

Hoy Ken Mak

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Next phase of growth
BUY

(Maintained)

Rationale for report: Company Result

Price	RM2.21
Fair Value	RM2.85
52-week High/Low	RM2.45/RM1.92

Key Changes

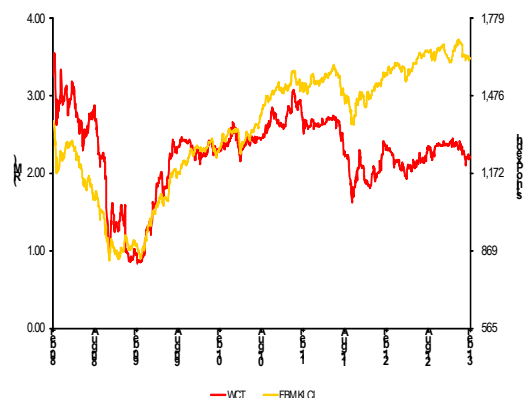
Fair value	↑
EPS	↓

YE to Dec	FY12	FY13F	FY14F	FY15F
Revenue (RMmil)	1,560.4	2,027.3	2,250.6	2,456.2
Core net profit (RMmil)	146.6	189.3	227.4	288.3
Core FD EPS (Sen)	12.5	16.6	19.3	23.6
Core FD EPS growth (%)	(31.8)	32.6	16.5	22.4
Consensus EPS (Sen)		23.0	25.6	n/a
DPS (Sen)	7.0	9.5	11.0	12.0
Core FD PE (x)	17.4	13.3	11.4	9.3
EV/EBITDA (x)	16.7	10.5	8.6	6.2
Div yield (%)	3.2	4.3	5.0	5.5
ROE (%)	22.1	10.1	11.3	13.2
Net Gearing (%)	41.5	19.2	8.1	2.7

Stock and Financial Data

Shares Outstanding (million)	998.3
Market Cap (RMmil)	2,196.3
Book value (RM/share)	2.21
P/BV (x)	1.0
ROE (%)	22.1
Net Gearing (%)	41.5
Major Shareholders	WCT Capital (18.2%) EPF (11.7%)
Free Float (%)	50.3
Avg Daily Value (RMmil)	5.1

Price performance	3mth	6mth	12mth
Absolute (%)	(6.6)	(5.2)	(4.1)
Relative (%)	(6.5)	(3.3)	(7.8)


Investment Highlights

- **Maintain BUY on WCT with our fair value revised downwards to RM2.85/share (previously: RM3.05/share) – as we roll-forward our valuation base to FY13F and account for new issuance of warrants. We have introduced FY15F net profit of RM288mil (+22% YoY).**
- **Stripping off an exceptional gain from the revaluation of investment properties totalling RM218mil (mainly on Paradigm Mall), WCT reported FY12 results which came 14% below ours, and 17% of consensus.**
- **We believe the key weaknesses in 4QFY12 mainly came from:- (i) start-up costs for Paradigm Mall; and (ii) slow progress on the Doha administrative building contract.**
- **But, we are unperturbed. We expect FY13F core net profit to rebound by a strong 33% on account of strong property sales; (ii) step-up in progress from higher-margin local projects that were secured in 2H11/2012; and (iii) maiden contributions from Gateway@KLIA2.**
- **WCT garnered ~RM1.9bil worth of new contracts in FY12. As for FY13F, we expect the job pipeline to gain further momentum post-elections.**
- **The key bids for 2013 include:- (i) two hospitals in Sabah (~RM900mil); (ii) Media City (RM400mil); (iii) Phase 2 of RAPID earthworks package (RM500mil); (iv) Tun Razak Exchange earthworks (RM1bil); and (v) the Penang Traffic Alleviation plan.**
- **WCT has also put in a bid to be the Project Delivery Partner (PDP) for the re-development of the Sg.Buloh RRIM land.**
- **We estimate WCT to have achieved record new property sales of ~RM700mil in FY12F. The group's outstanding GDV has ballooned to RM14bil following a series of strategic land purchases in Iskandar Malaysia and the Klang Valley over the past two to three years.**
- **The Gateway@KLIA2 (NLA: 350k sq ft; 6,000 car parks) is to start contributing from 2Q13 onwards. We have pegged a value of RM346mil to it at an 8% cap rate.**
- **We continue to rate WCT as one of our top large-cap picks for the construction sector. Valuations are alluring at core FD FY13F-15F PEs of 9x-13x against robust EPS CAGR of 24%.**

TABLE 1 : RESULTS SUMMARY

YE 31 Dec (RMmil)	FY11	FY12	% YoY	3Q12	4Q12	% QoQ
Turnover	1,538.6	1,560.4	1.4	441.8	380.2	(13.9)
EBIT	250.3	235.4	(5.9)	64.6	58.0	(10.2)
Interest expense	(66.7)	(68.9)		(19.2)	(18.9)	
Interest income	22.5	20.1		5.7	5.5	
Pre-Associates profit	206.1	186.6		51.2	44.6	
Associates	16.8	16.0		4.4	3.0	
Pre-Exceptionals profit	222.9	202.7		55.6	47.5	
Exceptionals	(15.3)	218.0		0.0	218.0	
Pre-tax profit	207.6	420.7	102.7	55.6	265.5	n/m
Taxation	(44.6)	(69.2)		(18.4)	(28.1)	
Minority interest	(0.5)	13.2		3.2	7.2	
Net Profit	162.4	364.6	124.5	40.4	244.7	n/m
Core Net Profit	177.7	146.6	(17.5)	40.4	26.7	(33.9)
EPS (sen)	19.6	44.4		4.9	29.8	19.6
Gross DPS (sen)	9.5	7.0		0.0	3.3	9.5
BV/Share (RM)	1.83	1.91		1.89	1.91	1.83
EBIT margin (%)	16.3	15.1		14.6	15.3	16.3
Pretax margin (%)	13.5	27.0		12.6	69.8	13.5
Effective tax (%)	21.5	16.5		33.1	10.6	21.5
Segment b'down (RM mil)						
Turnover						
Construction	1,394.7	1,567.1	12.4	455.4	599.4	31.6
Trading	73.4	82.5	12.4	24.0	31.5	31.6
Property devt	279.5	593.5	112.4	144.0	283.2	96.7
Property & invt hldg	52.3	85.0	62.5	24.0	28.2	17.8
Eliminations	(261.3)	(767.7)	n/m	(205.5)	(562.2)	n/m
Total	1,538.6	1,560.4	1.4	441.8	380.2	(13.9)
EBIT						
Construction	155.3	109.9	(29.3)	17.5	18.2	4.3
Trading	8.2	5.8	(29.3)	0.9	1.0	4.3
Property devt	54.9	117.5	113.8	41.6	40.0	(3.9)
Property & invt hldg	39.0	240.4	n/m	10.3	222.4	n/m
Inter-segment profit	(7.2)	(238.1)	n/m	(5.7)	(223.5)	n/m
Total	250.3	235.4	(5.9)	64.6	58.0	(10.2)
EBIT Margin (%)						
Construction	11.1	7.0		3.8	3.0	
Trading	11.1	7.0		3.8	3.0	
Property devt	19.7	19.8		28.9	14.1	
Property & invt hldg	74.6	n/m		43.1	n/m	
Total	16.3	15.1		14.6	15.3	

Source : Bursa Malaysia

CHART 1 : PB BAND CHART



CHART 2 : PE BAND CHART



TABLE 2: DERIVATION OF FAIR VALUE

Division	Value		(% of SOP)	Method
	(RM mil)	(RM/share)		
Construction Division	1,864.9	1.33	39.6	16x 3-year average net profit
Property Division	2,178.4	1.55	46.2	Market value of WCT Land's property assets
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	(373.0)	(0.26)	(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/F
Interest from conversion of convertibles	44.0	0.03	0.9	Interest income at 5% p.a.
SOP	4,714.0	3.35	100.0	
FD No of shares (mil)	1,407.4			
SOP/share (RM)	3.35			
Fair Value (15% discount to SOP)	2.85			
Current upside (%)	29.4			
Dividend yield (%)	4.3			
Total Return (%)	33.7			

Source: WCT, AmResearch

TABLE 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Revenue	1,538.6	1,560.4	2,027.3	2,250.6	2,456.2
EBITDA	302.6	298.3	355.5	417.5	518.0
Depreciation	(67.6)	(70.5)	(85.2)	(107.0)	(128.8)
Operating income (EBIT)	234.9	227.8	270.3	310	389.1
Other income & associates	16.8	16.0	15.7	18.0	22.7
Net interest	(44.2)	(41.2)	(40.8)	(26.0)	(13.5)
Exceptional items	0.0	218.0	0.0	0.0	0.0
Pretax profit	207.5	420.7	245.3	302.4	398.4
Taxation	(41.0)	(69.2)	(54.0)	(66.7)	(87.9)
Minorities/pref dividends	(0.5)	13.2	(2.0)	(8.3)	(22.2)
Net profit	166.0	364.6	189.3	227.4	288.3
Core net profit	166.0	146.6	189.3	227.4	288.3
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	639.5	666.7	519.2
Stock	51.4	73.9	91.6	100.4	106.2
Trade debtors	1,256.1	1,051.9	972.0	924.9	1,009.4
Other current assets	290.6	304.6	304.6	304.6	304.6
Total current assets	2,377.5	2,502.7	2,007.7	1,996.6	1,939.4
Trade creditors	958.8	1,030.9	1,374.1	1,506.7	1,593.0
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	1,656.0	1,874.7	1,748.7
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	1,938.9	2,091.3	2,294.0
Minority interests	282.6	57.0	58.9	67.2	89.4
BV/share (RM)	1.84	2.21	1.94	2.09	2.30
Cash Flow (RMmil, YE 31 Dec)	2011	2012	2013F	2014F	2015F
Pretax profit	207.5	420.7	245.3	302.4	398.4
Depreciation	64.3	(284.8)	637.5	433.6	363.3
Net change in working capital	(286.2)	225.7	405.4	170.9	(3.9)
Others	30.8	(522.9)	(63.7)	(102.8)	(128.6)
Cash flow from operations	19.8	194.0	672.2	477.6	394.8
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	(432.8)	27.2	(147.5)
Exchange rate differences	14.0	(32.7)	0.0	0.0	0.0
Net cash/(debt) b/f	(118.8)	(101.8)	405.6	202.7	109.1
Net cash/(debt) c/f	(593.8)	(746.3)	(364.7)	(162.0)	(52.9)
Key Ratios (YE 31 Dec)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	n/a	1.4	29.9	11.0	9.1
EBITDA growth (%)	n/a	n/a	19.2	17.4	24.1
Pretax margins (%)	13.5	27.0	12.1	13.4	16.2
Net profit margins (%)	10.8	23.4	9.3	10.1	11.7
Interest cover (x)	3.5	3.3	4.1	7.3	13.8
Effective tax rate (%)	19.8	16.5	22.0	22.1	22.1
Net dividend payout (%)	34.5	15.8	37.6	36.2	31.2
Debtors turnover (days)	284	270	182	154	144
Stock turnover (days)	15	15	15	16	15
Creditors turnover (days)	237	233	216	234	230

Source: WCT, AmResearch

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