

Gateway@klia2 takes off

BUY

(Maintained)

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Rationale for report: Company Result

Price	RM2.22
Fair Value	RM2.80
52-week High/Low	RM20.35/RM2.02

Key Changes

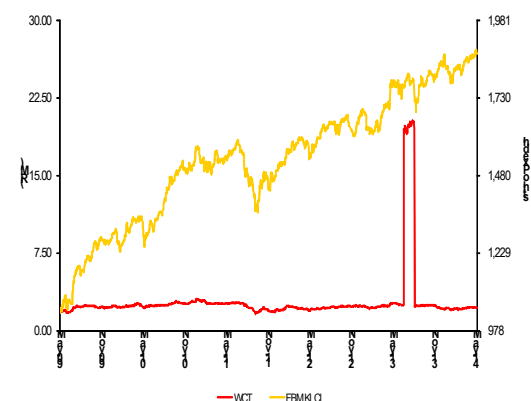
Fair value	Unchanged
EPS	Unchanged

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)		16.8	18.6	20.7
DPS (Sen)	9.5	6.5	7.5	8.5
Core FD PE (x)	15.2	14.3	12.3	10.5
EV/EBITDA (x)	18.3	14.5	11.7	9.9
Div yield (%)	4.0	2.9	3.4	3.8
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)	2,425.3
Book value (RM/share)	2.02
P/BV (x)	1.1
ROE (%)	10.5
Net Gearing (%)	44.7
Major Shareholders	WCT Capital (19.2%) EPF (10.7%)
Free Float (%)	33.2
Avg Daily Value (RMmil)	3.3

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 an unchanged fair value of RM2.80/share – a 15% discount to its sum-of-parts value.
- For its 1Q14 results, WCT reported a core net profit of RM40mil on revenue of RM467mil. 1Q earnings came in at 22% of our estimates (consensus: 21%), but should pick up in the sequential quarters as the pace of its property and construction projects improves.
- Construction margins improved from <1% in 4Q13 to close to 10% in 1Q14. To recap, WCT had in 4Q13, prudently revised margins for some of its ongoing jobs amid a more challenging cost environment.
- We expect WCT to step-up its order book replenishment initiatives in the coming months. Last year, the group secured RM670mil worth of new contracts, falling short of the initial expectations of over RM1bil.
- The announcement of some RM5bil worth of contracts under the West Coast Expressway (WCE) could be a catalyst for WCT.
- We expect WCT to either be in the running for some RM2.2bil worth of jobs under open tender, or feature at the sub-contractor level for another RM2.8bil of WCE jobs which were awarded to IJM Corp.
- Notably, WCT undertook sub-contracting works (Package 1B & 2A) for IJM for the Kajang-Seremban Highway (LEKAS).
- Some other prospective job bids for WCT are:- (i) Tun Razak Exchange earthworks Zone 2 & 3 (RM200mil-RM300mil); (ii) RAPID civil works (Phase 2); and (iii) infrastructure projects in Qatar.
- WCT's forward valuations appear undemanding at 10x-14x PEs over FY14F-16F FD EPS, and underpinned by a solid EPS CAGR of 13%. Balance sheet remains healthy with a projected FY14F net gearing of 36%.
- The opening of Gateway@klia2 on 2 May removes a key overhang for WCT's growing property investment portfolio, where over 200 retailers have signed up.
- Most of them are tipped to open their doors by month-end upon completion of fit-out works. Tenancy rates are ~80% at the moment, we believe.
- Another two malls under Paradigm are firmly in the pipeline. To be developed under the Paradigm brand, the new malls would be built in Taman Yarl (near OUG) and JB. The latter could be introduced by mid-2016.

TABLE 1 : RESULTS SUMMARY

YE 31 Dec (RMmil)	1Q13	1Q14	% YOY	4Q13	1Q14	% QoQ
Turnover	490.9	467.2	(4.8)	280.4	467.2	66.6
EBIT	71.6	55.1	(23.1)	15.5	55.1	255.6
Interest expense	(14.7)	(15.1)		(19.9)	(15.1)	
Interest income	4.4	12.1		10.0	12.1	
Pre-associates Profit	61.4	52.2		5.6	52.2	
Associates/JV	4.0	4.6		7.8	4.6	
Pre-exceptionals Profit	65.4	56.8		13.4	56.8	
Exceptionals	0.0	0.0		52.0	0.0	
Pretax Profit	65.4	56.8	(13.2)	65.4	56.8	(13.2)
Taxation	(23.5)	(16.2)		(11.6)	(16.2)	
Minorities	1.4	(0.5)		2.5	(0.5)	
Net Profit	43.2	40.1	(7.1)	56.4	40.1	(28.9)
Core Net Profit	43.2	40.1	(7.1)	4.4	40.1	n/m
Diluted EPS (sen)	4.1	3.7		5.0	3.7	
DPS (sen)	0.0	0.0		3.3	0.0	
BV/Share (RM)	1.94	2.02		2.02	2.02	
EBIT margin (%)	14.6	11.8		5.5	11.8	
Pretax margin (%)	13.3	12.1		23.3	12.1	
Effective tax (%)	36.0	28.6		17.7	28.6	
Breakdown (RM mil)						
Turnover						
Construction	371.1	2,093.1	33.6	410.0	1,014.8	147.5
Property devt	124.0	453.2	(23.6)	135.2	43.7	(67.7)
Property & invt hldg	19.3	61.5	(27.6)	14.0	14.5	3.8
Eliminations	(23.5)	(935.4)	n/m	(105.5)	(792.7)	n/m
Total	490.9	1,672.4	13.2	453.7	280.4	(38.2)
EBIT						
Construction	42.8	129.3	11.8	32.6	7.5	(77.1)
Property devt	28.0	93.6	(20.3)	35.0	12.1	(65.4)
Property & invt hldg	5.2	79.7	(66.8)	6.0	58.0	n/m
Inter-segment profit	0.0	(85.2)	n/m	(9.5)	(62.0)	n/m
Total	71.6	217.5	(7.6)	64.2	15.5	(75.9)
EBIT Margin (%)						
Construction	11.5	6.2		8.0	0.7	
Property devt	22.6	20.7		25.9	27.7	
Property & invt hldg	26.9	n/m		43.0	n/m	
Total	14.6	13.0		14.1	5.5	

Source : Bursa Malaysia

CHART 1 : PB BAND CHART

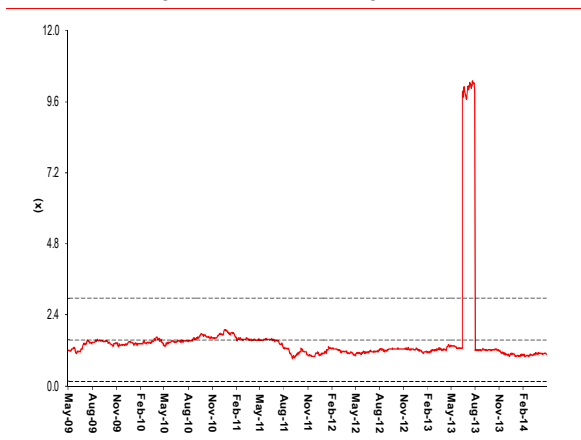


CHART 2 : PE BAND CHART

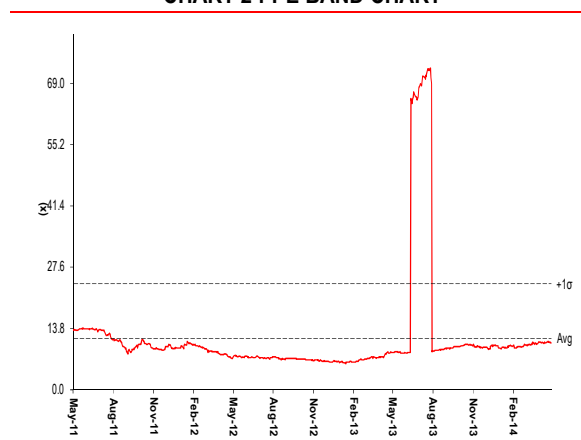


TABLE 2: DERIVATION OF FAIR VALUE

Division	Value (RM mil)	(% of SOP)	Method
Construction Division	1,065.5	0.75	22.9
Development properties	1,173.0	0.83	25.2
Investment properties	1,562.6	1.11	33.6
Future landbank	1,093.7	0.77	23.5
Indian toll concessions	52.2	0.04	1.1
Net Debt	(986.1)	(0.70)	(21.2)
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 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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