

WCT Berhad

1st contract secured for 2012

WCT has secured a M\$300.5MM construction contract for the proposed design and construction of the Ministry of International Trade & Industry building, the company's first contract secured in 2012, representing 17% of our M\$1.8B new order assumption. After a disappointing 2011, we expect the stock to re-rate on this favourable news. Stock is up more than 7% YTD, pricing in some good news, but we expect more to come. 2012 P/E remains cheap at 11.7x vs. historical average of 13x. Maintain OW.

- **Project details.** The project involves the construction of a 31-storey office tower, a 2-storey car park and a 3-storey podium, to be completed in Feb 2015. We expect decent construction PBT margins of 8-10%.
- **Brings back hope.** In just over a month, WCT has surpassed the M\$187MM new construction orders for FY11, which fell short of the company's M\$2B guidance. No doubt, the stock has been punished with a 25% underperformance vs. the market in the last 12 months. We expect this project to be one of the many projects that WCT is likely to secure in 2012. In our report dated 25 Jan entitled "*WCT: 2012 is likely to be a busy year*", we highlighted that construction order flows are likely to be near-term drivers, and we are of the view that securing at least M\$1B of new construction orders in 1Q11 is not impossible.
- **We maintain our constructive view on WCT** given the company's excellent skillsets in civil infrastructure construction and building works, and lean cost structure, allowing the company to be competitive in bids. WCT's downfall in FY11 was its desire to be selective in securing jobs, turning away lower margin projects as global conditions deteriorated in 2H11. Given the choice, we believe WCT will focus more on jobs in Malaysia, where the risk-reward is better.

Overweight

WCTE.KL, WCT MK

Price: M\$2.55

Price Target: M\$3.10

Malaysia

Construction

Hoy Kit Mak ^{AC}

(60-3) 2270-4728

hoykit.mak@jpmorgan.com

JPMorgan Securities (Malaysia) Sdn. Bhd.
(18146-X)

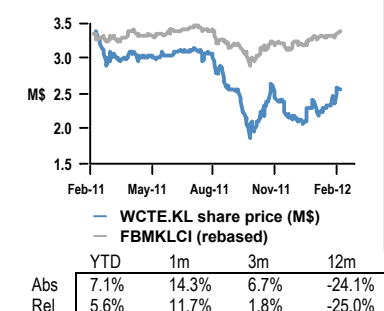
Karen Li, CFA

(852) 2800-8589

karen.yy.li@jpmorgan.com

J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



WCT Berhad (Reuters: WCTE.KL, Bloomberg: WCT MK)

M\$ in mn, year-end Dec	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue (M\$ mn)	4,842	1,709	1,667	2,046	2,710
Reported Net Profit (M\$ mn)	147	141	164	188	215
FD EPS (M\$)	0.16	0.18	0.20	0.22	0.24
Net DPS (M\$)	0.07	0.07	0.07	0.07	0.07
Revenue growth (%)	30.5%	-64.7%	-2.4%	22.8%	32.4%
FD EPS growth (%)	11.4%	12.8%	11.2%	10.6%	11.2%
ROE (%)	12.2%	10.5%	10.5%	10.5%	10.9%
ROCE (%)	10.3%	11.7%	8.2%	8.8%	9.8%
Adj P/E (x)	16.2	14.4	12.9	11.7	10.5
P/B (x)	1.6	1.4	1.2	1.1	1.0
EV/EBITDA (x)	6.5	5.5	6.6	5.7	4.9
Net Div yield (%)	2.7%	2.9%	2.9%	2.9%	2.9%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	806
Market cap (M\$ mn)	2,055
Market cap (\$ mn)	681
Price (M\$)	2.55
Date Of Price	08 Feb 12
Free float (%)	59.3%
3mth Avg daily volume	1.42
3M - Average daily Value (M\$ mn)	3.29
Average 3m Daily Turnover (\$ mn)	1.09
FBMKLCI	1,539
Exchange Rate	3.02
Fiscal Year End	Dec

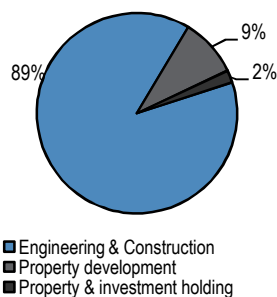
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Company Description

WCT's infrastructure skillsets range from construction of roads, airports, to water-related projects. Builder of three of the world's Formula 1 tracks - Sepang, Bahrain, and Abu Dhabi. Involved in residential and commercial property development in Malaysia and Vietnam. WCT also owns the AEON shopping mall and a hotel in the Klang Valley and will add several more malls and hotels to its portfolio at The Paradigm (Klang Valley), Platinum Plaza (Vietnam) and LCCT Integrated Complex (Klang Valley). Owns two Indian highway concessions.

Revenue customer chart (FY11E)



Source: J.P. Morgan estimates

EPS: J.P. Morgan vs consensus

	J. P. Morgan	Consensus
FY11E	0.20	0.19
FY12E	0.22	0.22
FY13E	0.24	0.26

Source: J.P. Morgan estimates, Bloomberg

P&L sensitivity metrics

	FY11E EPS impact (%)
Impact of each M\$1B increase in new construction orders (Base case = M\$1.8B)	9.10%
Impact of each 1 ppt increase in construction PBT margin (Base case = 8.9%)	5.90%
Impact of each M\$100MM increase in new property sales (Base case = M\$1.1B)	3.30%
Impact of each 1-ppt increase in property PBT margin (Base case = 28.7%)	3.60%

Source: J.P. Morgan estimates

Price target and valuation analysis

Our valuation methodology is based on SoTP. We apply a 13x PER on FY13E construction earnings, in line with its historical average P/E, and 12x multiple to property division earnings, in line with sector average. WCT's shopping mall leases (currently reflects only AEON Bukit Tinggi (100%-owned) and Paradigm shopping mall with 700,000 sq ft net lettable area, 70%-owned) is valued based on DCF at CoE of 9%).

Segment	Method	M\$ / shr
Construction	P/E of 13x	2.12
Property	P/E of 12x	1.83
AEON shopping mall lease	DCF @ 9%	0.42
	CoE	
Paradigm shopping mall lease	DCF @ 9%	0.21
	CoE	
Net debt & others		-0.25
SoTP		4.33
Dec 2012 PT (FD)		3.10

At our Dec-12 PT of M\$3.10, WCT would be trading on FY12 P/E of 10.6x, below mean of 13x. We believe the stock should mean revert as it starts to deliver on construction order flows. Going forward, the drivers are domestic-led infrastructure spending. The key risks to our PT are slower than expected rollout of infrastructure projects, and sharp spikes in building material costs.

Table 1: Peer comparison

As at: 08 Feb-12	Ticker	Rating	Price	Mkt cap	P/E ratio		2yr EPS CAGR	Div Yld	ROE	P/B	Net Gearing	Target	
			(M\$)	(US\$m)	CY12E	CY13E	2011 - 13E	FY12E	FY12E	FY12E	FY12E	(LC)	
	Gamuda	GAM MK	N	3.90	2,680	16.2	14.2	13.0%	2.1%	12.5	2.0	1.8%	3.20
	Hock Seng Lee	HSL MK	NR	1.49	305	8.4	7.9	18.4%	2.3%	21.7	1.7	NA	NR
	IJM Corp	IJM MK	OW	6.00	2,774	15.8	13.1	25.8%	2.1%	8.5	1.6	31.1%	7.00
	WCT	WCT MK	OW	2.58	692	11.8	10.7	10.8%	2.9%	10.5	1.1	4.2%	3.10
Weighted average					6,452	15.2	13.1	18.5%	2.2%	11.0	1.7	27.1%	

Source: J.P. Morgan estimates, Bloomberg, Bloomberg consensus for Hock Seng..

Potential new construction order flows

Construction order flows are likely to be near-term drivers for WCT, and we are of the view that securing at least M\$1B of new construction orders in 1Q11 is not impossible.

According to management, among the local key projects WCT is keen to participate in 2012 in include:-

- 1) government buildings (MiTi building is one of them),
- 2) Vale's pellatising plant infrastructure work
- 3) Pahang Selangor Raw Water Transfer (Langat 2)
- 4) Kuala Lumpur International Financial District
- 5) Southern Double Tracking (Gemasp-Johor Bahru)
- 6) West Coast Expressway (sub-contract works from IJM)
- 7) Penang traffic alleviation
- 8) PNB buildings
- 9) hospitals (we think this is in Sabah)

Overseas, WCT is keen to pursue the following projects:-

- 1) Oman expressways
- 2) Qatar earthworks and infrastructure works
- 3) Qatar roads and expressways
- 4) Qatar rail net work
- 5) Bahrain International Airport extension

Table 2: WCT - Latest outstanding orderbook (30 September 2011)

Overseas	M\$MM
Governmental Administrative Building in Doha, Qatar	1,224.0
New Doha International Airport, Qatar	53.0
Others	3.0
Domestic	
LCCT mall	392.0
Tuaran Hospital in Sabah	107.0
LCCT earthworks	69.0
Vale Civil Works, Perak	112.0
Medini Iskandar, Johor	230.0
Pinewood studios, Medini	26.0
Bakun Hydro Dam	60.0
Putrajaya Lot	
4G9	23.0
4G8	22.0
AEON Melaka	28.0
UiTM Campus	36.0
Others	28.0
Internal jobs (Paradigm/others)	556.0
Total	2,969.0

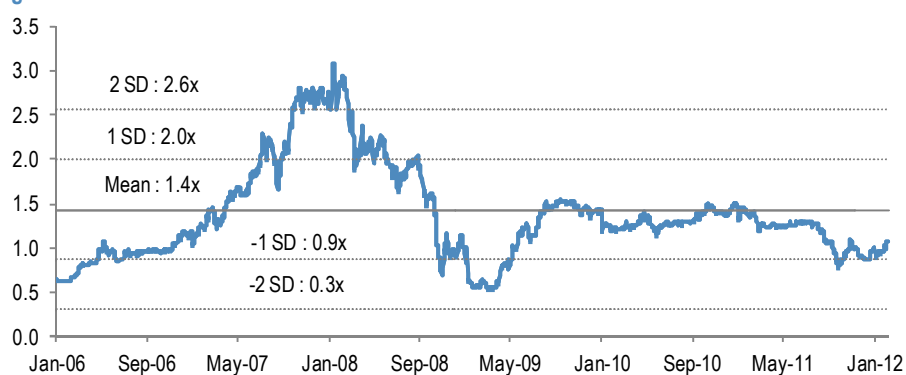
Source: Company

Figure 1: PE Band



Source: J.P. Morgan estimates.

Figure 2: PB Band



Source: J.P. Morgan estimates.

WCT Berhad: Summary of Financials

Income Statement						Cash flow statement					
M\$ in millions, year end Dec	FY09	FY10	FY11E	FY12E	FY13E	M\$ in millions, year end Dec	FY09	FY10	FY11E	FY12E	FY13E
Revenues	4,842	1,709	1,667	2,046	2,710	Operating profit	184	226	198	229	275
% change Y/Y	30.5%	(64.7%)	(2.4%)	22.8%	32.4%	Depr. & amortization	87	67	69	82	99
EBITDA	313	346	293	338	400	Change in working capital	153	-188	-47	-41	-64
% change Y/Y	4.9%	10.5%	-15.3%	15.4%	18.5%	Taxes	5	-48	-56	-62	-82
EBIT	225	279	224	256	302	Other	-181	-36	32	119	100
% change Y/Y	1.8%	23.7%	NM	14.2%	17.8%	Cash flow from operations	247	22	195	327	327
EBIT Margin	4.7%	16.3%	13.5%	12.5%	11.1%	Capex	-33	-61	-100	-200	-200
Net Interest	-41	-52	-27	-27	-26	Disposal/(purchase)	-	-	-	-	-
Earnings before tax	211	257	220	250	298	Net Interest	-41	-52	-27	-27	-26
% change Y/Y	56.1%	21.9%	-14.5%	13.6%	19.2%	Free cash flow	173	-92	68	101	101
Tax	5	-48	-56	-62	-82	Equity raised/(repaid)	0	11	0	0	0
as % of EBT	2.3%	18.6%	25.4%	24.9%	27.7%	Debt raised/(repaid)	-153	606	88	-148	-137
Core net profit	137	143	164	188	215	Other	37	-12	-171	64	52
% change Y/Y	-13.1%	3.8%	15.0%	14.5%	14.7%	Dividends paid	-56	-59	-59	-59	-59
Shares outstanding	785	790	790	790	790	Beginning cash	695	698	1,151	1,076	1,034
Core EPS	0.18	0.18	0.21	0.24	0.27	Ending cash	698	1,151	1,076	1,034	993
% change Y/Y	-14.6%	3.1%	15.0%	14.5%	14.7%	DPS	0.07	0.07	0.07	0.07	0.07
Fully diluted EPS	0.16	0.18	0.20	0.22	0.24						
% change Y/Y	11.4%	12.8%	11.2%	10.6%	11.2%						
Balance sheet						Ratio Analysis					
M\$ in millions, year end Dec	FY09	FY10	FY11E	FY12E	FY13E	M\$ in millions, year end Dec	FY09	FY10	FY11E	FY12E	FY13E
Cash and cash equivalents	698	1,163	1,076	1,034	993	EBITDA margin	6.5%	20.2%	17.6%	16.5%	14.8%
Accounts receivable	1,473	1,135	822	1,009	1,336	Operating margin	3.8%	13.3%	11.9%	11.2%	10.2%
Inventories	114	74	75	94	127	Net margin	3.0%	8.3%	9.8%	9.2%	8.0%
Others	269	253	253	253	253						
Current assets	2,553	2,626	2,227	2,390	2,709	Sales per share growth	28.2%	(65.0%)	(2.4%)	22.8%	32.4%
LT investments	-	-	-	-	-	Sales growth	30.5%	(64.7%)	(2.4%)	22.8%	32.4%
Net fixed assets	1,925	2,155	2,261	2,414	2,551	Net profit growth	88.2%	-4.0%	16.2%	14.5%	14.7%
Total Assets	4,479	4,781	4,487	4,803	5,260	EPS growth	85.0%	(4.7%)	16.2%	14.5%	14.7%
Liabilities						Interest coverage (x)	7.60	6.61	10.96	12.70	15.17
Short-term loans	100	96	316	316	316	Net debt to equity	14.6%	3.4%	4.1%	4.2%	4.6%
Payables	1,600	1,037	678	843	1,139	Sales/assets	1.08	0.37	0.36	0.44	0.54
Others	108	410	155	141	131	Assets/equity	3.57	3.33	2.67	2.55	2.53
Total current liabilities	1,808	1,544	1,149	1,300	1,586	ROE	12.2%	10.5%	10.5%	10.5%	10.9%
Long-term debt	780	1,116	830	798	773	ROCE	10.3%	11.7%	8.2%	8.8%	9.8%
Other liabilities	403	408	404	402	400						
Total Liabilities	2,992	3,068	2,383	2,499	2,759						
Minority interests	233	276	422	422	422						
Shareholders' equity	1,254	1,437	1,682	1,882	2,079						
BVPS	1.61	1.83	2.14	2.39	2.64						

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile
WCT Bhd (MALAYSIA / Industrials)

As Of: 03-Feb-2012

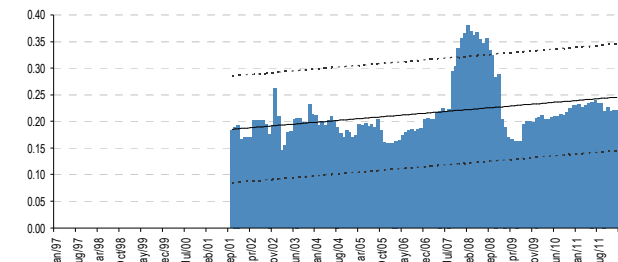
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

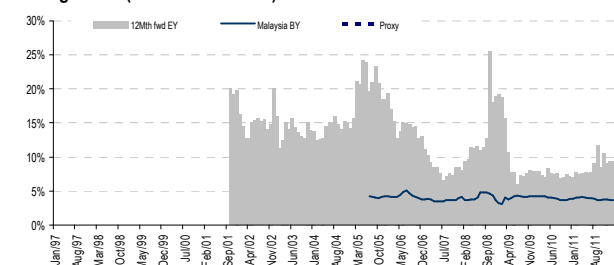
Local Share Price Current: **2.35**



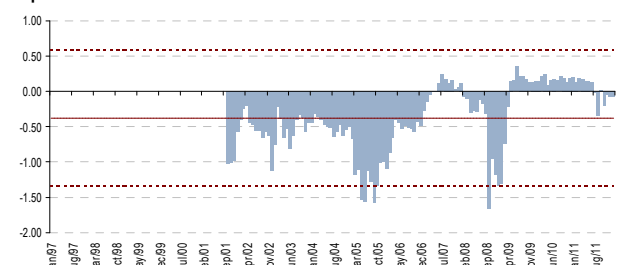
12 Mth Forward EPS Current: **0.22**



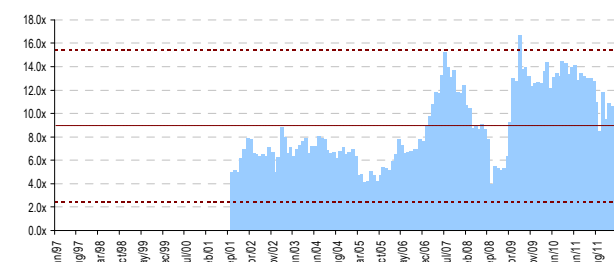
Earnings Yield (& local bond Yield) Current: **9%**



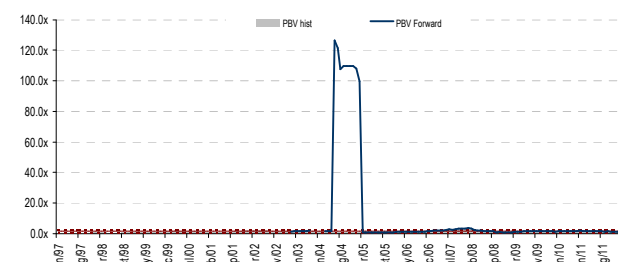
Implied Value Of Growth* Current: **-8.17%**



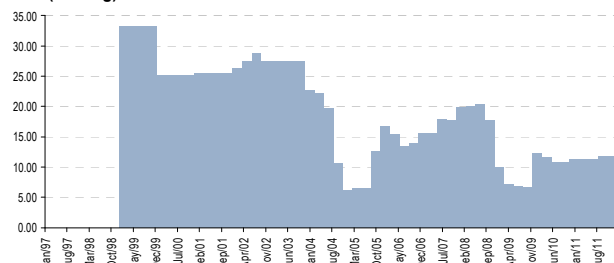
PE (1Yr Forward) Current: **10.6x**



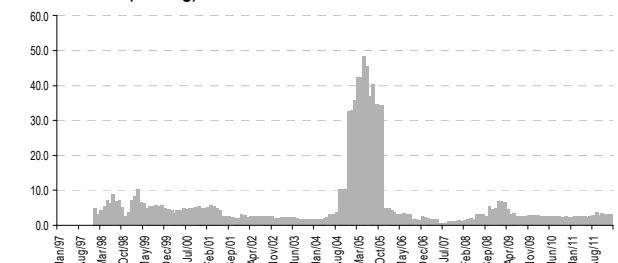
Price/Book Value Current: **1.3x**



ROE (Trailing) Current: **11.83**



Dividend Yield (Trailing) Current: **3.28**



Summary

WCT Bhd		SEDOL		6932088		As Of:		3-Feb-12	
MALAYSIA						Local Price:		2.35	
Industrials						EPS:		0.22	
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max
12mth Forward PE	10.63x	3.93	16.66	7.84	8.94	15.41	2.48	-63%	57%
P/BV (Trailing)	1.33x	0.34	3.54	1.53	1.52	2.63	0.41	-74%	167%
Dividend Yield (Trailing)	3.28	0.62	48.44	3.08	6.00	24.48	-12.49	-81%	1375%
ROE (Trailing)	11.83	6.19	33.21	17.86	18.79	35.00	2.59	-48%	181%
Implied Value of Growth	-8.2%	-1.66	0.36	-0.37	-0.37	0.59	-1.34	-1928%	540%
								-358%	-359%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

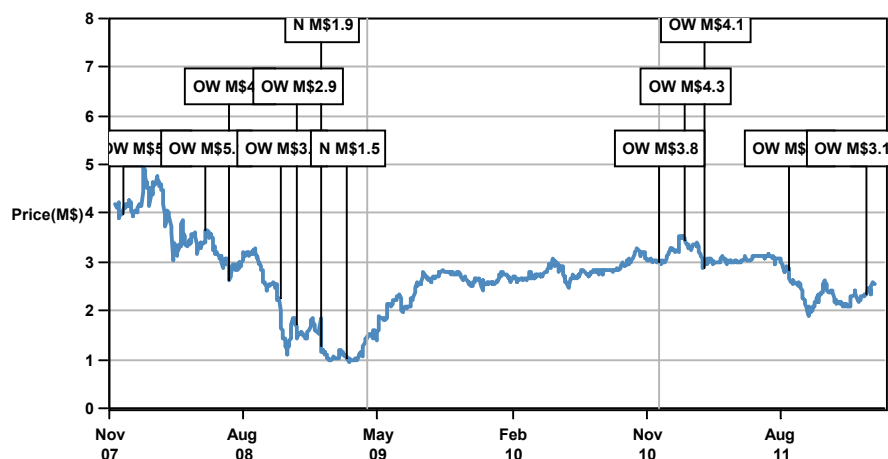
* Implied Value Of Growth = $(1 - \text{EY}/\text{Cost of equity})$ where cost of equity = Bond Yield + 5.0% (ERP)

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WCT Berhad (WCTE.KL, WCT MK) Price Chart



Date	Rating	Share Price (M\$)	Price Target (M\$)
30-Nov-07	OW	3.98	5.45
16-May-08	OW	3.66	5.10
03-Jul-08	OW	2.64	4.10
15-Oct-08	OW	2.24	3.20
17-Nov-08	OW	1.71	2.90
06-Jan-09	N	1.29	1.90
27-Feb-09	N	1.01	1.50
24-Nov-10	OW	3.00	3.80
18-Jan-11	OW	3.43	4.30
26-Feb-11	OW	2.89	4.10
16-Aug-11	OW	2.83	3.70
25-Jan-12	OW	2.34	3.10

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Nov 30, 2007.

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients*	72%	62%	58%

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