


**AmResearch**
**Company report**
**WCT**

(WCTHG MK EQUITY, WCTE.KL)

25 Aug 2014

*Crucial push for remainder of 2H*
**BUY**

(Maintained)

**Mak Hoy Ken**

mak-hoy-ken@ambankgroup.com

03-2036 2294

**Rationale for report: Company update**

Price RM2.20  
Fair Value RM2.68  
52-week High/Low RM2.52/RM1.99

**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)	-	186.3	206.7	238.0
DPS (sen)	9.5	6.5	7.5	8.5
PE (x)	14.3	16.2	13.7	10.6
EV/EBITDA (x)	11.5	11.4	9.4	7.0
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)	2,380.4
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 (10.6%) Lembaga Tabung Haji (9.8%)
Free Float	38.5
Avg Daily Value (RMmil)	1.8

Price performance	3mth	6mth	12mth
Absolute (%)	2.3	2.8	(8.7)
Relative (%)	2.2	0.8	(16.0)


**Investment Highlights**

- We maintain BUY on WCT with a lower fair value of RM2.68/share (vs. RM2.80/share previously) – pegged at a 15% discount to its revised sum-of-parts value, as we roll forward our base year to FY15F. The lower fair value takes into account a 15% cut to its FY14F earnings (FY15F: -13%, FY16F: -2%) mainly on:- (i) the incorporation of unrealised forex losses from its overseas operations (RM7mil in 1H14 vs. a RM17mil gain a year ago); and (ii) more conservative construction margin assumptions.
- During its post-results briefing, WCT said it is maintaining its push for construction jobs. The group has submitted a total of RM4.6bil active tenders. Some RM3.1bil of this comprises local tenders, and the balance RM1.5bil consists of Middle East jobs.
- WCT is awaiting sub-contracting packages for the West Coast Expressway (WCE). Other key bids include the KWASA Damansara civil works as well as additional works for the RAPID Pengerang and Tun Razak Exchange (TRX) projects. Overseas, WCT's remained focus on infrastructure prospects in Qatar.
- Year-to-date, WCT has only delivered one new project – the RAPID Pengerang road project. While the contract from PETRONAS further embodies WCT's competitiveness, the group is just short of four months to meet an initial new order book target of RM1bil for 2014F.
- WCT secured pre-sales of RM245mil for 1H14 (2Q14: ~RM27mil). While we expect some pick-up in pre-sales for 2H14, particularly from the expected conversion of bookings from the Paradigm service apartments, it may still well come short of its initial new sales target of RM1.2bil for FY14F (ours: RM772mil).
- This is more so as ~RM715mil or 30% of its targeted launches of RM2.4bil for 2014F are in Johor, where pockets of weaknesses have emerged.
- Despite some possible changes to the accounting standards, management believes that Gateway@KLIA2 is still on track to churn out small profits of RM5mil-RM10mil. The mall opened in May with an 80% take-up rate.
- We retain our BUY call on WCT for now. The re-profiling of its earnings base, with greater weightage on recurring income (2016F property investment target: 20% of group operating profit vs. 10% in 2Q14) is already underway. The key challenge however, is to re-assert its order book prowess, which has disappointed in recent months.
- As at 15 August 2014, WCT's foreign shareholding stood at almost 10% - unchanged from mid-May 2014.

EXHIBIT 1: PB BAND CHART



EXHIBIT 2: PE BAND CHART



EXHIBIT 3: DERIVATION 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 (%)	21.6			
Dividend yield (%)	3.0			
<b>Total Return (%)</b>	<b>24.5</b>			
<b>Discount to S-O-P (%)</b>	<b>(30.1)</b>			

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	-	-	-
<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

## EXHIBIT 5: DERIVATION OF FAIR VALUE

Contracts	Value (RM mil)
<b>Local</b>	
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 widening (Package E)	290.0
Lot 2C5, Precinct 2, Putrajaya	291.0
TRX Zone infrastructure works - Zone 3	152.0
RAPID (Package 2OC1)	341.9
<b>Total Outstanding Local Jobs</b>	<b>2,672.9</b>
<b>Overseas</b>	
New Doha International Airport	2.0
Governmental Administrative Building, Doha	354.0
<b>Total Outstanding Overseas Jobs</b>	<b>356.0</b>
<b>Total Outstanding Order Book</b>	<b>3,028.9</b>
<b>Breakdown (%)</b>	
Local	88
Overseas	12

Source: WCT, AmResearch

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**AmResearch Sdn Bhd (335015-P)**  
(A member of the AmInvestment Bank Group)  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

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**AmResearch Sdn Bhd (335015-P)**  
(A member of the AmInvestment Bank Group)  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

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