


AmResearch
Company Report

WCT ENGINEERING

(WCT MK, WCTE.KL)

17 March 2008

Shining beacon in uncertain times
BUY

(Unchanged)

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Rationale for report : Company visit

Price RM3.32
Target Price RM4.38
 52-week High/Low RM1.93-RM5.00

Key Changes

Target price 
 EPS unchanged

YE to Dec	FY07	FY08F	FY09F	FY10F
Revenue (RMm)	2,835.1	3,589.1	3,994.3	4,541.9
Net Profit (RMm)	146.7	192.8	277.4	303.1
Core FD EPS (sen)	16.8	22.0	31.7	34.6
EPS growth (%)	18.0	31.4	43.8	9.3
Consensus EPS (sen)	41.5	32.9	38.7	43.3
DPS (sen)	4.8	8.3	11.0	11.0
Core PE (x)	17.4	15.0	10.4	9.5
EV/EBITDA (x)	10.8	8.2	6.9	6.2
Div yield (%)	1.7	2.5	3.3	3.3
ROE (%)	16.3	18.2	21.5	19.7
Net Gearing (%)	26.1	9.0	net cash	net cash

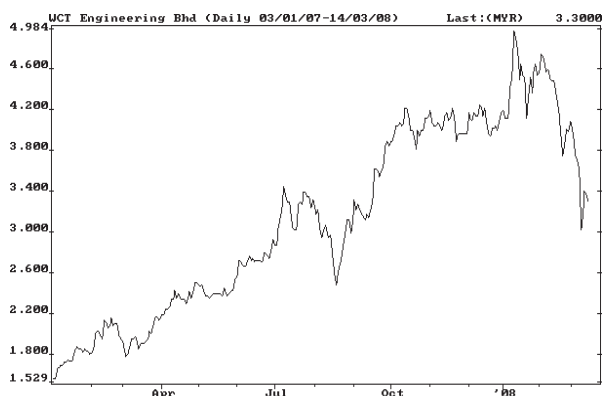
Stock and Financial Data

Shares Outstanding (m)	691.1
Market Cap (RMm)	2280.7
Book value (RM/share)	1.3
P/BV (x)	2.2
ROE (%)	16.3
Net Gearing (%)	26.1

Major Shareholder	
WCT Capital Sdn Bhd	23.4%
EPF	12.9%
Invesco	9.7%

Free Float (%)	54.0
Avg Daily Volume (RMm)	9.2

Price performance	3m	6m	12m
Absolute	-19.0%	unch	+69.2%
Relative	-5.7%	+6.9%	+67.4%


Investment Highlights

- Re-iterate BUY on WCT for select exposure to the construction sector. In our view, WCT's earnings are insulated from renewed execution concerns of 9MP projects due to the evolving political scene and rising input cost.
- First, 65% of WCT's outstanding orderbook of RM5.4bn comes from the Middle East. WCT enjoys lucrative margins of 10%-15% from these contracts, as a bulk of it were secured on negotiated terms with its clients. In addition, roughly RM1.1bn or 56% of its outstanding domestic contracts are either private-sector initiated or jobs undertaken in non-opposition held states.
- Second, WCT aims to secure more repeat contracts from its network of strong local clients/partners. For instance, WCT is in a prime position to clinch more jobs in the US\$60bn Yas Island once it completes the F1 track by mid-2009. As a bulk of these jobs involve specialized civil jobs on negotiated terms, this puts WCT in a better position to price-in rising input cost.
- Third, management expects additional VOs of RM800m from Abu Dhabi F1 job. Due to design changes, WCT revealed that the project's contract value has been revised upwards to RM2.1bn. An additional RM1bn worth of VOs could be awarded by 2H08 once the final design is confirmed by March 2008.
- Fourth, roughly RM1.4bn or 36% of WCT's SOP is backed by a latent mixture of mid/high-end residential property projects in the Klang Valley and Sabah as well as prime commercial projects (e.g. Aeon Mall in Klang). WCT also offers a foothold into Vietnam's secular growth story via its upcoming Platinum Plaza project in Ho Chi Minh City. Based on management's conservative GDV estimate of US\$700m (or US\$1,600/sq m vs US\$1000/sq m to US\$4,000 sq m for comparable properties), Platinum Plaza could lift our SOP value by RM0.40/share or 9% to RM4.78/share.
- We have lowered WCT's target price to RM4.38/share, based on assigning a lower construction PE of 10x (previously 17x) to account for potential slowdown in domestic projects. This is also in line with our adjusted market PE of 12x.
- Following our revision, WCT is trading at a steep 25% discount to its SOP value of RM4.38/share. This is unjustified, given its deepening penetration into the Middle East and robust EPS CAGR of 28%. We see further earnings upside via additional VOs/claims of RM2bn for its Middle East jobs and future contributions from Vietnam. WCT is also projected to turn into a net cash position by FY09 (RM24m), implying further upside to its current yields of 3%-4%.

TABLE 1 : 66% OF WCT'S ORDERBOOK COMES FROM THE MIDDLE EAST

	Outstanding jobs		Start	End	Duration
	(RMm)	(%)	Date	Date	
Overseas Jobs					
Durat- Al-Bahrain Highway Link	0.0	13.3	Aug-05	Aug-07	24 months
Dukhan Highway Project	51.0	35.5	July 05	Apr 08	33 months
New Doha International Airport	369.0	13.8	Feb-06	Jun-08	28 months
Bahrain City Centre, Bahrain	176.0	2.1	Mar-07	3Q08	1 year
Dubai Storm Water	10.0	84.9	Jul-07	Dec-08	17 months
Abu Dhabi F1 Circuit Project	552.0	100.0	Sep-07	Jun-09	21 months
BCC Hotel Fit-out works	135.0	96.9	Sep-07	Oct-09	25 months
Meydan Racecourse	2,228.0	100.0	Nov-07	Jan-09	14 months
Sub-total	3,521.0				
Local Jobs					
Bakun Civil Works (Package A&B)	24.0	10.5	May-03	Sep-07	52 months
Kaseh Highway	160.0	48.3	Apr-05	Apr-07	24 months
Pricinct 3, Plot3C4, Putrajaya	15.0	10.7	Dec-04	Dec-06	104 weeks
Kudat Water Supply Project	69.0	63.1	Feb-05	Aug-07	30 months
Tijani 2	111.0	68.1	Apr-06	Apr-08	2 years
Kota Kinabalu International Airport upgrading project	394.0	56.3	May-06	May-09	3 years
Jusco Shopping Centre (BBT)	43.0	15.2	4Q06	4Q07	1 year
Satellite Works UTM Selangor Campus	343.0	78.9	Jan-07	Jan-09	2 years
Putrajaya works (Precinct 4)	457.0	100.0	Sep-07	Jan-10	28 months
Others	63.0				
Aeon Mall Pulau, Johor	185.0				
Sub-total	1,864.0				
Grand total	5,385.0				
Assumed Orderbook:					
2008F	2,500.0				
2009F	2,500.0				
2010F	2,500.0				

Source: WCT, AmResearch

Roughly RM1.1bn or 56% of WCT's outstanding local contracts are either private jobs or located in non-opposition held states.

TABLE 2 : DERIVATION OF TARGET PRICE

Division	Value (RMm)	(RM/share)	(% of SOP)	Method
Construction Division	1,817.3	2.08	47.5	10x 3-year average net profit
Property Division	1,375.2	1.57	36.0	66% stake in WCT Land's RNAV
Trading Division	31.1	0.04	0.8	10x 3-year average net profit
Toll concessions: Swarna Tollway:	125.1	0.14	3.3	DCF at WACC of 8.4%
Durgapur	9.2	0.01	0.2	DCF at WACC of 7.3%
Panagarh-Palsit	16.0	0.02	0.4	DCF at WACC of 7.3%
Net Debt	(234.8)	(0.27)	(6.1)	As at 31 Dec 2007
Proceeds from full conversion of ICPS and ESOS	179.7	0.21	4.7	Issue price of RM0.30/ICPS
Proceeds from full conversion of warrants	504.9	0.58	13.2	Indicative exercise price of RM3.20
SOP	3,823.8	4.37	100.0	
No of shares (m)	875.5			
SOP/share (RM)	4.37			
Current upside (%)	32.4			
Dividend yield (%)	2.5			
Total Return (%)	34.9			
Implied target PE at S-O-P/share	19.8			
Discount to S-O-P (%)	(24.4)			
Market Cap/Orderbook (x)	0.4			

Source: WCT, AmResearch

TABLE 3 : EARNINGS MODEL (RMm)

YE Dec	2006	2007	2008F	2009F	2010F
Total turnover	1369.8	2835.1	3,589.1	3,994.3	4,541.9
Construction	1065.6	2424.4	2,948.9	3,283.0	3,716.4
Trading	85.9	152.4	167.6	184.4	202.8
Property dev	229.0	254.0	441.6	485.7	546.5
Property inv/Toll	(10.8)	4.4	31.0	41.2	76.2
Total EBITDA	211.7	325.8	453.4	529.3	597.5
Construction	140.6	224.4	327.2	379.5	435.4
Trading	3.7	2.9	5.0	6.5	7.1
Property dev	68.6	94.5	112.2	132.2	143.5
Property inv/Toll	(1.3)	4.0	9.0	11.2	11.5
Depr/Amorti	(52.3)	(54.0)	(60.5)	(74.1)	(88.9)
EBIT	159.3	271.8	392.9	455.1	508.6
Net interest expense	(13.7)	(16.5)	(28.8)	(24.5)	(19.5)
Operating Profit	145.7	255.3	364.1	430.7	489.1
Associates	4.3	9.8	9.6	3.5	5.9
JV-Entity	(0.1)	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	149.8	265.1	373.7	434.1	495.0
Taxation	(34.6)	(39.6)	(89.8)	(104.9)	(119.0)
Profit after tax before MI	115.2	225.5	283.9	329.3	376.0
Minority interest	(27.1)	(78.8)	(91.1)	(51.9)	(72.8)
Net Profit	88.1	146.7	192.8	277.4	303.1
Core Net Profit	88.1	146.7	192.8	277.4	303.1

Source: AmResearch

TABLE 4 : CASH FLOW STATEMENT (RMm)

YE Dec	2006	2007	2008F	2009F	2010F
Pre-tax profit	149.8	265.1	373.7	434.1	495.0
Depreciation	52.3	54.0	60.5	74.1	88.9
Associates	(4.3)	(9.8)	(9.6)	(3.5)	(5.9)
JV-entities	0.1	0.0	0.0	0.0	0.0
Changes in WC	(114.9)	(13.4)	(50.9)	(98.5)	(31.4)
Interest expense	27.2	26.2	38.3	34.4	30.7
Interest income	(13.6)	(9.8)	(9.5)	(9.9)	(11.1)
Interest paid	(29.3)	(33.6)	(45.7)	(41.8)	(38.1)
Interest received	13.6	9.8	9.5	9.9	11.1
Tax paid	(32.9)	(58.2)	(89.8)	(104.9)	(119.0)
Others	204.4	(83.0)	0.0	0.0	0.0
Operating cash flow	252.5	147.3	276.5	294.0	420.1
Additions to PPE	(303.0)	(111.9)	(100.0)	(120.0)	(120.0)
Disposal of PPE	0.0	0.0	0.0	0.0	0.0
Others	150.6	31.9	0.0	0.0	0.0
Investing cash flow	(152.4)	(80.0)	(100.0)	(120.0)	(120.0)
Issuance of shares	3.7	79.6	0.0	0.0	0.0
Net payment of debt	92.1	248.1	(104.5)	(88.7)	(103.2)
Net repayment of HP	(23.0)	(31.2)	(10.0)	(5.0)	(2.5)
Dividends paid	(23.0)	(28.4)	(31.1)	(47.0)	(53.7)
Others	(93.4)	(65.2)	0.0	0.0	0.0
Financing cash flow	(43.6)	202.9	(145.6)	(140.7)	(159.4)
Net incr/(decr) in cash	56.5	270.3	31.0	33.3	140.7
Exchange differences	(9.8)	(4.7)	0.0	0.0	0.0
Cash at beginning b/f	345.5	396.0	661.5	692.5	725.8
Cash at end c/f	392.2	661.5	692.5	725.8	866.5

Source: AmResearch

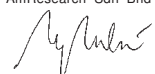
TABLE 5 : BALANCE SHEET (RMm)

YE Dec	2006	2007	2008F	2009F	2010F
PPE	365.8	315.8	369.3	429.1	474.3
Land held for dev	149.6	154.7	154.7	154.7	154.7
Investment properties	95.4	410.6	410.6	410.6	410.6
Investment: Associates	58.0	141.0	150.6	154.1	160.0
Others	19.1	15.5	15.5	15.5	15.5
JV	0.0	0.0	0.0	0.0	0.0
Sinking fund	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	5.7	6.2	6.2	6.2	6.2
Long Term Receivable	8.8	0.0	0.0	0.0	0.0
Negative goodwill	0.0	0.0	0.0	0.0	0.0
Total Fixed Assets	702.4	1,043.7	1,106.8	1,170.2	1,221.2
Dev properties	255.3	228.9	228.9	228.9	228.9
Properties	30.8	36.1	36.1	36.1	36.1
Receivables	738.7	1,309.4	2,163.3	2,188.7	2,488.7
Inventories	16.7	57.5	46.9	51.9	59.1
Amount due from ass	92.3	0.0	0.0	0.0	0.0
Amount due from JVs	0.3	0.0	0.0	0.0	0.0
Tax recoverable	5.9	0.0	0.0	0.0	0.0
Sinking fund	0.0	0.0	0.0	0.0	0.0
Cash balances	392.2	661.5	692.5	725.8	866.5
Cash in escrow account	5.8	4.0	4.0	4.0	4.0
Total Current Assets	1,538.0	2,297.4	3,171.7	3,235.3	3,683.3
Payables	785.1	1,269.3	2,061.8	1,993.6	2,269.4
Amount due to an ass	0.0	0.4	0.4	0.4	0.4
Short term debt	195.1	396.8	376.8	356.8	306.8
Term loans	67.6	77.9	62.1	46.6	34.9
Hire Purchase	37.2	9.2	5.5	2.5	1.0
Islamic Bonds	0.0	0.0	0.0	0.0	0.0
Redeemable Bonds	0.0	0.0	0.0	0.0	0.0
Taxation	9.0	7.3	7.3	7.3	7.3
Total Current Liabilities	1,094.1	1,761.0	2,513.9	2,407.2	2,619.8
Net Current Assets	443.9	536.4	657.8	828.2	1,063.5
Total Capital Employed	1,146.3	1,580.2	1,764.7	1,998.4	2,284.7
Other payables	9.1	0.0	0.0	0.0	0.0
Deferred taxation	8.2	2.2	2.2	2.2	2.2
Hire purchase	13.0	9.9	3.6	1.6	0.6
Term loans	205.6	248.3	186.3	139.7	104.8
Bonds	0.0	0.0	0.0	0.0	0.0
CRDS	54.1	55.4	55.4	55.4	55.4
Islamic Bonds	100.0	100.0	100.0	100.0	100.0
Minority interest	162.5	265.3	356.3	408.2	481.1
NET ASSETS	593.7	899.1	1,060.9	1,291.2	1,540.7
Share Capital	214.3	339.0	339.0	339.0	339.0
Share premium	32.9	140.9	140.9	140.9	140.9
Retained profit	354.9	424.4	586.2	816.5	1,066.0
Reserves and other adj	(8.3)	(5.2)	(5.2)	(5.2)	(5.2)
S'HOLDERS EQUITY	593.7	899.1	1,060.9	1,291.2	1,540.7

Source: AmResearch

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