

Company report

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WCT

(WCT MK, WCTE.KL)

CONSTRUCTION

23 August 2013

Growing property division

BUY

(Maintained)

Rationale for report: Company Result

Price RM2.37
Fair Value RM2.85
52-week High/Low RM2.08/RM2.74

Key Changes

Fair value unchanged
EPS unchanged

YE to Dec	FY12	FY13F	FY14F	FY15F
Revenue (RMmil)	1,560.4	1,826.5	1,848.9	2,295.5
Core net profit (RMmil)	146.6	170.5	187.1	270.0
Core FD EPS (Sen)	17.8	17.1	18.8	27.1
Core FD EPS growth (%)	(31.8)	21.9	8.3	35.4
Consensus EPS (Sen)		18.7	21.4	24.8
DPS (Sen)	7.0	9.5	11.0	12.0
Core FD PE (x)	17.4	15.5	14.4	10.6
EV/EBITDA (x)	16.7	11.8	9.6	6.4
Div yield (%)	3.2	4.0	4.6	5.1
ROE (%)	22.1	7.8	9.6	12.9
Net Gearing (%)	41.5	19.8	18.0	9.4

Stock and Financial Data

Shares Outstanding (million)	1,092.2
Market Cap (RMmil)	2,588.5
Book value (RM/share)	2.21
P/BV (x)	8.7
ROE (%)	22.1
Net Gearing (%)	41.5
Major Shareholders	WCT Capital (19.0%) EPF (11.6%)

Free Float (%)	50.6
Avg Daily Value (RMmil)	82.4

Price performance	3mth	6mth	12mth
Absolute (%)	620.3	778.9	747.4
Relative (%)	622.7	770.8	741.7



Investment Highlights

- We maintain our BUY call on WCT with an unchanged fair value of RM2.85/share, pegged at a 15% discount to its Sum-Of-Parts (SOP) value. WCT reported a 26% YoY jump in 1HFY13 net profit to RM99mil, with all divisions reporting better performances. WCT also declared an interim single-tier DPS of 3.5 sen (2QFY12: 3.8 sen), translating into a net yield of 1.5%.
- Notably, property EBIT expanded by 29% YoY to RM46mil in 1HFY13, backed by higher recognition from its 1Medini Residences project in Medini, Iskandar Malaysia.
- Earnings from its property investment division doubled to RM17mil. We believe this is largely due to the positive full-year impact from Paradigm Mall in Kelana Jaya. Average rental rates are ~RM7psf.
- The combined contributions from its property development and investment divisions have increased from 39% in 1HFY12 to 45% of group EBIT in 1HFY13.
- With its reorganisation exercise completed, WCT is forging ahead to replenish its order book. The current tender book stands at ~ RM5bil, with a 60:40 split between local and overseas jobs.
- For the year to date, the group has clinched approximately RM511mil worth of new jobs and is reportedly targeting RM1.5bil in contract replenishments for FY13F.
- In the Middle East, WCT has submitted for tenders for RM2bil worth of contracts. This would include some RM1bil worth of tenders in Qatar.
- On the local front, new job prospects include:- (i) two hospitals in Sabah; (ii) Kwasa land civil works; (iii) phase 2 of the infrastructure works for the Petronas RAPID project in Pengerang; (iv) Putrajaya building works (Parcel F); and (v) certain sections of the West Coast Expressway.
- Similarly, we understand that WCT's property launches may be revised upwards to over RM1bil from the initial target of RM877mil.
- This is in view of the strong take-up rates for its projects in Medini, Iskandar Malaysia. In fact, plans are afoot to bring forward the launch of the A60 land in Medini North - where demand for commercial spaces should rise as the population density within Medini grows.
- We view any recent share price weakness – in line with the broader market – as an opportunity to accumulate the stock ahead of an expected uptick in construction newsflow. WCT's valuations are undemanding, trading at FD FY13F-15F PEs of 11x-15x vs robust EPS CAGR of 21%.

TABLE 1 : RESULTS SUMMARY

YE 31 Dec (RMmil)	1Q12	1Q13	% YoY	4Q12	1Q13	% QoQ
Turnover	738.4	973.5	31.8	490.9	482.5	(1.7)
EBIT	112.8	137.9	22.3	71.6	66.2	(7.5)
Interest expense	(30.8)	(30.6)		(14.7)	(15.9)	
Interest income	8.9	13.6		4.4	9.2	
Pre-associates Profit	90.9	120.9		61.4	59.5	
Associates/JV	8.7	8.1		4.0	4.1	
Pre-exceptionals Profit	99.5	128.9		65.4	63.6	
Exceptionals	0.0	0.0		0.0	0.0	
Pretax Profit	99.5	128.9	29.6	65.4	63.6	(2.7)
Taxation	(22.8)	(33.6)		(23.5)	(10.1)	
Minorities	2.8	4.5		1.4	3.2	
Net Profit	79.5	99.9	25.6	43.2	56.7	31.3
Core Net Profit	79.5	99.9	25.6	43.2	56.7	31.3
Diluted EPS (sen)	9.7	9.1		4.1	5.0	
DPS (sen)	3.8	3.5		0.0	3.5	
BV/Share (RM)	1.89	1.95		1.94	1.95	
EBIT margin (%)	15.3	14.2		14.6	13.7	
Pretax margin (%)	13.5	13.2		13.3	13.2	
Effective tax (%)	22.9	26.1		36.0	15.8	
Segmental Breakdown (RM mil)						
Turnover						
Construction	512.3	668.2	30.4	352.6	315.7	(10.5)
Trading	27.0	35.2	30.4	18.6	16.6	(10.5)
Property devt	166.3	274.3	64.9	124.0	150.3	21.2
Property & invt hldg	32.8	32.9	0.4	19.3	13.6	(29.7)
Eliminations	0.0	(37.2)	n/m	(23.5)	(13.7)	n/m
Total	738.4	973.5	31.8	490.9	482.5	(1.7)
EBIT						
Construction	74.2	84.8	14.3	40.7	44.1	8.4
Trading	3.9	4.5	14.3	2.1	2.3	8.4
Property devt	35.9	46.5	29.5	28.0	18.4	(34.3)
Property & invt hldg	7.7	15.8	105.7	5.2	10.6	102.9
Inter-segment profit	(8.9)	(13.6)	n/m	(4.4)	(9.2)	n/m
Total	112.8	137.9	22.3	71.6	66.2	(7.5)
EBIT Margin (%)						
Construction	14.5	12.7		11.5	14.0	
Trading	14.5	12.7		11.5	14.0	
Property devt	21.6	16.9		22.6	12.3	
Property & invt hldg	23.4	47.9		26.9	77.7	
Total	15.3	14.2		14.6	13.7	

Source : Bursa Malaysia

TABLE 2: DERIVATION OF FAIR VALUE

Division	Value		(% of SOP)	Method
	(RM mil)	(RM/share)		
Construction Division	1,877.5	1.33	39.7	16x 3-year average net profit
Property Division	2,178.4	1.55	46.1	Market value of WCT Land's property assets (100% stake)
Trading Division	15.9	0.01	0.3	10x 3-year average net profit
Toll concessions: Swarna Tollway:	70.1	0.05	1.5	DCF at WACC of 8.4%
Durgapur	10.2	0.01	0.2	DCF at WACC of 7.3%
Panagarh-Palsit	15.5	0.01	0.3	DCF at WACC of 7.3%
Net Debt	(375.5)	(0.27)	(7.9)	FY13F net debt
Proceeds from assumed full conversion of warrants/ESOS	887.8	0.63	18.8	Exercise price of RM1.85/RM2.04/RM2.25/RM2.39
Interest from conversion of convertibles	44.0	0.03	0.9	Interest income at 5% p.a.
SOP	4,724.1	3.36	100.0	
FD No of shares (mil)	1,407.4			
SOP/share (RM)	3.36			
Fair Value (15% discount to SOP)	2.85		0.1%	
Current upside (%)	20.4			
Dividend yield (%)	4.0			
Total Return (%)	24.4			

Source: WCT, AmResearch

CHART 1 : PB BAND CHART

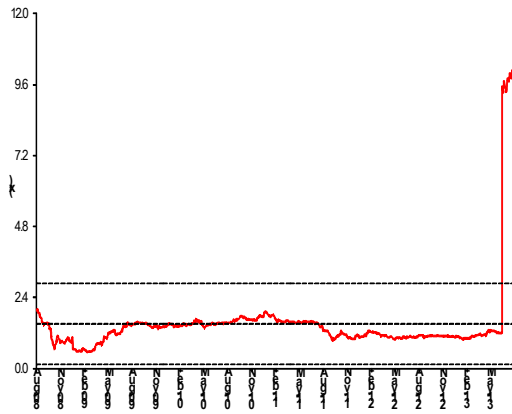


CHART 2 : PE BAND CHART

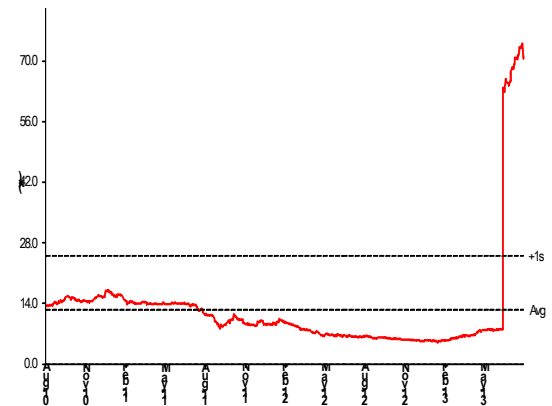


TABLE 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Revenue	1,538.6	1,560.4	1,826.5	1,848.9	2,295.5
EBITDA	302.6	298.3	331.4	369.3	498.7
Depreciation	(67.6)	(70.5)	(85.2)	(107.0)	(128.8)
Operating income (EBIT)	234.9	227.8	246.2	262	369.9
Other income & associates	16.8	16.0	15.7	18.0	22.7
Net interest	(44.2)	(41.2)	(42.0)	(29.5)	(17.7)
Exceptional items	0.0	218.0	(26.2)	0.0	0.0
Pretax profit	207.5	420.7	193.6	250.8	374.9
Taxation	(41.0)	(69.2)	(48.4)	(55.4)	(82.7)
Minorities/pref dividends	(0.5)	13.2	(2.0)	(8.3)	(22.2)
Net profit	166.0	364.6	143.3	187.1	270.0
Core net profit	166.0	146.6	170.5	187.1	270.0
Balance Sheet (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Fixed assets	270.3	276.2	409.0	520.0	609.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	1,911.2	2,547.8	2,563.6	2,581.6	2,604.3
Total non-current assets	2,181.4	2,824.1	2,972.6	3,101.5	3,213.4
Cash & equivalent	779.4	1,072.3	554.2	474.2	372.0
Stock	51.4	73.9	81.9	81.1	98.5
Trade debtors	1,256.1	1,051.9	875.7	759.8	943.4
Other current assets	290.6	304.6	304.6	304.6	304.6
Total current assets	2,377.5	2,502.7	1,816.4	1,619.7	1,718.5
Trade creditors	958.8	1,030.9	1,228.8	1,216.1	1,476.8
Short-term borrowings	455.4	925.2	266.1	352.2	139.9
Other current liabilities	6.7	15.8	15.8	15.8	15.8
Total current liabilities	1,420.9	1,971.9	1,510.7	1,584.2	1,632.5
Long-term borrowings	917.7	893.3	738.1	476.4	432.2
Other long-term liabilities	461.2	588.4	588.4	588.4	588.4
Total long-term liabilities	1,378.9	1,481.7	1,326.5	1,064.9	1,020.6
Shareholders' funds	1,476.4	1,816.2	1,892.8	2,005.0	2,189.4
Minority interests	282.6	57.0	58.9	67.2	89.4
BV/share (RM)	1.84	2.21	1.90	2.01	2.19
Cash Flow (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Pretax profit	207.5	420.7	193.6	250.8	374.9
Depreciation	64.3	(284.8)	550.8	323.0	404.4
Net change in working capital	(286.2)	225.7	366.1	104.1	59.8
Others	30.8	(522.9)	(58.1)	(91.4)	(123.4)
Cash flow from operations	19.8	194.0	586.9	370.5	440.1
Capital expenditure	(6.0)	(58.5)	(200.0)	(200.0)	(200.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(149.9)	(211.1)	0.0	0.0	0.0
Cash flow from investing	(155.9)	(269.6)	(200.0)	(200.0)	(200.0)
Debt raised/(repaid)	(270.1)	429.3	(838.4)	(175.5)	(256.6)
Equity raised/(repaid)	86.2	0.0	0.0	0.0	0.0
Dividends paid	(60.4)	(61.8)	(66.6)	(74.9)	(85.6)
Others	(8.6)	35.6	0.0	0.0	0.0
Cash flow from financing	(252.9)	403.1	(905.0)	(250.4)	(342.3)
Net cash flow	(389.0)	327.5	(435.3)	(161.1)	(102.1)
Exchange rate differences	14.0	(32.7)	0.0	0.0	0.0
Net cash/(debt) b/f	1,151.1	776.1	1,070.9	635.6	474.6
Net cash/(debt) c/f	776.1	1,070.9	635.6	474.6	372.4
Key Ratios (YE 31 Dec)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	n/a	1.4	17.1	1.2	24.2
EBITDA growth (%)	n/a	n/a	11.1	11.4	35.0
Pretax margins (%)	13.5	27.0	10.6	13.6	16.3
Net profit margins (%)	10.8	23.4	7.8	10.1	11.8
Interest cover (x)	3.5	3.3	3.7	6.2	13.1
Effective tax rate (%)	19.8	16.5	25.0	22.1	22.1
Net dividend payout (%)	34.5	15.8	49.6	44.0	33.3
Debtors turnover (days)	284	270	193	161	135
Stock turnover (days)	15	15	16	16	14
Creditors turnover (days)	237	233	226	241	214

Source: WCT, AmResearch

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