Weak start to the year

WTK's 1Q17 core net profit of RM0.7m was below expectations. This is mainly attributable to lower-than-expected earnings from the timber, plantation and oil & gas divisions. Given the weak results and the recent hike in hill timber premium, we cut our 2017-19E core earnings by 33-41%. As such, our SOTP-derived target price is lowered to RM0.90. We downgrade the stock to HOLD (from BUY).

1Q17 core net profit down by 87.6% yoy to RM0.7m

WTK's 1Q17 revenue rose by 19.8% yoy to RM221.7m on the back of higher contribution from the timber, manufacturing, plantation and oil & gas divisions which saw their revenue increase yoy by 18.8%, 27.9%, 189.7% and 3.8%, respectively. However, after excluding a one-off item, WTK recorded a lower core net profit of RM0.7m (-87.6% yoy) in 1Q17, which was below expectations, accounting for 2% of our previous and the street's 2017 forecasts. The variance was mainly due to lower-than-expected earnings from the timber, plantation and oil & gas divisions. The sharp drop in core net profit was partly due to the share of loss of its oil & gas associate company of RM9.6m (1Q16: RM0.7m). Also, the EBITDA margin decreased to 10.7% from 11.1% in 1Q16 mainly attributable to the lower margin in domestic sales of logs, higher raw materials cost in the manufacturing division and higher operation cost in the oil & gas division.

Lowering 2017-19E core EPS by 33-41%

We cut our 2017-19E core EPS by 33-41% to account for the weak 1Q17 results and the recent hike in hill timber premium. The recent increase in hill timber premium from RM0.80/m^3 to RM50/m^3, expected to commence on 1st July 2017, is likely to affect WTK's earnings negatively.

Downgrade to HOLD with a new target price of RM0.90

In tandem with our earnings forecast revisions, our SOTP-derived 12-month target price for WTK is revised to RM0.90 (previously: RM1.24), based on 8x 2017E EPS for its timber division (previously 10x; lower PE multiple due to overall downtrend in timber sector), and 1x P/BV for its forest plantation and palm oil divisions. We downgrade our recommendation to HOLD from BUY given the 4.3% downside potential to our new target price. The upside/downside risks would be: 1) much higher or lower-than-expected log production; 2) a substantial increase or drop in demand for timber products; 3) a sharp rise or decline in the ASP for log and plywood; and 4) strengthening or weakening of the US$.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	683.4	690.1	738.8	756.4	771.6
EBITDA (RMm)	124.8	81.7	74.8	88.8	98.4
Pretax profit (RMm)	72.9	14.2	33.7	45.5	53.0
Net profit (RMm)	59.6	-0.1	25.5	34.3	40.0
EPS (sen)	12.5	0.0	5.3	7.2	8.3
PER (x)	7.5	n.m	17.5	13.0	11.2
Core net profit (RMm)	60.6	-2.9	25.5	34.3	40.0
Core EPS (sen)	12.7	-0.6	5.3	7.2	8.3
Core EPS growth (%)	44.7	n.m	n.m	34.4	16.3
Core PER (x)	7.4	n.m	17.5	13.0	11.2
Net DPS (sen)	2.5	2.5	2.5	2.5	2.5
Dividend Yield (%)	2.7	2.7	2.7	2.7	2.7
EV/EBITDA (x)	3.1	4.2	6.0	5.8	5.8
Chg in EPS (%)			-40.7	-33.9	-32.7
Affin/Consensus (x)			0.7	0.8	0.8

Source: Company, Affin Hwang estimates

Results Note

WTK

WTKH MK
Sector: Timber

RM0.94 @ 30 May 2017

HOLD (downgrade)

Downside: 4.3%

Price Target: RM0.90

Previous Target: RM1.24

Price Performance

	1M	3M	12M
Absolute	-6.0%	-6.0%	-16.5%
Rel to KLCI	-5.9%	-9.8%	-22.9%

Stock Data

Issued shares (m)	477.5
Mkt cap	446.4/104.2
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	0.92-1.17
Est free float	55.2%
BV per share (RM)	2.87
P/BV (x)	0.33
Net cash/(debt)(RMm)(1Q17)	138.8
ROE (2017E)	1.8%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

WTK Realty	13.6%
Ocarina Development	8.6%
Kosa Bahagia	5.2%

Source: Affin Hwang, Bloomberg

Nadia Aquidah
(603) 2146 7528
nadia.subhan@affinhwang.com

Laila Razip
(603) 2146 7476
noramirah.razip@affinhwang.com

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q17	QoQ % chg	YoY % chg	Comment
Revenue	221.7	25.6	19.8	Higher yoy due to an increase in revenue contribution from the timber, manufacturing, palm oil and oil & gas divisions to RM181.3m (18.8%), RM11.7m (27.9%), RM8.5m (>100%) and RM12.2m (3.8%) respectively. Meanwhile, the trading division revenue was down by 5.4% (RM7.6m).
Op costs	(198.0)	(30.5)	(20.4)	
EBITDA	**23.7**	(4.4)	15.5	
EBITDA margin (%)	*10.7*	*-3.4ppt*	*-0.4ppt*	Weaker margin mainly due to lower margins from the timber and oil & gas segments.
Depn and amort	(12.0)	1.2	(8.8)	
EBIT	**11.7**	(7.6)	23.4	
Int expense	(2.4)	29.2	1.0	Debt of RM250m vs. RM270m in 1Q16.
Int and other inc	2.6	(13.5)	24.7	
Associates	(9.3)	53.0	>100	
Jointly controlled entity	-	n.m	n.m	
EI	(0.5)	n.m	n.m	Largely attributed to loss on disposal of PPE.
Pretax	**2.1**	n.m	(77.1)	
Tax	(2.2)	n.m	27.5	
Tax rate (%)	*108.2*	*+79.8ppt*	*+74.1ppt*	
MI	0.4	(57.8)	3.6	
Discontinued operation	-	n.m	n.m	
Net profit	**0.2**	n.m	(96.6)	
EPS (sen)	0.0	n.m	(96.6)	
Core net profit	**0.7**	n.m	(87.6)	Below expectations

Source: Company, Affin Hwang estimates

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	1Q16	2Q16	3Q16	4Q16	1Q17
Timber	152.6	135.9	124.7	134.1	181.3
Manufacturing	9.1	30.3	13.2	9.0	11.7
Trading	8.0	7.8	7.5	7.8	7.6
Plantation	2.9	4.0	6.2	13.0	8.5
O&G	11.8	11.2	11.9	11.9	12.2
Others	0.6	0.7	0.5	0.5	0.5
Total	**185.1**	**189.9**	**164.0**	**176.3**	**221.7**

Source: Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com