

WCT Engineering

Building up for the next wave
OUTPERFORM Maintained

RM6.60 @17/09/07

Target: RM10.00

Infrastructure (Construction)

WCT MK / WCTE.KL

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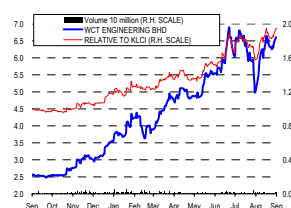
- **Cream of the midsize crop.** WCT Engineering stands out from the rest of Malaysia's midsize construction companies, with its rising overseas construction business, expanding property ventures both locally and overseas, and solid recurring income prospects.
- **Good order book growth potential, with Middle East flavour.** WCT's outstanding order book of RM4.4bn could rise to RM6.6bn if it gets another Middle East job. WCT is gunning for RM9bn worth of 9MP and Middle East contracts.
- **Equally strong property potential.** The next growth area is Vietnam, which will add a new dimension to its currently local-centric property business over the long run. It has obtained in-principle approval for two mixed/commercial developments in Ho Chi Minh with a combined potential GDV of RM4.9bn.
- **Next best pick after IJM and Gamuda.** In light of these positives, WCT is now our next best pick after IJM Corp (IJM MK, Outperform) and Gamuda (GAM MK, Outperform). The stock is now trading at about 21% discount to the CY08 P/E average of the two.
- **Initiate with OUTPERFORM.** We begin coverage with an OUTPERFORM recommendation and a target price of RM10.00, pegged to its FD RNAV. Share price catalysts include (i) more success in the Middle East, (ii) 9MP-related jobs, and (iii) its Vietnam potential. WCT became a KLCI component stock on 6 Aug 07.

Financial summary

FYE Dec	2005	2006	2007F	2008F	2009F
Revenue (RM m)	825.0	1,400.4	1,934.5	2,208.1	2,502.2
EBITDA (RM m)	128.0	209.4	264.6	336.0	385.4
EBITDA margins (%)	15.5%	15.0%	13.7%	15.2%	15.4%
Pretax profit (RM m)	127.8	149.8	170.3	242.0	283.6
Net profit (RM m)	80.4	88.1	106.1	155.4	180.6
EPS (sen)	26.4	28.9	34.8	51.0	59.2
EPS growth (%)	+217%	+10%	+20%	+47%	+16%
P/E (x)	25.0	22.9	19.0	13.0	11.1
FD EPS (sen)	26.4	28.9	27.5	40.2	46.8
FD P/E (x)	25.0	22.9	24.0	16.4	14.1
Gross DPS (sen)	21.0	11.0	12.0	12.0	12.0
Dividend yield (%)	3.2	1.7	1.8	1.8	1.8
P/NTA (x)	3.8	3.4	2.7	2.3	2.0
ROE (%)	15.1	14.8	14.0	17.7	17.6
Net gearing (%)	23.1	36.9	9.2	-	-
Net cash per share (RM)	-	-	-	0.16	0.70
P/CF (x)	nm	nm	20.1	16.4	13.2
EV/EBITDA (x)	19.1	11.7	9.2	7.3	6.3
CIMB/Consensus (x)			0.89	1.00	1.05

Source: Company, CIMB/CIMB-GK estimates, Reuters Estimates

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	RM2,028.5m	Share price perf. (%)	1M	3M	12M
12-mth price range	RM7.10/RM2.48	Relative	23.5	27.4	91.9
3-mth avg daily volume	RM6m	Absolute	5.6	(4.1)	11.2
# of shares (m)	307.3	Major shareholders			% held
Est. free float (%)	62	WCT Capital			24.8
Conv. secs (m)	Various	EPF			13.1
Conv. price (RM)	Various				

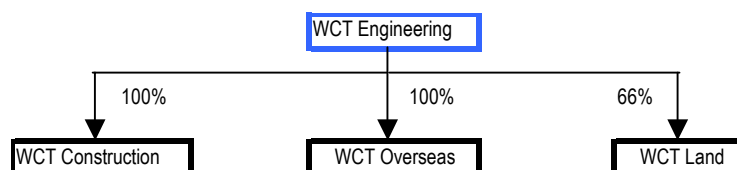
Source: Company, CIMB/CIMB-GK Research, Bloomberg

Background

Smooth transition to Main Board. WCT became a public company in Apr 94. After assuming its present name, it made its debut on the Second Board on 16 Feb 95 and was elevated to the Main Board on 7 Jan 99. Today, WCT is a well diversified group with businesses in civil engineering, building & infrastructure construction, property development, property investment and toll highway concession. The construction business is the biggest earnings contributor, accounting for 64% of FY06 earnings, followed by property at 31% (see Figure 2).

10-year CAGR of 15% for revenue and 24% for pretax. Over the past 10 years, WCT has delivered a topline CAGR of 15%. Revenue contributions were relatively flat in 2004-05 owing to the construction slowdown which affected the entire industry. But the recovery was swift in 2006 with revenue soaring 68% as new contracts came onstream. The group's pretax profit performance over the past 10 years has been commendable with a CAGR of 24% and consistently higher profits every year.

Figure 1: Corporate structure



Source: Company.

Figure 2: Revenue and pretax by division (RM m)

Revenue	FY05	FY06	FY07F	FY08F	FY09F
E&C	473.0	1,080.4	1,605.9	1,638.4	1,774.6
Property development	321.1	229.6	221.8	409.9	555.5
Property investment	3.1	4.5	4.0	46.8	47.0
Trading	27.8	85.9	102.8	113.0	125.1
Total	825.0	1,400.4	1,934.5	2,208.1	2,502.2
Growth					
E&C		128%	49%	2%	8%
Property development		-28%	-3%	85%	36%
Property investment		45%	-11%	1070%	0%
Trading		209%	20%	10%	11%
Pretax profits					
E&C	60.8	95.7	116.0	146.0	160.2
Property development	64.2	45.9	44.4	82.0	109.6
Property investment	0.3	0.4	0.4	4.2	4.2
Trading	2.5	7.7	9.3	10.2	11.3
Total	127.8	149.8	170.0	242.4	285.3
Growth					
E&C		57.4%	21.2%	25.9%	9.7%
Property development		-28.5%	-3.4%	84.8%	33.7%
Property investment		45.2%	-11.1%	1070.0%	0.4%
Trading		209.0%	19.7%	9.9%	10.7%

Source: Company, CIMB/CIMB-GK Research

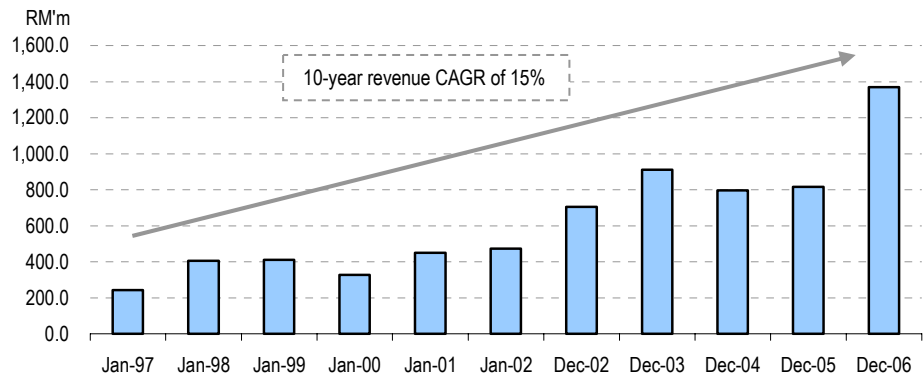
Figure 3: Company milestones

Year	Event
1981	WCT Earthworks and Building Contractors Sdn Bhd was founded
1995	Listed on the Second Board as WCT Engineering Bhd
1996	Ventured into property development via an integrated township development (RM3.62bn GDV)
1998	Completed Sepang F1 circuit in record 18 months (RM308m)
1999	Transferred to the Main Board of Bursa Malaysia
2002	Secured maiden Middle East project - Bahrain International F1 Circuit (RM600m)
2004	Completed the Bahrain International Circuit in 16 months, ventured into India highway with Gamuda
2005	Secured maiden project in Qatar - 43km Dukhan Highway (RM784m) airfield systems, tunnelling and detention ponds of the New Doha International Airport (RM1.9bn)
2006	Maiden overseas major building project - Bahrain City Centre, largest shopping centre in Bahrain (RM1.3bn)
2007	Foray into Dubai and Abu Dhabi construction via JV tie-up with Arabtec Holding PJSC Became a KLCI component stock in Aug 07

Source: Company

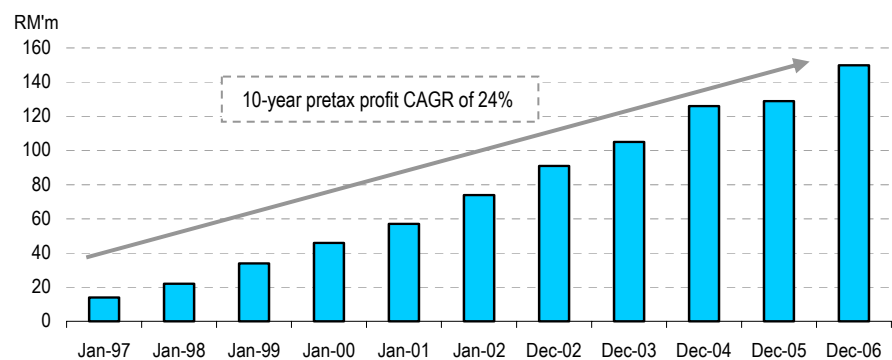
Please read carefully the important disclosures at the end of this publication.

Figure 4: 10-year revenue performance



Source: Company, CIMB/CIMB-GK Research

Figure 5: 10-year pretax profit performance



Source: Company, CIMB/CIMB-GK Research

Turning point in 2006. From just RM1.2bn worth of jobs in 2005, WCT's construction business saw a swing in fortunes in 2006 when it landed RM2.3bn worth of new projects which swelled its order book to RM3.5bn. A year later, the company sprang another surprise when it clinched two high-profile Middle East contracts: (i) Abu Dhabi F1 circuit, and (ii) the storm water & sewerage system for Dubai Jebel-Ali Airport Phase 1 (see section on Middle East for more details).

Moving up the value chain. Over a period of about 26 years, WCT has succeeded in widening its profile from a mere subcontractor to a main or turnkey contractor that undertakes various types of jobs involving dams, airports, racing circuits and major building structures. This was evident in 1997 when the company became the main contractor for the Sepang F1 Circuit, followed by several major projects. WCT has 100 full-time staff at any time and maintains its own fleet of machinery, as well as an experienced maintenance crew for its plant and machineries.

Commendable overseas track record. WCT has undertaken RM910m worth of overseas projects, all completed on time and with credible JV partners. It has completed six overseas projects over the past four years, including five jobs in Bahrain. Notable ones include:

- (i) Bahrain International Circuit – 2004
- (ii) North Manama Al-Seef Flyover, Bahrain – 2005
- (iii) Tada Nellore Highway, India – 2004
- (iv) Panagarh-Palsit Expressway, India – 2005
- (v) Durgapur Expressway, India – 2005
- (vi) Durrat Al-Bahrain Highway, Bahrain - 2007

Outlook

Construction

RM4.4bn order book good for three years. The company's outstanding construction order book now stands at RM4.4bn, of which 49% comes from overseas, namely the Middle East where it now has seven projects in the works. Another 22.4% of its order book comprises local civil engineering and infrastructure jobs and the remaining 29%

is in the form of local building jobs. WCT has increasingly good prospects of landing more overseas jobs, having built a solid reputation over the years. It has become more visible on the overseas construction scene, giving it an added edge in its bid for new contracts

Four new contracts in six months, so far. Since the start of the year, WCT has secured RM1.5bn worth of new contracts. This includes the recently secured RM456.8m contract to build office buildings in Putrajaya, which is the only sizeable 9MP job dished out so far this year. We foresee that a continued rise in overseas projects will lift the order book to at least RM6.6bn as opportunities abound in the Gulf region. Infrastructure demand is still relatively strong in Dubai and Abu Dhabi and Oman is the next potential area for projects.

Highways and dams in Indonesia and more F1 circuits? While this area is not an immediate priority in our opinion, the company thinks it has a decent chance of getting contracts such as highway concessions and dams in Indonesia. With experience in building three F1 circuits, it is no surprise that the company intends to use its track record to bid for more such projects. Potential new F1 tracks could be built in Singapore, South Korea, India, South Africa, Mexico and Valencia.

Bidding for RM9bn more contracts. Including the RM4.5bn potential Meydan Abu Dhabi racecourse, WCT is now bidding for RM9bn worth of new jobs, both local and overseas. On the local front, after securing the RM456.8m building job in Putrajaya, it is vying for (i) potential 9MP jobs in East Malaysia, particularly Sabah, and (ii) various PFI jobs. Under the 9MP, Sabah has been given a RM16.9bn allocation. In terms of presence, WCT has already set foot in East Malaysia via the Bakun Dam project and upgrade of Kota Kinabalu Airport.

Figure 6: Outstanding order book

Outstanding orderbook	Outstanding
Overseas	(RM m)
*BCC Hotel fit-out	135.0
*Abu Dhabi F1	650.0
*Dubai Storm Water	236.0
Bahrain City Centre, Bahrain	359.0
Dukhan Highway, Qatar	191.0
New Doha International Airport, Qatar	600.0
Durrat Al-Bahrain	6.0
Sub-total	2,177.0
As % of total	49.0%
Local civil engineering & infrastructure	
Kota Kinabalu International Airport	579.0
Kajang-Seremban Highway	290.0
Kudat Water Supply	93.0
Bakun Dam	33.0
Sub-total	995.0
As % of total	22.4%
Local building works	
*Federal government office buildings, Putrajaya (Lot 4G8 & 4G9)	456.8
UiTM Campus	411.0
Jusco Shopping Centre - BBT	183.0
Tijani 2 Apartments	134.0
Putrajaya Plot 3C4	51.0
others	31.0
Sub-total	1,266.8
As % of total	28.5%
TOTAL	4,438.8
Potential	
Meydan racecourse in Abu Dhabi (50% JV share)	2,250.0
Potential enlarged order book	6,688.8

* Projects secured in 2007 totalling RM1.5bn

Source: Company, CIMB/CIMB-GK Research

Improving construction margins. Margins from the construction division have been on an uptrend over the past 12 months. There is still room for upside in construction margins, particularly for projects in the Middle East as its close partnership with local players gives it an upper hand in contract negotiations. Pretax margins typically range from 10% to 15% for Middle East jobs. To top it off, earnings from Bahrain, Dubai and Abu Dhabi are tax-free. WCT's ability to negotiate new contracts with relatively high

margins should remain its key advantage, particularly for overseas ventures. We expect its EBITDA margins to hover around the 12-15% level over the next few years.

Three BOT highway concessions. On the infrastructure/concession side, WCT holds stakes in three concession highways in India (Figure 8), with concession periods ranging from 15 to 20 years starting 2004/05. Its partner for two of the highways is Gamuda and the remaining highway is a JV with IJM and CIDB.

Figure 7: WCT moves up the value chain

Period	Major project	Value chain
1981 - mid 1990s	Roads, highways and housing projects	Sub-contractor/earthworks
1993	Selangor turf club	Contractor & infrastructure works
1996	KLIA bulk earthworks	Main subcontractor
1999	Sepang F1 circuit	Main contractor, with partners
2004	Bahrain International Circuit	Main contractor, with partners
2004	Tada-Nellore highway - Swarna Tollway (India)	Investment & construction in BOT job
2005	Guthrie Corridor Expressway	Main turnkey contractor - design and build
2005	Putrajaya office buildings	Main design & build contractor
2005	New Doha International Airport (Package 1)	Design & build contractor, with JV
2006	Kota Kinabalu International Airport - Package 1	Main design & build contractor

Source: Company

Figure 8: Infrastructure/concession projects

Concession	Stake	Location in India	Concession period	Income	Partner
Swarna Tollway (Tada - Nellore Highway)	21.6%	Andhra Pradesh	2004 - 2032	Toll RM4m/month	IJM & CIDB
Emas Infrastructure (Durgapur Expressway)	30.0%	West Bengal	2005 - 2020	Semi-annuity RM34m every 6 months	Gamuda
Mapex International (Panargarh - Palsit Expressway)	30.0%	West Bengal	2005 - 2020	Semi annuity RM47m every 6 months	Gamuda

Source: Company, CIMB/CIMB-GK Research

Middle East

Two local partners to ease the climb up the learning curve. One of the advantages for WCT in the Middle East is its firm relationship with two reputable local contractors, namely Cebarco in Bahrain and Arabtech Holding PJSC in UAE, which is building the world's tallest building, The Burj Dubai. These partnerships work well as it eases WCT's climb up the learning curve, allowing it to concentrate on delivering projects and leveraging its core expertise while leaving the supply chain and relationships with local authorities to its partners.

Bahrain F1 Circuit in 2002 testimony to its core expertise. With its success in building Malaysia's Sepang F1 circuit under its belt, WCT penetrated the Middle East construction industry when it beat six other bidders for the 170ha Bahrain F1 Circuit in 2002. This is the first desert-located racing circuit in the world. This project immediately gave the company a reputation as one of the foreign contractors in the Middle East that delivers.

Six overseas projects completed with no losses. Having completed three projects in India and four in Bahrain, WCT has good prospects of securing more projects. It is now working on two projects in the Middle East.

Abu Dhabi F1 Circuit. Due to the fast-track nature and size of the project, the first phase of works is valued at RM1.3bn, of which WCT's share is RM650m. Still under negotiations are the scope and value of the outstanding works which include special electronics, mechanical, electrical and plumbing works, architectural finishes, site preparation and landscaping works. The project is situated on the southern side of Yas Island located in Abu Dhabi and is expected to be completed by Dec 08. This represents WCT's 3rd F1 circuit project out of the five modern special-purpose built circuits in the world.

A racecourse job? Moving away from F1 circuits, WCT is now in the final stages of securing a RM4.5bn racecourse project in Dubai. This structure, which will be called the Meydan Dubai race course, will replace the existing course in nearby Nad al-Sheba. It will feature (i) a world-class 1km grandstand and state-of-the-art dirt and turf tracks. This upscale structure will span 76m sq ft and is targeted to open during the 2010 Dubai World Cup event. Apart from the horse racecourse, other planned

developments within Meydan City include a championship 18-hole golf course, offices and a five-star hotel with 400 rooms and villas.

Figure 9: WCT's F1 circuit profile

F1 circuits	Year completed	Circuit length (km)	Track length (km)
Sepang	1998	304.8	5.5
Bahrain	2004	308.3	5.4
Abu Dhabi	2010	309.0	5.4

Source: Company, CIMB/CIMB-GK Research

Figure 10: Abu Dhabi F1 Circuit



Source: CIMB/CIMB-GK Research

There are five key success factors for the company in the Middle East. They are (i) a good understanding of the operating environment in Bahrain and Qatar, (ii) hands-on dedicated management team of 70 full-time employees in Qatar and Bahrain for close monitoring, (iii) its own fleet of construction machinery to ensure minimal mobilisation risk and cost, (iv) established networks from previous jobs, and (v) contracts that are high profile and of strategic importance to the government & clients.

Figure 11: Summary of success factors in Middle East

The 5 key factors

- 1) Good understanding of operating environment
- 2) Hands-on dedicated management working full time and monitoring operations closely
- 3) Ownership of construction machinery
- 4) Established networks from previous jobs
- 5) Contracts are high-profile and hold strategic importance to clients

Source: Company

Property

Flagship developments in Bandar Bukit Tinggi (BBT). With a combined GDV of RM3.6bn, this venture, under 66%-owned WCT Land, is divided into three components: BBT 1 (GDV RM1.1bn), BBT 2 (GDV RM1.5bn) and Bandar Parklands (GDV RM930m).

Strategic setting, maturing townships. These developments are progressing well. BBT 1 is 95% completed with 20 acres of remaining commercial land while BBT 2 is 83% completed with 56 acres of undeveloped commercial land and 40 acres of residential land. Being the commercial centre of Southern Klang and touted as one of the most vibrant townships in the Klang Valley, BBT has a population of about 40,000 residents served by up to 400 retail outlets, two hypermarkets and a shopping mall with a gross area of 2.1m sq ft which will be ready by year-end. Given the strategic setting, it is no surprise that the company anticipates an influx of financial and logistics services in the near future.

Two key commercial projects to boot. BBT 1 Commercial Centre which consists of two 12-storey towers and two blocks of 4-storey shophouses, and the Aeon Bukit Tinggi Shopping Centre will function as the main commercial and retail attraction for the township. The Aeon shopping mall is on schedule to open in Dec 07 while BBT 1 Commercial is slated for opening in mid-08. Total GDV of BBT 1 is RM147m.

Bandar Parklands. The Bandar Parklands township sits on 427 acres of freehold land 1.5km south of the BBT development. This development carries a GDV of RM930m and is a 9-year project. The company targets to hand over the initial phases of residential property development by Oct 07, after launching it in Oct 05. Some 123 shop offices launched in Jun 07 were fully taken up within two weeks.

High-end commercial development in Petaling Jaya. Called "The Paradigm", this 12.4-acre project will be a high-end commercial development comprising four towers of corporate class-A offices, a shopping mall and car parks. GDV is estimated at RM1.3bn.

D'Banyan in Kota Kinabalu, Sabah. In Kota Kinabalu, Sabah, WCT is expected to launch high-end residential units called D'Banyan with an estimated GDV of RM250m. This project, which is strategically located near the Sutera Harbour Resort within the 27-hole golf course of Sutera Harbour Resort and 10 minutes away from the city centre, will be launched sometime later this year. We gather that the demand for high-end residential property in Kota Kinabalu is strong.

Overall, total of 512 acres of undeveloped land bank. The company has about 512 acres of land bank left. The land bank is located in the Klang Valley and Kota Kinabalu and should keep the group busy for at least another six years (Figure 13).

Launches will pick up from here on. Indications are that WCT will speed up its property launches from 2H07 onwards. Its property division is set for a turnaround in 2008 after the slowdown of the residential property segment in 2006 which affected the group's earlier launches.

Rising property contributions. Although WCT's main property earnings contributor, BBT1 and 2, is close to maturing, contributions from other existing local projects are set to rise in the medium term. With a remaining GDV of more than RM2bn, this should comfortably maintain contributions from local property projects over at least the next five years. This will come from three of its existing developments – one in Sabah (D'Banyan) and two in the Klang Valley (The Paradigm and Parklands - BBT3). Property contributions are expected to make up 30-40% of revenue once these projects are in full steam.

Property to come in strongly from FY08. WCT's property division is projected to accelerate in terms of revenue contribution from FY08 onwards as the bulk of the planned launches, particularly from BBT2 and BBT 3, are expected to pick up pace from 2H07 onwards. We forecast property topline growth of 40-85% over the next 2-3 years.

Property assets as recurring income. In Jun 06, WCT signed a build and lease agreement with Aeon Co. Malaysia, the operator of Jaya Jusco stores, for a new outlet within the BBT township. The gross area spans 2.1m sq ft with a net lettable area of 1.0m sq ft. The mall is on schedule for opening at end-07. This is WCT's maiden foray into property investment and management. Another retail mall measuring 400k sq ft and a business hotel with 200 rooms are currently under construction in BBT.

Figure 12: Outstanding sales billings as at Jun 07

	BBT 1	BBT 2	Bandar Parklands	Total
Land area (acres)	347.0	562.0	427.0	1,336.0
Land status	Freehold	Freehold	Freehold	
Land cost (RM'm)	175.0	140.0	115.0	430.0
GDV (RM'm)	1,193.0	1,492.0	930.0	3,615.0
Sales to date (RM'm)	1,003.0	1,161.0	197.0	2,361.0
Billings to date (RM'm)	989.0	1,111.0	83.0	2,183.0

Total unrecognised sales : RM178m

Source: Company

Figure 13: Land bank under WCT Land

	Land bank		Remaining		Price benchmark (RM psf)	
	(acres)	(m sq ft)	(acres)	(m sq ft)	Commercial	Residential
Kelang						
Bandar Bukit Tinggi (BBT) 1	347.0	15.1	20.1	0.9	120.0	60.0
Bandar Bukit Tinggi (BBT) 2	562.0	24.5	96.0	4.2	100.0	60.0
Bandar Parklands (BBT 3)	427.0	18.6	362.0	15.8	80.0	50.0
Kelana Jaya						
The Paradigm	12.4	0.5	12.4	0.5	150	none
Kota Kinabalu, Sabah						
D'Banyan	21.5	0.9	21.5	0.9	none	100.0
Total	1,369.9	59.7	512.0	22.3		

Source: Company

Vietnam

Growth contributor at the later stages. After Gamuda which recently emerged as the only Malaysian company with a firm footing in both the construction and property sectors in Hanoi, Vietnam, WCT is the next local construction cum property company with strong growth prospects in that country. Although it stands a chance of getting infrastructure projects, there appears to be more opportunity in the property segment. The company has set its sights on Ho Chi Minh City for its initial foray into Vietnam.

Vietnam offers decent potential. With a population of 84m, largely comprising young people of middle- to upper-income levels and a population growth rate of 1.5% p.a., property development in Vietnam is set to pick up pace over the next few years. Several development projects such as townships are expected to be in high demand. Gamuda's Yen So Park township, which boasts an area of more than 500 acres, should pave the way for more such developments. Given WCT's capability of undertaking a smaller scale, if not a similar, development, the company should stand a good chance of doing well in Vietnam. Factors in WCT's favour are its track record of developing three townships in Malaysia and its capability and experience in overseas construction.

Vying for two commercial projects already. WCT has already obtained approval-in-principle for two mixed-commercial developments totalling 17.4ha in Ho Chi Minh City. It is in the process of applying for investment certificates for the two planned developments which will be named "Platinum Plaza" (located in the suburbs along the East-West Highway) and "Gateway Point" (adjacent to District 1 of Ho Chi Minh). Indications are that each project will have a GDV of at least US\$700m. The company recently took a 67% stake in a JV that will undertake the projects and has set up an office in Ho Chi Minh. Development is expected to start in 4QCY08 at the earliest and contributions are not expected to come any earlier than in three years' time.

Figure 14: Map of Vietnam



Source: CIMB/CIMB-GK Research

Figure 15: SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Hands-on management • Good track record in the Middle East • Strong partnership in the Middle East 	<p>Opportunities</p> <ul style="list-style-type: none"> • 9MP related projects • High-profile jobs in the Middle East • Vietnam property potential
<p>Weaknesses</p> <ul style="list-style-type: none"> • Too rapid replenishment in order book could lead to execution risks 	<p>Threats</p> <ul style="list-style-type: none"> • Risk from further Middle East expansion • Higher raw material costs could dent margins • Entry of an equally capable contractor could ramp up competition

Source: CIMB Research

Favourable SWOT analysis. The company's hands-on management, good track record and solid local partnership in the Middle East position it to benefit from potential 9MP related projects, high-profile infrastructure jobs in the Middle East and Vietnam's property boom.

Risks

Cost overruns. A sharp rise in the cost of raw materials such as steel and cement could result in some margin squeeze for both the construction and property segments. But we gather that future contracts should factor in this element and limit WCT's exposure to rising costs.

Project delays. This should not be much of a risk as far as its projects in the Middle East go since most of the projects are on a fast-track basis. However, the property ventures in Vietnam could face this risk as approvals are needed before WCT can start work on the project sites. Two approvals are still pending.

Valuation and recommendation

Credible local contractor with overseas advantage. WCT is one of the few local contractors that have made a mark overseas. We believe this is just the beginning of its growth phase and the company will replicate its success in other parts of the Middle East. On the local front, it is bidding for RM2bn-3bn worth of jobs and we would not be surprised should it land a local construction project over the medium term.

Strong orderbook replenishment ability. Another key selling point is its strong ability to secure new contracts. Although its RM4.4bn order book is smaller than IJM Corp's RM6bn and Gamuda's RM11.2bn, there is still scope of order book expansion as it is bidding for RM9bn worth of jobs both from local and overseas. This implies upside to our earnings forecasts which only factors in RM3.5bn potential contract wins. We are projecting net profit growth of 47% in FY08 and 16% in FY09 on the back of its RM4.4bn construction order book and earnings from its property businesses.

Next best pick after IJM and Gamuda. Within the construction sector, WCT is now our next best pick after IJM Corp (IJM MK, Outperform) and Gamuda (GAM MK, Outperform). The stock is now trading at about 13x CY08 P/E, which is more attractive than IJM's 19.3x and Gamuda's 13.6x.

Using RNAV as valuation basis. We are applying RNAV-based valuation to WCT as it captures the net asset values of its assets, largely comprising its three toll highways in India and its property land bank, and valuation of the construction division at 18x FY06 earnings. We arrive at an FD RNAV/share of RM10.00, which holds more upside as we have not factored in the developments in Vietnam and the potential NAV from the Aeon shopping mall's lease. The construction business contributes 66% of RNAV, 18% is from 66%-owned WCT Land, 7% is from toll highway concessions and the rest comes from non-operating components (Figure 16).

Initiate with OUTPERFORM. We begin coverage with an OUTPERFORM recommendation and a target price of RM10.00, pegged to its FD RNAV. Share price catalysts include (i) more success in the Middle East, (ii) 9MP-related jobs, and (iii) its Vietnam potential. Note that WCT became a KLCI component stock on 6 Aug 07.

Figure 16: RNAV

	Value (RM m)		WCT's stake	Value (RM m)	% of total
Toll highways					
PPH, India	314.5		30.0%	94.4	
DE, India	195.7		30.0%	58.7	
Swarna, India	184.5		21.6%	39.8	5.6%
Remaining land bank					
	Acres/sq ft	RM/psf			
Bandar Bukit Tinggi 1	20.1	60.00	66.0%	34.7	
Bandar Bukit Tinggi 2	96.0	60.00	66.0%	165.6	
Bandar Bukit Tinggi 3	362.0	35.00	66.0%	364.3	
Kelana Jaya (Paradigm)	12.4	50.00	66.0%	17.8	
Kota Kinabalu (D'Banyan)	21.5	50.00	66.0%	30.9	17.6%
Construction					
	2007 PAT	P/E			
Construction	125.0	18.0	100.0%	2,250.6	65.8%
WCT Land 3% 5-year CRDS				56.4	
Associated companies & investments				141.7	
Net current assets less dev. properties				430.3	
Long term debt				(361.8)	
Investment properties				95.4	
Total RNAV				3,418.9	
Shares outstanding (m)				305.0	
RNAV/share (RM)				11.21	
*Fully diluted RNAV/share (RM)				10.00	

* Dilution arises from conversion of remaining 44.1m ICPS and 35m estimated for convertible bonds

Source: Company, CIMB/CIMB-GK Research

Figure 17: Sector comparisons

	Bloomberg		Price	Mkt cap	Core	3-yr EPS	P/NTA	ROE		Div	
	ticker	Recom.	(RM)	(RM m)	P/E (x)	CAGR	(x)	(%)		yield (%)	
					CY07	CY08	(%)	CY07	CY07	CY08	CY07
MRCB	MRC MK	TB	2.42	2,290.8	34.9	21.7	77.8	3.2	9.0	12.7	-
IJM	IJM MK	O	7.50	6,399.5	21.5	19.3	6.2	2.4	12.9	13.2	2.0
Gamuda	GAM MK	O	7.70	7,643.4	22.8	13.6	23.4	2.4	10.5	15.9	6.0
Mudajaya	MDJ MK	O	3.30	493.7	20.3	9.8	54.8	2.9	15.3	26.6	2.1
Ekovest	EKO MK	TB	2.35	332.3	20.0	11.1	48.4	1.4	8.1	10.0	1.5
WCT Engineering	WCT MK	O	6.60	2,028.5	19.0	13.0	27.6	2.9	14.0	17.1	1.8
Simple average					23.1	14.8	39.7	2.5	11.6	15.9	2.2

O = Outperform, N = Neutral, U = Underperform, NR = Not Rated, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB/CIMB-GK Research, Bloomberg, Reuters Estimates

Financial tables

PROFIT & LOSS (RM m, FYE Dec)	2005	2006	2007F	2008F	2009F
Revenue	825.0	1,400.4	1,934.5	2,208.1	2,502.2
Operating expenses	(697.0)	(1,191.0)	(1,669.9)	(1,872.1)	(2,116.8)
EBITDA	128.0	209.4	264.6	336.0	385.4
Depreciation & amortisation	(6.2)	(47.3)	(96.4)	(110.1)	(125.2)
EBIT	121.8	162.1	168.2	225.9	260.2
Net interest & invt income	(17.4)	(13.7)	(15.2)	(11.8)	(7.9)
Associates' contribution	25.2	4.2	17.3	27.9	31.2
Exceptional items	(1.9)	(2.7)	-	-	-
Pretax profit	127.8	149.8	170.3	242.0	283.6
Tax	(33.7)	(34.6)	(42.6)	(60.5)	(70.9)
Minority interests	(13.7)	(27.1)	(21.6)	(26.0)	(32.1)
Net profit	80.4	88.1	106.1	155.4	180.6
Wt. shares (m)	305.0	305.0	305.0	305.0	305.0
Shares at year-end (m)	305.0	305.0	305.0	305.0	305.0
BALANCE SHEET (RM m, 31 Dec)	2005	2006	2007F	2008F	2009F
Fixed assets	659.4	770.1	774.4	781.1	779.1
Intangible assets	-	-	-	-	-
Other long-term assets	2.6	5.9	5.9	5.9	5.9
Total non-current assets	662.0	776.0	780.3	787.0	785.0
Cash and equivalents	414.9	417.5	793.2	1,059.4	1,253.6
Stocks	0.1	0.6	0.7	0.7	0.7
Trade debtors	396.3	625.9	864.7	986.9	1,118.4
Other current assets	229.8	446.1	528.6	587.6	651.8
Total current assets	1,041.0	1,490.2	2,187.1	2,634.6	3,024.6
Trade creditors	348.7	429.3	593.0	676.8	767.0
Short-term borrowings	196.6	315.2	314.3	307.8	302.4
Other current liabilities	146.2	376.0	548.6	638.0	725.4
Total current liabilities	691.5	1,120.5	1,455.9	1,622.7	1,794.7
Long-term borrowings	365.1	381.8	565.2	703.0	738.2
Other long-term liabilities	10.4	7.7	4.0	5.0	6.0
Total long-term liabilities	375.5	389.5	569.2	708.1	744.2
Shareholders' funds	533.8	593.7	757.6	880.1	1,027.7
Minority interests	102.4	163.1	184.7	210.8	242.9
NTA/share (RM)	1.75	1.95	2.48	2.89	3.37
CASH FLOW (RM m, FYE Dec)	2005	2006	2007F	2008F	2009F
Pretax profit	127.8	149.8	170.3	242.0	283.6
Depreciation & non-cash adjustments	6.2	47.3	96.4	110.1	125.2
Working capital changes	49.2	(174.0)	(21.0)	(36.2)	(39.3)
Cash tax paid	(39.1)	(36.1)	(13.4)	(41.6)	(59.5)
Others	-	-	-	-	-
Cash flow from operations	144.1	(13.0)	232.3	274.3	309.9
Capex	(124.6)	(253.3)	(69.3)	(76.3)	(78.6)
Net investments & sale of FA	(215.5)	92.0	(31.4)	(40.5)	(44.6)
Others	(1.9)	(2.7)	-	-	-
Cash flow from investing	(342.0)	(164.0)	(100.7)	(116.8)	(123.1)
Debt raised/(repaid)	135.6	138.0	169.6	124.7	22.7
Equity raised/(repaid)	(0.8)	33.6	-	-	-
Dividends paid	(23.0)	(23.1)	(32.9)	(32.9)	(32.9)
Cash interest & others	170.5	33.8	94.6	10.3	10.7
Cash flow from financing	282.4	182.3	231.3	102.1	0.4
Change in cash	84.5	5.3	362.8	259.5	187.2
Change in net cash/(debt)	(51.1)	(132.7)	193.2	134.8	164.5
Ending net cash/(debt)	(146.8)	(279.5)	(86.3)	48.5	213.0
KEY RATIOS (FYE Dec)	2005	2006	2007F	2008F	2009F
Revenue growth (%)	3.6	69.7	38.1	14.1	13.3
EBITDA growth (%)	103.5	63.5	26.4	27.0	14.7
Pretax margins (%)	15.5	10.7	8.8	11.0	11.3
Net profit margins (%)	9.7	6.3	5.5	7.0	7.2
Interest cover (x)	5.2	6.5	5.9	6.8	7.2
Effective tax rates (%)	26.4	23.1	25.0	25.0	25.0
Net dividend payout (%)	20.6	18.9	22.4	15.3	13.1
Debtors turnover (days)	161.8	133.2	140.6	153.0	153.6
Stock turnover (days)	4.0	0.1	0.1	0.1	0.1
Creditors turnover (days)	146.5	101.4	96.4	105.0	105.3

Source: CIMB/CIMB-GK Research

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