


AmResearch
Company report
WCT

(WCTHG MK EQUITY, WCTE.KL)

26 May 2015

1Q earnings in line
HOLD

(Maintained)

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Rationale for report: Company result

Price RM1.79
Fair Value RM1.80
52-week High/Low RM2.32/RM1.37

Key Changes

Fair value ⇄
EPS ⇄

YE to Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	1,662.2	1,649.3	1,665.6	1,760.7
Core net profit (RM mil)	110.5	131.7	148.5	170.4
FD Core EPS (sen)	10.3	11.8	12.9	14.5
FD Core EPS growth (%)	(29.4)	14.6	10.1	11.9
Consensus Net Profit (RM mil)	-	164.1	189.1	222.2
DPS (sen)	3.3	4.0	4.0	5.0
PE (x)	17.5	15.2	13.8	12.4
EV/EBITDA (x)	14.8	11.9	10.4	8.9
Div yield (%)	1.9	2.4	2.4	3.0
ROE (%)	5.4	5.8	6.2	6.8
Net Gearing (%)	66.8	56.1	46.5	34.9

Stock and Financial Data

Shares Outstanding (million)	1,082.0
Market Cap (RMmil)	1,936.8
Book Value (RM/share)	2.04
P/BV (x)	0.9
ROE (%)	5.4
Net Gearing (%)	66.8
Major Shareholders	WCT Capital (19.2%) EPF (10.6%) Lembaga Tabung Haji (9.8%)
Free Float	38.5
Avg Daily Value (RMmil)	2.6

Price performance	3mth	6mth	12mth
Absolute (%)	7.6	(1.2)	(15.1)
Relative (%)	10.6	2.8	(10.2)


Investment Highlights

- We maintain our HOLD call on WCT Holdings with an unchanged fair value of RM1.80/share, pegged at a 35% discount to its estimated sum-of-parts (SOP) value.
- WCT reported a 28% QoQ increase in net profit as contributions from its core construction and property development activities improved. 1Q bottomline of RM33mil was one-fourth of our FY15F estimates, but only c.20% of street estimate.
- WCT will likely need to step-up efforts to replenish its orderbook in 2H15, as the 11th Malaysia Plan provides fresh impetus for Malaysian contractors.
- For the FY to-date, WCT has only secured one job – the one in Qatar – although it is worth a sizeable RM1.2bil (effective 70% stake: ~RM847mil). Its outstanding external orderbook stood at RM2.6bil as at 31 March 2015.
- The group's tender book stands at RM18bil, with RM15bil coming from the Penang Transport Master Plan (PTMP). It has also been pre-qualified for the Project Delivery Partner (PDP) role for the Klang Valley LRT 3.
- WCT chalked up RM127mil in new property sales in 1Q15 against its full-year target of RM650mil (unbilled sales: RM658mil) and RM705mil in new launches.
- Upcoming launches include Bandar Parklands (RM112mil), Paradigm Residences Tower D (RM307mil), Innanam Kota Kinabalu (RM200mil), and BBT2 (RM86mil).
- In March, WCT announced a renounceable rights issue of 143 million new WCT shares (on a 1-for-10 basis) and a bonus issue of up to 315 million new WCT warrants (1 warrant for every 5 shares held).
- We view WCT's latest fundraising exercise as part of the group's move to de-gear and recapitalise its balance following a number of property investments made in the past few years.
- This comes amidst reports that the group will delay the listing of its RM2bil REIT to 2016, due to the muted market sentiments.
- We agree, and believe that it is a logical move for the group to focus on nurturing its existing portfolio of retail malls to reach operational maturity, while waiting for market conditions to improve.
- We understand that the retail assets that could be injected into the REIT vehicle include AEON Bukit Tinggi, Paradigm Kelana Jaya, and gateway@klia2.

EXHIBIT 1: RESULTS TABLE

YE 31 Dec (RM mil)	1Q14	1Q15	% YoY	4Q14	1Q15	% QoQ
Turnover	467.2	351.6	(24.7)	471.1	351.6	(25.4)
EBIT	55.1	57.1	3.6	32.6	57.1	75.1
Interest expense	(15.1)	(20.0)		(14.7)	(20.0)	
Interest income	6.5	2.2		10.3	2.2	
Pre-associates Profit	52.2	39.3		28.2	39.3	
Associates/JV	4.6	3.5		4.2	3.5	
Pre-exceptionals Profit	56.8	42.7		32.4	42.7	
Exceptionals	0.0	0.0		0.0	0.0	
Pretax Profit	56.8	42.7	(24.7)	32.4	42.7	32.0
Taxation	(16.2)	(9.4)		(6.1)	(9.4)	
Minorities	(0.5)	(0.1)		(0.5)	(0.1)	
Net Profit	40.1	33.2	(17.2)	25.8	33.2	28.5
Core Net Profit	40.1	33.2	(17.2)	25.8	33.2	28.5
EPS (sen)	3.7	3.1		2.3	3.1	
DPS (sen)	0.0	0.0		0.0	0.0	
BV/Share (RM)	2.05	2.11		2.05	2.11	
EBIT margin (%)	11.8	16.2		6.9	16.2	
Pretax margin (%)	12.1	12.2		6.9	12.2	
Effective tax (%)	28.6	22.1		18.7	22.1	
Segmental Breakdown (RM mil)						
Turnover						
Construction	383.3	396.6	3.5	516.3	396.6	(23.2)
Property devt	127.4	95.7	(24.8)	97.9	95.7	(2.2)
Property & invt hldg	13.7	14.4	4.7	13.8	14.4	4.4
Eliminations	(57.2)	(155.1)	n/m	(156.9)	(155.1)	n/m
Total	467.2	351.6	(24.7)	471.1	351.6	(25.4)
EBIT						
Construction	36.7	27.4	(25.3)	23.4	27.4	17.3
Property devt	23.8	25.3	6.3	12.6	25.3	101.1
Property & invt hldg	6.8	6.3	(7.3)	7.0	6.3	(10.6)
Inter-segment profit	(12.1)	(1.9)	n/m	(10.4)	(1.9)	n/m
Total	55.1	57.1	3.6	32.6	57.1	75.1
EBIT Margin (%)						
Construction	9.6	6.9		4.5	6.9	
Property devt	18.7	26.4		12.8	26.4	
Property & invt hldg	49.2	43.6		50.9	43.6	
Total	11.8	16.2		6.9	16.2	

Source: WCT, AmResearch

EXHIBIT 2: PB BAND CHART

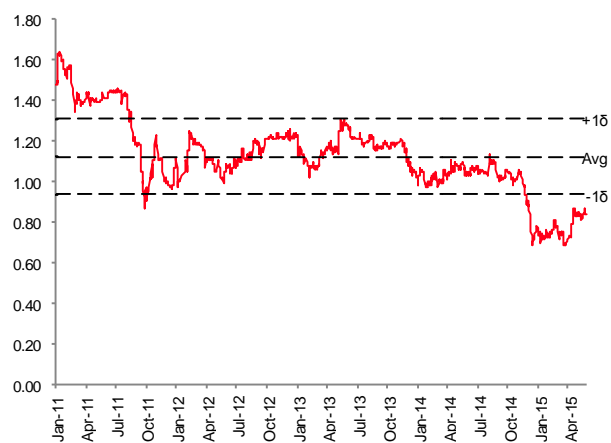


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	1,655.0	1,662.2	1,649.3	1,665.6	1,760.7
EBITDA	257.8	230.8	272.8	296.0	316.9
Depreciation/Amortisation	(9.9)	(8.2)	(9.0)	(9.3)	(9.5)
Operating income (EBIT)	247.9	222.7	263.8	286.8	307.5
Other income & associates	19.2	15.4	13.2	16.5	17.8
Net interest	(39.5)	(96.9)	(104.6)	(103.1)	(90.4)
Exceptional items	26.7	10.0	-	-	-
Pretax profit	254.2	151.1	172.4	200.2	234.9
Taxation	(64.5)	(28.5)	(39.1)	(45.1)	(54.4)
Minorities/pref dividends	7.8	(2.1)	(1.6)	(6.5)	(10.1)
Net profit	197.5	120.5	131.7	148.5	170.4
Core net profit	170.8	110.5	131.7	148.5	170.4
Balance Sheet (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	271.7	237.4	174.4	132.4	119.5
Intangible assets	-	-	-	-	-
Other long-term assets	2,591.5	3,245.2	3,408.4	3,525.0	3,492.7
Total non-current assets	2,863.1	3,482.6	3,582.9	3,657.3	3,612.3
Cash & equivalent	867.5	937.6	625.3	590.4	492.3
Stock	75.6	90.7	68.2	60.6	56.8
Trade debtors	1,243.7	1,237.2	1,061.9	1,140.8	1,085.3
Other current assets	482.0	447.5	447.5	447.5	447.5
Total current assets	2,668.8	2,713.1	2,202.9	2,239.3	2,082.0
Trade creditors	842.7	1,025.0	1,004.4	1,205.0	1,212.4
Short-term borrowings	366.4	578.7	397.7	487.4	480.9
Other current liabilities	19.5	13.2	13.2	13.2	13.2
Total current liabilities	1,228.6	1,616.9	1,415.3	1,705.6	1,706.5
Long-term borrowings	1,553.1	1,846.4	1,534.8	1,238.7	904.1
Other long-term liabilities	493.9	451.7	451.7	451.7	451.7
Total long-term liabilities	2,047.0	2,298.1	1,986.5	1,690.4	1,355.8
Shareholders' funds	2,204.3	2,227.9	2,329.6	2,439.8	2,561.0
Minority interests	52.1	52.8	54.4	60.9	71.0
BV/share (RM)	2.02	2.04	2.13	2.23	2.34
Cash Flow (RMmil, YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	254.2	151.1	172.4	200.2	234.9
Depreciation/Amortisation	9.9	8.2	9.0	9.3	9.5
Net change in working capital	(414.9)	(47.3)	177.2	129.3	66.7
Others	(397.7)	(541.1)	(10.3)	(26.7)	(37.2)
Cash flow from operations	(548.5)	(429.0)	348.3	312.0	273.8
Capital expenditure	(11.4)	(2.8)	(15.0)	(30.0)	(60.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(227.8)	101.6	(123.0)	(72.2)	78.4
Cash flow from investing	(239.3)	98.8	(138.0)	(102.2)	18.4
Debt raised/(repaid)	86.6	(101.7)	(492.5)	(206.5)	(341.1)
Equity raised/(repaid)	259.6	0.2	-	-	-
Dividends paid	(72.9)	(49.0)	(30.0)	(38.2)	(49.2)
Others	320.7	549.6	-	-	-
Cash flow from financing	594.1	399.1	(522.6)	(244.7)	(390.3)
Net cash flow	(193.7)	68.9	(312.3)	(34.9)	(98.1)
Net cash/(debt) b/f	1,059.5	867.5	937.6	625.3	590.4
Net cash/(debt) c/f	867.5	937.6	625.3	590.4	492.3
Key Ratios (YE 31 Dec)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	6.1	0.4	(0.8)	1.0	5.7
EBITDA growth (%)	(4.0)	(10.5)	18.2	8.5	7.1
Pretax margin (%)	15.4	9.1	10.5	12.0	13.3
Net profit margin (%)	11.9	7.3	8.0	8.9	9.7
Interest cover (x)	6.3	2.3	2.5	2.8	3.4
Effective tax rate (%)	25.4	18.8	22.7	22.6	23.2
Dividend payout (%)	54.8	37.4	29.0	25.7	28.9
Debtors turnover (days)	274	272	235	250	225
Stock turnover (days)	20	24	18	16	15
Creditors turnover (days)	225	270	265	318	320

Source: WCT, AmResearch

EXHIBIT 5: DERIVATION OF FAIR VALUE

Division	Value		(% of SOP)	Method
	(RM mil)	(RM/share)		
Construction Division	807.3	0.57	20.7	13x FY15F construction net profit
Development properties	1,909.1	1.35	48.8	NPV @ 9%/market value of land
Investment properties	1,362.9	0.96	34.9	Market value
Future landbank	600.9	0.43	15.4	Market value
Indian toll concessions	27.5	0.02	0.7	DCF at WACC of 9.2%
Net Debt	(1,487.4)	(1.05)	(38.1)	As at 31 December 2014
Proceeds from full conversion of convertible instruments	688.5	0.49	17.6	
SOP	3,908.6	2.77	100.0	
FD No of shares (mil)	1,413.2			
SOP/share (RM)	2.77			
Fair Value (35% discount to SOP)	1.80			
Current upside (%)	0.4			
Dividend yield (%)	2.2			
Total Return (%)	2.7			
Discount to S-O-P (%)	(35.3)			

Source: WCT, AmResearch

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