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WCT

(WCT MK, WCTE.KL)

CONSTRUCTION

26 February 2014

Hungrier for jobs after a clean-up

BUY

(Maintained)

Rationale for report: Company Result

Price RM2.18
Fair Value RM2.80
52-week High/Low RM20.35/RM2.02

Key Changes

Fair value
EPS

YE to Dec	FY13	FY14F	FY15F	FY16F
Revenue (RMmil)	1,672.4	1,671.6	1,867.3	2,144.0
Core net profit (RMmil)	184.9	183.8	220.5	263.0
Core FD EPS (Sen)	15.5	15.4	18.0	21.0
Core FD EPS growth (%)	24.1	(0.5)	16.8	16.7
Consensus EPS (Sen)		20.0	23.5	20.5
DPS (Sen)	9.5	6.5	7.5	8.5
Core FD PE (x)	15.2	14.1	12.1	10.4
EV/EBITDA (x)	18.3	14.4	11.6	9.8
Div yield (%)	4.0	3.0	3.4	3.9
ROE (%)	10.5	8.1	9.2	10.3
Net Gearing (%)	44.7	36.3	27.0	17.9

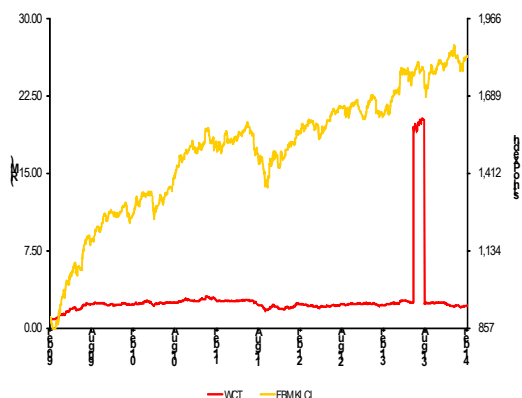
Stock and Financial Data

Shares Outstanding (million)	1,092.5
Market Cap (RMmil)	2,381.6
Book value (RM/share)	2.02
P/BV (x)	1.1
ROE (%)	10.5
Net Gearing (%)	28.1

Major Shareholders	WCT Capital (19.0%) EPF (10.8%)
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Free Float (%)	54.5
Avg Daily Value (RMmil)	5.4

Price performance	3mth	6mth	12mth
Absolute (%)	(9.3)	(11.2)	(3.2)
Relative (%)	(11.2)	(17.5)	(15.9)



Investment Highlights

- Maintain BUY on WCT Holdings with our fair value revised a tad lower to RM2.80/share (from RM2.85/share previously) on an unchanged 15% discount to its SOP value. Stripping off revaluation gains of c.RM53mil in 4Q13, WCT reported a flattish FY13 core net profit of RM145mil.
- During the quarter, WCT also prudently revised margins for some of its ongoing jobs amid a more challenging cost environment. This should put the group on a cleaner slate moving into FY14F. Construction margins were 6.2% in FY13 vs. 7.4% in FY12.
- WCT secured RM670mil worth of new contracts in 2013 on an outstanding orderbook of ~RM2.7bil as at 30 September 2013. As this was below initial expectations of over RM1bil, we expect WCT to step-up its job hunt moving into 2014. The group is reportedly bidding for RM3bil-RM5nil worth of prospective jobs – the bulk coming from Malaysia.
- Key bids include:- (i) Putrajaya Lot F (c.RM1.5bil); (ii) sections of the RM5bil West Coast Expressway; (iii) Tun Razak Exchange earthworks Zone 2 & 3 (RM200mil-RM300mil); (iv) RAPID civil works (Phase 2); and (v) MRT station works near KL Sentral.
- Furthermore, WCT remains keen to participate in the KWASA Damansara project – both as a contractor as well as a developer.
- New property sales for FY13 came in at ~RM500mil, below the targeted RM775mil. We nevertheless expect property sales to re-accelerate as part of the shortfall is due to delays in the advertising permits for two launches that would now flow through in FY14F.
- The projects are: (i) Laman Greenville (50% bookings on RM130mil sales); and (ii) Paradigm Residences (40% bookings on RM80mil sales).
- WCT is ramping up its property investment portfolio. Local press reports recently quoted management as indicating that it could set up a REIT in 2018 once its total retail Net Lettable Area (NLA) hits 5 mil sq ft.
- The Gateway@KLIA is still scheduled to open its doors by May. We understand that pre-tenancy rates are now 80%, and could reach 85% when the mall opens. Average rental rates have perked up to ~RM22psf from RM15psf initially.
- The group is also looking to establish another two malls under the Paradigm brand in Taman Yarl (near OUG) and JB. The latter could be introduced by mid-2016.

CHART 1 : PB BAND CHART

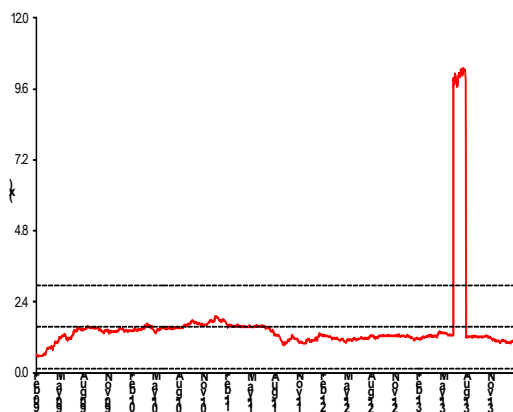


CHART 2 : PE BAND CHART

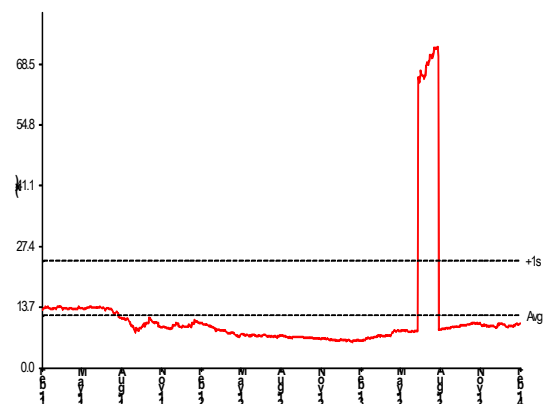


TABLE 2: DERIVATION OF FAIR VALUE

Division	Value (RM mil)	(RM/share)	(% of SOP)	Method
Construction Division	1,065.5	0.75	22.9	16x FY14F construction net profit
Development properties	1,173.0	0.83	25.2	NPV @ 8%
Investment properties	1,562.6	1.11	33.6	Market value
Future landbank	1,093.7	0.77	23.5	Market value
Indian toll concessions	52.2	0.04	1.1	DCF at WACC of 7.3%
Net Debt	(986.1)	(0.70)	(21.2)	FY13 net debt
Proceeds from full conversion of convertible instruments	688.5	0.49	14.8	
SOP	4,649.5	3.29	100.0	
FD No of shares (mil)	1,413.1			
SOP/share (RM)	3.29			
Fair Value (15% discount to SOP)	2.80			
Current upside (%)	28.3			
Dividend yield (%)	4.0			
Total Return (%)	32.3			
Discount to S-O-P (%)	(33.7)			

Source: WCT, AmResearch

TABLE 1 : RESULTS SUMMARY

YE 31 Dec (RMmil)	FY12	FY13	% YOY	3Q13	4Q13	% QoQ
Turnover	1,477.9	1,672.4	13.2	453.7	280.4	(38.2)
EBIT	235.4	217.5	(7.6)	64.2	15.5	(75.9)
Interest expense	(68.9)	(67.6)		(17.1)	(19.9)	
Interest income	20.1	33.2		9.5	10.0	
Pre-associates Profit	186.6	183.0		56.6	5.6	
Associates/JV	16.0	19.2		3.3	7.8	
Pre-exceptionals Profit	202.7	202.2		59.9	13.4	
Exceptionals	218.0	52.0		0.0	52.0	
Pretax Profit	420.7	254.2	(39.6)	59.9	65.4	9.2
Taxation	(69.2)	(64.5)		(19.3)	(11.6)	
Minorities	13.2	7.8		0.8	2.5	
Net Profit	364.6	197.5	(45.8)	41.3	56.4	36.4
Core Net Profit	146.6	145.5	(0.7)	41.3	4.4	(89.5)
Diluted EPS (sen)	44.4	17.6		3.7	5.0	
DPS (sen)	7.0	6.8		0.0	3.3	
BV/Share (RM)	1.91	2.02		1.96	2.02	
EBIT margin (%)	15.9	13.0		14.1	5.5	
Pretax margin (%)	28.5	15.2		13.2	23.3	
Effective tax (%)	16.5	25.4		32.3	17.7	
Breakdown (RM mil)						
Turnover						
Construction	1,567.1	2,093.1	33.6	410.0	1,014.8	147.5
Property devt	593.5	453.2	(23.6)	135.2	43.7	(67.7)
Property & invt hldg	85.0	61.5	(27.6)	14.0	14.5	3.8
Eliminations	(767.7)	(935.4)	n/m	(105.5)	(792.7)	n/m
Total	1,477.9	1,672.4	13.2	453.7	280.4	(38.2)
EBIT						
Construction	115.7	129.3	11.8	32.6	7.5	(77.1)
Property devt	117.5	93.6	(20.3)	35.0	12.1	(65.4)
Property & invt hldg	240.4	79.7	(66.8)	6.0	58.0	n/m
Inter-segment profit	(238.1)	(85.2)	n/m	(9.5)	(62.0)	n/m
Total	235.4	217.5	(7.6)	64.2	15.5	(75.9)
EBIT Margin (%)						
Construction	7.4	6.2		8.0	0.7	
Property devt	19.8	20.7		25.9	27.7	
Property & invt hldg	n/m	n/m		43.0	n/m	
Total	15.9	13.0		14.1	5.5	

Source : Bursa Malaysia

TABLE 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Revenue	1,560.4	1,672.4	1,671.6	1,867.3	2,144.0
EBITDA	268.5	296.1	325.0	373.2	430.1
Depreciation	(31.7)	(37.8)	(42.7)	(49.1)	(59.6)
Operating income (EBIT)	236.7	258.3	282.3	324	370.5
Other income & associates	16.0	19.2	12.1	14.1	16.9
Net interest	(48.8)	(47.6)	(51.8)	(45.9)	(28.9)
Exceptional items	210.9	26.7	0.0	0.0	0.0
Pretax profit	414.9	256.6	242.6	292.4	358.5
Taxation	(69.2)	(52.8)	(57.8)	(69.7)	(85.6)
Minorities/pref dividends	13.2	7.8	(1.0)	(2.2)	(9.9)
Net profit	358.9	211.6	183.8	220.5	263.0
Core net profit	147.9	184.9	183.8	220.5	263.0
Balance Sheet (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Fixed assets	276.2	271.6	293.9	309.8	365.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	2,586.5	2,493.2	2,505.3	2,519.4	2,536.3
Total non-current assets	2,862.7	2,764.8	2,799.2	2,829.2	2,901.6
Cash & equivalent	1,072.2	1,036.4	836.0	742.8	788.1
Stock	73.9	75.6	73.8	73.7	75.1
Trade debtors	1,052.9	1,342.0	1,282.3	1,355.7	1,468.5
Other current assets	319.9	313.1	313.1	313.1	313.1
Total current assets	2,518.8	2,767.1	2,505.2	2,485.3	2,644.8
Trade creditors	1,083.4	842.7	848.5	982.4	1,173.9
Short-term borrowings	925.2	366.4	372.2	160.4	252.9
Other current liabilities	15.8	19.5	19.5	19.5	19.5
Total current liabilities	2,024.4	1,228.6	1,240.2	1,162.3	1,446.3
Long-term borrowings	893.3	1,553.1	1,201.1	1,142.8	905.2
Other long-term liabilities	596.4	493.9	493.9	493.9	493.9
Total long-term liabilities	1,489.8	2,047.0	1,695.0	1,636.8	1,399.1
Shareholders' funds	1,810.5	2,204.3	2,316.2	2,460.2	2,635.8
Minority interests	57.0	52.1	53.0	55.3	65.2
BV/share (RM)	1.90	2.02	2.12	2.25	2.41
Cash Flow (RMmil, YE 31 Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	414.9	256.6	242.6	292.4	358.5
Depreciation	(462.0)	(1,165.2)	231.0	272.4	333.9
Net change in working capital	231.5	(513.2)	67.2	60.6	77.3
Others	(588.3)	(491.3)	(69.9)	(83.9)	(117.4)
Cash flow from operations	89.8	(710.1)	282.7	318.2	377.9
Capital expenditure	(52.3)	(11.4)	(50.0)	(50.0)	(100.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(128.3)	(8.5)	0.0	0.0	0.0
Cash flow from investing	(180.6)	(19.9)	(50.0)	(50.0)	(100.0)
Debt raised/(repaid)	429.3	98.7	(361.2)	(285.0)	(145.2)
Equity raised/(repaid)	0.0	259.6	0.0	0.0	0.0
Dividends paid	(61.8)	(72.9)	(72.0)	(76.5)	(87.4)
Others	35.8	307.9	0.0	0.0	0.0
Cash flow from financing	403.3	593.4	(433.1)	(361.5)	(232.5)
Net cash flow	312.5	(136.7)	(200.4)	(93.2)	45.3
Exchange rate differences	(17.7)	0.6	0.0	0.0	0.0
Net cash/(debt) b/f	774.7	1,069.5	933.4	733.0	639.8
Net cash/(debt) c/f	1,069.5	933.4	733.0	639.8	685.1
Key Ratios (YE 31 Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	1.4	7.2	n/a	11.7	14.8
EBITDA growth (%)	3.5	10.3	9.8	14.8	15.2
Pretax margins (%)	26.6	15.3	14.5	15.7	16.7
Net profit margins (%)	23.0	12.7	11.0	11.8	12.3
Interest cover (x)	3.4	3.8	4.1	5.4	8.8
Effective tax rate (%)	16.7	20.6	23.8	23.8	23.9
Net dividend payout (%)	17.2	49.1	38.6	37.2	35.3
Debtors turnover (days)	267	261	287	258	240
Stock turnover (days)	15	16	16	14	13
Creditors turnover (days)	239	210	185	179	184

Source: WCT, AmResearch

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