# WCT Engineering

WCT MK

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Malaysia
Industrials/Construction

Change in Numbers
10 July 2007

**SO WHAT? THE BNP PARIBAS ANGLE**

- Our 2008 earnings forecast is above consensus as the market has underestimated WCT's improving construction margins.
- Our target price is above consensus as we have assumed recurring income from its AEON Shopping Mall.

**Net Profit 08..... MYR189m**
....................... (From MYR165m)

**Diff from Consensus.. 28.6%**
Consensus (mean) ...... MYR147m
Consensus (momentum) .......... ↑

** Adjusted for one-for-three bonus issue*

**Target Price ....... MYR7.95**
........................ (From MYR6.41*)

**Diff from Consensus.. 19.0%**
Consensus (median)..... MYR6.68
Consensus (momentum) .......... ↑

**Current Price........ MYR6.90**
Upside/(Downside)............ 15.2%

**BUY**
(Unchanged)

**Recs in the Market**
Positive...................................... 8
Neutral....................................... 0
Negative ..................................... 1
Consensus (momentum) ......... ↑

Sources: Thomson One Analytics; BNP Paribas estimates

**WCT has clinched the MYR1.3b Abu Dhabi F1 project, with a potential excess of MYR800m more under negotiation for the same project. We have raised our net-earnings forecast by 14.5%, and our RNAV-based target price by 24% to MYR7.95/share. Given WCT's track record, we expect more jobs to be awarded, mainly from the Middle East.**

## More to come from Abu Dhabi F1 project

- Clinches MYR1.3b Abu Dhabi F1 project.
- Raised our 2008 net earnings forecast by 14.5%.
- Raised our target price to MYR7.95/share.
- More jobs likely from the Middle East.

### Clinches MYR1.5b Abu Dhabi F1 project

WCT and its 50% partner Cebarco have sealed the project to construct the Abu Dhabi F1 project, worth MYR1.3b. The completion date is slated for 31 December 2008. The race is to be held in September or October 2009.

WCT has carved out a niche as a specialist in building Formula 1 racing circuits and has already built two of the four new Formula 1 circuits. Completed projects include the Sepang F1 circuit and the Bahrain International Circuit, both finished in record time (between 14 and 16 months).

WCT's 50% share of the Abu Dhabi F1 project leads to a MYR650m enhancement to its order book: totalling MYR4.1b, or 3.3x 2006 construction revenue.

Based on our checks with management, there is more to come on this project. WCT is still in negotiations for the remaining mechanical and electrical works, landscaping and special electronics; potentially worth more than MYR800m or MYR400m based on WCT's 50% portion.

If WCT and its partner are successful in securing the remaining works, it would mean that the project size has surprised the market on the upside, with a total contract size of MYR2.1b against expectations of approximately MYR1.5b.

This excludes further potential work for hotel and commercial properties within the vicinity of the track.

We understand that net margins for the MYR1.3b works are a decent 10%. The chances of securing additional works for the project are good, as WCT already has site possession of the Abu Dhabi F1 track and it has to be completed by 31 December 2008.

*Please see the important notice on the back page.*

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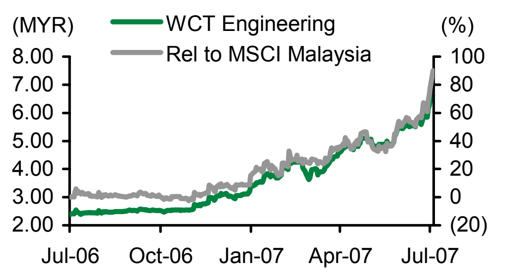
**Earnings Estimates And Valuation Ratios**

| YE Dec (MYR m) | 2006 | 2007E | 2008E | 2009E |
|---|---|---|---|---|
| Revenue | 1,370 | 1,796 | 2,668 | 2,362 |
| Reported net profit | 88 | 116 | 189 | 212 |
| Recurring net profit | 88 | 116 | 189 | 212 |
| Previous rec net profit | 88 | 116 | 165 | 205 |
| Chg from previous (%) | — | (0.1) | 14.5 | 3.4 |
| Recurring EPS (MYR) | 0.30 | 0.36 | 0.57 | 0.64 |
| Prev rec EPS (MYR) | 0.41 | 0.46 | 0.65 | 0.80 |
| Rec EPS growth (%) | 8.2 | 19.9 | 59.0 | 11.7 |
| Recurring P/E (x) | 23.0 | 19.2 | 12.1 | 10.8 |
| Dividend yield (%) | 1.1 | 1.5 | 1.0 | 1.3 |
| EV/EBITDA (x) | 11.2 | 8.7 | 5.2 | 5.5 |
| Price/book (x) | 3.4 | 2.8 | 2.3 | 2.1 |
| ROE (%) | 15.6 | 17.7 | 23.7 | 22.9 |
| Net debt/equity (%) | 37.1 | 29.0 | 18.7 | 17.4 |

Note: EPS is diluted for new shares arising form Irredeemable Convertible Preference Shares (ICPS)
Sources: WCT Engineering; BNP Paribas estimates

**Share Price Daily vs MSCI**




| | |
|---|---|
| Next results/event | August 2007 |
| Market cap (USD m) | 429 |
| 12m avg daily turnover (USD m) | 0.9 |
| Free float (%) | 59 |
| Major shareholder | WCT Capital (24%) |
| 12m high/low (MYR) | 6.90/2.39 |
| ADR (USD) | Nil |
| Avg daily turnover (USD m) | Nil |
| Discount/premium (%) | Nil |
| Disc/premium vs 52-wk avg (%) | Nil |

Source: Datastream

BNP PARIBAS
Corporate & Investment Banking

We only assumed MYR743m of new construction orders for 2007; with MYR880m settled so far, (excluding MYR400m additional works for the Abu Dhabi F1 track), this has exceeded our forecast.

### Raised our 2008 net earnings forecast by 14.5%

We raise our new construction order-book assumption for 2007 from MYR743m to MYR1.4b. This means that MYR893m has been secured and only MYR500m has yet to be secured. Out of the MYR500m, MYR400m is potential works from the Abu Dhabi F1 track, which is almost a done deal.

We raise our net earnings forecast by 14.5% in 2008 and 3.4% in 2009 on the back of the secured new project and new order book assumption for 2007. The bulk of the works for the Abu Dhabi F1 project will be recognised in 2008.

Note that management's order-book guidance for 2007 is MYR2.0b, out of which MYR880m has been secured. There is scope for more upside surprises to earnings.

### Raised our target price to MYR7.95/share

As a result of our earnings upgrade and assumption, and ascribing a P/E of 15x for its construction division, we raise our RNAV-derived target price to MYR7.95/share (adjusted for 1:3 bonus issue). That is a 24% revision from our previous target price of MYR6.41.

**Exhibit 1: RNAV Computation**

| | FY08 net earnings | P/E (x) | Value (MYR m) |
|---|---|---|---|
| Construction | 84.4 | 15 | 1,265.3 |
| Property | 81.9 | 12 | 982.6 |
| Trading Division | 13.5 | 12 | 161.8 |
| Toll concessions: Swarna Tollway: | | | 103.6 |
| Durgapur | | | 5.1 |
| Panagarh-Palsit | | | 11.2 |
| AEON shopping mall lease | | | 256.9 |
| Net debt – 2008E | | | (219.3) |
| **RNAV** | | | **2,567.2** |
| | | | |
| Issued shares (m) | | | 291.354 |
| RNAV/share (MYR m) | | | 8.81 |
| **RNAV/share – fully diluted (MYR)** | | | **7.95** |

Note: Dilution includes 51.7m new shares from ICPS conversion
Source: BNP Paribas estimates

The magnitude is larger than our 14.5% net earnings forecast increase, since we have assumed more bullish construction-sector multiples of 15x, up from 12x. The latest Abu Dhabi F1 track supports our view that WCT is highly leveraged to the Middle East infrastructure boom.

### More jobs likely from the Middle East

So far, WCT has submitted MYR9b worth of tenders for less than five construction jobs (including the Abu Dhabi F1 track), mainly in the Middle East. Its portion of works is roughly half of that, as WCT is likely to be partnering with local companies that offer familiarity with local conditions.

We believe the key to WCT's success in the Middle East, compared to other construction stocks in Malaysia, lies in its first-mover advantage since 2002. Successful execution is attributed to its fleet of machinery, experienced Malaysian personnel on the ground and smart partnerships with local contractors in the Middle East, such as Cebarco and Arabtech.

Another major project WCT is likely to clinch is the Dubai Racing Club's Meydan Race Course (for horse racing), worth MYR6.0b. Due to tight contracting capacity, we believe WCT has a strong chance of securing the project. The project has to be completed by 2010, in time for the Dubai World Cup. Therefore, we believe a contractor like WCT, with a good track record of fast turnarounds, stands a very good chance of securing the bid. It helps that WCT built the Selangor Turf Club in Malaysia. This project is not in our forecast.

With tremendous scope for upside revision in earnings, we expect that WCT will be trading at even more attractive valuations. Assuming WCT confirms MYR2b (in line with management's guidance) of 50% from local contracts and 50% from the Middle East in new construction orders (against our MYR1.4b assumption), our 2007-09 net earnings forecast should rise by 8.9-13.2%. Assuming MYR2.5b of new construction orders, net earnings for 2007-09 should rise by 16.2-24.3%. As a result, WCT's P/E for 2009 could potentially fall to just 8.7x.

**Exhibit 2: Sensitivity Analysis**

| | 2007E | 2008E | 2009E |
|---|---|---|---|
| **Base case (MYR1.4m new construction order in 2007)** | | | |
| Net profit (MYR m) | 116.3 | 188.9 | 211.8 |
| FD EPS (sen) | 35.9 | 57.1 | 63.8 |
| P/E (x) | 19.2 | 12.1 | 10.8 |
| **Assuming MYR2b new construction order in 2007** | | | |
| Net profit (MYR m) | 127.7 | 206.3 | 240.7 |
| FD EPS (sen) | 39.3 | 62.2 | 72.2 |
| *Change (%)* | *9.3* | *8.9* | *13.2* |
| P/E (x) | 17.6 | 11.1 | 9.6 |
| **Assuming MYR2.5b new construction order in 2007** | | | |
| Net Profit (MYR m) | 137.2 | 220.8 | 264.9 |
| FD EPS (sen) | 42.0 | 66.4 | 79.2 |
| *Change (%)* | *17.0* | *16.2* | *24.3* |
| P/E (x) | 16.4 | 10.4 | 8.7 |

Source: BNP Paribas estimates

# Appendix 1

## WCT's past and potential F1 track records

**Exhibit 1.1: Malaysia F1 Racing Circuit Details (Completed)**

| | |
|---|---|
| Year of completion | November 1998 |
| No. of laps | 55 |
| Circuit length | 304.81 km |
| Track length | 5.542 km |
| Location | 3.5 km away from Kuala Lumpur International Airport |

Source: www.f1.com

**Exhibit 1.2: Bahrain F1 Racing Circuit Details (Completed)**

| | |
|---|---|
| Year of completion | March 2004 |
| No. of laps | 57 |
| Circuit length | 308.238 km |
| Track length | 5.412 km |
| Location | In the south of the country in Sakhir, 30 mins from the airport |

Source: www.f1.com

**Exhibit 1.3: Abu Dhabi F1 Racing Circuit Details (MYR1.3b projected awarded so far)**

| | |
|---|---|
| No. of laps | 56 |
| Circuit length: | 309 km |
| Track length | 5.6km |
| No. of corners | 20 |
| Top speed | 320 km/h |
| Average speed | 200 km/h |
| Size | 2,550 hectare, located on Yas Island, on the east coast of Abu Dhabi |

Other potential works (yet to be awarded) :

- Signature hotels
- Ferrari Theme Park
- Water park
- 300,000 sqm retail area
- Golf courses
- Lagoon hotels
- Marinas
- Polo clubs
- Apartments and villas
- Food and beverage outlets

Sources: www.f1.com and www.abudhabigp.com; BNP Paribas

**FINANCIAL STATEMENTS**

## WCT Engineering

| Profit and Loss (MYR m)<br>Year Ending December | 2005A | 2006A | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| Revenue | 816 | 1,370 | 1,796 | 2,668 | 2,362 |
| Cost of sales ex depreciation | - | - | - | - | - |
| **Gross profit ex depreciation** | 816 | 1,370 | 1,796 | 2,668 | 2,362 |
| Other operating income | - | - | - | - | - |
| Operating costs | (662) | (1,163) | (1,520) | (2,210) | (1,902) |
| **Operating EBITDA** | **154** | **207** | **276** | **458** | **460** |
| Depreciation | (26) | (38) | (60) | (85) | (109) |
| Goodwill amortisation | - | - | - | - | - |
| **Operating EBIT** | **128** | **169** | **216** | **374** | **352** |
| Net financing costs | (24) | (23) | (16) | (11) | (9) |
| Associates | 26 | 4 | 8 | 26 | 6 |
| Recurring non operating income | (1) | (0) | - | - | - |
| Non recurring items | - | - | - | - | - |
| **Profit before tax** | **129** | **150** | **208** | **389** | **349** |
| Tax | (34) | (35) | (56) | (101) | (91) |
| **Profit after tax** | **95** | **115** | **152** | **288** | **258** |
| Minority interests | **(14)** | **(27)** | **(35)** | **(99)** | **(47)** |
| Preferred dividends | - | - | - | - | - |
| Other items | - | - | - | - | - |
| **Reported net profit** | **81** | **88** | **116** | **189** | **212** |
| Non recurring items & goodwill (net) | - | - | - | - | - |
| **Recurring net profit** | **81** | **88** | **116** | **189** | **212** |
| ***Per share (MYR)*** | | | | | |
| Recurring EPS * | 0.28 | 0.30 | 0.36 | 0.57 | 0.64 |
| Reported EPS | 0.28 | 0.30 | 0.40 | 0.65 | 0.73 |
| DPS | 0.16 | 0.08 | 0.10 | 0.07 | 0.09 |
| ***Growth*** | | | | | |
| Revenue (%) | 2.5 | 67.8 | 31.1 | 48.6 | (11.5) |
| Operating EBITDA (%) | 23.0 | 34.1 | 33.4 | 66.2 | 0.4 |
| Operating EBIT (%) | 8.4 | 32.1 | 27.8 | 73.0 | (5.9) |
| Recurring EPS (%) | (11.4) | 8.2 | 19.9 | 59.0 | 11.7 |
| Reported EPS (%) | 169.0 | 8.1 | 32.0 | 62.5 | 12.1 |
| ***Operating performance*** | | | | | |
| Gross margin inc depreciation (%) | na | na | na | na | na |
| Operating EBITDA margin (%) | 18.9 | 15.1 | 15.4 | 17.2 | 19.5 |
| Operating EBIT margin (%) | 15.7 | 12.3 | 12.0 | 14.0 | 14.9 |
| Net margin (%) | 10.0 | 6.4 | 6.5 | 7.1 | 9.0 |
| Effective tax rate (%) | 26.4 | 23.1 | 27.0 | 26.0 | 26.0 |
| Dividend payout on recurring profit (%) | 56.6 | 26.4 | 28.1 | 11.6 | 14.1 |
| Interest cover (x) | 6.4 | 7.4 | 13.8 | 37.3 | 40.6 |
| Inventory days | na | na | na | na | na |
| Debtor days | 173.7 | 153.6 | 173.5 | 164.7 | 209.6 |
| Creditor days | na | na | na | na | na |
| Operating ROIC (%) | 15.5 | 14.9 | 15.1 | 22.6 | 18.6 |
| Operating ROIC - WACC (%) | 6.8 | 6.2 | 6.4 | 13.9 | 9.9 |
| ROIC (%) | 15.8 | 13.5 | 14.3 | 22.0 | 17.3 |
| ROIC - WACC (%) | 7.1 | 4.8 | 5.6 | 13.3 | 8.6 |
| ROE (%) | 16.9 | 15.6 | 17.7 | 23.7 | 22.9 |
| ROA (%) | 7.7 | 6.9 | 6.5 | 9.5 | 7.7 |

** Pre exceptional, pre-goodwill and fully diluted*

Strong EPS growth led by record MYR4.1b outstanding construction order book and growing property earnings

| Revenue By Division (MYR m) | 2005A | 2006A | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| Engineering & Construction | 465 | 1,049 | 1,455 | 2,051 | 1,536 |
| Trading | 28 | 86 | 103 | 113 | 125 |
| Property development | 321 | 229 | 233 | 467 | 655 |
| Property & investment holding | 3 | 5 | 4 | 37 | 47 |

Our new order book replenishment assumption is conservative

Several new property projects underpin robust revenue

Sources: WCT Engineering; BNP Paribas estimates

| Cash Flow (MYR m) Year Ending December | 2005A | 2006A | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| Recurring net profit | 81 | 88 | 116 | 189 | 212 |
| Depreciation | 26 | 38 | 60 | 85 | 109 |
| Associates & minorities | (12) | 23 | 27 | 73 | 40 |
| Other non-cash items | (131) | 110 | (18) | (82) | (41) |
| **Recurring cash flow** | **(35)** | **259** | **185** | **265** | **319** |
| Change in working capital | 32 | (7) | 35 | (2) | (44) |
| Capex - maintenance | (8) | (207) | (220) | (250) | (200) |
| Capex - new investment | - | - | - | - | - |
| **Free cash flow to equity** | **(11)** | **46** | **(0)** | **13** | **75** |
| Net acquisitions & disposals | 1 | 54 | - | - | - |
| Dividends paid | (46) | (23) | (29) | (19) | (26) |
| Non recurring cash flows | - | - | - | - | - |
| **Net cash flow** | **(56)** | **77** | **(30)** | **(6)** | **49** |
| Equity finance | 69 | 4 | - | - | - |
| Debt finance | 83 | (24) | 157 | (3) | (74) |
| **Movement in cash** | **96** | **57** | **127** | **(10)** | **(25)** |
| ***Per share (MYR)*** | | | | | |
| Recurring cash flow per share | (0.12) | 0.89 | 0.64 | 0.91 | 1.10 |
| FCF to equity per share | (0.04) | 0.16 | (0.00) | 0.04 | 0.26 |

Improving free-cash flows

| Balance Sheet (MYR m) Year Ending December | 2005A | 2006A | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| Working capital assets | 696 | 1,146 | 1,381 | 1,862 | 1,692 |
| Working capital liabilities | (459) | (794) | (1,064) | (1,543) | (1,330) |
| **Net working capital** | **237** | **352** | **317** | **319** | **363** |
| Tangible fixed assets | 436 | 611 | 785 | 964 | 1,069 |
| **Operating invested capital** | **673** | **962** | **1,102** | **1,283** | **1,432** |
| Goodwill | (6) | - | - | - | - |
| Other intangible assets | - | - | - | - | - |
| Investments | 105 | 58 | 66 | 92 | 98 |
| Other assets | 27 | 34 | 34 | 34 | 34 |
| **Invested capital** | **799** | **1,054** | **1,201** | **1,408** | **1,564** |
| Cash & equivalents | (345) | (392) | (519) | (509) | (485) |
| Short term debt | 133 | 300 | 381 | 348 | 350 |
| Long term debt * | 365 | 373 | 404 | 381 | 364 |
| **Net debt** | **152** | **281** | **266** | **219** | **229** |
| Deferred tax | 10 | 8 | 8 | 8 | 8 |
| Other liabilities | - | 9 | 9 | 9 | 9 |
| Total equity | 534 | 594 | 720 | 875 | 975 |
| Minority interests | 102 | 162 | 198 | 296 | 343 |
| **Invested capital** | **799** | **1,054** | **1,201** | **1,408** | **1,565** |
| ** Includes convertibles and preferred stock which is being treated as debt* | | | | | |
| ***Per share (MYR)*** | | | | | |
| Book value per share | 1.84 | 2.04 | 2.47 | 3.00 | 3.35 |
| Tangible book value per share | 1.86 | 2.04 | 2.47 | 3.00 | 3.35 |
| ***Financial strength*** | | | | | |
| Net debt/equity (%) | 24.0 | 37.1 | 29.0 | 18.7 | 17.4 |
| Net debt/total assets (%) | 9.5 | 12.5 | 9.5 | 6.3 | 6.8 |
| Current ratio (x) | 1.8 | 1.4 | 1.3 | 1.3 | 1.3 |
| CF interest cover (x) | 0.5 | 3.0 | 1.0 | 2.2 | 9.5 |

Declining net gearing

| Valuation | 2005A | 2006A | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| Recurring P/E (x) * | 24.9 | 23.0 | 19.2 | 12.1 | 10.8 |
| Recurring P/E @ target price (x) * | 28.7 | 26.5 | 22.1 | 13.9 | 12.5 |
| Reported P/E (x) | 24.7 | 22.8 | 17.3 | 10.6 | 9.5 |
| Dividend yield (%) | 2.3 | 1.1 | 1.5 | 1.0 | 1.3 |
| P/CF (x) | neg | 7.8 | 10.9 | 7.6 | 6.3 |
| P/FCF (x) | neg | 43.7 | neg | 155.6 | 26.7 |
| Price/book (x) | 3.8 | 3.4 | 2.8 | 2.3 | 2.1 |
| Price/tangible book (x) | 3.7 | 3.4 | 2.8 | 2.3 | 2.1 |
| EV/EBITDA (x) ** | 11.4 | 11.2 | 8.7 | 5.2 | 5.5 |
| EV/EBITDA @ target price (x) ** | 12.9 | 12.6 | 9.8 | 5.8 | 6.1 |
| EV/invested capital (x) | 2.8 | 2.3 | 2.1 | 1.8 | 1.7 |

** Pre exceptional, pre-goodwill and fully diluted*

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

Sources: WCT Engineering; BNP Paribas estimates

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All share prices are as at market close on 9 July 2007 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

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*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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