



MALAYSIA EQUITY

Investment Research

Daily News

CONSTRUCTION

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Stock Profile/Statistics

| | |
|-----------------------------|-------------|
| Bloomberg Ticker | WCT MK |
| KLCI | 905.58 |
| Issued Share Capital (m) | 771.38 |
| Market Capitalisation (RMm) | 1095.36 |
| 52 week H L Price (RM) | 5.00 1.07 |
| Average Volume (3m) '000 | 2430.41 |
| YTD Returns (%) | -2.71 |
| Net gearing (x) | 0.28 |
| Altman Z-Score | 2.24 |
| ROCE/WACC | 0.86 |
| Beta (x) | 1.60 |
| Book Value/share (RM) | - |

Major Shareholders (%)

| | |
|--------------------------|------|
| WCT Capital SB | 21.0 |
| Employees Provident Fund | 18.4 |
| Invesco HK Ltd | 5.0 |

Share Performance (%)

| Month | Absolute | Relative |
|-------|----------|----------|
| 1m | (44.5) | (37.7) |
| 3m | (54.3) | (42.9) |
| 6m | (56.4) | (39.4) |
| 12m | (64.1) | (46.4) |

6-month Share Price Performance



WCT is primarily involved in construction and property development. It also operates toll concessions and manages properties.

Company Update

Private Circulation Only

WCT Bhd

| | |
|---------------|-----------------|
| BUY | Maintain |
| Price | RM1.43 |
| Target | RM2.45 |

Concerns Overplayed

Given the drop in crude oil prices, we believe new jobs flow from the Middle East will taper off although ongoing jobs would still proceed without disruption. WCT remains optimistic and is targeting more job upgrades for its Abu Dhabi F1 track and some RM2bn in jobs replenishment for FY09. We have trimmed our FY08–09 earnings by 6%–8% but continue to maintain a BUY rating (TP: RM2.45) as WCT is now trading at its historical low PER post-2000 and 0.9x prospective FY08 NTA.

Middle East concerns. Outstanding construction works in the UAE are estimated at US\$300bn, most of which are funded from petrodollars. Concerns have thus emerged on back of declining crude oil prices given that contributions from oil make up 30% of the nation's GNP. Other worries include Dubai's exorbitant debt level at 100% of its GDP.

Current jobs to go on. We believe the jobs already awarded in the UAE will go on since most developments were planned on an oil price assumption of US\$30–40p.b. WCT has 2 ongoing jobs there worth RM2.9bn (57% of its orderbook balance), namely the Abu Dhabi F1 and Meydan racecourse in Dubai, both of which are 33% and 25% completed respectively. With plans to host the F1 in 2009 and Dubai World Cup in 2010, delays are clearly not an option for pride-driven UAE. Our key concern is that the new jobs flow may slow down given the fall in the emirate's oil revenue, which is a likely scenario.

Still optimistic. Management expects an additional RM500m worth of works for its Abu Dhabi F1 job, which we think is likely since WCT has received an additional RM850m worth of works for the track so far this year. It is also targeting an orderbook replenishment of RM2bn for FY09, which is higher than our RM1.5bn assumption.

Libyan rumours clarified. On recent rumours that WCT would be venturing to Libya, management has clarified that the proposed venture is still at an early consideration stage. The company sees potential in Libya given that its rich oil reserves, although poor infrastructure. The ventures, if any, are unlikely to materialise within the next 2–3 years.

Share price bottomed. Our FY08–09 numbers have been trimmed by 6%–8%. We introduce our FY10 earnings forecast, which indicates a 15% y-o-y decline on the premise that the new jobs will be insufficient to replenish completed ones, and have cut our TP from RM3.57 to RM2.45 (see Figure 3). WCT's PER is now at its historical low post-2000, and is trading at 5.7x and 4.8x FY08–09 earnings. Maintain BUY.

| FYE Dec (RMm) | FY06 | FY07 | FY08f | FY09f | FY10f |
|---------------|---------|---------|---------|---------|---------|
| Turnover | 1,400.4 | 2,781.7 | 3,467.3 | 3,937.6 | 3,020.4 |
| EBITDA | 177.9 | 307.5 | 328.3 | 368.1 | 317.3 |
| Net Profit | 88.1 | 147.9 | 199.0 | 236.4 | 201.4 |
| % chg YoY | 9.6% | 67.9% | 34.6% | 18.8% | -14.8% |
| Consensus | - | - | 214.0 | 249.0 | 259.0 |
| EPS (sen)^ | 11.1 | 18.7 | 25.2 | 29.9 | 25.5 |
| DPS (sen)^ | 2.9 | 4.2 | 6.3 | 7.5 | 6.4 |
| Div Yield | 2.0% | 3.0% | 4.4% | 5.2% | 4.5% |
| ROE | 12.7% | 15.4% | 16.4% | 17.5% | 13.3% |
| ROA | 4.4% | 5.1% | 5.4% | 5.8% | 4.8% |
| PER (x) | 12.8 | 7.6 | 5.7 | 4.8 | 5.6 |
| P/BV (x) | 1.5 | 1.0 | 0.9 | 0.8 | 0.7 |

MEETING TAKEAWAYS

Not spared. WCT's share price has lost 65% YTD, underperforming the KLCI by 28%. We believe concerns over the impact of falling crude oil prices on Middle Eastern economies may have amplified its share price drop. There were also rumours that WCT would be venturing to Libya, which may have further elevated investor caution. We recently met up with management to clarify these issues.

UAE in a snap. The United Arab Emirates (UAE) is a Middle Eastern federation of seven states situated south-east of the Persian Gulf. The seven states (also known as emirates) are Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah, and Umm al-Quwain. In terms of per capita GDP, the UAE ranks 17th in the world, according to the International Monetary Fund. Petroleum and natural gas exports still play an important role in the UAE, making up over 30% of GNP. Nonetheless, the government has been trying to reduce its dependence on oil by promoting the services sector. To provide the necessary infrastructure and attract foreign investments, it has spearheaded efforts that have led to a massive construction boom.

A slowdown to follow? Outstanding construction works in the UAE are estimated at > US\$300bn. With much of the construction activities being funded by petrodollars, concerns have emerged on the back of crude oil prices declining by > 50% since its peak of US\$145 p.b in July 2008. Other developments that have raised concerns in the UAE include:

- The pumping of US\$19bn into its banking sector last month, which brings the total amount committed to fend off the credit crisis to US\$33bn.
- Moody's warning on Dubai's vulnerability to the global economic slowdown given that that country's debt level stands at 100% of its GDP.
- Fitch said government-controlled companies in Dubai owe US\$70bn in foreign denominated debt, thus highlighting concerns over its refinancing ability.

Figure 1: Declining crude oil prices



Source: Bloomberg

WCT's exposure. WCT's primary exposure to the UAE is its F1 track in Abu Dhabi and Meydan Racecourse in Dubai, which collectively make up RM2.9bn (57%) of its ordebook balance. We believe these jobs will go on undisrupted given that both were awarded when oil prices were below the US\$80 p.b mark. With plans to host the F1 race in Nov '09 and the Dubai World Cup (horse racing) in March 2010, delays are certainly not an option for the UAE, particularly when national pride is at stake. In terms of physical completion, the F1 track and Meydan job are 33% and 25% completed respectively.

Job flows may slow. We believe that the jobs already awarded in the UAE will go on as scheduled. We have been made to understand that most of the developments were planned based on an oil price assumption of US\$30–40 p.b. In our view, the key concern is that the flow of new jobs could taper off. With the drop in oil revenue, it is unlikely that the UAE can continue to embark on mega iconic projects. This is reflected via our 15% earnings contraction for WCT for FY10. We are assuming that new projects would be insufficient to replenish WCT's F1 and Meydan jobs once they are completed in FY09.

Management says otherwise. Management has re-iterated that the Middle East will continue to be the growth driver for WCT. Although Dubai's debt level is at excessive at 100% of GDP, management pointed that its key focus in the UAE will be Abu Dhabi. This year, WCT received additional works for the Abu Dhabi F1 track worth RM850m, bringing the total value of the F1 track to RM1.5bn (WCT's 50% share). According to management, more top-up works for the F1 track can be expected, bringing the final project value to RM4bn. Working on WCT's 50% portion, this implies that another RM500m worth of works could be awarded to the company. Aside from the F1 track, management is eyeing another RM2bn worth of jobs in FY09, which is higher than our annual replenishment assumption of RM1.5bn. For FY08, WCT has already satisfied 76% of our replenishment assumption.

Figure 2: WCT's orderbook balance

| Contract | RM/m | Fraction | Finish |
|--|--------------|-------------|--------|
| Overseas | | | |
| Meydan Racecourse, Dubai | 1,822 | 35% | Oct-09 |
| BCC Hotel Fits Outs | 135 | 3% | Nov-08 |
| Abu Dhabi F1 | 1,112 | 22% | Jul-09 |
| Bahrain City Centre | 50 | 1% | Feb-10 |
| Dukhan Highway | 57 | 1% | Jul-08 |
| New Doha International Airport | 294 | 6% | Dec-08 |
| Total Overseas | 3,470 | 67% | |
| Local Civil Engineering & Infra | | | |
| Kota Kinabalu International Airport | 280 | 5% | Jun-09 |
| Kajang Seremban Highway | 90 | 2% | Dec-08 |
| Kudat Water Supply | 56 | 1% | Jun-08 |
| Bakun Dam | 20 | 0% | Jun-08 |
| Total Local Civil Engineering & Infra | 446 | 9% | |
| Local Buildings | | | |
| AEON Mall Melaka | 288 | 6% | Nov-09 |
| AEON Mall JB | 127 | 2% | Jan-09 |
| Putrajaya Lot 4G8 | 259 | 5% | Jun-10 |
| Putrajaya Lot 4G9 | 191 | 4% | Jun-10 |
| UiTM Campus | 238 | 5% | Jan-09 |
| Tijani 2 Apartments | 80 | 2% | Apr-08 |
| Putrajaya Lot 3C4 | 14 | 0% | Oct-07 |
| Others | 33 | 1% | NA |
| Total Local Buildings | 1,230 | 24% | |
| Total Orderbook Balance | 5,146 | 100% | |

Source: Company

Rumours of Libyan ventures clarified. Recently, there were rumours that WCT would be venturing into Libya, which we believe may have given rise to investor concerns. Management has clarified that the proposed venture is still at an early consideration stage and that it had not made any monetary commitments. WCT acknowledges that it sees potential in Libya given its rich endowment of oil reserves but poor infrastructure. Ventures into Libya would also pave the way for WCT go penetrate the Middle East-North Africa (MENA) region. Following the lifting of UN sanctions on Libya in 2003, Malaysian companies such as **Ranhill** and **Protasco (both Not Rated)** have ventured into the nation. Nonetheless, management highlighted that any entry into Libya is unlikely to take place within the next 2–3 years.

Some progress in Putrajaya. Land transfers for its Putrajaya Lot G8&9 jobs were completed last month. Given the delays in land transfer, management has guided that the target completion date will now be forwarded to June 2010 (from Jan 2010). The job is collectively worth RM450m. Some preliminary works on site has already begun.

...but delays in property launches. Owing to the street perception that property prices may decline, WCT has decided to hold back the launch of its Bandar Bukit Tinggi development. Thus we are lowering our take-up rate assumptions by 5%–10% for FY08–10. Management itself has said that property sales could contract for FY08. Its Paradigm development in Kelana Jaya (RM1.4bn GDV) appears to be progressing well with the Employees Provident Fund taking up a 30% stake in the development. The shopping mall portion is scheduled for completion by 2010. WCT intends to keep the mall for rental income but will make an en bloc sale of its office towers.

VALUATION & RECOMMENDATION

Earnings outlook. On back of our reduction in property take-up rates and orderbook replenishment, our FY08 and FY09 numbers have been trimmed by 6% and 8.4% respectively. We also introduce our FY10 earnings estimate, which indicates a 14.8% y-o-y decline. Our key assumption backing this contraction is that orderbook replenishment will be insufficient to make up for the Abu Dhabi F1 track and Meydan Racecourse (collectively worth RM3.6bn), which will be completed in FY09.

Maintain BUY, share price has bottomed. We continue to value WCT's construction and property division based on its 12-month rolling earnings. However, we have reduced our earnings multiplier from 11x to 9x to reflect the downward sector re-rating. We have also applied a further 15% discount to our SOP value to reflect the possibility of an earnings contraction in FY10 in our valuation. This reduces our TP from RM3.57 to RM2.45. WCT's PER multiples are at their all-time low since 2000, at 5.7x and 4.8x for FY08 and FY09 earnings respectively. At current levels, WCT is also trading at 0.9x prospective FY08 NTA. We reckon the stock price has bottomed and maintain our BUY recommendation.

Figure 3: WCT's Sum of Parts (SOP) valuation

| SOP Components | 12 mth Earnings | Multiplier/WACC | Value (RM/m) | Per Share (RM) |
|---|-----------------|-----------------|--------------|----------------|
| Earnings from construction and property | 206.3 | 9 | 1,857 | 2.35 |
| AEON Mall BBT lease | - | 7.0% | 199 | 0.25 |
| Toll concession - Panagarh | - | 7.0% | 96 | 0.12 |
| Toll concession - Durgapur | - | 7.0% | 64 | 0.08 |
| Toll concession - Swarna | - | 8.5% | 58 | 0.07 |
| SOP Value | | | 2,273 | 2.88 |
| Discount applied | | 15% | (341) | (0.43) |
| Target price | | | 1,932 | 2.45 |
| <i>Implied FY08 PER</i> | | | | 11.4 |
| <i>Implied FY09 PER</i> | | | | 9.6 |

Source: OSK Research

EARNINGS FORECAST

| FYE Dec (RMm) | FY06 | FY07 | FY08f | FY09f | FY10f |
|----------------------|-------------|-------------|--------------|--------------|--------------|
| Turnover | 1,400.4 | 2,781.7 | 3,467.3 | 3,937.6 | 3,020.4 |
| EBITDA | 177.9 | 307.5 | 328.3 | 368.1 | 317.3 |
| PBT | 149.8 | 283.5 | 301.5 | 335.9 | 286.0 |
| Net Profit | 88.1 | 147.9 | 199.0 | 236.4 | 201.4 |
| EPS (sen) | 11.1 | 18.7 | 25.2 | 29.9 | 25.5 |
| DPS (sen) | 2.9 | 4.2 | 6.3 | 7.5 | 6.4 |
| Margin | | | | | |
| EBITDA | 12.7% | 11.1% | 9.5% | 9.3% | 10.5% |
| PBT | 10.7% | 10.2% | 8.7% | 8.5% | 9.5% |
| Net Profit | 6.3% | 5.3% | 5.7% | 6.0% | 6.7% |
| ROE | 12.7% | 15.4% | 16.4% | 17.5% | 13.3% |
| ROA | 4.4% | 5.1% | 5.4% | 5.8% | 4.8% |
| Balance Sheet | | | | | |
| Fixed Assets | 776.0 | 1,045.6 | 1,096.4 | 1,146.4 | 1,191.4 |
| Current Assets | 1,490.2 | 2,438.7 | 2,786.0 | 3,132.4 | 2,954.5 |
| Total Assets | 2,266.2 | 3,484.2 | 3,882.5 | 4,278.8 | 4,146.0 |
| Current Liabilities | 1,120.5 | 1,953.6 | 1,833.0 | 1,984.0 | 1,685.4 |
| Net Current Assets | 369.7 | 485.0 | 953.0 | 1,148.3 | 1,269.2 |
| LT Liabilities | 389.5 | 362.8 | 783.7 | 851.7 | 866.5 |
| Shareholders Funds | 756.2 | 1,167.8 | 1,265.7 | 1,443.1 | 1,594.1 |

OSK Research Guide to Investment Ratings**Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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