bandar Parklands (A7, Medium Cost Apartment)	48.0
BBT 2 (1H, Medium Cost Apartment)	86.0
Total	894.0

Source: Company data, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.