



AmResearch

## Company report

WCT

(WCTHG MK EQUITY, WCTE.KL)

21 Oct 2014

## Establishing a stronger foothold in Serendah

BUY

(Maintained)

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Rationale for report: Company update

Price	RM2.09
Fair Value	RM2.68
52-week High/Low	RM2.50/RM1.97

## 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)	13.6	15.4	13.0	10.1
EV/EBITDA (x)	11.0	10.9	9.0	6.7
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)	2,261.4
Book Value (RM/share)	2.02
P/BV (x)	1.0
ROE (%)	10.5
Net Gearing (%)	44.7
Major Shareholders	WCT Capital (19.2%) EPF (10.6%) Lembaga Tabung Haji (9.8%)
Free Float	38.5
Avg Daily Value (RMmil)	1.8

Price performance	3mth	6mth	12mth
Absolute (%)	(3.2)	(3.2)	(13.8)
Relative (%)	0.6	(0.5)	(14.0)



## Investment Highlights

- We maintain our BUY call on WCT Holdings with an unchanged fair value of RM2.68/share – pegged at a 15% discount to its sum-of-parts value. WCT announced that its wholly-owned unit, WCT Land has entered into a conditional SPA with Matad Sdn Bhd for the acquisition of land in Serendah, Selangor for RM115mil.
- The freehold land measures ~221 acres. It is being earmarked for a mixed commercial development.
- The purchase consideration is RM115mil, valuing the land at ~RM12psf. By extension, the implied land value of WCT's latest land deal is approximately six times the ~RM2psf price that the group had paid for a larger parcel of land in Serendah back in 2011.
- We believe that the pricing for the latest acquisition is fair given its mid-to-long-term earnings potential. Firstly, the existing parcel measures ~462 acres, and is adjacent to the new parcel that WCT is eyeing.
- Combined, WCT would have access to ~ 682 acres of sizeable development land in Serendah that can be carved into commercial or residential developments.
- Furthermore, our channel checks indicate that future accessibility to the said land will improve with the opening of the Sg.Buaya interchange along the North-South Expressway back in January.
- It was reported earlier that this new 1.5km interchange costs about RM87mil, and forms part of the government's larger plans to develop the Hulu Selangor region.
- WCT will fund the land purchase through internally-generated funds. We do not expect any funding issues, given the group's relatively decent net gearing position of 31%-39% over the next two years.
- Not unlike its peers, WCT appears to be beefing up its landbank during the current property lull. New property sales secured was RM245mil for 1H14 (our FY14F target: RM772mil), but it should pick up in 2H14 with new launches and the expected conversion of bookings from the Paradigm service apartments in Kelana Jaya.
- That said, WCT's other key challenge in the near term is the ramping up of its orderbook prospects, which has disappointed in recent months. Similarly, all eyes will be on the performance of Gateway@KLIA2 in the months ahead; the previous guidance for this new mall is to churn out a net profit of RM5mil for RM10mil.
- We leave our earnings forecast unchanged for now pending further updates from this new landbank.

## EXHIBIT 1: DERVIATION OF FAIR VALUE

Division	Value		(% of SOP)	Method
	(RM mil)	(RM/share)		
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	
<b>SOP</b>	<b>4,447.1</b>	<b>3.15</b>	<b>100.0</b>	
FD No of shares (mil)	1,413.1			
<b>SOP/share (RM)</b>	<b>3.15</b>			
<b>Fair Value (15% discount to SOP)</b>	<b>2.68</b>			
Current upside (%)	28.0			
Dividend yield (%)	3.1			
<b>Total Return (%)</b>	<b>31.1</b>			
<b>Discount to S-O-P (%)</b>	<b>(33.6)</b>			

Source: WCT, AmResearch

## EXHIBIT 2: LOCATION OF SERENDAH LAND



Source: WCT, AmResearch

EXHIBIT 3: PB BAND CHART

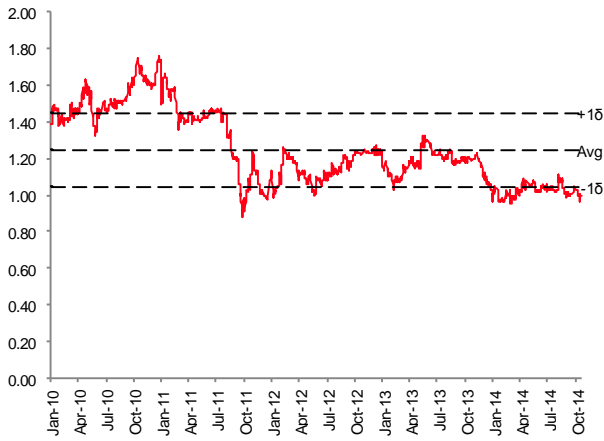
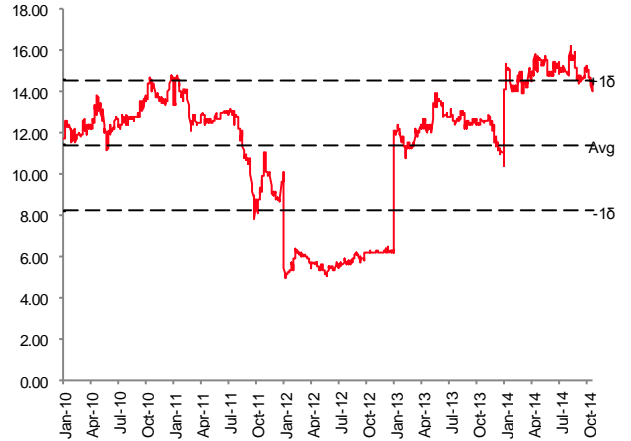


EXHIBIT 4: PE BAND CHART



## EXHIBIT 5: 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	-	-	-
<b>Pretax profit</b>	<b>414.9</b>	<b>254.7</b>	<b>206.1</b>	<b>254.5</b>	<b>350.1</b>
Taxation	(69.2)	(52.3)	(48.7)	(60.3)	(83.5)
Minorities/pref dividends	13.2	7.8	(0.5)	(1.6)	(8.2)
<b>Net profit</b>	<b>358.9</b>	<b>210.1</b>	<b>156.9</b>	<b>192.6</b>	<b>258.4</b>
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
<b>Total non-current assets</b>	<b>2,862.7</b>	<b>2,764.8</b>	<b>2,799.2</b>	<b>2,829.2</b>	<b>2,901.6</b>
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
<b>Total current assets</b>	<b>2,518.8</b>	<b>2,767.1</b>	<b>2,479.8</b>	<b>2,422.3</b>	<b>2,570.0</b>
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
<b>Total current liabilities</b>	<b>2,024.4</b>	<b>1,228.6</b>	<b>1,242.1</b>	<b>1,155.2</b>	<b>1,433.6</b>
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
<b>Total long-term liabilities</b>	<b>1,489.8</b>	<b>2,047.0</b>	<b>1,695.0</b>	<b>1,636.8</b>	<b>1,399.1</b>
<b>Shareholders' funds</b>	<b>1,810.5</b>	<b>2,204.3</b>	<b>2,289.3</b>	<b>2,405.4</b>	<b>2,576.5</b>
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)
<b>Cash flow from operations</b>	<b>89.8</b>	<b>(710.1)</b>	<b>230.7</b>	<b>280.1</b>	<b>386.5</b>
Capital expenditure	(52.3)	(11.4)	(50.0)	(50.0)	(100.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(128.3)	(8.5)	-	-	-
<b>Cash flow from investing</b>	<b>(180.6)</b>	<b>(19.9)</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(100.0)</b>
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	-	-	-
<b>Cash flow from financing</b>	<b>403.3</b>	<b>593.4</b>	<b>(433.1)</b>	<b>(361.5)</b>	<b>(232.5)</b>
<b>Net cash flow</b>	<b>312.5</b>	<b>(136.7)</b>	<b>(252.4)</b>	<b>(131.4)</b>	<b>53.9</b>
<b>Net cash/(debt) b/f</b>	<b>774.7</b>	<b>1,069.5</b>	<b>933.4</b>	<b>681.0</b>	<b>549.6</b>
<b>Net cash/(debt) c/f</b>	<b>1,069.5</b>	<b>933.4</b>	<b>681.0</b>	<b>549.6</b>	<b>603.5</b>
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

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