

WCT Engineering

Greener pastures in the Gulf

| | |
|----------------------------|----------------|
| OUTPERFORM | Maintained |
| RM3.66 | Target: RM5.05 |
| Mkt.Cap: RM2,797m/US\$865m | |
| Construction | |

WCT MK / WCTE.KL

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1Q08 briefing

WCT Engineering held a 1Q08 results briefing on 16 May. Attended by over 30 analysts and fund managers, the briefing touched on the quarter's performance, progress on the group's construction and property ventures, and the outlook for the rest of 2008. The event left us even more assured that WCT offers by far the best exposure to the Gulf region.

Briefing highlights

Expect two key positive news

Additional works for Abu Dhabi F1. Investors can expect two pieces of good news in the months ahead. First is the official award of additional works for the RM2.1bn Abu Dhabi F1 project which we believe could be as much as RM1bn or even more. This is in addition to the RM800m top-up works for the same job, which was awarded to the company earlier this year. WCT expects to announce this in Jun/Jul 08, after reaching agreement on the design and price. The entire job is scheduled to be completed in 3Q09.

Another potential contract. Second is the potential award of a new contract valued at RM800m-1bn from the Gulf states. The scope of works is likely to be similar to the RM1.3bn Bahrain City Centre (BCC) which will be completed in Sep 08. An announcement should be forthcoming in 3Q08.

RM2bn new jobs from the Gulf States? The Gulf region offers WCT's RM5.2bn construction orderbook considerable scope for upside. Currently, projects from this region, which is the only market that WCT has diversified into, make up 71% of its orderbook. The balance comes from local building and infrastructure projects. WCT's overseas exposure is higher than IJM Corp's estimated 40% and Gamuda 41%. Assuming WCT achieved the RM2bn target, which we think is achievable, its orderbook would rise to RM7.2bn.

Smooth progress for core businesses

Two key jobs in Malaysia picking up pace. Out of its existing nine core local contracts, two key jobs will continue to pick up pace. The remaining RM305m of the RM720m Kota Kinabalu Airport upgrade should be completed at end-09. For the RM435m UiTM Campus, the core structure of 22 buildings has been completed and M&E works are progressing well. Works outstanding amount to RM292m and should be completed by end-08.

Outstanding property GDV of RM3.9bn. WCT's local property projects have an outstanding GDV of RM3.9bn. The company has generated RM2.5bn sales to date from its integrated township developments and luxury homes. The RM264m D'Banyan Residency in Sabah is likely to be launched officially in Jul 08. It has already generated pre-launch sales of RM50m.

RM1.4bn Paradigm will move to next phase. The construction of the 4-storey 5,000-bay basement car park is going smoothly. Construction will move to the next phase, i.e. a shopping mall with a net floor area of 700k sq ft. There are no updates on the potential en bloc sale of one of the two office towers. WCT is in advanced talks with three parties, two of which are not local. EPF recently took up a 30% stake in the project.

Comments

No major surprises; more contract wins is a positive. Although there were no major surprises from the briefing, we left feeling more upbeat about the company's outlook in 2008 and beyond. While the pace of local contract awards is admittedly sluggish, WCT should continue to secure more contracts in the Gulf region. It is therefore not too worried about the expected slowdown of 9MP-driven jobs. That said, it has already identified RM500m-700m worth of local jobs in 2009 though it does not expect swift progress on this front over the next few months.

Raising forecasts for stronger construction contributions. We are upping our FY08-09 earnings forecasts by 11-12% while raising FY10 marginally. For FY08, we now assume RM600m of new jobs instead of RM400m while for FY09, we factor in RM1bn of new contracts vs. RM800m previously. Our FY10 assumption of RM800m contract wins is unchanged. Based on our new assumptions which can still be considered conservative, WCT is set for 44% earnings growth in FY08 and 10-12% p.a. in FY09-10.

Figure 1: WCT Engineering's outstanding order book

| Outstanding order book | Outstanding |
|--|----------------|
| Overseas | (RM m) |
| Dubai racecourse | 2,150.0 |
| BCC Hotel fit-out | 135.0 |
| Abu Dhabi F1 | 918.0 |
| Bahrain City Centre, Bahrain | 73.0 |
| Dukhan Highway, Qatar | 54.0 |
| New Doha International Airport, Qatar | 367.0 |
| Sub-total | 3,697.0 |
| As % of total | 70.5% |
| Local civil engineering & infrastructure | |
| Kota Kinabalu International Airport | 305.0 |
| Kajang-Seremban Highway | 118.0 |
| Kudat Water Supply | 56.0 |
| Bakun Dam | 19.0 |
| Sub-total | 498.0 |
| As % of total | 9.5% |
| Local building works | |
| AEON Mall, JB | 159.0 |
| Federal government office buildings, Putrajaya (Lot 4G8 & 4G9) | 457.0 |
| UiTM Campus | 292.0 |
| Tijani 2 Apartments | 93.0 |
| Putrajaya Plot 3C4 | 14.0 |
| others | 33.0 |
| Sub-total | 1,048.0 |
| As % of total | 20.0% |
| TOTAL | 5,243.0 |

Source: Company, CIMB/CIMB-GK Research

Valuation and recommendation

Reiterate OUTPERFORM with higher target price of RM5.05. With our forecast upgrade, our RNAV-based target price rises from RM4.63 to RM5.05 due to the higher CY08 net profit component which remains pegged to a P/E of 13.5x and makes up 58% of our total RNAV. WCT remains one of our top picks in the construction sector as it offers long-term exposure to Vietnam and even stronger exposure to the booming Gulf region. P/E valuations are undemanding at 13-14x for FY08-09 and 11.4x for FY10. The company offers by far the best Gulf region exposure amidst an uncertain local construction sector. For added leverage, investors may consider its warrants. Re-rating catalysts are new contract wins in the Gulf region in the coming months. Our new target price implies 38% upside.

Figure 2: RNAV computations

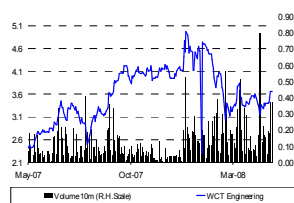
| | Value (RM m) | | WCT's stake | Value (RM m) | % of total |
|---|-----------------|--------|----------------|-----------------|------------|
| Toll highways | | | | | |
| PPH, India | 328.8 | | 30.0% | 98.6 | |
| DE, India | 204.7 | | 30.0% | 61.4 | |
| Swarna, India | 184.5 | | 21.6% | 39.8 | 4.4% |
| 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 | 26.5% |
| Construction | | | | | |
| | 2007 PAT | P/E | | | |
| | 193.1 | 13.5 | 100.0% | 2,606.4 | 57.6% |
| Associated companies & investments | | | | 142.4 | |
| Net current assets less dev. properties | | | | 561.8 | |
| Long term debt | | | | (635.6) | |
| Investment properties | | | | 410.2 | |
| Total RNAV | | | | 4,523.3 | |
| RNAV/share (RM) | | | | 5.92 | |
| Fully diluted RNAV/share (RM) | | | | 5.05 | |
| *Surplus value | | | | | |

Source: CIMB/CIMB-GK estimates

Financial summary

| FYE Dec | 2006 | 2007 | 2008F | 2009F | 2010F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue (RM m) | 1,400.4 | 2,835.1 | 2,685.6 | 2,936.1 | 3,166.7 |
| EBITDA (RM m) | 209.4 | 213.1 | 425.8 | 454.9 | 538.4 |
| EBITDA margins (%) | 15.0% | 13.8% | 15.9% | 15.5% | 17.0% |
| Pretax profit (RM m) | 149.8 | 261.5 | 334.5 | 358.0 | 438.4 |
| Net profit (RM m) | 88.1 | 146.7 | 213.0 | 233.5 | 261.7 |
| EPS (sen) | 12.8 | 19.4 | 27.9 | 30.6 | 34.2 |
| EPS growth (%) | 9.6% | 52.0% | 43.6% | 9.7% | 12.1% |
| P/E (x) | 28.7 | 18.9 | 13.1 | 12.0 | 10.7 |
| Core EPS (sen) | 13.1 | 19.4 | 27.9 | 30.6 | 34.2 |
| Core EPS growth (%) | 10.2% | 48.5% | 43.6% | 9.7% | 12.1% |
| Core P/E (x) | 28.0 | 18.9 | 13.1 | 12.0 | 10.7 |
| FD core EPS (sen) | 13.1 | 19.4 | 26.4 | 28.8 | 32.1 |
| FD core P/E (x) | 28.0 | 18.9 | 13.9 | 12.7 | 11.4 |
| Gross DPS (sen) | 3.4 | 8.3 | 8.3 | 8.3 | 8.3 |
| Dividend yield (%) | 0.9% | 2.3% | 2.3% | 2.3% | 2.3% |
| P/BV (x) | 4.3 | 3.2 | 2.9 | 2.4 | 2.0 |
| ROE (%) | 15.6% | 19.4% | 24.3% | 21.9% | 20.4% |
| Net gearing (%) | 30.3% | N/A | N/A | N/A | N/A |
| Net cash per share (RM) | N/A | 0.04 | 0.34 | 0.63 | 1.03 |
| P/FCFE (x) | (64.9) | 7.2 | 7.5 | 11.0 | 8.7 |
| EV/EBITDA (x) | 13.3 | 8.4 | 6.1 | 5.2 | 3.9 |
| % change in EPS estimates | | | 12.1% | 11.2% | 0.5% |
| CIMB/Consensus (x) | | | 0.79 | 0.75 | 0.73 |

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 3: Sector comparisons

| | Bloomberg ticker | Recom. | Price (Local) | Target price (Local) | Mkt cap (US\$ m) | Core P/E (x) CY2008 | Core P/E (x) CY2009 | 3-yr EPS CAGR (%) | P/BV (x) CY2008 | ROE (%) CY2008 | Div yield (%) CY2008 |
|-----------------------|---------------------|--------|------------------|----------------------------|---------------------|---------------------------|---------------------------|-------------------------|-----------------------|----------------------|----------------------------|
| WCTE | WCT MK | O | 3.66 | 5.05 | 865 | 13.1 | 12.0 | 18.3 | 2.9 | 24.3 | 1.2 |
| IJM Corp | IJM MK | N | 6.00 | 6.90 | 1,595 | 15.2 | 13.3 | (4.3) | 2.2 | 6.3 | 2.6 |
| Gamuda | GAM MK | O | 3.20 | 5.56 | 1,983 | 12.7 | 8.4 | 65.2 | 2.4 | 19.4 | 7.8 |
| MRCB | MRC MK | TB | 1.67 | 2.30 | 469 | 20.6 | 15.9 | 28.0 | 1.9 | 9.9 | 1.3 |
| MTD ACPI | ACP MK | O | 1.04 | 3.16 | 75 | 4.6 | 3.6 | 197.0 | 0.7 | 17.3 | 0.9 |
| Mudajaya | MDJ MK | O | 3.68 | 4.90 | 167 | 11.0 | 9.1 | 33.8 | 1.9 | 22.3 | 2.2 |
| Simple average | | | | | | 12.9 | 10.4 | 56.2 | 2.0 | 16.5 | 2.7 |

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

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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.

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

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STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

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.

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

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