

WCT Engineering

Rising above the rest

OUTPERFORM

Maintained

RM3.40

Target: RM4.63

Mkt.Cap: RM2,350m/US\$738m

Construction

WCT MK / WCTE.KL

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Post-election risks emerging

We are turning cautious on the construction sector due to several risks emerging from the changing political landscape, including the possible (i) delay of projects in Selangor and Penang, (ii) slowdown in the rollout of 9MP jobs via the five growth corridors, and (iii) delay in the implementation of RM73.2bn worth of mega projects.

A Gulf region and Vietnam play

Looking beyond local shores. Despite our caution over the prospects for the local construction sector, we still like some companies, especially the ones that offer overseas exposure. We remain positive on the prospects for WCT Engineering as 65% of its orderbook comes from the Gulf region and it also offers long-term exposure to Vietnam. WCTE are now one of our top picks in the sector.

On a roll in the Gulf states. WCT's outstanding construction orderbook comes predominantly from the Gulf states, which make up more than half of its RM5.4bn worth of outstanding jobs. These projects totalling RM3.5bn also represent the company's only exposure to the overseas construction scene. WCT stands out as the only Malaysian contractor with vast exposure to the Middle East. Separately, its maiden US\$700m Platinum project in Ho Chi Minh should contribute handsomely in 2010 and could open the door to more property projects in that region.

Figure 1: WCT Engineering's outstanding order book

Outstanding order book	Outstanding
Overseas	(RM m)
Dubai racecourse	2,228.0
BCC Hotel fit-out	135.0
Abu Dhabi F1	552.0
Dubai Storm Water	10.0
Bahrain City Centre, Bahrain	176.0
Dukhan Highway, Qatar	51.0
New Doha International Airport, Qatar	369.0
Sub-total	3,521.0
As % of total	65.4%
Local civil engineering & infrastructure	
Kota Kinabalu International Airport	394.0
Kajang-Seremban Highway	160.0
Kudat Water Supply	69.0
Bakun Dam	24.0
Sub-total	647.0
As % of total	12.0%
Local building works	
AEON Mall, JB	185.0
Federal government office buildings, Putrajaya (Lot 4G8 & 4G9)	457.0
UiTM Campus	343.0
Tijani 2 Apartments	111.0
AEON Mall, Klang	43.0
Putrajaya Plot 3C4	15.0
others	63.0
Sub-total	1,217.0
As % of total	22.6%
TOTAL	5,385.0

Source: Company, CIMB/CIMB-GK Research

Please read carefully the important disclosures at the end of this publication.

Valuation and recommendation

Reiterate OUTPERFORM but target price cut to RM4.63. We are cutting WCTE's RNAV-based target price from RM5.50 to RM4.63 as we tag our 13.5x P/E target for the construction sector to its construction net profit component, which constitutes 56% of RNAV. WCT does not deserve to trade at a discount to its RNAV given its exposure to the booming Gulf region. Orderbook top-ups are likely to come from this region, offering scope for earnings upside. WCT stays as one of our top picks in the sector

Figure 2: RNAV computations

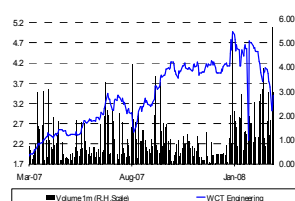
	Value (RM m)		WCT's stake	Value (RM m)	% of total
Toll highways					
PPH, India	328.8		30.0%	98.6	
DE, India	204.7		30.0%	61.4	
Swarna, India	184.5		21.6%	39.8	4.9%
Remaining land bank					
	Acres/sq ft	RM/psf			
Bandar Bukit Tinggi 1	20.1	60.00	100.0%	52.6	
Bandar Bukit Tinggi 2	96.0	60.00	100.0%	250.9	
Bandar Bukit Tinggi 3	362.0	50.00	100.0%	788.4	
Kelana Jaya (Paradigm)	12.4	100.00	100.0%	54.0	
Kota Kinabalu (D'Banyan)	21.5	50.00	100.0%	46.8	
*Platinum Plaza (HCMC)	22.2	70.00	67.0%	45.4	29.2%
2007 PAT					
Construction	171.5	P/E 13.5	100.0%	2,314.8	56.3%
WCT Land 3% 5-year CRDS				55.4	
Associated companies & investments				141.0	
Net current assets less dev. properties				430.3	
Long term debt				(361.8)	
Investment properties				95.4	
Total RNAV				4,113.2	
RNAV/share (RM)				5.96	
Fully diluted RNAV/share (RM)				4.63	
<i>*Surplus value</i>					

Source: CIMB/CIMB-GK estimates

Financial summary

FYE Dec	2006	2007	2008F	2009F	2010F
Revenue (RM m)	1,400.4	2,177.0	2,485.6	2,736.1	3,166.7
EBITDA (RM m)	209.4	301.0	395.8	424.9	538.4
EBITDA margins (%)	15.0%	13.8%	15.9%	15.5%	17.0%
Pretax profit (RM m)	149.8	207.3	304.0	326.5	436.7
Net profit (RM m)	88.1	133.9	190.1	209.9	260.4
EPS (sen)	12.8	19.4	27.6	30.4	37.7
EPS growth (%)	9.6%	52.0%	42.0%	10.5%	23.9%
P/E (x)	26.6	17.5	12.3	11.2	9.0
Gross DPS (sen)	3.4	8.3	8.3	8.3	8.3
Dividend yield (%)	1.0%	2.4%	2.4%	2.4%	2.4%
P/BV (x)	3.9	3.0	2.5	2.1	1.7
ROE (%)	15.6%	19.4%	22.0%	20.4%	21.1%
Net gearing (%)	30.3%	N/A	N/A	N/A	N/A
Net cash per share (RM)	N/A	0.04	0.32	0.61	1.06
P/FCFE (x)	(60.3)	6.7	7.0	10.1	7.0
EV/EBITDA (x)	12.4	7.8	5.5	4.7	3.2
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			0.72	0.71	0.67

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

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OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

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