


AmResearch
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WCT ENGINEERING

(WCT MK, WCTE.KL)

Scores a first in Dubai
BUY

RM5.65

Target Price: RM7.80

Rationale for report : Company update

YE to Dec	FY06	FY07F	FY08F	FY09F
EPS (sen)	42.4	52.0	74.9	88.1
PE (x)	11.8	10.9	7.5	6.4

Source : AmResearch

- WCT Engineering Bhd (“WCT”) announced that it has entered into a JV-agreement with Arabtec Engineering Services LLC (“AES”) to undertake the Dubai World Central International Airport - Stormwater Drainage and Sewerage System Remaining Areas (Phase 1) in Dubai, UAE.
- The contract is worth RM486m, and represents WCT’s first construction win in the UAE - its third market in the Middle East after Bahrain and Qatar. The project will be jointly undertaken by both WCT and AES on a 50:50 basis. We also understand that initial works have started, and the project is scheduled to be completed by 3Q08.
- AES is a wholly-owned unit of Arabtec Holdings PJSC (“Arabtec”). With a market cap of US\$720m (RM2.5bn), Arabtec is deemed a rising star in the Middle East, and is currently involved in the construction of the Burj Dubai Tower (the tallest building in the world). In our earlier report, we had mentioned the possibility of WCT partnering Arabtec to scout for jobs in the UAE. Having a strong partner such as Arabtec also minimizes execution risk in a new market, in our view. Furthermore, we understand that the contract comes with a 10% advance payment.
- More importantly, this new contract underscores our optimism about WCT’s expanded range of capabilities, with added focus on higher-value infrastructure/civil jobs compared to building jobs previously. It also demonstrates the group’s deepening market penetration in the Middle East. To be sure, the scope of works for this new contract includes supplying and installing the underground utilities at Dubai World Central Airport (including the networks for storm water, sewerage and irrigation, pumping stations, irrigation storage tanks and retention ponds).
- No change in our earnings estimates, as this new construction win forms part of our new orderbook assumption. Nevertheless, this would help lift WCT’s outstanding orderbook to circa RM4.7bn from RM4.2bn currently. More importantly, we believe WCT is on track to achieve its target of RM2bn worth of new jobs orders in 2007.
- Maintain BUY on WCT with a Sum-Of-Parts (“SOP”) derived target price of RM7.80. Valuations remain compelling at 6x-10x forward PEs, EPS CAGR of 29% and ROEs of 16%-19%.

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For AmResearch Sdn Bhd

Gan Kim Khoo
Executive Director