

# WCT Engineering-----NOT RATED

## A rare internationally competitive Malaysian contractor

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- WCT Engineering (WCTE.KL, RM3.36, NR) is primarily involved in construction, property development, and tollroad investments.
- WCT currently has one of the largest construction order books among the listed Malaysian contractors of RM3.1 bn, comprising RM1.6 bn domestic jobs and RM1.5 bn Middle East jobs. The group's construction of the Bahrain and KL F1 circuits is testament of its technical competence.
- The group has a 1,370-acre landbank, which is mostly concentrated in the Klang Valley. Gross development value of planned property projects amounts to RM4.5 bn.
- WCT has minority stakes in three road concessions, which were undertaken on build, operate and transfer (BOT) schemes.
- The group has grown its pre-tax profit by 28% pa over the past 10 years. WCT trades on 8x Street's 2006 EPS forecast compared with industry average of 12x.

**Background** WCT Engineering was listed on the 2<sup>nd</sup> board of the local stock exchange on 1 April 94 and was transferred to main board on 7 January 99. WCT has a market capitalisation of RM720 mn (US\$200 mn). WCT is primarily involved in construction, property development and toll road investments.

**Major shareholders** The two largest shareholders, Taing Kim Hwa (MD) and Wong Sewe Wing (Executive Director), have a combined stake of 31% and the next largest shareholder is EPF (13.7%). Foreign institutional ownership at present is <6%.

**Construction** WCT started out as a subcontractor to many of the leading construction players and has successfully transformed itself into a main contractor. Given its background as a subcontractor, WCT operates on a lean cost structure. WCT currently has one of the largest construction order book among the listed contractors of RM3.1bn, comprising RM1.6 bn domestic jobs and RM1.5 bn Middle East jobs. In the Middle East and India, WCT has teamed up with Gamuda (GAMU.KL, RM4.08, TP RM5, O) on certain civil engineering jobs. The group has profitably completed RM700 mn of overseas jobs (India and Middle East). The group's construction of the Bahrain and KL F1 circuits is testament of its technical competence.

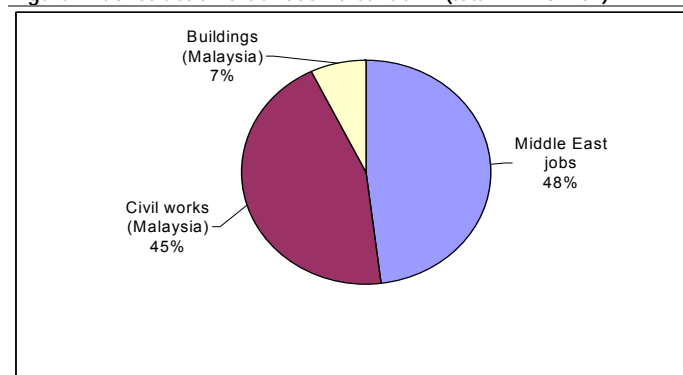
**Property development** The group's property operation is undertaken by its listed subsidiary, WCT Land (WCTL.KL, RM0.67, NR), in which it has a 73.5% stake. The group has a 1,370-acre landbank, which is mostly concentrated in the Klang Valley. Gross development value of planned property projects amounts to RM4.5bn. So far WCT has been focusing on property development in Klang Valley but the group has proposed a land purchase in Sabah, which has been earmarked for high-end residential development. The group has unrecognised property billings of RM206 mn and management aims to sell RM300 mn of property p.a.

**Toll road investments** WCT has minority stakes in three road concessions, which were undertaken on build, operate and transfer (BOT) schemes. WCT was also involved in the construction of these

highways. A 70:30 Gamuda-WCT joint venture completed two highways in West Bengal (India) last year and will collect semi-annual payments (currently RM80 mn each) for the next 15 years. WCT also has a 21.6% stake in a 57 km Indian toll highway (Tada to Nellore), which commenced operations in 2004.

**Balance sheet and earnings profile** WCT had a net debt of RM148mn as at end 2005 (net gearing of 28%). In 2005 construction operations contributed 56% and 23% of the group's revenue and pre-tax profit, respectively. The group has grown its pre-tax profit by 28% pa over the past 10 years. Earnings has been growing steadily over the past 10 years except for 2004 where the group suffered RM59 mn losses on (1) RM28 mn provisions for cost overruns on its Bakun Dam project exposure and (2) RM31 mn cost of listing its property arm. In 2006 and 2007, the Street is forecasting 14% and 13% net profit growth, respectively. WCT trades on 8x Street's 2006 EPS forecast compared with industry average of 12x.

Figure 1: Construction order book breakdown (total = RM3.1 bn)



Source: Company data, Credit Suisse estimates.

Figure 2: Financial summary

(RM mn)	2003	2004	2005	2006F*	2007F*
Turnover	911.7	796.1	816.3	1090.9	1290.6
PBT	104.5	67.0	129.2	151.7	167.2
Net Profit	74.5	25.1	81.6	92.9	104.7
EPS (sen)	72	15	40	43	49

Figure 3: Valuation comparison

Stocks	Mkt Cap (US\$m)	Daily vol (US\$m)	P/BV (x)	P/E (x)		06F ROE (%)	Net div yld (%)
				2006F	2007F		
RBH	328	0.7	0.8	13.6	11.9	5.9	2.1
Gamuda	839	1.2	1.4	13.7	11.1	9.2	2.4
IJM	787	2.8	1.5	14.0	10.6	8.5	2.0
UEM Build	302	2.8	2.1	14.6	8.2	13.6	1.3
Ranhill *	215	0.4	0.8	8.8	6.4	6.5	1.1
Naim Cend	236	0.1	1.9	8.3	7.1	21.0	3.7
<b>Average</b>				<b>12.2</b>	<b>9.2</b>		<b>2.1</b>
<b>WCT *</b>	<b>198</b>	<b>0.4</b>	<b>1.3</b>	<b>7.9</b>	<b>6.9</b>	<b>16.2</b>	<b>3.4</b>

Source: Company data; \* consensus data from Thomson One Analytics

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**Companies Mentioned (Price as of 02 May 06)**

WCT Engineering (WCTE.KL, RM 3.36, NOT RATED)  
WCT Land (WCTL.KL, RM 0.67, NOT RATED)  
Gamuda (GAMU.KL, RM 4.08, OUTPERFORM, TP RM 5.00)  
IJM Corporation Berhad (IJMS.KL, OUTPERFORM, TP RM 6.05)  
Naim Cendera Holdings (NCHB.KL, OUTPERFORM, TP RM 4.5)  
Road Builder (M) Hldgs Bhd (ROAD.KL, NEUTRAL, TP RM 1.7)  
UEM Builders (UEMU.KL, OUTPERFORM [V], TP RM 1.3)  
Ranhill Bhd (RANH.KL, RM 1.32, NOT RATED)

## Disclosure Appendix

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