

## WCT Holdings Bhd

### KLIA2 opening soon, implications for earnings

We attended a tour/briefing ahead of the opening of KLIA2. Our key conclusion: it seems that KLIA2 will be ready to open on May 2, dispelling earlier fears of delays. This is positive for WCT, which owns a 70% stake in gateway@KLIA2, a landside shopping mall. Initial losses expected but positive over the longer-term, in line with WCT's plans to grow investment income to 30-35% of EBIT by early 2018. Rental revenues likely to beat our forecast, slight adjustment for FY15.

- **KLIA2 likely to open on May 2.** Based on our observation, we believe KLIA2 could open on May 2 as planned. This will benefit WCT's 70% stake in gateway@klia2, a 350,000NLA shopping mall within KLIA2. Leases are revised every 3 years, with turnover rent feature (revenue sharing). By May 2, we expect 118 lots out of the 200 lots to be operational.
- **Rental revenues likely to beat, slight earnings adjustment.** Achieved tenancy was 80% at an average rental rate of about M\$22 psf/month, vs our forecast of M\$15-16.5 psf/month. Estimated revenue of about M\$7MM/month is 33% ahead our estimates. However, we have assumed no earnings contribution for FY14, which could see downside risk. For the first 6-9 months, there could be some losses due to start up costs etc. and potential compensation sought by retailers as the opening of the mall was delayed due to KLIA2 delays. There is also cumulative interest cost of between M\$30-40MM over two years, which we believe WCT hopes to recover from MAHB. Nevertheless, we believe there is a likelihood that any recourse may be in the form of an extended concession rather than cash. We raise net income contribution from gateway@klia2 to M\$17.8MM (+17.9%) for FY15 or +0.6% to overall net earnings. SoTP based PT remains unchanged at M\$2.30 as impact is negligible.

## Neutral

WCTE.KL, WCTHG MK

Price: M\$2.25

Price Target: M\$2.30

### Malaysia

#### Construction

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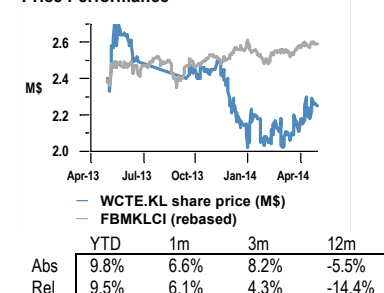
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### Price Performance



### WCT Holdings Bhd (Reuters: WCTE.KL, Bloomberg: WCTHG MK)

M\$ in mn, year-end Dec	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (M\$ mn)	1,560	1,616	1,978	2,210	2,881
Net Profit (M\$ mn)	365	217	187	206	238
Core Net Profit (M\$ mn)	154	161	187	206	238
Reported EPS (M\$)	0.37	0.22	0.19	0.21	0.24
Adj. EPS (M\$)	0.10	0.10	0.12	0.13	0.15
Net DPS (M\$)	0.07	0.06	0.06	0.08	0.08
Revenue growth (%)	1.4%	3.6%	22.4%	11.8%	30.4%
Adj. EPS growth (%)	(22.2%)	4.6%	16.3%	10.4%	15.2%
ROE	9.3%	8.0%	7.4%	7.0%	7.5%
ROCE	6.2%	4.8%	5.3%	5.5%	5.9%
Adj P/E (x)	22.9	21.9	18.8	17.0	14.8
P/B (x)	1.2	1.1	0.9	0.8	0.8
EV/EBITDA (x)	10.2	10.4	5.8	5.0	4.5
Net Div yield (%)	3.0%	2.8%	2.4%	3.7%	3.7%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	986
Market Cap (M\$ mn)	2,219
Market Cap (\$ mn)	680
Price (M\$)	2.25
Date Of Price	29 Apr 14
Free Float(%)	2.3%
3M - Avg daily vol (mn)	1.65
3M - Avg daily val (M\$ mn)	3.50
3M - Avg daily val (\$ mn)	1.1
FBMKLCI	1859.34
Exchange Rate	3.27
Price Target End Date	31-Dec-14

### See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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<b>Key catalyst for the stock price:</b> <ul style="list-style-type: none"> <li>• New construction order wins.</li> <li>• Confirmation of foreign property curb at Medini Iskandar to which WCT has exposure.</li> <li>• In the longer term, potential unlocking of value for investment properties.</li> </ul>	<b>Upside risks to our view:</b> <ul style="list-style-type: none"> <li>• Stronger than expected new construction order wins.</li> <li>• Government removing earlier property cooling measures.</li> <li>• Earlier than expected unlocking of property investments</li> </ul>	<b>Downside risks to our view:</b> <ul style="list-style-type: none"> <li>• Slower than expected rollout of infrastructure projects</li> <li>• Sharp spikes in building material costs which could negatively impact margins and earnings</li> </ul>
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Key financial metrics	FY13A	FY14E	FY15E	FY16E
Revenues (M\$)	1,616.1	1,977.8	2,210.3	2,881.4
Revenue growth (%)	3.6%	22.4%	11.8%	30.4%
EBITDA (M\$)	291.7	357.6	400.2	460.3
EBITDA margin (%)	18.0%	18.1%	18.1%	16.0%
Tax rate (%)	23.6%	25.6%	28.7%	29.3%
Core net profit (M\$)	160.6	186.8	206.3	237.5
EPS (M\$ sen)	10.3	12.0	13.2	15.2
EPS growth (%)	4.6%	16.3%	10.4%	15.2%
DPS (M\$ sen)	0.1	0.1	0.1	0.1
BVPS (M\$)	2.0	2.6	2.8	2.9
Operating cash flow (LC mn)	327.2	327.2	327.2	209.4
Free cash flow (LC mn)	160.1	168.2	154.7	35.6
Interest cover (X)	6.8	6.5	10.4	12.4
Net margin (%)	9.9%	9.4%	9.3%	8.2%
Sales/assets (X)	29.6%	35.7%	38.8%	47.7%
Debt/equity (%)	85.2%	40.9%	36.3%	33.8%
Net debt/equity (%)	39.1%	2.8%	0.9%	3.1%
ROE (%)	8.0%	7.4%	7.0%	7.5%
Key model assumptions	FY14E	FY15E	FY14E	FY15E
New construction order wins (M\$MM)	1,900	1,000	1,500	1,500
New property sales (M\$ MM)	522	770	800	1005
Construction margins (%)	11.7	12.4	11.5	8.8

Source: Bloomberg, Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY14E	FY15E	FY14E	FY15E
M\$1b change to new construction orders	8.40%	7.50%	8.30%	7.70%
1ppt chg in construction PBT margin	4.70%	3.60%	8.30%	7.70%
5% chg in property sales	0.80%	1.10%	0.80%	1.10%
1ppt chg in property PBT margin	0.50%	1.80%	1.50%	1.80%

Source: J.P. Morgan estimates.

#### Valuation and price target basis

Our valuation methodology is based on SoTP. We apply a 13x PER on FY15E construction earnings, conservatively below its historical average P/E, and 12x multiple to property division earnings, below sector average. WCT's shopping mall leases (currently reflect only AEON Bukit Tinggi (100%-owned), Paradigm shopping mall with 700,000 sq ft net lettable area, 70%-owned) and Gateway@Klia2; all valued based on WACC of 9%. We apply an overall discount of 30% (broadly in line with historical average) to SoTP to derive our PT.

#### Chart to support valuation and price target

Segment	Method	M\$ / shr
Construction	P/E of 13x	1.04
Property	P/E of 12x	1.75
AEON shopping mall lease	DCF @ 9% WACC	0.73
Paradigm shopping mall lease (70% share)	DCF @ 9% WACC	0.36
KLIA2 Integrated Complex (70% share)	DCF @ 9% WACC	0.22
Net debt & others		(0.35)
SoTP		3.75
FD SoTP		3.25
30% discount		(0.65)
<b>Dec 2014 PT (FD)</b>		<b>2.30</b>

Source: J.P. Morgan estimates.

#### JPM vs. consensus, change in estimates

EPS (sen)	FY14E	FY15E
JPM old	17.4	18.6
JPM new	17.4	18.6
% chg	-	-
Consensus	17.3	19.1

Source: Bloomberg, J.P. Morgan estimates.

#### Construction sector peer comparison

As at: 29 Apr-14	Ticker	Mkt cap (US\$m)	Price (LC)	Rating	Target (LC)	P/E		2yr EPS CAGR	ROE		Div Yld		Net gearing
						CY14E	CY15E	2013-2015	FY14E	FY15E	FY14E	FY15E	FY14E
Gamuda	GAM MK	3,228	4.56	OW	5.50	12.6	10.5	21.3%	14.9	17.2	2.4%	3.1%	16.4%
Hock Seng Lee	HSL MK	324	1.92	NC	-	11.0	10.2	10.5%	16.6	15.6	2.1%	2.2%	-49.3%
IJM Corp	IJM MK	2,808	6.36	OW	7.40	13.9	11.7	25.5%	9.1	11.3	2.0%	2.0%	26.8%
WCT Holdings	WCTHG MK	751	2.25	N	2.30	12.9	12.1	30.5%	10.8	9.8	2.4%	3.7%	2.8%
<b>Weighted average</b>		<b>7,110</b>				<b>13.1</b>	<b>11.1</b>	<b>23.4%</b>	<b>12.3</b>	<b>14.0</b>	<b>2.2%</b>	<b>2.7%</b>	<b>16.1%</b>

Source: Bloomberg, Bloomberg consensus for stocks Not Covered, J.P. Morgan estimates.

## KLIA2 tour highlights

Extracted from “[MAHB: Observations from KLIA2 tour, looks all set for take-off](#)”.

We attended a tour/briefing ahead of the opening of KLIA2. Our key conclusion: It seems that KLIA2 will be ready to open on May 2, dispelling earlier fears of delays.

Key observations below:-

- KLIA2 looks in good shape, modern, functional with adequate infrastructure and much better than the current LCCT.
- Operational and readiness test (ORAT) appears on track. Most facilities such as baggage handling, runways, and check in counters are in order. We witnessed live simulation on aircraft landings with actual passengers. On May 9 (the day when LCCT ceases operations), 55 out of a total of 68 bays at KLIA2 will be occupied.
- KLIA2 is expected to break even by 2015 or as early as 4Q14.
- Gateway@KLIA2 (a 350,000 sq ft land side shopping mall jointly owned by WCT and MAHB on 70:30 basis) is 80% tenanted at an average rental rate of about M\$22 psf. Estimated revenues of about M\$7MM/month. In our view, it is a mall that is more suited for “meeters and greeters” given its landside location, or families on vacation, but the variety of F&B outlets/more mid-end retailers could attract actual travelers.
- The successful opening of KLIA2 is one of the main catalysts for MAHB. We like MAHB for exposure to rising Asian low cost air travel, minus AirAsia's fuel cost and currency risk.

Raw notes below:

### KLIA Express to KLIA2

- KLIA2 is one stop after KLIA.
  - It takes only 2 minutes to get to KLIA2 from KLIA.
  - There will be no check-in functionality at KL Sentral for KLIA2 travelers.
- Train fare priced the same as travel to KLIA, at M\$35/pax/journey.
- Smooth journey experienced.

## **KLIA2**

- KLIA2 has 68 airport bays vs 46 at KLIA. On 9<sup>th</sup> May, 55 bays will have been occupied.
- KLIA2 has 3 major runways which is a first of its kind in this region.
- 5600 car park spaces, same car park rates as KLIA.
- Most of the facilities (full automated baggage handling, runways, check-in counters, air-conditioning, toilets, security checks, etc.) appear in order. Airport should be fully ready by May 2<sup>nd</sup>.
- As of now, KLIA2 has been conducting live flight simulations with some planes landing at KLIA2 and taxiing with actual passengers.

## **Gateway @ KLIA2**

- Total of 4 levels.
  - 1<sup>st</sup> level is for Taxi and Bus bays. 20 bus lots and 50 taxi lots.
  - 2<sup>nd</sup> level is the Arrival Hall which will have Gateway's shopping mall, lounge & car park. (Level 2 & 2M)
  - 3<sup>rd</sup> level is the Departure hall prior to entering the departure gates.
- 80% of outlets at Gateway have been leased with an average rental rate of about M\$22 psf. With 350,000 sf of available space, that is estimated to bring in revenues of about M\$7m a month.
- Leases are done on a 3 year basis, with turnover rent feature (revenue sharing).
- By 2nd May, expect 118 lots out of the 200 lots to be operational. Tenants will start paying rental on the same day.
  - 40% of outlets are F&B outlets, 60% retail.
- Gateway retail & F&B outlets are located at the area outside the security checks. Hence, likely to attract mainly "meeters and greeters", and not passengers, or families on holiday, but variety of F&B outlets/more mid-end retailers could attract actual travelers.

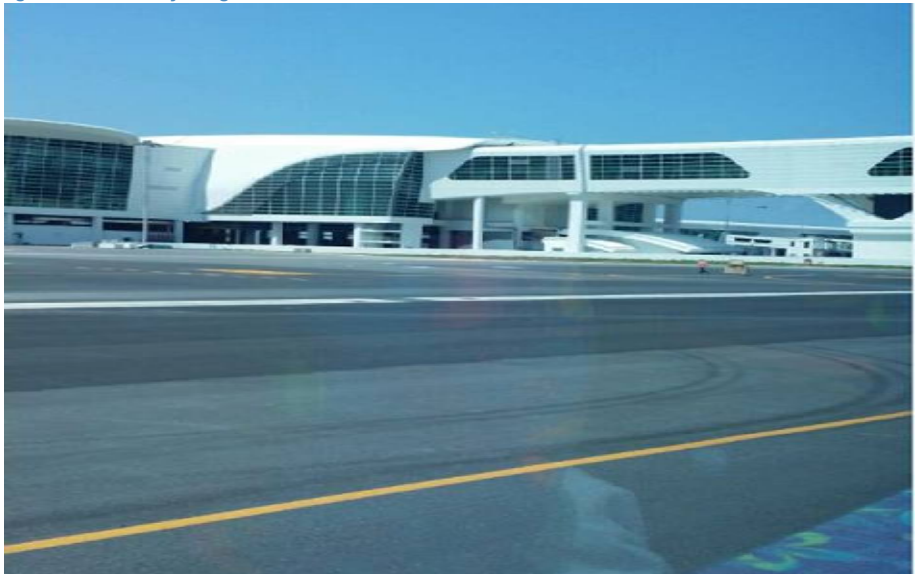
## KLIA2 on-track for May 2 opening

Figure 1: KLIA2 runway



Source: J.P.Morgan

Figure 2: KLIA2 skybridge



Source: J.P.Morgan

Figure 3: KLIA2 check-in counters



Source: J.P.Morgan

Figure 4: KLIA2 baggage handling area



Source: J.P.Morgan



## Investment Thesis, Valuation and Risks

### WCT Holdings Bhd *(Neutral; Price Target: M\$2.30)*

#### Investment Thesis

WCT is one of the most cost-efficient contractors in Malaysia, delivering above industry standard margins. We expect WCT to secure M\$1.5B worth of new construction orders in 2014, below historical run rate of about M\$2B, given the government's effort to prioritise spending. Property division, while anchored by resilient exposure to townships, could potentially see some slowdown due to the government's property cooling measures. Growing investment properties are a source of recurring income.

#### Valuation

Our valuation methodology is based on SoTP. We apply a 13x PER on FY15E construction earnings, conservatively below its historical average P/E, and 12x multiple to property division earnings, below the sector average. WCT's shopping mall leases (currently reflects only AEON Bukit Tinggi (100%-owned), Paradigm shopping mall with 700,000 sq ft net lettable area, 70%-owned) and Gateway@Klia2; all valued based on WACC of 9%. We apply an overall discount of 30% (broadly in line with historical average) to SoTP to derive our PT.

#### Risks to Rating and Price Target

Downside risks to our view include slower-than-expected rollout of infrastructure projects and sharp spikes in building material costs which could negatively impact margins and earnings. Upside risk from larger-than-expected construction order wins and stronger-than-expected margins.

## WCT Holdings Bhd: Summary of Financials

Income Statement						Cash flow statement					
M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Revenues	1,560	1,616	1,978	2,210	2,881	EBIT	241	241	290	316	359
% change Y/Y	1.4%	3.6%	22.4%	11.8%	30.4%	Depr. & amortization	40	50	68	85	101
EBITDA	282	292	358	400	460	Change in working capital	256	(522)	57	(31)	(63)
% change Y/Y	(5.5%)	3.6%	22.6%	11.9%	15.0%	Others	(447)	558	(87)	(42)	(188)
EBIT	241	241	290	316	359	Cash flow from operations	90	327	327	327	209
% change Y/Y	(1.6%)	(0.1%)	20.3%	8.8%	13.7%	Capex	(148)	(200)	(200)	(200)	(200)
EBIT Margin	15.5%	14.9%	14.7%	14.3%	12.5%	Disposal/(purchase)	28	0	0	0	0
Net Interest	(48)	(43)	(55)	(39)	(37)	Net Interest	(48)	(43)	(55)	(39)	(37)
Earnings before tax	421	273	257	302	350	Free cash flow	(18)	160	168	155	36
% change Y/Y	102.7%	(35.0%)	(6.1%)	17.5%	15.7%	Equity raised/(repaid)	0	1	2	3	3
Tax	(69)	(64)	(66)	(87)	(102)	Debt raised/(repaid)	(148)	63	(179)	(161)	(147)
as % of EBT	16.5%	23.6%	25.6%	28.7%	29.3%	Other	617	(101)	132	140	126
Core net profit	154	161	187	206	238	Dividends paid	(66)	(62)	(54)	(82)	(82)
% change Y/Y	(8.0%)	4.6%	16.3%	10.4%	15.2%	Beginning cash	787	1,082	1,093	1,104	1,117
Shares outstanding	986	986	986	986	986	Ending cash	1,078	1,039	1,104	1,117	1,011
Core EPS	0.16	0.16	0.19	0.21	0.24	DPS	0.07	0.06	0.06	0.08	0.08
% change Y/Y	(8.0%)	4.6%	16.3%	10.4%	15.2%						
Fully diluted EPS	0.10	0.10	0.12	0.13	0.15						
% change Y/Y	(22.2%)	4.6%	16.3%	10.4%	15.2%						
Balance sheet						Ratio Analysis					
M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E	M\$ in millions, year end Dec	FY12	FY13	FY14E	FY15E	FY16E
Cash and cash equivalents	1,078	1,039	1,104	1,117	1,011	EBITDA margin	18.1%	18.0%	18.1%	18.1%	16.0%
Accounts receivable	977	1,089	975	1,090	1,421	Operating margin	15.5%	14.9%	14.7%	14.3%	12.5%
Inventories	74	76	89	99	133	Net margin	9.8%	9.9%	9.4%	9.3%	8.2%
Others	396	566	566	566	566	Sales per share growth	1.4%	3.6%	22.4%	11.8%	30.4%
Current assets	2,524	2,770	2,734	2,872	3,131	Sales growth	1.4%	3.6%	22.4%	11.8%	30.4%
LT investments	1,312	653	653	653	653	Net profit growth	118.3%	(40.5%)	(13.8%)	10.4%	15.2%
Investments in associates	157	128	289	316	346	EPS growth	118.3%	(40.5%)	(13.8%)	10.4%	15.2%
Other long-term assets	1,118	1,713	1,399	1,401	1,403	Interest coverage (x)	5.9	6.8	6.5	10.4	12.4
Net fixed assets	276	272	478	603	712	Net debt to equity	40.0%	39.1%	2.8%	0.9%	3.1%
Total Assets	5,387	5,535	5,553	5,845	6,245	Sales/assets	0.3	0.3	0.4	0.4	0.5
Liabilities						Assets/equity	3.0	2.7	2.2	1.9	1.9
Short-term loans	931	369	316	316	316	ROE	9.3%	8.0%	7.4%	7.0%	7.5%
Payables	1,083	843	799	893	1,194	ROCE	6.2%	4.8%	5.3%	5.5%	5.9%
Others	16	19	179	164	151						
Total current liabilities	2,030	1,231	1,294	1,373	1,661						
Long-term debt	893	1,553	868	828	798						
Other liabilities	596	494	495	493	491						
Total Liabilities	3,520	3,278	2,658	2,694	2,950						
Minority interests	57	52	54	66	77						
Shareholder's equity	1,810	2,204	2,841	3,087	3,221						
BVPS	1.90	2.02	2.60	2.83	2.95						

Source: Company reports and J.P. Morgan estimates.

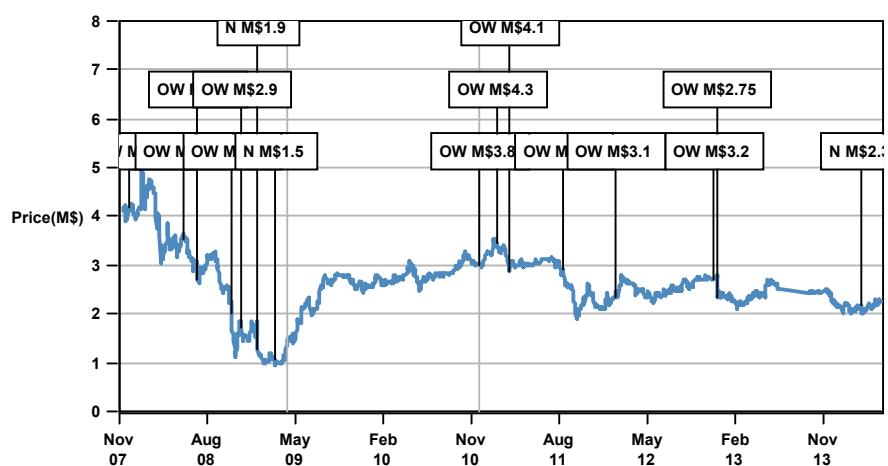


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WCT Holdings Bhd (WCTE.KL, WCTHG MK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Nov 30, 2007.

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