

Company Focus

WCT

Bloomberg: WCT MK | Reuters: WCTE.KL

Malaysia Equity Research PP 11272/04/2009(021317)

3 Nov 2008

BUY RM1.27 KLCI : 863.61

Price Target : 12 months RM 2.20 (Prev RM 4.05)

Reason for Report : Company update

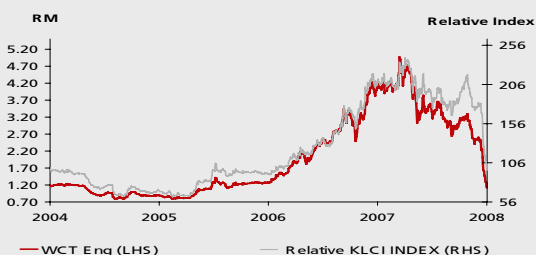
Potential Catalyst: New construction/infrastructure projects

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2007A	2008F	2009F	2010F
Turnover	2,782	3,982	4,627	4,650
EBITDA	290	342	384	384
Pre-tax Profit	284	302	307	302
Net Profit	148	172	193	207
Net Pft (Pre Ex.)	148	172	193	207
EPS (sen)	21.8	19.1	21.4	23.1
EPS Pre Ex. (sen)	21.8	19.1	21.4	23.1
EPS Gth Pre Ex (%)*	6	(12)	12	8
Diluted EPS (sen)	21.8	19.1	21.4	23.1
Net DPS (sen)	5.5	7.4	7.5	7.5
BV Per Share (sen)	131.1	154.6	171.0	187.8
PE (X)	5.8	6.6	5.9	5.5
PE Pre Ex. (X)	5.8	6.6	5.9	5.5
P/Cash Flow (X)	5.9	6.0	4.6	4.2
EV/EBITDA (X)	4.7	4.9	4.4	4.3
Net Div Yield (%)	4.3	5.8	5.9	5.9
P/Book Value (X)	1.0	0.8	0.7	0.7
Net Debt/Equity (X)	0.2	0.2	0.2	0.1
ROAE (%)	20.0	16.5	15.0	14.1

Earnings Rev (%) :	(12.4)	(13.7)	(14.5)
Consensus Net Profit (RMm) :	213	249	259

*08 EPS is fully diluted for 5-year warrants issued in Mar 08. Net profit growth is 16% in FY08.

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Construction and property development

Built to last

Story: WCT is now trading at 0.82x NTA, close to its historical low point of 0.76x NTA in July 1998 (which implies RM1.17/share on 08 NTA). This implies that current share price has discounted its net asset values for its construction and property businesses; and factors in zero value for profit on its outstanding order book of RM5.1b (estimated at RM0.24/share assuming average of 5% margin) and potential profit from development of its RM1.6b GDV Bandar Bukit Tinggi and Kota Kinabalu developments (estimated at RM0.27/share assuming average 23% margin).

Point: Medium term operating outlook has improved. Steel prices have corrected sharply from approximately RM4,100/t at the peak to RM3,100/t currently – easing margin pressures for construction earnings. Outstanding order book stands at RM5.1b, sufficient to support construction revenue growth until FY09. We reduce our FY08-10 net profit forecast by 12-15% factoring in:- 1) lower construction margins in FY08 because of steel contracted at higher prices (before the correction); 2) lower contributions from property development in Bandar Bukit Tinggi and slower Paradigm en bloc sales. The decline in crude oil dampens the Middle East petrodollar funded infrastructure boom. However, our FY08 earnings are all based on secured contracts while 3% of our FY09 forecast is based on unsecured orders.

Relevance: We reduce our RNAV-based price target to RM2.20, factoring in the earnings reduction and lower sector multiples. Further consensus downgrades and relatively high foreign shareholding levels of 22%, as at end Sep, might still result in share price pressure in the immediate term. However, in our opinion the stock is oversold and valuations are compelling – at 5.9x FD FY09 EPS and 0.82x NTA. Catalysts include clinching new projects in the Middle East and potential government prime pumping. Several directors have been accumulating WCT shares following the recent sell-down. Buy.

At A Glance

Issued Capital (m shrs)	771
Mkt. Cap (RMm/US\$m)	979 / 277
Major Shareholders	
WCT Capital (%)	21.1
Employees Provident Fund (%)	18.5
Free Float (%)	79
Avg. Daily Vol. ('000)	2,171

Earnings cut

We reduce our FY08-FY10 net profit forecast by 12-15% incorporating the following:-

- 1) For FY08, we factor in lower margins reflecting effects of higher steel prices. This is for steel contracted before the sharp correction in July 08. We expect this to be for steel used mainly in 3Q08 and some in 4Q08. However, with the sharp correction of steel prices, the margin pressures on next year's profit should ease.
- 2) Sentiment for property remains weak. We understand the Group has delayed three planned launches for Bandar Bukit Tinggi. This will largely be felt in next year's forecast. We also assume that there are slower en bloc sales on Paradigm in FY09.

Less aggressive building up in Middle East?

Following the sharp drop in crude oil prices, Middle East countries may not be as aggressive in building up infrastructure and property projects. Of the Group's estimated outstanding RM5.1b order book, 67% is from the Middle East (35%: Dubai, 22%: Abu Dhabi, 7%: Qatar, 4%: Bahrain).

Going forward, expect the Group's focus to shift towards Abu Dhabi, which is reported to own more than 90% of the UAE's oil reserves. *Bloomberg* reported that Dubai may need help from Abu Dhabi and the UAE government to finance a surge in borrowings that paid for surge in construction projects and investments. Although the lower oil price may mean relatively lesser projects (compared to when oil was at US\$140/bbl), we note that iconic projects such as the Abu Dhabi F1 and Meydan Racecourse was awarded when oil was below US\$80/bbl.

Existing order book to support construction division until FY09

We expect existing outstanding order book of RM5.1b (RM6.0b including in-house works on Paradigm) to support construction revenue growth until FY09. Earnings will be largely driven by its two main projects – Meydan Racecourse (35% of order book) and the Abu Dhabi F1 (22%). Our FY08 earnings are all based on secured contracts while 3% of our FY09 forecast is based on unsecured orders. We understand the Group is in discussions for new projects. Its high portion of secured order book means that the Group has more than one year to secure new projects for FY10 earnings.

Outstanding order book, as at end-June

Project	Outstanding value (RMm)
Middle East	
Meydan Racecourse, Dubai	1,822
Abu Dhabi F1	1,112
New Doha International Airport	294
Bahrain City Center	185
Dukhan Highway, Qatar	57
Domestic Infrastructure	
Kota Kinabalu Airport	280
Kajang-Seremban Highway	90
Kudat Water Supply	56
Bakun	20
Domestic Building	
AEON Malacca	288
UiTM	238
Putrajaya towers	450
AEON Johor	127
Tijani 2	80
Putrajaya Lot 3C4	14
Others	33
Total	5,146

Source: Company, DBS Vickers

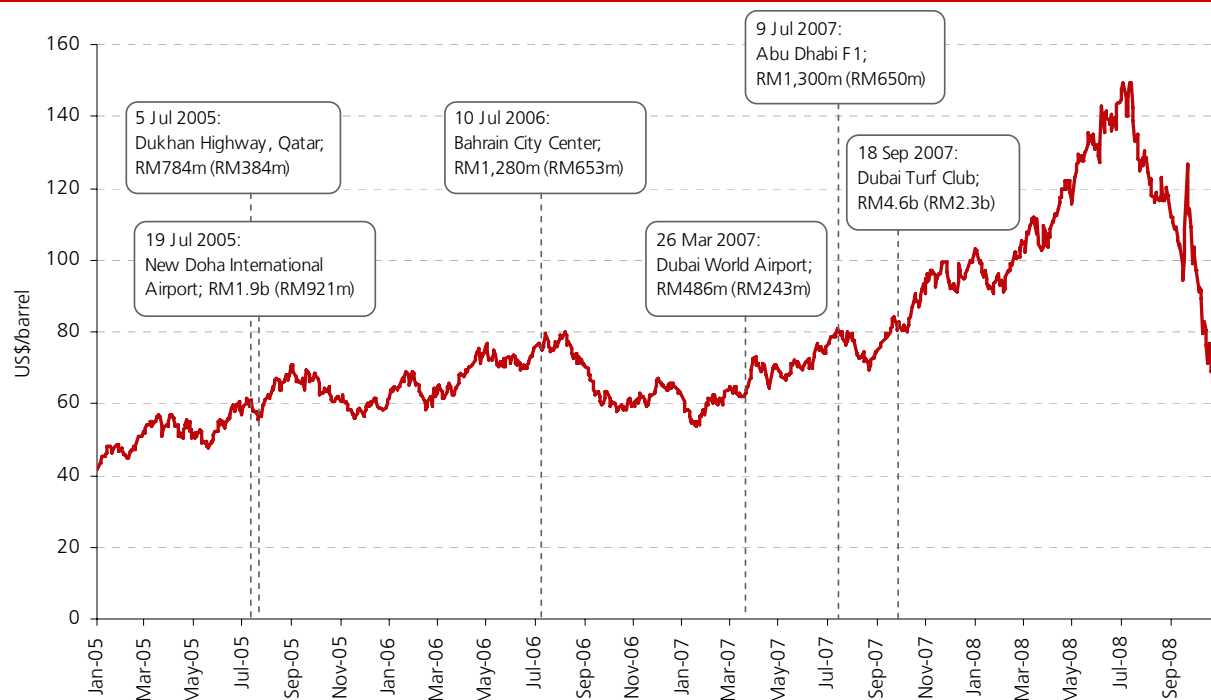
In our forecast, construction margins average 5-7% from FY08-10. This factors in marked down margins for existing domestic project margins. Every 1% increase in margin lifts our net profit forecast by 23%.

Valuations

Factoring in the earnings reduction and lower sector multiples, we reduce our RNAV-based price target to RM2.20. Further consensus downgrades might put pressure on share price. However, we believe downside should be limited given that P/NTA is close to 98 crisis levels. The stock is only trading at 5.9x FY09 EPS and 0.82x NTA.

This implies that current share price has discounted net asset values for its construction and property businesses; and factors in zero value for its outstanding order book of RM5.1b and potential profit from development of its RM1.6b GDV Bandar Bukit Tinggi and Kota Kinabalu development. Buy.

WCT's Middle East contracts secured when oil below US\$80/bbl



Note: Value in brackets indicate WCT's share of contract.

Source: Bloomberg, HwangDBS Vickers Research

Comparison table (sorted by market capitalisation)

Company	Price	Target	Diluted P/E (x)		Mkt cap	Est. Order Bk	Mkt cap/ ord bk	Net tangible asset	P/NTA
	(RM)	(RM)	CY08	CY09	(RMb)	(RMb)	(x)	(RM)	(x)
Gamuda	1.49	3.00	8.7	7.6	3.0	9.5	0.3	1.51	1.0
IJM Corp	2.54	5.40	6.3	5.5	2.2	5.5	0.4	5.31	0.5
WCT	1.27	2.20	6.6	5.9	1.0	5.1	0.2	1.52	0.8
MRCB	0.61	1.35	9.1	7.2	0.6	1.6	0.3	0.79	0.8
Sunway Holdings	0.59	1.10	3.6	3.1	0.3	2.0	0.2	1.10	0.5
TRC Synergy	1.00	1.30	6.0	5.4	0.1	0.8	0.2	1.55	0.6
Average			6.7	5.8			0.3		0.7

Source: Bloomberg, HwangDBS Vickers Research

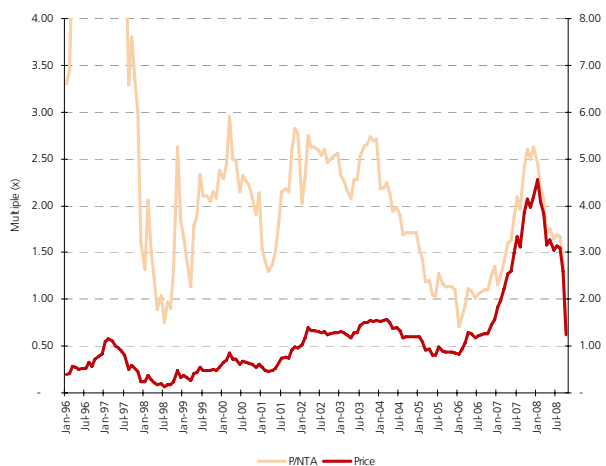
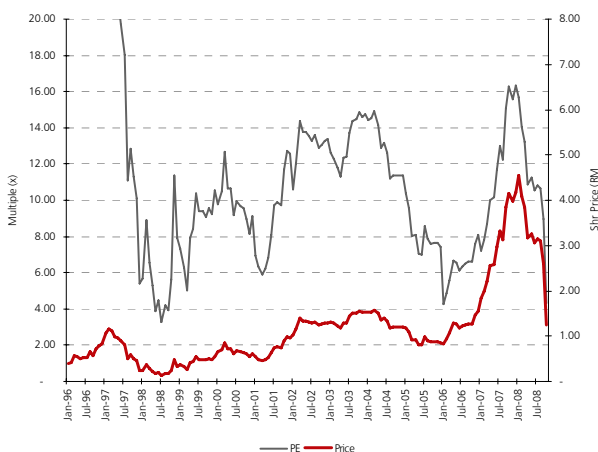
RNAV calculation

Division	Value (RMm)	Comment
Construction	1,176.9	9.4x sustainable profit of RM125m, which is 20% discount from 08-10 forecast levels. 9.4x represents 15% discount to 04-06 levels when construction sector registered negative growth.
Investment property	309.3	On net book value
Property development profit	282.0	Discount development profits at 11%
India toll concessions	94.1	1.1x estimated NTA
Sub-total	1,862.2	
Cash from warrant conversion	209.8	Assume 50% of warrants exercised. 5-year warrant issued in Mar 08. Exercise price RM3.00.
RNAV	2,072.1	
Share base (m)	851.7	
RNAV/share (RM)	2.19	
Implied FD 09 PE (x)	10.2	
Implied basic 09 PE (x)	9.1	

Source: HwangDBS Vickers Research

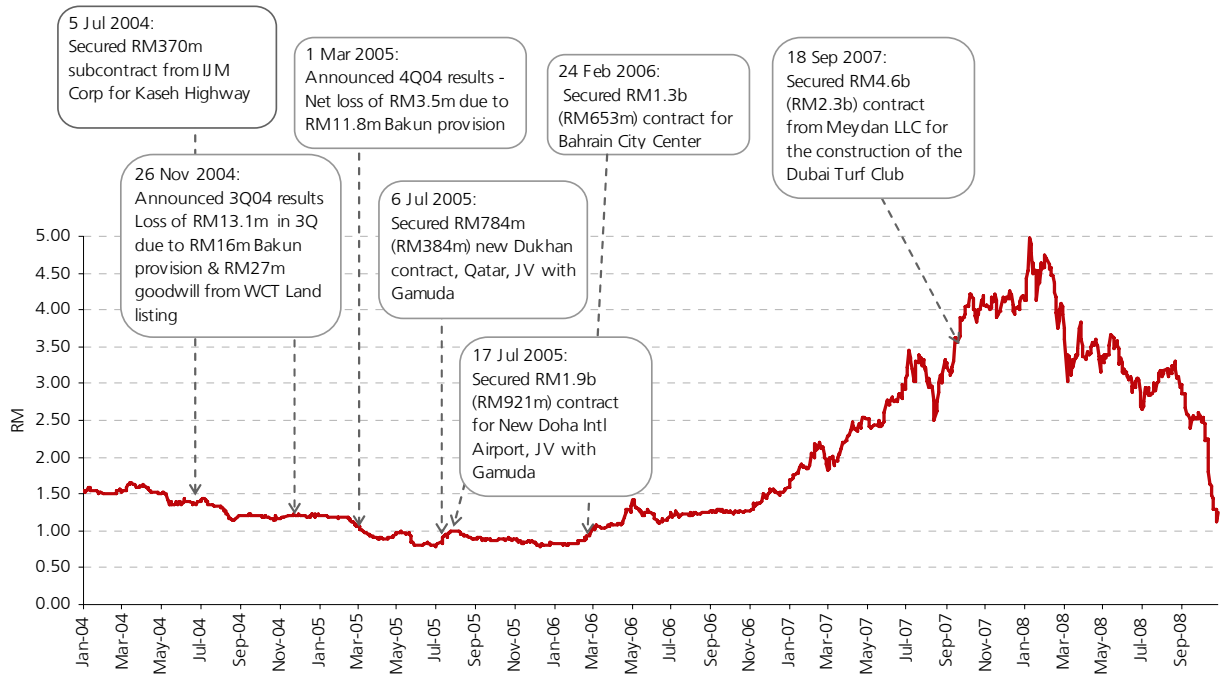
Historical forward PE range – at the low end

Historical forward P/NTA range – currently 8% above all time low in 98 crisis of 0.76x NTA



Source: HwangDBS Vickers Research

WCT's share price and major events



Note: Value in brackets indicate WCT's share of contract.
 Source: HwangDBS Vickers Research

Income Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Turnover	2,782	3,982	4,627	4,650
Cost of Goods Sold	(2,477)	(3,625)	(4,256)	(4,279)
Gross Profit	305	357	371	371
Other Opng (Exp)/Inc	(22)	(41)	(51)	(60)
Operating Profit	283	316	320	311
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	10	8	9	9
Net Interest (Exp)/Inc	(9)	(22)	(21)	(19)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	284	302	307	302
Tax	(54)	(42)	(39)	(40)
Minority Interest	(81)	(88)	(75)	(54)
Preference Dividend	0	0	0	0
Net Profit	148	172	193	207
Net Profit before Except.	148	172	193	207
EBITDA	290	342	384	384
Sales Gth (%)	98.6	43.1	16.2	0.5
EBITDA Gth (%)	76.2	18.2	12.2	0.0
Opg Profit Gth (%)	77.5	11.8	1.1	(2.7)
Net Profit Gth (%)	67.9	16.2	12.1	7.7
Effective Tax Rate (%)	19.2	14.1	12.8	13.4

Cash Flow Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	284	302	307	302
Dep. & Amort.	7	26	65	73
Tax Paid	(58)	(42)	(39)	(40)
Assoc. & JV Inc/(loss)	(10)	(8)	(9)	(9)
Chg in Wkg. Cap.	(86)	(154)	(83)	(68)
Other Operating CF	(9)	47	53	60
Net Operating CF	127	171	295	318
Capital Exp.(net)	(159)	(200)	(150)	(150)
Other Invt.(net)	64	0	0	0
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	39	0	0	0
Net Investing CF	(57)	(200)	(150)	(150)
Div Paid	(33)	(57)	(60)	(62)
Chg in Gross Debt	7	80	80	80
Capital Issues	196	42	42	42
Other Financing CF	57	(47)	(53)	(60)
Net Financing CF	227	18	9	0
Net Cashflow	297	(11)	154	168

Quarterly / Interim Income Statement (RM m)

FY Dec	3Q2007	4Q2007	1Q2008	2Q2008
Turnover	631	885	920	942
Cost of Goods Sold	(549)	(838)	(841)	(845)
Gross Profit	82	47	79	97
Other Oper. (Exp)/Inc	(6)	19	(1)	(4)
Operating Profit	76	66	78	93
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	4	7	3
Net Interest (Exp)/Inc	(7)	(7)	(8)	(12)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	71	64	77	84
Tax	(8)	0	(10)	(9)
Minority Interest	(24)	(17)	(11)	(30)
Net Profit	39	47	56	45
Net profit bef Except.	39	47	56	45
Sales Gth (%)	(17.9)	40.3	4.0	2.4
Opg Profit Gth (%)	(13.1)	(13.1)	17.1	19.5
Net Profit Gth (%)	15.3	20.2	18.8	(19.3)
Gross Margins (%)	13.0	5.3	8.6	10.3
Opg Profit Margins (%)	12.1	7.5	8.5	9.9
Net Profit Margins (%)	6.2	5.3	6.0	4.8

Balance Sheet (RM m)

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	478	652	737	814
Invt in Associates & JVs	141	149	158	167
Other LT Assets	427	427	427	427
Cash & ST Invt	711	700	853	1,021
Inventory	352	393	414	415
Debtors	1,326	1,834	2,107	2,181
Other Current Assets	50	50	50	50
Total Assets	3,484	4,204	4,746	5,075
ST Debt	585	585	585	585
Other Current Liab	1,368	1,763	1,975	1,983
LT Debt	357	437	517	597
Other LT Liabilities	5	5	5	5
Shareholder's Equity	889	1,199	1,373	1,561
Minority Interests	279	214	290	344
Total Cap. & Liab.	3,484	4,204	4,746	5,075
Non-Cash Wkg. Capital	360	514	596	664
Net Cash/(Debt)	(232)	(323)	(250)	(162)

Rates & Ratio

FY Dec	2007A	2008F	2009F	2010F
Gross Margins (%)	10.9	9.0	8.0	8.0
Opg Profit Margin (%)	10.2	7.9	6.9	6.7
Net Profit Margin (%)	5.3	4.3	4.2	4.5
ROAE (%)	20.0	16.5	15.0	14.1
ROA (%)	5.1	4.5	4.3	4.2
ROCE (%)	12.9	11.9	10.7	9.2
Div Payout Ratio (%)	25.1	33.4	31.3	30.1
Net Interest Cover (x)	31.3	14.4	15.4	16.7
Asset Turnover (x)	1.0	1.0	1.0	0.9
Debtors Turn (avg days)	137.3	144.8	155.4	168.3
Creditors Turn (avg days)	156.7	154.5	159.0	168.0
Inventory Turn (avg days)	47.2	37.8	35.1	36.0
Current Ratio (x)	1.2	1.3	1.3	1.4
Quick Ratio (x)	1.0	1.1	1.2	1.2
Net Debt/Equity (X)	0.2	0.2	0.2	0.1
Capex to Debt (%)	16.9	19.6	13.6	12.7
N. Cash/(Debt)/PS (sen)	(34.2)	(41.7)	(31.1)	(19.5)
Opg CFPS (sen)	31.4	36.1	42.0	42.8
Free CFPS (sen)	(4.7)	(3.3)	16.1	18.6

Segmental Breakdown

FY Dec	2007A	2008F	2009F	2010F
Revenues (RM m)				
Construction	2,438	3,684	4,321	4,296
Property	257	207	210	254
Trading	87	91	96	100
Total	2,782	3,982	4,627	4,650
Pretax profit (RM m)				
Construction	190	238	244	219
Property	97	63	59	75
Trading	1	5	5	5
Total	288	305	309	299
Pretax profit margins (%)				
Construction	7.8	6.5	5.7	5.1
Property	37.9	30.2	28.3	29.6
Trading	1.0	5.1	5.1	5.1
Total	10.3	7.7	6.7	6.4

Source: Company, DBS Vickers

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