

Buy RM7.95 KLCI : 1,374.32

Price Target : 12 months RM 9.10 (Prev RM 9.10)

Reason for Report : VGO for remaining shares in 65%-owned WCT Land

Potential Catalyst: New construction and infrastructure projects

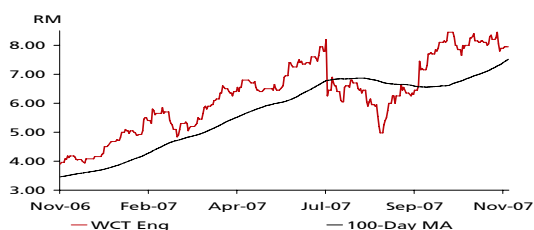
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FORECASTS AND VALUATION

FY Dec (RM m)	2006A	2007F	2008F	2009F
Turnover	1,400.4	3,052.7	4,796.8	5,580.6
EBITDA	243.0	372.8	466.1	513.9
Pre-tax Profit	149.8	233.8	304.0	361.0
Net Profit	88.1	129.5	177.6	214.4
Net Pft (Pre Ex.)	88.1	129.5	177.6	214.4
EPS (sen)	41.5	38.5	52.9	59.3
EPS Pre Ex. (sen)	41.5	38.5	52.9	59.3
EPS Gth Pre Ex (%)	8	(7)	37	12
Diluted EPS (sen)	41.5	38.5	52.9	59.3
Net DPS (sen)	10.8	11.0	11.1	11.3
BVPer Share (sen)	277.1	225.8	273.1	332.5
PE (X)	19.2	20.6	15.0	13.4
PE Pre Ex. (X)	19.2	20.6	15.0	13.4
P/Cash Flow (X)	10.3	10.9	8.6	8.1
EV/EBITDA (X)	8.7	8.2	6.6	6.1
Net Div Yield (%)	1.4	1.4	1.4	1.4
P/Book Value (X)	2.9	3.5	2.9	2.4
Net Debt/Equity (X)	0.4	0.2	0.1	CASH
ROAE (%)	15.6	20.2	23.3	23.2

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)	321
Mkt. Cap (RMm/US\$m)	2,555 / 758
Major Shareholders	
WCT Capital (%)	25.0
Employees Provident Fund (%)	13.6
Free Float (%)	61.4
Avg. Daily Vol. ('000)	677

Earnings Rev (%):	2007: -	2008: -
Consensus Net Profit:	2007: RM129.1m	2008: RM216.2m
Variance vs Cons (%)	2007: -	2008: -17.9

Sector : Construction

Bloomberg/Reuters Code: WCT MK/WCTE.KL

Principal Business: Construction, property development and operation of toll roads

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Refer to important disclosures at the end of this report

WCT Engineering

For the greater good

➤ **Story:** WCT Engineering (WCTE) has extended a voluntary general offer (VGO) to acquire the remaining 35% stake in WCT Land (WCTL) it does not already own at the offer price of RM2.09/WCTL share on the basis of 0.524 WCTE share (after WCTE's earlier proposed 1-for-1 bonus issue) issued at RM3.985 for every WCTL share held.

➤ **Point:** We are positive on the proposal, as it would: - (i) allow WCTE to consolidate more of WCTL earnings at a fair cost. At RM2.09, the offer prices WCTL at 14.7x estimated WCTL FY08 earnings. The issue of new WCTE shares dilutes our estimated RNAV of RM9.11/share marginally by 1% to RM9.01. Our FY08 EPS is only diluted by 0.3%; and (ii) result in more efficient management of WCTL. In our opinion, the VGO has a high chance of success.

➤ **Relevance:** We maintain our Buy call and RM9.10 RNAV-based price target on WCTE. With the structure of the share swap, WCTL shareholders will have the option of riding on the potential appreciation in WCTE shares resulting from the buoyant prospects in the improved construction business domestically and overseas.

Also for WCTL convertibles. The VGO is also for WCTE to acquire WCTL Convertible Redeemable Debt Securities (CRDS) from minorities. The offer for each CRDS (convertible into 2 WCTL shares) is equivalent to the offer for two WCTL shares (ie basis of 0.524 WCTE share for every WCTL share held). WCTL contributes c.29% of Group net profit.

Cheapest entry into WCTE. CRDS A is listed on the Bursa Malaysia. Assuming the VGO is implemented, this would be the cheapest entry into WCTE. CRDS A is currently trading RM3.40. Each CRDS A allows conversion into 2 WCTL shares valued at RM4.18.

We believe the pricing is fair. The offer price of RM2.09/WCTL is only at a 4% premium to market price of RM2.01. From the offer for the remaining 35% stake in WCTL's existing shares at RM2.09, the cost is RM247.5m versus the market value of RM238.0m. The expected cost for the CRDS is RM5.3m versus the market value of RM5.1m (Please refer to Fig 1).

Expect minimal conversion from WCTL. Each WCTL CRDS, issued in Aug 04, is convertible into 2 WCTL shares on the maturity date in Aug 09. WCTL has an option to redeem all CRDS 3.5 years from issue (Feb 08) at 100% of nominal value. If WCTL exercises the early redemption option, the conversion feature is accelerated and allows CRDS holders to convert. We understand c.RM60m of CRDS (45% of CRDS and we estimate 98% of CRDS not already owned by WCTE) was sold by WCTE to an institutional investor with an agreement that it would not be converted and with a buyback option. As a result, we do not expect WCTE shares to be issued for this portion of the CRDS. We estimate c.1.3m new WCTE shares to be issued for the WCTL shares that can be converted from the CRDS.

Company Focus

WCT Engineering

Buyback agreement on CRDS points to potentially high stake. We expect WCTE to buy back the CRDS sold to the institutional investor. This portion of CRDS bought back could potentially be converted into WCTL shares by WCTE in the event that the latter does not secure enough acceptances from the VGO. If WCTE converts this CRDS portion into WCTL shares, WCTE's stake in WCTL increases to 75.5% from 64.8% currently.

More efficient management. The successful completion will result in more efficient management of WCTL. Transactions between the two listed companies are considered Related Party Transactions, many requiring shareholder approvals. The management of WCTE is not allowed to be active in WCTL.

The exercise is scheduled for completion by 1H08. The announcement stated that WCTE does not intend to maintain the listing status of WCTL, if WCTL does not comply with the shareholding spread requirement.

Figure 1: Summary of offer for WCTL securities that WCTE does not already own

Securities	Number of shares/ nominal value	Offer price (RM)	Number of WCTE to be issued (after earlier proposed 1-for-1 bonus issue for WCTE shares)	Total (RM)
WCTL shares	118.4	2.09	62.1	247.5
CRDS A	0.5	4.18	0.5*	2.1
CRDS B	0.8	4.18	0.8	3.2
Total			63.4	252.8

*We understand 60m of CRDS A sold to institutional investor with agreement that it will not be converted. As a result, estimated number of WCTE shares to be issued for CRDS A & B is only 1.3m. Total nominal value of CRDS A is RM120m. WCTE already owns 59.5m CRDS A (49.6% of total) and 11.2m CRDS B (93.7%).

Source: Company, HwangDBS Vickers Research

Figure 2: Impact to RNAV calculation

	Base case	VGO 1	VGO 2
RNAV (RMm)	3,059.8	3,312.8	3,317.8
Increase in RNAV (RMm)	-	253.0	5.1
Number of shares	336.0	367.1	368.4
Increase in number of shares	-	31.1	1.3
RNAV/share (RM)	9.11	9.02	9.01
Change in RNAV/sh (%)		(0.9)	(1.1)

*Base case assumes partial conversion of ICPS

**VGO 1: Accounts for additional profit in WCTL from reduction in minority interest from VGO on existing ordinary shares of WCTL

***VGO 2: Accounts for added value of WCTL shares if WCTL CRDS converted at current market price. This is for WCTL CRDS which is not part of the 60m CRDS sold to a institutional investor.

Source: HwangDBS Vickers Research

Figure 3: Impact to EPS

Current WCTE Net Profit FY08F (RMm)	177.6
Add profit (RMm)	16.2
New Net Profit FY08F (RMm)	193.8
Current WCTE share base (m)	336.0
Add shares (m) – before 1-for-1 bonus issue	31.7
New share base (m)	367.7
Current EPS (sen)	52.9
New EPS (sen)	52.7
Dilution (%)	(0.3)

Source: HwangDBS Vickers Research

Company Focus

WCT Engineering

Figure 4: RNAV calculation

Division	Net profit (RMm)	Multiple (x)	Value (RMm)
Engineering & others	124	19.0	2,349.5
Property	47	15.0	710.3
Total			3,059.8
Share base			336.0
RNAV/share			9.11
Implied FY08 PE (x)			17.2

Source: HwangDBS Vickers Research

Company Focus

WCT Engineering

Income Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Turnover	1,400.4	3,052.7	4,796.8	5,580.6
Cost of Goods Sold	(1,189.1)	(2,727.5)	(4,313.8)	(4,996.8)
Gross Profit	211.2	325.2	482.9	583.8
Other Opg (Exp)/Inc	(51.9)	(94.0)	(190.5)	(231.6)
EBIT	159.3	231.2	292.5	352.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	4.3	13.4	21.1	9.6
Net Interest (Exp)/Inc	(13.7)	(10.9)	(9.6)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	149.8	233.8	304.0	361.0
Tax	(34.6)	(40.0)	(38.3)	(38.5)
Minority Interest	(27.1)	(64.4)	(88.1)	(108.1)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	88.1	129.5	177.6	214.4
Net profit before Except.	88.1	129.5	177.6	214.4
EBITDA	243.0	372.8	466.1	513.9
Sales Gth (%)	71.6	118.0	57.1	16.3
EBITDA Gth (%)	40.5	53.4	25.0	10.3
EBIT Gth (%)	31.2	45.2	26.5	20.4
Effective Tax Rate (%)	23.1	17.1	12.6	10.7

Cash Flow Statement (RM m)

FY Dec	2006A	2007F	2008F	2009F
Pre-Tax Profit	149.8	233.8	304.0	361.0
Dep. & Amort.	79.4	128.2	152.5	152.0
Tax Paid	(32.9)	(40.0)	(38.3)	(38.5)
Assoc. & JV Inc/(loss)	(4.3)	(13.4)	(21.1)	(9.6)
Non-Cash Wkg.Cap.	33.1	115.8	(47.3)	(21.3)
Other Operating CF	27.3	31.6	36.9	42.7
Net Operating CF	252.5	455.9	386.8	486.4
Capital Exp.(net)	(42.6)	(275.0)	(250.0)	(150.0)
Other Invts.(net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	(109.7)	0.0	0.0	0.0
Net Investing CF	(152.4)	(275.0)	(250.0)	(150.0)
Div Paid	(23.0)	(33.0)	(33.0)	(33.0)
Chg in Gross Debt	(24.3)	110.0	80.0	80.0
Capital Issues	3.7	0.0	0.0	0.0
Other Financing CF	(9.8)	(31.6)	(36.9)	(42.7)
Net Financing CF	(53.4)	45.4	10.1	4.3
Net Cashflow	46.8	226.3	146.8	340.7

Quarterly / Interim Income Statement (RM m)

FY Dec	3Q2006	4Q2006	1Q2007	2Q2007
Turnover	416.3	585.1	550.7	768.3
Cost of Goods Sold	(368.3)	(521.4)	(493.9)	(674.1)
Gross Profit	48.0	63.7	56.8	94.3
Other Oper. (Exp)/Inc	(4.1)	(9.1)	(6.2)	(6.3)
EBIT	43.9	54.6	50.6	88.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	1.5	1.9	1.6	1.9
Net Interest (Exp)/Inc	(6.9)	(6.7)	(5.9)	(6.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	38.5	49.8	46.3	83.5
Tax	(4.8)	(12.7)	(9.1)	(23.2)
Minority Interest	(11.7)	(8.8)	(10.0)	(27.6)
Net Profit	22.0	28.3	27.2	33.8
Net profit bef Except.	22.0	28.3	27.2	32.7
Sales Gth (%)	90.3	40.5	(5.9)	39.5
EBIT Gth (%)	33.2	24.5	(7.3)	73.9
Gross Margins (%)	11.5	10.9	10.3	12.3
EBIT Margins (%)	10.5	9.3	9.2	11.5

Balance Sheet (RM m)

FY Dec	2006A	2007F	2008F	2009F
Net Fixed Assets	515.4	662.3	759.7	757.7
Invts in Assocs & JVs	58.0	71.4	92.5	102.1
Other LT Assets	129.0	129.0	129.0	129.0
Cash & ST Invts	432.0	658.3	805.1	1,145.8
Other Current Assets	1,140.0	1,810.5	2,544.7	2,874.7
Total Assets	2,274.4	3,331.5	4,331.1	5,009.3
ST Debt	334.0	334.0	334.0	334.0
Other Current Liab	794.1	1,580.4	2,267.3	2,576.0
LT Debt	372.8	482.8	562.8	642.8
Other LT Liabilities	17.3	17.3	17.3	17.3
Shareholder's Equity	593.7	690.2	834.8	1,016.2
Minority Interests	162.5	226.8	315.0	423.0
Total Cap. & Liab.	2,274.4	3,331.5	4,331.1	5,009.3

Non-Cash Wkg. Cap	345.9	230.1	277.5	298.7
Net Cash/(Debt)	(274.8)	(158.4)	(91.6)	169.1

Rates & Ratios

FY Dec	2006A	2007F	2008F	2009F
Gross Margin (%)	15.1	10.7	10.1	10.5
EBITDA Margin (%)	17.4	12.2	9.7	9.2
EBIT Margin (%)	11.4	7.6	6.1	6.3
Net Profit Margin (%)	6.3	4.2	3.7	3.8
ROAE (%)	15.6	20.2	23.3	23.2
ROA (%)	4.5	4.6	4.6	4.6
ROCE (%)	14.1	18.2	22.1	23.5
Div Payout Ratio (%)	26.3	25.8	19.1	16.0
Interest Cover (x)	11.6	21.3	30.6	416.8
Debtors Turn (avg days)	150.2	129.4	136.4	152.0
Creditors Turn (avg days)	189.7	159.7	160.6	173.5
Inventory Turn (avg days)	70.6	39.4	24.3	21.0
Current Ratio (x)	1.4	1.3	1.3	1.4
Quick Ratio (x)	1.1	1.1	1.2	1.3
Net Debt/Equity (X)	0.4	0.2	0.1	CASH
Capex to Debt (%)	6.0	33.7	27.9	15.4
N.Cash/(Debt)PS (sen)	(128.2)	(51.8)	(30.0)	55.3
Opg CFPS (sen)	103.3	101.2	129.2	140.3
Free CFPS (sen)	98.8	53.9	40.7	93.0

PE Chart (x)



DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

* *Share price appreciation + dividends*

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