

What's up with Arab projects?

Termination of 2 contracts sparks concerns that trouble may be brewing in the Middle East

By JOHN LOH

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PETALING JAYA: Coincidence or sign of a trend? Two major construction firms revealed on Monday that the plug had been pulled on their state-backed mega infrastructure projects in the Middle East for reasons unknown, sparking concerns that trouble may be brewing in the Arab world.

The timing of the announcements rattled investors – WCT Bhd, which lost its bid for an RM1bil highway in Oman, and MMC Corp Bhd, whose contract to build a heavy industry-based mixed-development named Jazan Economic City worth US\$30bil (RM93.8bil) for the Saudi government was called off – saw their shares fall amid heavy volume.

To Eversendai Corp Bhd boss Datuk A.K. Nathan, however, these events were just a blip on the radar.

“There are huge opportunities in the Middle East. Saudi Arabia, especially, is healthy and expanding,” he told *StarBiz* over the phone from Baku, Azerbaijan.

The executive chairman and group manag-

ing director of Eversendai, the structural steel fabrication and engineering company he founded, does not believe a financial crisis is taking hold in the oil-rich region.

“Re-bidding is a common practice in the Middle East, as it allows them to obtain the maximum value of a project. If the authorities are not comfortable with a proposal, they won't go ahead with it.

“There is no reason to be unduly worried about doing business in the Middle East,” said Nathan, whose RM1.04bil company has found success in Oman, Saudi Arabia, Bahrain, Qatar, the United Arab Emirates, and more recently, Azerbaijan.

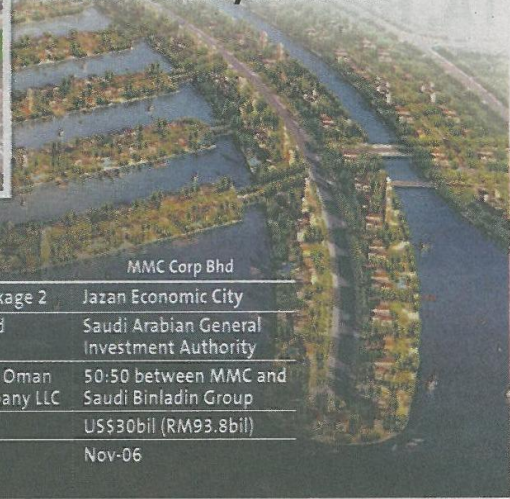
He identified a few elements as crucial to operating in foreign markets: an understanding of the local working culture and norm of contracts, as well as top management that is hands-on.

“I am very hands-on and I have trustworthy staff who perform. That's what it boils down to: performance.”

Meanwhile, analysts who tracked WCT said



Terminated Middle East projects linked to Malaysian firms



THE CANCELLED PROJECTS

	WCT Bhd	MMC Corp Bhd
Project	Batinah Expressway-Package 2	Jazan Economic City
Client	Ministry of Transport and Communications, Oman	Saudi Arabian General Investment Authority
JV structure	80:20 between WCT and Oman Roads Engineering Company LLC	50:50 between MMC and Saudi Binladin Group
Value	RM1bil	US\$30bil (RM93.8bil)
First announced	Aug-12	Nov-06

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TA, BIMB downgrade WCT to equivalent of ‘hold’ rating after job loss

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they were disappointed at Oman's decision not to proceed with Package 2 of the Batinah Expressway, calling the move “totally unexpected”.

TA Securities and BIMB Securities Research downgraded the stock to the equivalent of a “hold” rating, while various brokerages lowered their earnings estimates for WCT by between 3% and 18%.

With the loss of the contract, its largest last year, WCT's order book dwindled to RM3.3bil from RM4.08bil, according to Maybank IB Research.

“This is a negative surprise. Government-backed road infrastructure projects in the Middle East/Gulf

are usually more secure,” CIMB Research said in a client note.

“Management explained that although the job was awarded eight months ago, major works had not started as the joint-venture company had yet to be given site possession. This suggests minimal potential claims of a few million ringgit, being the cost associated with pre-tender preparations.

“Management would soon meet with the Oman transport ministry for clarification.”

Despite the bad news, CIMB Research has maintained its “trading buy” call on WCT, as it expects sector catalysts to improve in the medium term.

“We believe WCT will bag several

domestic jobs this year, which will compensate for the negatives on the overseas front. WCT remains one of our top picks, backed by its RM3bil tender book,” the brokerage said.

In terms of claims, an analyst with TA Research pointed out that the situation remained fluid. He said it was too early to tell how much WCT would be compensated, as the figure was being worked out by the company.

In a filing with the stock exchange yesterday, WCT said construction works had not commenced because the green light had never been granted to the company, although it had been notified last August that it had won the tender.

Additionally, the client did not

disclose whether it intended to go ahead with the project via any new tender or other procurement methods. “The company will continue to pursue job and business opportunities in the Sultanate of Oman,” WCT noted.

Its deputy managing director Goh Chin Liong also said in a statement that WCT was “not overly concerned” with the cancellation, given that physical works had never been started. He added that the company would focus on jobs it had already procured, which would keep it busy over the next two to three years.

On MMC, HwangDBS Vickers Research analyst Chong Tjen San noted that the termination of the Jazan deal had no impact on the

group's earnings, as it had not been imputed into his forecasts.

“Work was progressing slowly and the management had previously said it wasn't ploughing any more money into the project,” he told *StarBiz*, adding that the company had put in some RM100mil so far.

“If there are any write-downs, then MMC would probably take a charge on that amount, which is insignificant in relation to its assets.”

WCT fell as much as 12 sen yesterday, but recovered to close eight sen lower to RM2.37 on a volume of 7.93 million shares.

MMC, meanwhile, shed two sen to RM2.62, with 2.11 million shares being done.