

11 October 2006

WCT Engineering

7x P/E for contractor with RM3.1 bn orderbook

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Orderbook to drive earnings

WCT Engineering's (Bloomberg: WCT MK, Not rated, RM3.30) RM3.1 billion unbilled construction orderbook should be the key driver of earnings over the next two years. The expected pump-priming by the Malaysian government should help it as WCT can play either main contractor or sub contractor role in many of the projects. Its consensus P/E valuations of 7.4x and 6.6x in FYDec06-07 are lower than the three construction stocks we cover. Net dividend yield of 3.3% and ROEs of around 20% are higher than the construction stocks we cover.

Beneficiary of government pump-priming

With a current unbilled construction orderbook of RM3.1 billion that will last 2-3 years, management can afford to be selective on new construction work. Management will be focusing on clinching more jobs domestically given that the Malaysian government is likely to award more contracts over the coming months. Construction margins may rise from current mid single-digit level if there are no more provisions at Bakun and it executes well on its current orderbook. It has been building up its expertise in overseas construction jobs over the past 5 years.

Property earnings pick-up because of Jusco

According to the company, sales have picked up at its Klang property development projects as news spread that AEON (formerly Jusco) was opening up in the area. Total unrecognized property sales is RM168 million.

6.6x FY07 P/E

Using I/B/E/S consensus, it trades at a P/E of 7.4x and 6.6x for FY06-07, respectively, compared to the average 19x and 17x for FY06-07, respectively, of the three construction stocks we cover. Net dividend yield of 3.3% is also higher and so are its ROEs of 18-20% over the next three years (based on consensus). Foreign shareholding is estimated at a low 11%. A key risk is that any further delays at its Bakun and Qatar projects may drag down margins.

Figure 1: Financial highlights (BB Code: WCT MK)

YE Dec (RMm)	2003	2004*	2005	2006E	2007E	2008E
Sales	911.3	796.1	816.3	1,130.3	1,455.0	1,579.9
EBITDA	93.2	134.1	160.6	169.4	203.3	212.5
NPAT	74.5	84.9	81.3	92.6	109.0	114.1
FD EPS (RM)	0.41	0.44	0.39	0.44	0.50	0.51
EPS growth	17.1%	7.3%	-11.4%	12.8%	13.6%	2.0%
PER (x)	5.8	7.5	8.4	7.4	6.6	6.5
Net yield (%)	3.3	9.1	3.3	3.3	3.3	3.3
ROE (%)	22.6	18.7	14.1	17.9	20.6	19.7

Source: Company data. Note: Forecast are based on IBES estimates

*Excludes exceptional items that are one-off

^Includes special tax exempted dividends of 12 sen and a special dividend of 10 sen

Small/Mid Caps

NOT rated

Price at 9 Oct 2006 (RM)	3.30
Price target -12 month (RM)	NA
52-week range (RM)	2.09-3.82
KLCI	969.38

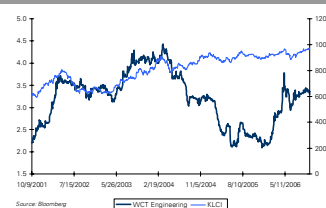
Stock data

Market cap (RMm)	704.6
Market cap (USDm)	191.5
Shares outstanding (m)	212.6
Daily Volume (USDm)	0.3
Major shareholders (%)WCT Capital	26.7
Free Float (%)	53.4

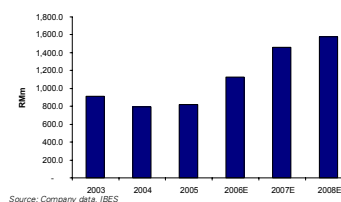
Key indicators

ROE (%)	14.1
Net debt/equity (%)	23.2
Book value/share	2.99
Price/book (x)	1.1
Net interest cover (x)	0.3

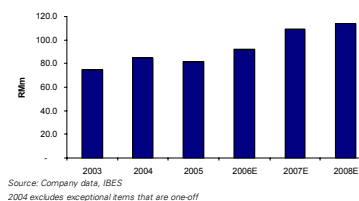
Price/Price relative



Sales trend



Net income trend



Deutsche Bank AG/Hong Kong

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

RM3.1 billion construction orderbook

Can afford to be selective with new jobs.

With its RM3.1 billion construction orderbook, WCT can afford to be selective with projects, going forward. In 2006 alone, WCT has secured RM1.6 billion worth of new contracts domestically and overseas. It still has capacity to look for work domestically and is actively pursuing more jobs. It is one of the few Malaysian contractors that have been successful overseas – all of its overseas contracts so far have been completed on time. About 38% of its current orderbook is overseas (Middle East). It has at least 50 staff members stationed in Bahrain and Qatar.

Margin expansion in construction expected.

Pretax construction margins are likely to trend upwards from its current mid single-digit range because management thinks some of its current jobs involve design work and hence command higher margins. Pretax construction margins of 4.8% in 2004 and 3.4% in 2005 were partially caused by the delays in Bakun and late recognition of profit on some of its projects. The situation seems to have improved in 1H 2006 as the profits for some of its completed projects were only recognized this year.

Pump-priming expected over the coming months.

We believe the Malaysian government is likely to pump-prime the economy over the coming months in an effort to boost economic growth and consumer sentiment. We expect an increase in jobs awarded by the government over the coming 6-12 months, after a three-year hiatus. Net development expenditure is expected to rise from RM27.3 billion in 2005 to RM34.5 billion in 2006 and RM42.0 billion in 2007. Politically, awarding jobs will also help the government's cause in likely general elections in 2008. WCT management also thinks that government job awards will likely pick up over the coming months and hence is focusing its attention on clinching jobs domestically. Management thinks that margins on its domestic jobs will be better than overseas jobs.

WCT has a good cost control history, probably due to its sub-contractor beginnings. It can take sub-contract jobs from the likes of IJM (which we think in itself is a well-managed contractor) and still make money.

Figure 2: WCT's current orderbook as at 30 June 2006

	Overseas	Civil Engineering & Infrastructure		Local Buildings		Total
	RMm		RMm		RMm	RMm
Bahrain City Centre, Bahrain	608	Kota Kinabalu Int'l Airport	720	Jusco Shopping Centre-BBT	283	
Dukhan Highway, Qatar	321	Kajang-Seremban Highway	290	Tijani 2 Apartments	163	
New Doha International Airport, Qatar	250	Kudat Water Supply	149	Putrajaya Plot 3C4	114	
Durrat Al-Bahrain	15	Bakun Dam	142	Putrajaya Lot 2G3 & 2G4	41	
		Others	1	Bukit Tunku Semi-D	18	
				Others	28	
Total	1194		1302		646	3142
Contribution	38%		41%		21%	

Source: Company data

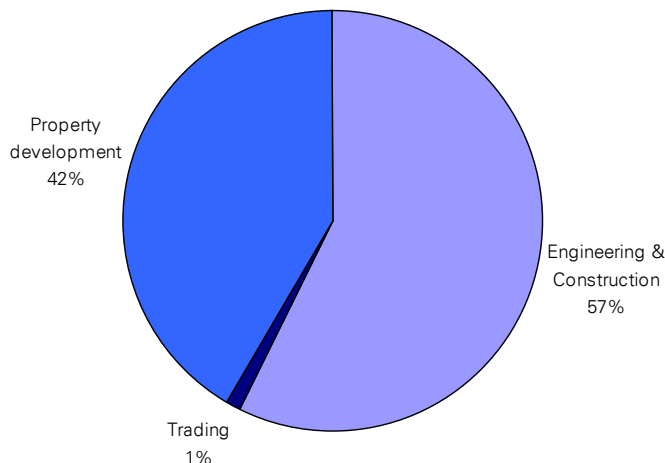
Early completion bonus in Bahrain F1 project.

This orderbook should drive WCT's earnings growth, going forward. In addition, there has also been around a RM10 million bonus from the early completion of its Bahrain F1 circuit project two years ago. We understand that the amount was paid in September 2006. The bonus is for acceleration of work as the client had wanted WCT to complete the project two months earlier due to change in the Formula 1 Race schedule.

Provisions have been made at Bakun before.

One of its existing contracts is a portion of the works relating to the Bakun Hydroelectric Dam worth about RM380 million in total. This job has been delayed and management thinks it should be completed by 2007. As a result of this delay, the company had to make provisions of RM27.6 million in its 2004 accounts. However, management does not think that there will be any further provisions on this project.

Figure 3: Operating profit YTD-June 2006



Source: Company data

Property sales slow, but picking up

Its projects are focused in Klang.

Listed property subsidiary WCT Land which is 73.5% owned by WCT Engineering has seen slow sales this year, in line with the general trend in Malaysia. WCT Land’s property projects are mainly in the Klang area (a 45 minute drive west of Kuala Lumpur) and are called Bandar Bukit Tinggi 1, Bandar Bukit Tinggi 2 and Bandar Parklands – Bukit Tinggi 3. Total unrecognized sales to date are RM168 million.

Jusco signing on has helped sales.

However, sales have picked up since news of AEON (previously known as Jusco) opening up in Bandar Bukit Tinggi. WCT Land signed an agreement in June 2006 to lease 1 million sq feet of a commercial building (that will be built and completed by 2007) to AEON Co.

Two new property development projects.

WCT also acquired 12.4 acres of land in Kelana Jaya for RM83 million, its first project outside the Klang Valley. This piece of land is targeted to be developed into a commercial centre with a retail mall and high-rise corporate offices. It also acquired a 21.5 acre piece of land in Kota Kinabalu, Sabah for RM57 million for high-end residential development comprising bungalows, detached villas, semi-detached villas and super link houses. Sales at both these projects are targeted to start in six months’ time.

Figure 4: Unbilled property sales as at 30 June 2006

	Integrated Township Development			Commercial	High-end Residential
	BBT 1 Labur Bina	BBT 2 Gemilang Waras	Bandar Parklands Gabungan Efektif	Kelana Jaya Jelas Puri	Kota Kinabalu Camelia Tropicana
Land Area (acres)	347	562	427	12.4	21.5
Land Status	Freehold	Freehold	Freehold	Leasehold	Leasehold
Land Cost (RMm)	175	140	115	83	57
GDV (RMm)	1191	1523	908	900*	196*
Sales to date * (RMm)	991	1054	71	0	0
Billings to date* (RMm) Recognised	953	964	31	0	0

Source: Company data

**Based on preliminary development plan*

Strong balance sheet

Net gearing 13.7%.
Dividends look sustainable.

Net debt of RM77.3 million at end of June 2006 translates into net gearing of 13.7%. Cash flow too appears strong with FCF of RM135.1 million over 1HFY06. Balance sheet appears to be able to support its current dividend yield of 3.3%. Last FY, WCT paid out a net DPS of 10.8sen, translating to a net payout of 28%. Unfortunately, management does not have a specific payout policy.

It is however worthwhile noting that the majority of the RM450 million worth of cash in the books relate to deposits collected from property purchasers for development and construction of the properties and hence cannot be used for dividends. There is also a need to use cash for working capital purposes (relating to the construction orderbook)

Valuations lower than peers'

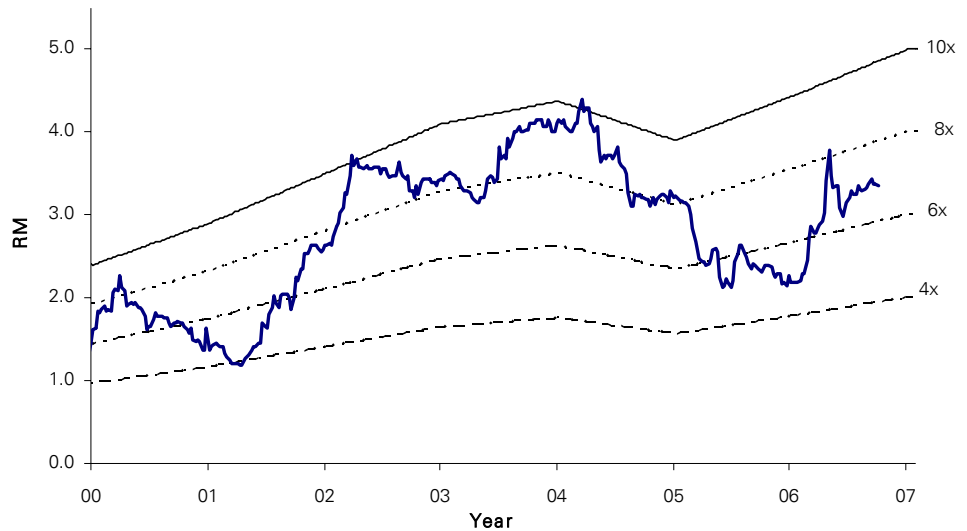
We have compared the valuations of WCT versus the three infrastructure companies we cover i.e. IJM Corporation, Road Builder and Gamuda. WCT's P/E multiples are lower, its dividend yield is higher and ROEs are also the highest.

Figure 5: Peer comparison

Company	Gamuda	IJM Corp	Road Builder	WCT Eng*
Price (RM)	3.86	6.20	2.65	3.30
Rec	Sell	Buy	Buy	NR
Target Price (RM)	3.00	5.90	3.00	NR
# of shares (m)	753.23	493.30	521.55	213.516
Market Cap (RM mm)	2,907.5	3,058.5	1,382.1	704.6
Avg Daily Vol (USDm)	1.1	2.1	0.7	0.3
YE	July	March	June	Dec
P/Es are half of the others.				
FD PER 06 (x)	19.6	19.4	19.2	7.4
FD PER 07 (x)	20.4	16.8	16.1	6.6
FD PER 08 (x)	17.1	14.8	12.7	6.5
FD EPS 06 (RM)	0.20	0.32	0.14	0.44
FD EPS 07 (RM)	0.19	0.37	0.17	0.50
FD EPS 08 (RM)	0.23	0.42	0.21	0.51
EPS growth 07 (%)	(4.1)	15.6	19.6	12.9
EPS growth 08 (%)	19.6	13.5	26.7	2.0
Yield of 3.3%				
Net DPS 06 (RM)	0.12	0.11	0.06	0.11
Divi Yield 06 (%)	2.2	1.3	1.8	3.5
ROEs of around 20%.				
ROE 06 (%)	7.5	8.2	4.7	18.0
ROE 07 (%)	6.9	9.4	5.5	20.4
ROE 08 (%)	8.1	10.3	6.7	20.1
EV/EBITDA 04	8.4	12.2	12.1	5.9
EV/EBITDA 05	9.6	11.3	11.1	5.6
Pre-tax margin 04	22.2	15.9	8.3	15.9
Pre-tax margin 05	20.9	12.3	8.8	15.8
% from construction 04	52.7	37.3	45.4	40.2
% from construction 05	51.7	42.6	26.5	23.0
Construction Orderbook (RM mm)	2,500	3,800	1,100	3,142
Large orderbook relative to market cap.				
Market Cap/Orderbook (x)	1.16	0.80	1.26	0.22
Major Shareholder	Generasi Setia (11.9%)	Tronoh Consolidated (18.3%)	EPF (9.2%)	WCT Capital S/B (26.7%)

Source: Deutsche Bank, IBES estimates, Bloomberg, Company data
 *Based on IBES estimates

Using consensus and comparing against its historical trend, WCT's P/E valuation is in the middle of its six-year range. Note that the last time there was a construction boom in 2002-2004, its P/E valuations were in the 8-10x range.

Figure 6: WCT Engineering : One-year forward P/E band chart

Source: Company data, Bloomberg, I/B/E/S consensus

Note: Earnings exclude exceptional items that are one-off.

Company background

20-year history; also been overseas.

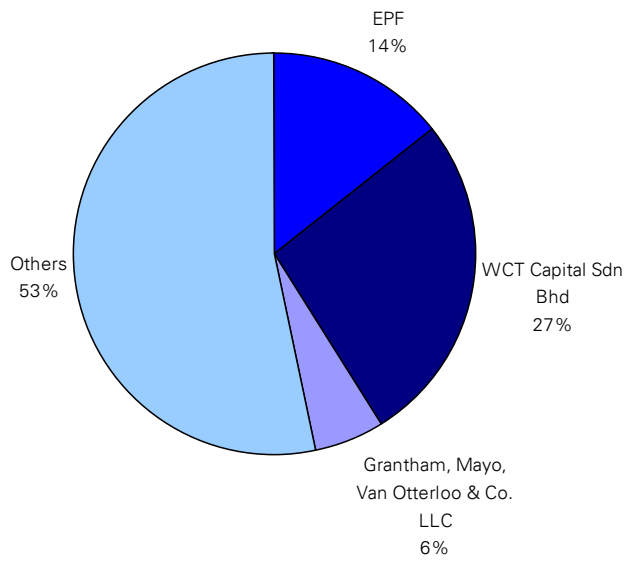
WCT Engineering started in January 1981 under the name WCT Earthworks & Building Contractors. It started as a small sub-contractor but now has grown to be capable of taking jobs as a main contractor and has experience in India and the Middle East. Jobs it has completed as a main contractor include the Sepang F1 Circuit, Bahrain F1 Circuit, The Curve Shopping Centre and Guthrie Corridor Expressway. WCT has completed over 300 projects with a total cost of RM5.4 billion. Before, WCT has worked with construction majors like IJM Corp and Gamuda. Gamuda is its current partner in the Dukhan Highway and New Doha International Airport projects in Qatar. MTD Capital is its current partner in the Bakun Hydroelectric Project.

WCT is principally involved in civil engineering, specializing in earthworks, highway construction and related infrastructure and construction works. The company is also involved in property development, trading of building materials, hiring of machineries and repair of vehicles, property and investment holding. WCT was listed on the Second Board of the Bursa Malaysia Securities Berhad in February 1995 and was later transferred to the Main Board in January 1999. WCT Land Berhad, a 73.5% subsidiary of WCT Engineering, was listed on Bursa Malaysia in December 2004.

Managing Director Taing Kim Hwa and Executive Director Wong Sewe Wing have a 50% interest each in Cash Carat Sdn Bhd which is a substantial shareholder in WCT Capital, which in turn owns a 27% stake in WCT Engineering. Both are founders of the company.

Figure 7: WCT Engineering: current shareholders

Estimated 53% free float.



Source: Company data

Figure 8: WCT Engineering historical financials

SUMMARY (YE Dec)	2001	2002	2003	2004	2005				
FD EPS, reported (RM)	0.33	0.38	0.43	0.14	0.38				
EPS growth (%)	-42.0	14.7	13.7	-67.7	174.9	Price as of 16 May(RM)			3.30
P/E ratio (x)	10.0	8.7	7.7	23.7	8.6	12 month range (RM)			2.09 / 3.82
CFPS (RM)	0.31	0.39	0.96	0.23	0.24	Market cap (US\$m/RMm)			191.5 / 704.6
P/CFPS (x)	10.6	8.5	3.4	14.6	13.8	Avg daily volume traded (US\$m)			0.3
DPS (RM)	0.10	0.10	0.11	0.30	0.11				
Dividend Yield (%)	3.0	3.1	3.3	9.1	3.3	Performance (%)			
NBV/Share (RM)	1.41	1.72	2.25	2.85	2.99	WCT Engineering	1m	3m	12m
Price/NBV	2.3	1.9	1.5	1.2	1.1	KLCI	-2.4	2.5	42.6
Issued shares (m)	157	157	173	182	213		1.33	4.73	4.77
PROFIT & LOSS (RM mm)	2001	2002	2003	2004	2005				
Sales revenue	474	704	911	796	816				
Operating EBITDA	50	85	93	134	161				
Depreciation	9	(8)	(7)	(7)	(26)				
Operating EBIT	58	76	86	127	134				
Net interest income/(expense)	7	(6)	(10)	(10)	(30)				
Associates	9	13	28	10	26				
Investment and other income/expense	-	-	0	(28)	(1)				
Exceptionals/extraordinaries	-	-	-	(32)	-				
Income tax	(23)	(22)	(31)	(40)	(34)				
Minorities	-	(2)	1	(2)	(14)				
Net income	52	59	75	25	81				
CASH FLOW (RM mm)	2001	2002	2003	2004	2005				
Cashflow from operations	76	82	90	120	149				
<i>Movement in net working capital</i>	-27	-21	76	-79	-98				
Capex	-98	-29	-77	-3	-20				
Free cash flow	-49	32	90	38	31				
Other investing activities	-3	-21	-15	91	-42				
Equity raised/(bought back)	3	0	56	21	69				
Dividends paid	-10	-12	-11	-13	-46				
Net inc/(dec) in borrowings	46	-52	-23	-27	88				
Other financing cash flows	3	83	-17	-6	-5				
<i>Total cash flows from financing</i>	42	19	5	-25	107				
Net cash flow	-10	30	79	104	96				
BALANCE SHEET (RM mm)	2001	2002	2003	2004	2005				
Cash and other liquid assets	56	97	175	300	385				
Tangible fixed assets	324	295	402	410	593				
Goodwill	0	0	0	-7	-6				
Associates/investments	114	147	171	224	200				
Other assets	155	332	366	421	466				
Total assets	649	871	1,113	1,347	1,639				
Interest bearing debt	221	283	265	344	533				
Other liabilities	206	319	460	485	470				
Total liabilities	427	601	725	829	1,002				
Shareholders' equity	221	269	389	429	534				
Minorities	0	1	0	89	102				
Total shareholders' equity	221	270	389	519	636				
<i>Net debt/(cash)</i>	165	185	90	44	148				
RATIO ANALYSIS	2001	2002	2003	2004	2005				
Sales growth (%)	44.2	48.7	29.4	-12.6	2.5				
Op. EBITDA/sales (%)	10.5	12.0	10.2	16.8	19.7				
Op. EBIT/sales (%)	12.3	10.8	9.5	15.9	16.4				
Pre-tax profit/sales (%)	15.7	11.8	11.5	8.4	15.8				
Payout ratio (%)	30.3	26.6	25.1	215.6	28.2				
ROE (%)	23.4	24.2	22.6	5.6	14.1				
Free cash flow yield (%)	-	6.9	4.5	12.7	5.4				
Capex/sales (%)	20.6	4.1	8.5	0.4	2.4				
Capex/depreciation (x)	-11.4	3.4	11.4	0.4	0.8				
Net debt/equity (%)	74.4	68.7	23.0	8.5	23.2				
Net interest cover (x)	nm	11.8	8.3	12.6	4.5				

Source: Company data

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
IJM Corp	IJMS.KL	6.25 (MYR) 10 Oct 06	6
Gamuda	GAMU.KL	3.92 (MYR) 10 Oct 06	6
Road Builder	ROAD.KL	2.67 (MYR) 10 Oct 06	6

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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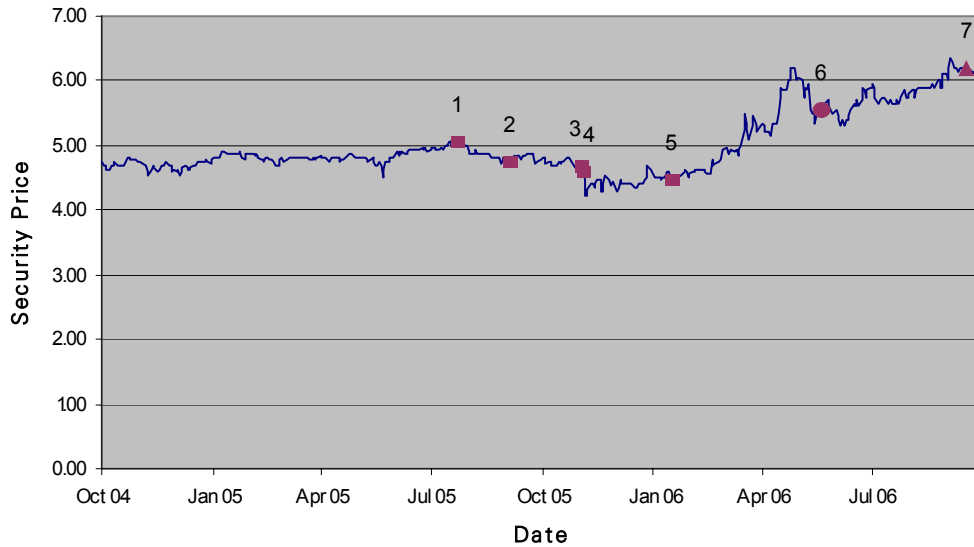
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Historical recommendations and target price: IJM Corp (IJMS.KL)

(as of 10/10/2006)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

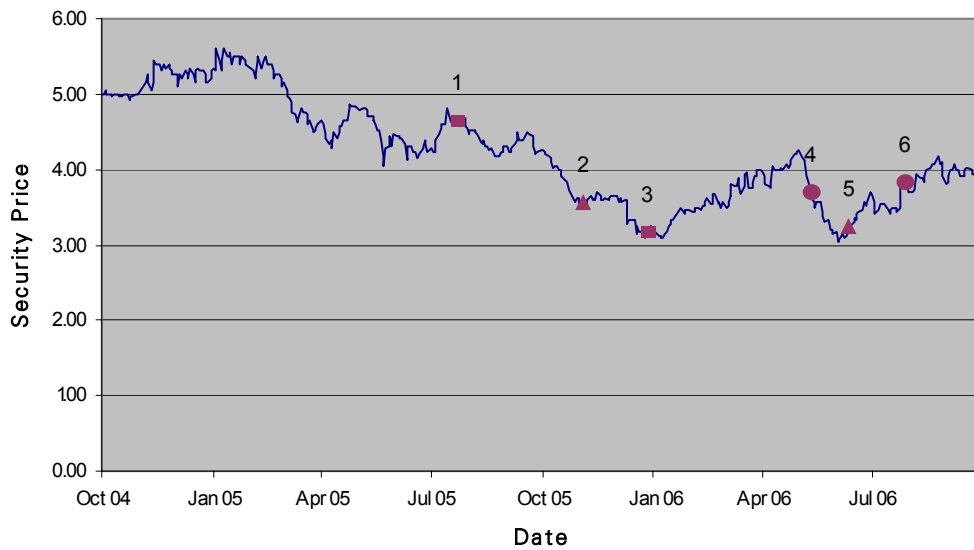
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

- | | |
|---|--|
| 1. 2/8/2005: Buy, Target Price Change MYR5.90 | 5. 26/1/2006: Buy, Target Price Change MYR5.40 |
| 2. 13/9/2005: Buy, Target Price Change MYR5.60 | 6. 30/5/2006: Downgrade to Hold, Target Price Change MYR5.90 |
| 3. 13/11/2005: Buy, Target Price Change MYR5.50 | 7. 28/9/2006: Upgrade to Buy, Target Price Change MYR7.65 |
| 4. 14/11/2005: Buy, Target Price Change MYR5.50 | |

Historical recommendations and target price: Gamuda (GAMU.KL)

(as of 10/10/2006)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

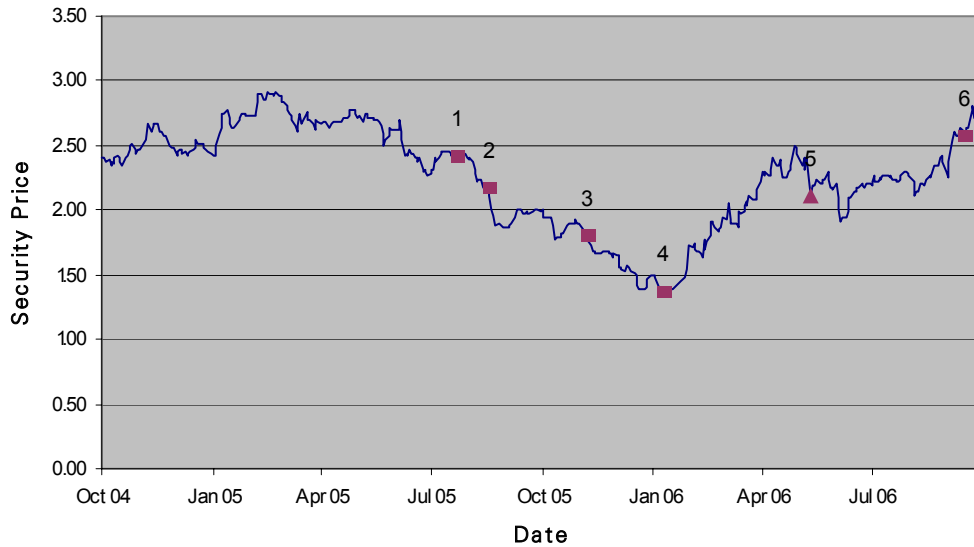
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

- | | |
|---|---|
| 8. 2/8/2005: Sell, Target Price Change MYR4.00 | 11. 22/5/2006: Downgrade to Sell, MYR3.00 |
| 9. 14/11/2005: Upgrade to Hold, Target Price Change MYR3.90 | 12. 22/6/2006: Upgrade to Hold, MYR3.00 |
| 10. 6/1/2006: Hold, Target Price Change MYR3.00 | 13. 7/8/2006: Downgrade to Sell, MYR3.00 |

Historical recommendations and target price: Road Builder (ROAD.KL)

(as of 10/10/2006)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1. 2/8/2005: Hold, Target Price Change MYR2.40	4. 19/1/2006: Hold, Target Price Change MYR1.48
2. 28/8/2005: Hold, Target Price Change MYR2.20	5. 22/5/2006: Upgrade to Buy, Target Price Change MYR2.60
3. 17/11/2005: Hold, Target Price Change MYR1.90	6. 26/9/2006: Buy, Target Price Change MYR3.00

Equity rating key **Equity rating dispersion and banking relationships**

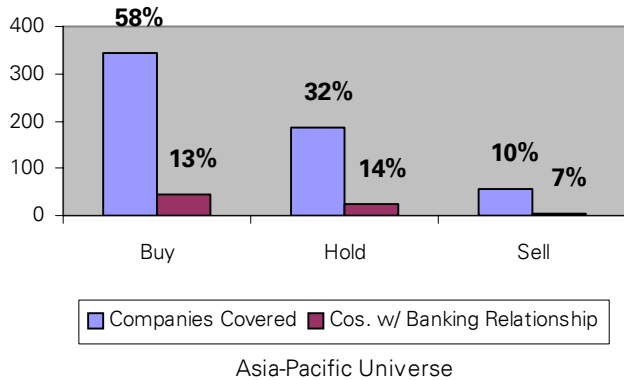
Buy: Expected total return (including dividends) of 10% or more over a 12-month period.

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period.

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period.

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