

WCT Engineering

Blessing in disguise

We understand WCT Engineering has secured an additional RM200m in construction works for the Bakun dam project, arising from a Government loan to the consortium undertaking the project. This enhances WCT's order book by 9% to RM2.4b and is a positive step forward in the consortium's negotiation for variation order, in our view. Valuations remain undemanding at 6.5x FY06 EPS, the lowest in our construction universe. Reiterate Buy with a revised RNAV-based RM3.50 price target that implies 8.4x FY06 EPS and 29% potential upside.

- **Kajang-Seremban project to resume.** In addition to the additional works on Bakun, we expect work on the Kajang-Seremban Highway to resume by end-June 06. Recall, construction work stopped because of the concessionaire Kaseh Lebuhraya Sdn Bhd's inability to meet funding requirements. On 23 Feb 06, Antah Holdings (major shareholder of Kaseh Lebuhraya Sdn Bhd) shareholders approved a restructuring plan that will result in IJM Corp taking a 50% stake in the concessionaire for RM250m cash. IJM Corp's cash injection and management capabilities should pave the way for construction to resume.

- **Good earnings visibility.** Following the Group's recent win in Bahrain and additional value on Bakun, the Group's construction earnings visibility is good with outstanding order book of RM2.4b. Our earnings forecast for the Group's construction earnings are now fully based on works already secured. Hence, new projects will be a boost to earnings.

- **Valuations attractive.** We increase our RNAV-based price target by 6% to RM3.50 by removing the earlier assumption of another RM50m provision for the Bakun project. Our price target implies 8.4x CY06 EPS.

Forecasts and Valuation

FY Dec (RMm)	2005A	2006F	2007F	2008F
Turnover	991	985	999	1,084
EBITDA	172.5	223.0	274.3	324.3
Pretax Profit	129.0	141.1	154.6	167.9
Net Profit	81.6	88.3	96.0	104.6
Net Profit (ex EI)	81.6	88.3	96.0	104.6
FD EPS (sen)	38.4	41.6	45.2	49.2
EPS Gth (%)	40.8	8.3	8.7	9.0
PE (x)	7.1	6.5	6.0	5.5
P/Cashflow (x)	6.5	4.5	3.3	2.6
EV/EBITDA (x)	4.2	3.6	3.3	2.9
DPS (Sen)	12.9	12.9	12.9	12.9
Div Yield (%)	4.8	4.8	4.8	4.8
Net Gearing (%)	27.7	39.5	48.9	47.4
ROE (%)	15.3	14.7	14.2	13.7
Book Value (RM)	2.51	2.83	3.19	3.59
P/Book Value (x)	1.1	1.0	0.8	0.8

General Data

Issued Capital (m shrs)	213
Mkt Cap (RMm/US\$m)	576 / 152
Major Shareholders (%)	
WCT Capital	25.0
EPF	13.6
Free Float (est.)	70.0
Average daily volume (m'shrs)	0.14

Consensus Analyst Poll

	Avg Rating	Buy	Hold	Sell
3 Mth	5.00	3	-	-
6 Mth	5.00	3	-	-
12 Mth	5.00	4	-	-
Market	3.57			
Sector	3.54			
Source: Bloomberg				
Avg Rating: 1 = Sell, 3 = Hold, 5 = Buy				

Share Price Chart



Share Price Performance

	Share Price	Rel KLCI	Rel Sector
Past 1 mth	23%	25%	21%
Past 3 mths	22%	18%	17%
Past 6 mths	14%	14%	19%
Past 12 mths	-5%	-8%	14%

BUY

RM2.71

At a Glance

Price Target:

1-year RM3.50

Stock Code:

Bloomberg: WCT MK

Reuters: WCTE.KL

MASA: 9679

Sector : Construction

KLCI: 916.93

Reason for Report:

Additional works on Bakun project

Implications:

Positive

Earnings Revision:

None

Consensus Net Profit

(RMm):

FY06 97.8

FY07 104.4

DBSV vs Consensus Net

Profit (% variance):

FY06 -10%

FY07 - 8%

Principal Business:

Construction & property development

Highlights

- **Additional work on Bakun.** We understand the Government has made a loan to the Malaysia-China Hydro Joint Venture (MCH JV) to complete the construction of the project as interim measure until negotiations on variation orders are complete. The loan results in additional RM200m in construction work for WCT. In return, MCH JV (of which WCT has a 7% stake) has to pay interest expense of 6-7% pa on the loan. This development is positive for WCT in that it enhances outstanding order book by 9% to RM2.4b. Also, it is a positive step forward in the MCH JV's negotiation with the Government for a variation order to complete the project, in our view. Recall, WCT's initial share of works on the project was RM229m. However, the volume of works was higher than expected. As a result, the JV has recorded two provisions for the project. WCT's estimated share of the provisions was RM16m in its 3Q04 results and RM12m in its 4Q04 results.

Estimated outstanding order book

Projects	Contract value (RMm)	Outstanding value (RMm)
Bahrain City Center	780	780
Durkhan Highway, Qatar	384	384
Kajang-Seremban Highway	370	290
New Doha International Airport, Qatar	282	282
Bakun Dam	429	226
Kudat Water Supply	151	151
Putrajaya Plot 3C4 Office Building	140	124
Durat Al-Bahrain	94	40
Bkt Tunku development	61	43
Putrajaya Lot 2G3, 2G4	408	41
Others	n.a.	34
Total	3,099*	2,395

Note: *Does not include others; outstanding value is as at end-Dec 05.

Source: Company, Hwang-DBS Vickers Research

- **Kajang-Seremban Highway works to resume.** We expect work on the Kajang-Seremban Highway to resume by end-June 06. Recall, construction work stopped because of the concessionaire Kaseh Lebuhraya Sdn Bhd's inability to meet funding requirements. On 23 Feb 06, Antah Holdings (major shareholder of Kaseh Lebuhraya Sdn Bhd) shareholders approved a restructuring plan that will result in IJM Corp taking a 50% stake in the concessionaire for RM250m cash. IJM Corp's cash injection, management and financial resources should pave the way for construction to resume.

- **Good earnings visibility.** Following the Group's recent win in Bahrain and additional value on Bakun, outstanding order book is enhanced to RM2.4b. This results in good visibility for the Group's construction earnings. Our earnings forecast for the Group's construction earnings are now fully based on works already secured. Hence, new projects will be a boost to earnings.

Prospects

• **Kota Kinabalu development targeted for high-end.** We understand the estimated Gross Development Value (GDV) for the Group's proposed Kota Kinabalu development is RM196m. The 21.5 acres leasehold land is earmarked for high-end residential development comprising detached villas, semi-detached villas and super-link houses. The land is strategically located with the popular Sutera Harbour Resort development. The land acquisition is subject to authority and WCT Land Berhad shareholder approval and targeted for completion by 4Q2006. This development accounts for 3-10% of our FY07-08 earnings.

• **Positioning for 9MP East Malaysia projects.** The proposed development, if approved, should strengthen the Group's East Malaysia presence. In addition to the Bakun dam project with estimated contract value of RM429m, the Group is undertaking the Kudat Water Supply (RM151m). These projects may help position the Group for new projects in East Malaysia under the 9th Malaysian Plan. In July 2005, *The Edge* reported that WCT is tipped to undertake a major portion of the upgrading works for the Kota Kinabalu International Airport (KKIA). The works would be part of the RM700m KKIA expansion project that will involve: (i) tripling the main terminal from 25,000sqm to 79,000 sqm; (ii) extend the runway from 2,988m to 3,780m; and (iii) land reclamation. Preliminary work including the reclamation of 20ha of sea adjacent to the existing runway has begun.

Action

• **Valuations attractive; Buy reiterated.** Since WCT announced the Bahrain City Center project, share price has moved up 10%. However, valuations are still undemanding at 6.5x FY06 earnings and 1.1x NTA. We increase our RNAV-based price target by 6% to RM3.50 by removing the earlier assumption of another RM50m provision for the Bakun project. Our price target implies 8.4x CY06 EPS.

Comparison table (sorted by market capitalization)

Company	Price	Target	Rating	PE (x)		CAGR (%)	Net cash/(debt)*	Net gearing*
	(RM)	(RM)		CY05	CY06	CY03-06	(RMm)	(%)
WCT Eng	2.71	3.50	Buy	7.4	6.5	68.4	(163)	31
Ranhill	1.40	0.94	FV	8.5	6.5	12.9	(1,726)	179
Road Builder	1.87	1.95	FV	9.9	9.5	3.5	(1,198)	83
IJM	4.72	5.90	Buy	12.8	11.7	(0.5)	(584)	28
Gamuda	3.68	3.35	FV	11.4	10.3	2.7	(78)	0
Average				10.7	9.5			

*From latest quarterly results

Source: Hwang-DBS Vickers Research

Comparison table

Company	Market cap/ order book (x)	Est. order book (RMbn)	Mkt cap (RMm)	P/NTA (x)	NTA/share* (RM)
WCT Eng	0.2	2.4	576	1.0	2.61
Ranhill	0.3	3.0	836	0.9	1.53
Road Builder	0.6	1.5	969	0.7	2.52
IJM	0.8	2.8	2,134	1.2	4.03
Gamuda	1.1	2.5	2,716	1.3	2.80
Average	0.6			1.0	

*Latest quarterly result figure

Source: Hwang-DBS Vickers Research

RNAV calculation

Division	FY06 net profit (RMm)	Multiple (x)	Discount (%)	Value (RMm)
Engineering & others	52	10.0	-	516.9
Property	37	7.0	10.0	230.9
Total				747.8
Fully diluted share base				212.4
RNAV/share				3.52
Implied FY06 PE (x)				8.5

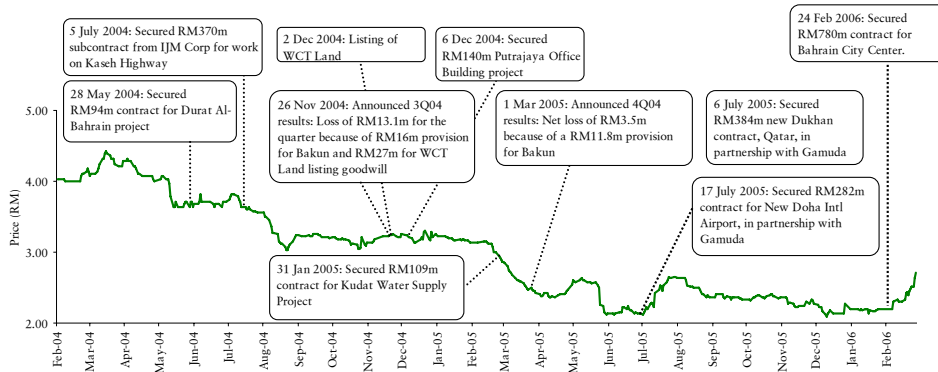
Source: Hwang-DBS Vickers Research

Summary earnings model

FY Dec (RMm)	2005A	2006F	2007F	2008F
Turnover	991.0	985.4	999.2	1,084.3
Opg Profit	134.2	143.5	155.8	172.2
Associates	24.9	20.3	27.4	29.4
Interest Expense	30.1	22.8	28.5	33.7
Pretax Profit	129.0	141.1	154.6	167.9
Tax	(34.5)	(39.5)	(43.3)	(47.0)
Minority Interest	(12.8)	(13.2)	(15.3)	(16.3)
Net Profit	81.6	88.3	96.0	104.6
Sales Growth (%)	24.5	(0.6)	1.4	8.5
Net Profit Gr (%)	222.0	8.3	8.7	9.0
EBITDA Mgn (%)	17.4	22.6	27.5	29.9
Opg Mgn (%)	13.5	14.6	15.6	15.9
Tax Rate (%)	28.0	28.0	28.0	28.0
Assumptions				
Construction margins (%)	9.1	8.7	8.5	8.5
Property margins (%)	17.1	22.6	23.3	24.8

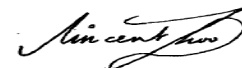
Source: Hwang-DBS Vickers Research

Uptick in share price following announcement of new projects



Source: Bloomberg, Hwang-DBS Vickers Research

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