CONSTRUCTION

AmResearch

**Company report**

# WCT

(WCTHG MK EQUITY, WCTE.KL)

**25 Nov 2014**

*Stepping up orderbook hunt*

**BUY**

(Maintained)


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***Rationale for report: Company update***

| | |
|---|---|
| **Price** | **RM1.91** |
| **Fair Value** | **RM2.68** |
| 52-week High/Low | RM2.40/RM1.91 |

**Key Changes**

| | |
|---|---|
| Fair value | ⇔ |
| EPS | ⇔ |

| YE to Dec | FY13 | FY14F | FY15F | FY16F |
|---|---|---|---|---|
| Revenue (RM mil) | 1,672.4 | 1,706.0 | 1,915.0 | 2,178.2 |
| Core net profit (RM mil) | 183.4 | 156.9 | 192.6 | 258.4 |
| FD Core EPS (sen) | 15.4 | 13.5 | 16.1 | 20.7 |
| FD Core EPS growth (%) | 23.3 | (12.2) | 18.7 | 29.0 |
| Consensus Net Profit (RM mil) | - | 164.1 | 189.1 | 222.2 |
| DPS (sen) | 9.5 | 6.5 | 7.5 | 8.5 |
| PE (x) | 12.4 | 14.1 | 11.9 | 9.2 |
| EV/EBITDA (x) | 10.4 | 10.2 | 8.4 | 6.2 |
| Div yield (%) | 4.3 | 3.0 | 3.4 | 3.9 |
| ROE (%) | 10.5 | 7.0 | 8.2 | 10.4 |
| Net Gearing (%) | 44.7 | 39.0 | 31.3 | 21.5 |

**Stock and Financial Data**

| | |
|---|---|
| Shares Outstanding (million) | 1,082.0 |
| Market Cap (RMmil) | 2,066.6 |
| Book Value (RM/share) | 2.02 |
| P/BV (x) | 0.9 |
| ROE (%) | 10.5 |
| Net Gearing (%) | 44.7 |
| Major Shareholders | WCT Capital (19.2%)<br>EPF (10.6%)<br>Lembaga Tabung Haji (9.8%) |
| Free Float | 38.5 |
| Avg Daily Value (RMmil) | 1.6 |

| Price performance | 3mth | 6mth | 12mth |
|---|---|---|---|
| Absolute (%) | (12.3) | (10.3) | (18.3) |
| Relative (%) | (10.5) | (8.5) | (20.0) |



**PP 12247/06/2013 (032380)**


## Investment Highlights

- **We maintain our BUY call on WCT with an unchanged fair value of RM2.65/share – pegged at a discount of 15% to its revised sum-of-parts (SOP) value.**
- **WCT reported a 25% QoQ decline in its 3Q14 net profit at RM26mil. The main drag came from lower construction and property margins, which fell by 3ppts and 5.6ppts respectively. In addition, there was also additional cost incurred to complete the New Doha International Airport project in Qatar.**
- **On a 9M basis, earnings were relatively flat at RM100mil or c.64% of our FY14F estimates.**
- **Nevertheless, we maintain our FY14F net profit forecast of RM157mil as we expect some pick up in sequential billings in 4Q as some of its newer jobs pick-up progress.**
- **Positively, WCT's orderbook momentum appears to be gaining traction. Late last month, the group secured a RM652mil contract to build the IKEA Cochrane Mall for Ikano Ltd. The IKEA contract lifts WCT's new job wins to almost RM1bil.**
- **More importantly, WCT is stepping up its orderbook replenishment initiatives. The group's active tender bid is ~RM4bil, with roughly an even split between domestic and Middle Eastern jobs.**
- **Key local bids include sub-contracting packages for the West Coast Expressway (WCE). Other key bids include the KWASA Damansara civil works as well as additional works from the RAPID Pengerang and Tun Razak Exchange (TRX) projects.**
- **More prospects could follow suit following a slew of new infrastructure projects announced under Budget 2015, including the highly anticipated RM23bil Klang Valley MRT2 line.**
- **On the property front, WCT has moved to increase its landbank following the purchase of c.221 acres of land in Serendah, Selangor for RM115mil. New Sales achieved for 9M14 was almost RM500mil vs. the group's full-year target of RM617mil (unbilled sales: RM589mil).**
- **WCT is currently trading at undemanding FD FY15F-17F Pes of 9x-14x vs EPS CAGR of 9%. The group's share buy-back activities provides further valuation support in the near-term (25 mil shares at c.RM2.16/share or ~2.3% of share capital).**

**EXHIBIT 1: PB BAND CHART**

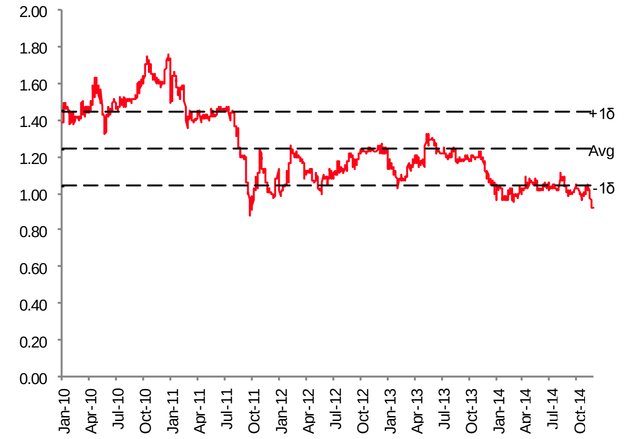


**EXHIBIT 2: PE BAND CHART**

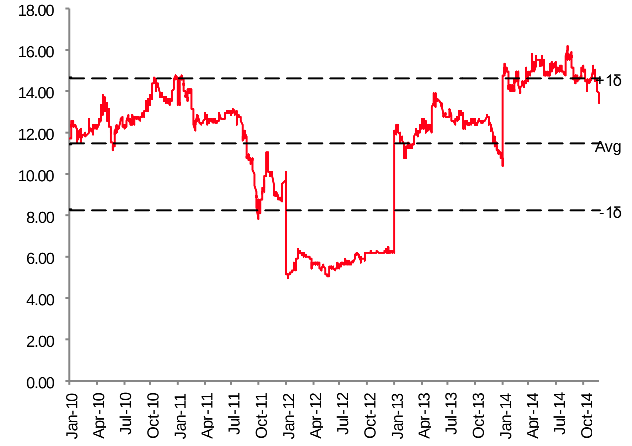


**EXHIBIT 3: DERIVATION OF FAIR VALUE**

| **Division** | **Value** (RM mil) | **(RM/share)** | **(% of SOP)** | **Method** |
|---|---|---|---|---|
| Construction Division | 864.6 | 0.61 | 19.4 | 16x FY15F construction net profit |
| Development properties | 1,173.0 | 0.83 | 26.4 | NPV @ 8% |
| Investment properties | 1,562.6 | 1.11 | 35.1 | Market value |
| Future landbank | 1,093.7 | 0.77 | 24.6 | Market value |
| Indian toll concessions | 50.9 | 0.04 | 1.1 | DCF at WACC of 7.3% |
| Net Debt | (986.1) | (0.70) | (22.2) | FY13 net debt |
| Proceeds from full conversion of convertible instruments | 688.5 | 0.49 | 15.5 | |
| **SOP** | **4,447.1** | **3.15** | **100.0** | |
| FD No of shares (mil) | 1,413.1 | | | |
| **SOP/share (RM)** | **3.15** | | | |
| **Fair Value (15% discount to SOP)** | **2.68** | | | |
| Current upside (%) | 40.1 | | | |
| Dividend yield (%) | 3.4 | | | |
| **Total Return (%)** | **43.5** | | | |
| **Discount to S-O-P (%)** | **(39.3)** | | | |

*Source: WCT, AmResearch*

## EXHIBIT 4: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY12 | FY13 | FY14F | FY15F | FY16F |
|---|---|---|---|---|---|
| Revenue | 1,560.4 | 1,672.4 | 1,706.0 | 1,915.0 | 2,178.2 |
| EBITDA | 268.5 | 294.2 | 289.1 | 336.7 | 423.4 |
| Depreciation/Amortisation | (31.7) | (37.8) | (42.7) | (49.1) | (59.6) |
| Operating income (EBIT) | 236.7 | 256.4 | 246.3 | 287.6 | 363.9 |
| Other income & associates | 16.0 | 19.2 | 12.1 | 14.1 | 16.9 |
| Net interest | (48.8) | (47.6) | (52.3) | (47.3) | (30.6) |
| Exceptional items | 210.9 | 26.7 | - | - | - |
| **Pretax profit** | **414.9** | **254.7** | **206.1** | **254.5** | **350.1** |
| Taxation | (69.2) | (52.3) | (48.7) | (60.3) | (83.5) |
| Minorities/pref dividends | 13.2 | 7.8 | (0.5) | (1.6) | (8.2) |
| **Net profit** | **358.9** | **210.1** | **156.9** | **192.6** | **258.4** |
| Core net profit | 147.9 | 183.4 | 156.9 | 192.6 | 258.4 |

| Balance Sheet (RMmil, YE 31 Dec) | FY12 | FY13 | FY14F | FY15F | FY16F |
|---|---|---|---|---|---|
| Fixed assets | 276.2 | 271.6 | 293.9 | 309.8 | 365.3 |
| Intangible assets | - | - | - | - | - |
| 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 | 1,069.5 | 933.4 | 681.0 | 549.6 | 603.5 |
| Stock | 73.9 | 75.6 | 74.0 | 66.2 | 58.4 |
| Trade debtors | 1,052.9 | 1,342.0 | 1,308.7 | 1,390.3 | 1,491.9 |
| Other current assets | 322.6 | 416.1 | 416.1 | 416.1 | 416.1 |
| **Total current assets** | **2,518.8** | **2,767.1** | **2,479.8** | **2,422.3** | **2,570.0** |
| Trade creditors | 1,083.4 | 842.7 | 850.4 | 975.3 | 1,161.2 |
| 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** | **1,242.1** | **1,155.2** | **1,433.6** |
| 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** | **2,289.3** | **2,405.4** | **2,576.5** |
| Minority interests | 57.0 | 52.1 | 52.5 | 54.2 | 62.4 |
| BV/share (RM) | 1.90 | 2.02 | 2.10 | 2.20 | 2.36 |

| Cash Flow (RMmil, YE 31 Dec) | FY12 | FY13 | FY14F | FY15F | FY16F |
|---|---|---|---|---|---|
| Pretax profit | 414.9 | 254.7 | 206.1 | 254.5 | 350.1 |
| Depreciation/Amortisation | 31.7 | 37.8 | 42.7 | 49.1 | 59.6 |
| Net change in working capital | 231.5 | (513.2) | 42.6 | 50.9 | 92.2 |
| Others | (588.3) | (489.4) | (60.7) | (74.4) | (115.4) |
| **Cash flow from operations** | **89.8** | **(710.1)** | **230.7** | **280.1** | **386.5** |
| Capital expenditure | (52.3) | (11.4) | (50.0) | (50.0) | (100.0) |
| Net investments & sale of fixed assets | - | - | - | - | - |
| Others | (128.3) | (8.5) | - | - | - |
| **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) | - | 259.6 | - | - | - |
| Dividends paid | (61.8) | (72.9) | (72.0) | (76.5) | (87.4) |
| Others | 35.8 | 307.9 | - | - | - |
| **Cash flow from financing** | **403.3** | **593.4** | **(433.1)** | **(361.5)** | **(232.5)** |
| **Net cash flow** | **312.5** | **(136.7)** | **(252.4)** | **(131.4)** | **53.9** |
| **Net cash/(debt) b/f** | **774.7** | **1,069.5** | **933.4** | **681.0** | **549.6** |
| **Net cash/(debt) c/f** | **1,069.5** | **933.4** | **681.0** | **549.6** | **603.5** |

| Key Ratios (YE 31 Dec) | FY12 | FY13 | FY14F | FY15F | FY16F |
|---|---|---|---|---|---|
| Revenue growth (%) | 1.4 | 7.2 | 2.0 | 12.2 | 13.7 |
| EBITDA growth (%) | 3.5 | 9.6 | (1.8) | 16.5 | 25.7 |
| Pretax margin (%) | 26.6 | 15.2 | 12.1 | 13.3 | 16.1 |
| Net profit margin (%) | 23.0 | 12.6 | 9.2 | 10.1 | 11.9 |
| Interest cover (x) | 4.9 | 5.4 | 4.7 | 6.1 | 11.9 |
| Effective tax rate (%) | 16.7 | 20.6 | 23.6 | 23.7 | 23.8 |
| Dividend payout (%) | 18.3 | 51.6 | 45.2 | 42.5 | 35.9 |
| Debtors turnover (days) | 246 | 293 | 280 | 265 | 250 |
| Stock turnover (days) | 23 | 20 | 20 | 18 | 16 |
| Creditors turnover (days) | 333 | 227 | 230 | 265 | 318 |

*Source: WCT, AmResearch*

**EXHIBIT 5: DERIVATION OF FAIR VALUE**

| Contracts | Value (RM mil) |
|---|---|
| **Local** | |
| Satellite Works UTM Selangor Campus | 36.0 |
| Others | 17.0 |
| Internal | 927.0 |
| Aeon Mall Malacca | 30.0 |
| The Paradigm | 226.0 |
| New MITI building, Putrajaya | 215.0 |
| Riverson Medical Centre, Kota Kinabalu, Sabah | 147.0 |
| Proposed PLUS highway fourth-land widerning (Package E) | 290.0 |
| Lot 2C5, Precinct 2, Putrajaya | 291.0 |
| TRX Zone infrastructure works - Zone 3 | 152.0 |
| RAPID (Package 2OC1) | 341.9 |
| **Total Outstanding Local Jobs** | **2,672.9** |
| | |
| **Overseas** | |
| New Doha International Airport | 2.0 |
| Governmental Administrative Building, Doha | 354.0 |
| **Total Outstanding Overseas Jobs** | **356.0** |
| **Total Outstanding Order Book** | **3,028.9** |
| | |
| **Breakdown (%)** | |
| Local | **88** |
| Overseas | **12** |

*Source: WCT, AmResearch*

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