

# WCT Engineering

Analysts' Briefing

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Equity Commentary from Avenue Securities Sdn Bhd

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## Getting 1<sup>st</sup> Bite On The 9MP

## OUTPERFORM

RM3.38

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### Investment Highlights

**Getting 1<sup>st</sup> bite on 9MP.** WCT's has recently secured RM720mn Kota Kinabalu International Airport (KKIA) upgrade which was allocated under the 9MP. Although it did not come as a surprise as the media has already speculated last year that WCT together with Global Upline (JV) is the front-runner to secure the project, it is a warm surprise that WCT has managed to secure this project on its own and through negotiated contract. Despite being a negotiated contract, margins would only be in the region of 10% as most of the jobs would involve constructing buildings rather than infrastructure works. With this latest addition, WCT orderbook has exceeded the RM3bn mark making it comparable to other big construction boys in the likes of IJM, Gamuda and Ranhill. It's orderbook are also quite well spread with 50% coming in from overseas contracts.

**Property division continues to experience slowdown...** WCT's property division will continue to feel the slowdown in the Klang property market. The management hinted that its property sales have seen a steady 10-15% decline YoY. In addition, the margins for FY06 would also be lower due to the absent of sales of commercial units. On a positive note, as the property division is expected to diversify its income in the future with the signing of a 25-year lease for it's soon to be build 1 million square meters shopping complex in BBT 2. The group would also be launching its higher-end property units in Sabah by end of the year. This would help to mitigate the declining sales of Bandar Bukit Tinggi.

**Other potentials works in the pipeline.** Management hinted that it will continue to leverage on its niche market in the Middle East and also in East Malaysia. Management hinted that one project that is in the pipeline would be additional work in the New Doha International Airport in Qatar which WCT has an existing 15% stake of the JV (with Gamuda and Sinohydro) for one of the package awarded. The additional work ranges from RM600mn to RM1 bn.

**Maintain OUTPERFORM.** We continue to favour WCT given its strong presence in Middle east as well as in the East Malaysia. Although there would suffer some setback in its property division (which we have already imputed in our assumptions), its construction division could see upside potential. YTD, WCT has secured projects close to RM900mn vs. our full year assumptions of RM1bn. Hence, if WCT managed to secure additional projects (more than RM100mn) for the year, we are incline to raise our FY07 and FY08 numbers. Maintain our estimates and target price of RM4.75.

### Earnings Summary

YE 31 Dec (RM mn)	FY04a	FY05a	FY06f	FY07f	FY08f
Turnover (RM mn)	796.3	1,153.6	1,125.2	1,242.5	1,299.7
Net Profit (RM mn)	25.1	86.7	92.0	104.3	111.7
% chg YoY	97.5	87.0	6.1	13.4	7.1
Consensus		90.0	101.0	104.0	105.0
EPS (sen)	21.2	40.8	43.3	49.5	53.5
DPS (sen)	37.0	15.0	15.0	17.0	18.0
Div Yield %	10.9	4.4	4.4	5.0	5.3
ROE %	4.4	21.7	17.4	17.3	16.2
ROA %	2.1	6.3	6.5	6.6	6.6
PER (x)	6.8	8.3	7.8	6.8	6.3
P/BV (x)	1.9	1.7	1.5	1.3	1.1
P/Sales (x)	1.1	0.5	0.5	0.4	0.4
EV/Sales (x)	0.4	0.1	0.0	0.0	-0.1
EV/EBITDA (x)	0.1	0.8	0.3	-0.3	-0.8

### Share Data

KLCI	951.25
52-wk price range	RM2.09-RM3.52
Reuter/Bloomberg	WCTE.KL/WCT MK
No of shares (m)	212.7
Mkt Cap (RM m)	719.0
Avg Trading Vol '000	285.0
Major Shareholders:	%
1. WCT Capital S/B	26.8
2. EPF	13.2

### Financial Data

NTA/share (RM)	3.59
ROE: Latest FY/5-yr avg %	16.9/19.6
ROA: Latest FY/5-yr avg %	5.4/6.4
Net gearing %	15.1
Cash balance (RM m)	300.0
Altman Z-score	1.62

### Share Price Performance

	3-mth	6-mth	12-mth
Absolute	53.6	42.5	32.9
Relative	50.4	36.2	37.7
	6-mth	12-mth	24-mth
Beta	0.50	0.69	1.05
	3-CY	5-CY	10-CY
No -ve Earning	2	2	3
	YTD	3-CY*	5-CY*
Total Returns	53.6	(6.1)	16.5

\*average

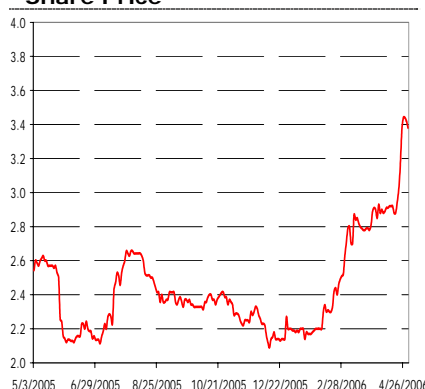
### Historical Trend

	3-CY		5-CY	
	High	Low	High	Low
PER (x)	21.5	5.9	21.5	3.7
P/BV (x)	2.1	0.8	2.9	0.8
P/Sales (x)	0.8	0.4	1.2	0.3

### Technical Trend

	14-day	14-wk	14-mth
RSI	79.1	83.3	62.0
	30-day	100-day	200-day
Volatility	29.1	29.0	26.4
SMA	3.0	2.5	2.5

### Share Price



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**Guide to Investment Ratings**

Stocks ratings used in this report are defined as follows:

<b>OUTPERFORM</b>	Total return* of the stock is expected to exceed the KLCI average by > 10% over the next 12 months
<b>MARKET PERFORM</b>	Total return* of the stock is expected to be in line with the KLCI average (range $\pm 10\%$ ) over the next 12 months
<b>UNDERPERFORM</b>	Total return* of the stock is expected to be below the KLCI average > 10% over the next 12 months

\*Total return = % Capital gain + Dividend yield

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