

- Our 2009 earnings forecast is 6.7% below consensus as we have toned down our new order book assumption to more conservative levels.
- We remain optimistic of WCT's growth prospects in the Middle East.

Net Profit 09MYR240m
.....(From MYR285m)

Diff from Consensus..(6.7%)
Consensus (mean) .MYR257.44m
Consensus (momentum) ↓

Target Price.....MYR3.52
.....(From MYR4.82)

Diff from Consensus . (5.4%)
Consensus (median).....MYR3.72
Consensus (momentum) ↓

Current Price.....MYR1.49
Upside/(Downside).....136.2%

BUY
(Unchanged)

Recs in the Market

Positive11
Neutral2
Negative1
Consensus (momentum)..... ↑

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- WCT's share price has tumbled 40% y-y in a month, mainly on Middle East capex spending concerns.
- Management reiterated progress works and claims remain on track. Company liquidity concerns unfounded.
- BUY, TP cut to MYR3.52 (2009 P/E of 4.9x) on conservative order book assumption. Worst case TP = MYR2.85/share.

Extreme pessimism in the price

Middle East projects on track, bidding for more ... WCT's share price has tumbled 40% y-y over the month on what we believe are due to; 1) concerns over slower capex spending in the Middle East due to lower crude oil prices; 2) Malaysia's lackluster construction sector outlook; and 3) unfounded liquidity concerns. Management reiterated that progress works and claims for its MYR3b Abu Dhabi Formula 1 Circuit and MYR4.6b Meydan Racecourse remain on track. Management indicated that there is no visible slowdown in the infrastructure projects planned, particularly those that it is bidding in Abu Dhabi, and remains confident of securing a MYR2b project by end-2008.

... yet we prefer to err on the downside, cutting forecast Management reiterated that MYR2b of new jobs for 2009 is achievable, based on the visibility of construction orders in the Middle East that it is bidding for. However, as we prefer to be conservative in our estimates due to the global financial meltdown, we now assume a lower forecast of MYR1b of new construction jobs for 2009, and MYR2b for 2010. Therefore, we cut our 2008-10 net earnings forecast by 11.0-18.2%. We also take a more conservative stance in our valuation and now ascribe construction multiples of 8x, against 12x earlier for our sum-of-the-parts valuation. Valuation for its property and trading division remains unchanged at 8x. As such, we cut our target price by 27% to MYR3.52/share from MYR4.82/share.

Less concerned over liquidity, downside limited, BUY Among the concerns that investors have is regarding WCT's debt levels and its ability to service short-term debt. However, we are comfortable with WCT's ability to service its short-term debts. Valuations are undemanding at 2009 P/E of just 4.9x. Our new sum-of-the-parts (SoTP) target price of MYR3.52/share suggests a 136% upside. Even if we were to assume zero new construction orders for 2009, WCT is still trading at 5.5x P/E, and still worth MYR3.27/share or 119% upside. Even assuming the worst case scenario that the Meydan Racecourse project is aborted (a highly unlikely scenario), 2009 EPS will fall 28%, and P/E will rise to just 6.8x. Our SoTP target price will be lowered to MYR2.85, which still gives a 91.3% upside.

Mak Hoy Kit

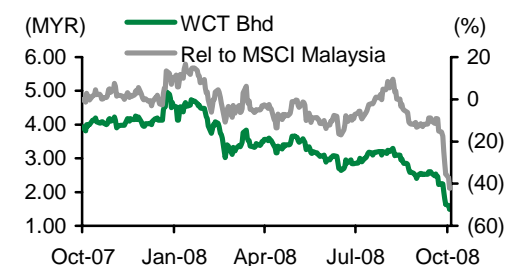
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Earnings Estimates And Valuation Ratios

YE Dec (MYR m)	2007	2008E	2009E	2010E
Revenue	2,835	3,088	3,409	3,329
Reported net profit	147	200	240	277
Recurring net profit	134	200	240	277
Previous rec net profit	134	224	285	338
Chg from previous (%)	—	(11.0)	(15.6)	(18.2)
Recurring EPS (MYR)	0.20	0.26	0.30	0.34
Prev rec EPS (MYR)	0.20	0.29	0.35	0.41
Rec EPS growth (%)	36.0	26.9	17.5	13.4
Recurring P/E (x)	7.3	5.8	4.9	4.3
Dividend yield (%)	2.8	4.2	4.2	4.4
EV/EBITDA (x)	4.4	5.1	4.6	3.6
Price/book (x)	1.1	1.0	0.8	0.6
ROE (%)	18.0	20.9	20.8	18.4
Net debt/equity (%)	20.4	46.9	33.6	18.3

Note: EPS adjusted for share split, ICPS and Warrants
Sources: WCT Bhd; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	November 2008
Market cap (USD m)	286
12m avg daily turnover (USD m)	2.0
Free float (%)	62
Major shareholder	WCT Capital (24%)
12m high/low (MYR)	4.98/1.49
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

Middle East projects on track, bidding for more ...

WCT's share price has tumbled 40% y-y over the past month on what we believe are due to: 1) concerns over slower capex spending in the Middle East due to lower crude oil prices; 2) Malaysia's lackluster construction sector outlook; and 3) unfounded liquidity concerns.

We met up with management recently, and remain bullish on the stock. While acknowledging the financial turmoil in Dubai that is affecting the property market, management does not believe that there will be a significant slowdown in development spending for infrastructure in the United Arab Emirates (UAE), especially Abu Dhabi, which owns more than 90% of the UAE's oil reserves. The UAE is a federation of seven emirates – Abu Dhabi, Dubai, Shariah, Ajman, Umm al-Qaiwain, Ras al-Khaimah, and Fujairah.

Dubai had relied on debt to finance its development, and estimates by Moody's Investors Service indicate government-backed Dubai companies' leverage has risen close to USD50b, exceeding 2006 GDP. Therefore, this leads to risk of whether the debts can be re-financed. During an emergency meeting last week, cabinet had approved that UAE's capital - Abu Dhabi (which owns more than 90% of UAE's oil reserves) - and the federal government would stand by Dubai. We take comfort that WCT had consciously stayed away from high-rise residential projects in Dubai.

WCT's only project in Dubai is the MYR4.6b Meydan Racecourse (WCT's share is MYR2.3b). Management says too much is at stake for the project, and the development must be completed before the March 2010 debut of the Dubai World Cup (for horse racing). WCT has submitted for progress claims up to 28%, while gross billings approved is 19%. WCT has been receiving claims on a monthly basis, so there is little risk of default.

For the Abu Dhabi Formula 1 circuit, claims submitted for progress works is up to 35%, and actual gross billings received is 32% in September, compared to approximately 20% in 2Q08. Management expects more repeat orders for this project, despite clinching additional MYR900m (WCT's share is MYR450m) worth of works in August 2008. We believe the amount of additional works will be disclosed in the forthcoming analysts briefing on 14th November. We understand that WCT will also make an announcement on a project that is not part of the Abu Dhabi Formula 1 circuit scope of works on the Yas Island Development. We believe that it would be the Yas Marina project, costing about MYR230m.

Management indicated that there is no visible slowdown in the infrastructure projects planned, particularly those that it is bidding for in Abu Dhabi. WCT is leveraging on its excellent track record in the Middle East to continue to bid for projects, especially in Abu Dhabi. Management is confident of securing a MYR2b project by end-2008. This will boost its current outstanding order book of above MYR5b.

... yet we prefer to err on the downside, cutting forecast
Management reiterated that MYR2b of new jobs for 2009 is achievable, based on the visibility of construction orders in the Middle East that it is bidding for. Based on our earnings forecast, we had assumed that WCT will clinch an additional MYR250m of new construction jobs for the balance of 2008, MYR2b for 2009 and MYR2.5b for 2010. However, as we prefer to be conservative in our estimates due to the global financial meltdown, we now assume a lower forecast of MYR1b of new construction jobs for 2009, and MYR2b for 2010.

Share price tumbled more than 53% over past six months

Dubai's property sector woes a concern ...

... but WCT's Meydan Racecourse project is of high priority

Submitted for progress claims up to 28% for Meydan Racecourse

Submitted for progress claims up to 28% for Abu Dhabi F1 Circuit

Expect more works from Abu Dhabi F1 Circuit to be announced by November

WCT is confident of securing MYR2b worth of jobs in the Middle East by end-2008

To be conservative, we scale back our new order assumptions

Exhibit 1: New Construction Orders Assumption

Year-end 31 Dec	2008E*	2009E	2010E
	(MYR m)	(MYR m)	(MYR m)
Existing construction order book assumption	250	2,000	2,500
New construction order book assumption	250	1,000	2,000

* Excluding MYR780m worth of contracts clinched earlier in the year
Source: BNP Paribas estimates

For 2008, to be conservative, we cut the timing of progress recognition for its Abu Dhabi Formula 1 circuit and the Meydan Racecourse. While the pace of physical progress works is within WCT's control, the timing of approved billings is not. Therefore, we cut our 2008-10 net earnings forecast by 11.0-18.2% due to the changes to our assumptions.

Cut our net earnings forecast by 11.0-18.2%

We also take a more conservative stance in our valuation due to the global financial turmoil. We now ascribe construction multiples of 8x, against 12x earlier for our sum-of-the-parts valuation. Valuation for its property and trading division remains unchanged at 8x. As such, we cut our target price by 27% to MYR3.52/share from MYR4.82/share.

Sum-of-the-parts target price cut to MYR3.52

Less concerned over liquidity

Among the concerns that investors have is regarding WCT's debt levels and its ability to service short-term debt. WCT's net gearing is manageable, at 47% for 2008. Based on WCT's balance sheet as of June 2008, WCT's total debt level is MYR1.13b, of which MYR475m are short-term debt, comprising mainly MYR300m are Commercial Papers/Medium Term Notes (CP/MTN) and MYR170m Revolving Credit (RC). Given our projected EBITDA of MYR319.6m for 2008, together with MYR730m cash as of June 2008, WCT can easily repay these short-term debt obligations when it falls due. It is also comforting to note that the Employees Provident Fund (EPF) has committed to inject MYR390m into its Paradigm commercial property development project with Gross Development Value of MYR1.4b. EPF will end up with a 30% stake in the project, allaying any liquidity concerns.

Short-term debts manageable

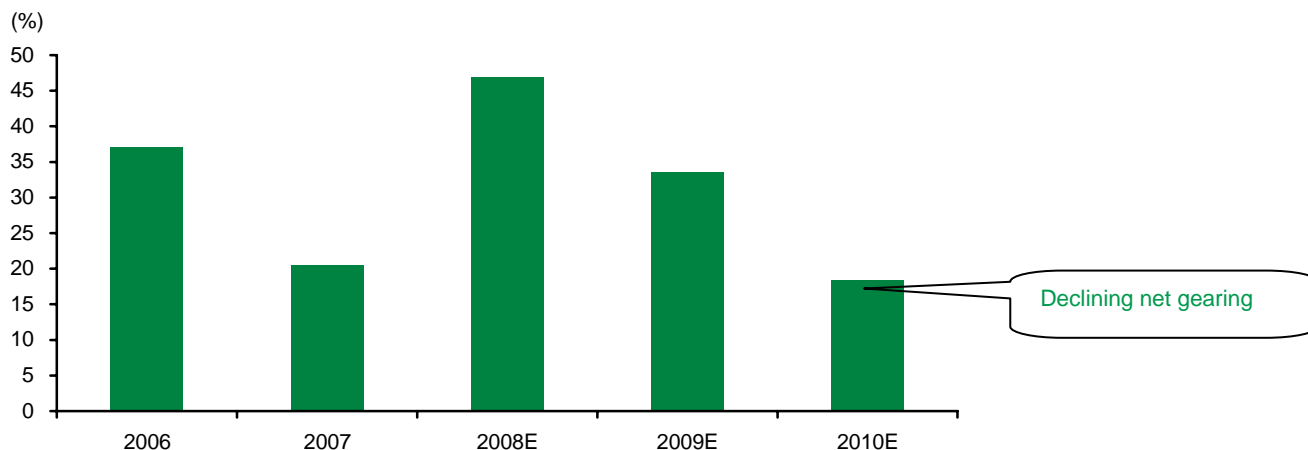
Further, we expect cash inflow of MYR418m from potential warrants conversion (approximately 139m warrants outstanding at MYR3.00 exercise price). Meanwhile, WCT's long-term debt of MYR1.1b mainly comprises term Loans with fixed interest rates and Islamic Bonds with fixed rates.

Exhibit 2: Debt Position As Of 2Q08

	(MYR m)
ST debt	475.08
Total debt	1,131.74
Cash	730.02
Net debt	401.73
Equity	1,162.79
Net gearing (%)	34.5

Note: Will be close to our 47% net gearing forecast for 2008 upon drawdown of remaining MYR100m CP/MTN)
Source: WCT

We expect that if there is a paring down of debt, WCT's net gearing will fall substantially over the next two years, from an estimated 46.9% in 2008 to 18.3% by 2010.

Exhibit 3: Net Gearing

Sources: WCT; BNP Paribas estimates

Maintain BUY

WCT remains our top pick in the construction sector given its leverage to infrastructure spending in the Middle East, where 67% of its order book is from the Middle East. Valuations are undemanding at 2009 P/E of just 4.9x. Our new sum-of-the-parts (SoTP) target price of MYR3.52/share suggests a 136% upside. Even if we were to assume zero new construction orders for 2009, WCT is still trading at 5.5x P/E, and still worth MYR3.27/share or 119% upside.

119% upside even with zero new construction orders in 2009

Exhibit 4: Sensitivity To Changes In New Construction Order Book Assumption

New construction order	2009E		Target price (MYR)
	EPS (MYR)	P/E (x)	
-	0.271	5.5	3.27
MYR500m	0.288	5.2	3.40
MYR1,000m (base case)	0.304	4.9	3.52
MYR1,500m	0.320	4.6	3.65
MYR2,000m	0.336	4.4	3.78
MYR2,500m	0.352	4.2	3.91
MYR3,000m	0.368	4.0	4.04

Source: BNP Paribas estimates

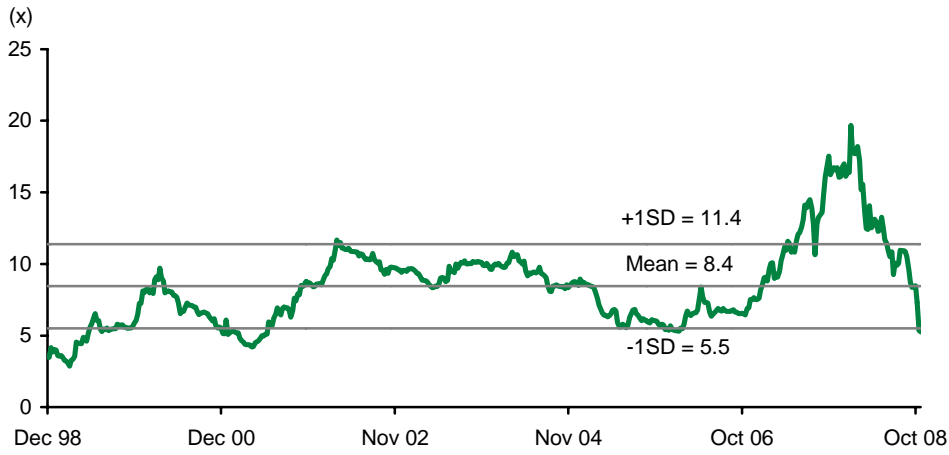
Worth MYR3.27/share even with zero new construction orders in 2009

Even assuming the worst-case scenario that the Meydan Racecourse project is aborted (a highly unlikely scenario), 2009 EPS will fall 28%, and P/E will rise to just 6.8x. Our SoTP target price will be reduced to MYR2.85/share, which still gives a 91.3% upside. As such, we believe that downside risk is limited. WCT has a share buyback program in place that should come in handy.

Worth MYR2.85/share even with worst-case scenario of Meydan Racecourse being aborted

We expect WCT's 3Q08 net profit to come in weak due to weaker local construction margins on the back of a surge in building material costs prior to August 2008. However, we will see a rebound in 4Q, aided by lower building material costs, particularly steel, which we understand have fallen more than 27% from the peak in July, as well as higher progress recognition for its Middle East projects. We expect a re-rating for WCT on the back of new construction order flows.

Exhibit 5: Prospective P/E Band Chart



Sources: Bloomberg; BNP Paribas

FINANCIAL STATEMENTS

WCT Bhd

Profit and Loss (MYR m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Revenue	1,370	2,835	3,088	3,409	3,329
Cost of sales ex depreciation	-	-	-	-	-
Gross profit ex depreciation	1,370	2,835	3,088	3,409	3,329
Other operating income	-	-	-	-	-
Operating costs	(1,163)	(2,523)	(2,768)	(3,018)	(2,856)
Operating EBITDA	207	313	320	390	473
Depreciation	(38)	(60)	(62)	(86)	(103)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	169	252	257	304	371
Net financing costs	(23)	(10)	(17)	(33)	(29)
Associates	4	10	13	5	6
Recurring non operating income	(0)	-	-	-	-
Non recurring items	-	13	-	-	-
Profit before tax	150	265	253	276	348
Tax	(35)	(40)	(30)	(36)	(71)
Profit after tax	115	226	223	240	277
Minority interests	(27)	(79)	(23)	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	88	147	200	240	277
Non recurring items & goodwill (net)	-	(13)	(0)	(0)	(0)
Recurring net profit	88	134	200	240	277
Per share (MYR)					
Recurring EPS *	0.15	0.20	0.26	0.30	0.34
Reported EPS	0.15	0.22	0.29	0.35	0.41
DPS	0.04	0.04	0.06	0.06	0.07
Growth					
Revenue (%)	67.8	107.0	8.9	10.4	(2.3)
Operating EBITDA (%)	34.1	51.1	2.3	22.2	21.2
Operating EBIT (%)	32.1	49.4	1.9	18.3	21.8
Recurring EPS (%)	8.2	36.0	26.9	17.5	13.4
Reported EPS (%)	8.1	43.2	36.2	20.3	15.2
Operating performance					
Gross margin inc depreciation (%)	na	na	na	na	na
Operating EBITDA margin (%)	15.1	11.0	10.4	11.5	14.2
Operating EBIT margin (%)	12.3	8.9	8.3	8.9	11.1
Net margin (%)	6.4	4.7	6.5	7.0	8.3
Effective tax rate (%)	23.1	14.9	12.0	13.1	20.4
Dividend payout on recurring profit (%)	26.4	20.5	24.1	20.4	19.0
Interest cover (x)	7.4	26.8	15.7	9.3	13.1
Inventory days	na	na	na	na	na
Debtor days	153.6	131.8	175.8	187.6	199.2
Creditor days	na	na	na	na	na
Operating ROIC (%)	14.9	16.4	12.5	12.1	13.1
Operating ROIC - WACC (%)	2.5	4.1	0.2	(0.3)	0.7
ROIC (%)	13.5	15.3	11.8	11.2	12.2
ROIC - WACC (%)	1.1	3.0	(0.5)	(1.2)	(0.2)
ROE (%)	15.6	18.0	20.9	20.8	18.4
ROA (%)	6.9	7.8	6.0	5.6	6.0
* Pre exceptional, pre-goodwill and fully diluted					
Revenue By Division (MYR m)					
2006A	2007A	2008E	2009E	2010E	
Engineering & Construction	1,049	2,422	2,724	2,877	2,673
Trading	86	152	113	125	137
Property development	229	254	214	360	437
Property & investment holding	5	7	37	47	82

Strong EPS growth led by MYR5b outstanding construction order book

Excluding Vietnamese property projects

Sources: WCT Berhad; BNP Paribas estimates

Cash Flow (MYR m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Recurring net profit	88	134	200	240	277
Depreciation	38	60	62	86	103
Associates & minorities	23	69	10	(5)	(6)
Other non-cash items	110	128	(322)	(43)	(31)
Recurring cash flow	259	391	(50)	278	343
Change in working capital	(7)	(128)	313	(3)	(67)
Capex - maintenance	(207)	(112)	(250)	(200)	(100)
Capex - new investment	-	-	-	-	-
Free cash flow to equity	46	151	13	75	175
Net acquisitions & disposals	54	32	-	-	-
Dividends paid	(23)	(28)	(42)	(42)	(44)
Non recurring cash flows	-	-	-	-	-
Net cash flow	77	154	(29)	33	131
Equity finance	4	80	-	-	-
Debt finance	(24)	76	20	(58)	(56)
Movement in cash	57	310	(10)	(25)	75

Improving free cash flow

Per share (MYR)					
Recurring cash flow per share	0.44	0.58	(0.07)	0.41	0.51
FCF to equity per share	0.08	0.22	0.02	0.11	0.26

Balance Sheet (MYR m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Working capital assets	1,146	1,644	2,554	2,808	2,932
Working capital liabilities	(794)	(1,277)	(1,930)	(2,103)	(1,990)
Net working capital	352	367	624	704	942
Tangible fixed assets	611	881	1,083	1,210	1,222
Operating invested capital	962	1,247	1,707	1,915	2,163
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	58	141	154	160	166
Other assets	34	22	22	22	22
Invested capital	1,054	1,410	1,883	2,096	2,351
Cash & equivalents	(392)	(705)	(692)	(668)	(743)
Short term debt	300	529	540	477	416
Long term debt *	373	414	750	716	690
Net debt	281	238	598	525	362
Deferred tax	8	2	2	2	2
Other liabilities	9	6	6	6	6
Total equity	594	899	1,012	1,299	1,716
Minority interests	162	265	264	264	264
Invested capital	1,054	1,410	1,883	2,096	2,351

* Includes convertibles and preferred stock which is being treated as debt

Per share (MYR)					
Book value per share	1.02	1.33	1.49	1.92	2.53
Tangible book value per share	1.02	1.33	1.49	1.92	2.53

Increased due to MYR300m bonds

Financial strength					
Net debt/equity (%)	37.1	20.4	46.9	33.6	18.3
Net debt/total assets (%)	12.5	7.0	13.3	10.8	7.1
Current ratio (x)	1.4	1.3	1.3	1.3	1.5
CF interest cover (x)	3.0	16.4	1.8	3.3	7.1

P/Es undemanding

Valuation					
	2006A	2007A	2008E	2009E	2010E
Recurring P/E (x) *	9.9	7.3	5.8	4.9	4.3
Recurring P/E @ target price (x) *	23.5	17.3	13.6	11.6	10.2
Reported P/E (x)	9.9	6.9	5.1	4.2	3.6
Dividend yield (%)	2.7	2.8	4.2	4.2	4.4
P/CF (x)	3.4	2.6	neg	3.6	2.9
P/FCF (x)	18.9	6.7	78.2	13.4	5.8
Price/book (x)	1.5	1.1	1.0	0.8	0.6
Price/tangible book (x)	1.5	1.1	1.0	0.8	0.6
EV/EBITDA (x) **	5.8	4.4	5.1	4.6	3.6
EV/EBITDA @ target price (x) **	11.4	8.4	9.2	8.1	6.5
EV/invested capital (x)	1.2	1.1	1.0	0.9	0.7

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: WCT Berhad; BNP Paribas estimates

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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