

# Company Focus

Malaysia Equity Research PP 11272/7/2007

27 Mar 2007

## Buy MYR5.65 KLCI : 1,244.32

(Maintain)

**Price Target :** 12 months MYR 7.10 (Prev MYR 6.50)

**Reason for Report :** Secures contract in new market in partnership with established contractor

**Potential Catalyst:** New construction contracts

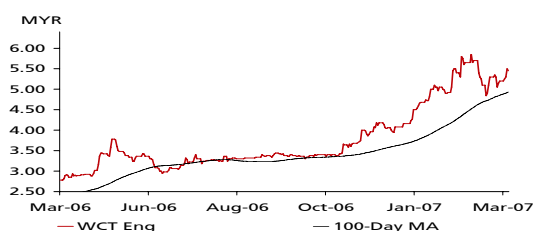
### ANALYST

Wong Ming Tek 603 2711 0956  
mingtek@hdbsvr.com.my

### FORECASTS AND VALUATION

FY Dec (MYR m)	2005A	2006A	2007F	2008F
Turnover	816.3	1,369.8	1,368.6	1,589.0
EBITDA	147.8	252.3	282.0	335.1
Pre-tax Profit	129.2	149.8	162.0	190.7
Net Profit	81.3	88.1	105.3	127.0
Net Pft (Pre Ex.)	81.3	88.1	105.3	127.0
EPS (sen)	38.3	41.5	49.6	59.8
EPS Gth (%)	162	8	20	21
Diluted EPS (sen)	38.3	41.5	49.6	59.8
Net DPS (sen)	10.8	10.8	10.8	10.8
BVPer Share (sen)	251.1	277.1	317.0	366.9
PE (X)	14.8	13.6	11.4	9.5
P/Cash Flow (X)	14.5	7.3	5.6	4.6
EV/EBITDA (X)	9.3	6.5	5.5	4.7
Net Div Yield (%)	1.9	1.9	1.9	1.9
P/Book Value (X)	2.3	2.0	1.8	1.5
Net Debt/Equity (X)	0.1	0.4	0.2	0.2
ROAE (%)	16.9	15.6	16.5	17.3

### SHARE PRICE CHART



### AT A GLANCE

Issued Capital (m shrs)	219.4
Mkt. Cap (MYRm/US\$m)	1,239.8 / 359
Major Shareholders	
WCT Capital (%)	25.0
Employees Provident Fund (%)	16.7

Free Float (%)	60
Avg. Daily Vol.('000)	911

<b>Earnings Rev :</b>	2007: 0%	2008: 8%
<b>Consensus EPS :</b>	2007: 47.8 sen	2008: 56.2 sen
<b>Variance vs Cons :</b>	2007: 4%	2008: 6%

**Sector :** Industrials

**Bloomberg/Reuters Code:** WCT MK EQUITY/WCTE.KL

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

## WCT Engineering

The pursuit of happiness in Dubai

➤ **Story:** In partnership with Arabtec Engineering Services LLC (AES), WCT Engineering clinched a RM486m contract for the Dubai World Central International Airport drainage and sewerage system.

➤ **Point:** Arabtec, an established contractor in the UAE, is involved in the construction of the Burj Dubai, set to be the world's tallest building. As this is WCT's first project in Dubai, we view its partnership with such an established contractor as a significant positive. This would reduce the uncertainty over undertaking projects in what is perceived as a difficult construction market and for a fast track project. We are optimistic the partnership could lead to more joint projects in the future.

➤ **Relevance:** WCT's 50% share of work translates to RM243m enhancement to the Group's estimated RM3.4bn order book. We upgrade FY08 earnings by 8% and RNAV-based price target to RM7.10 (from RM6.50), implying 11.9x FY08 EPS. WCT is our top pick in the construction sector. Reiterate Buy.

**Enhancing airport work experience.** The project involves supplying and installing the underground utilities for Dubai World Central International Airport. It includes the networks for storm water, sewerage and irrigation, pumping stations, irrigation storage tanks and retention ponds. It will involve more than 100 kilometres of pressure pipes and more than 120 kilometres of gravity drain pipes of up to 3.2 metres in diameter. The works are expected to be completed by the third quarter of 2008.

**Partnering established UAE contractor.** AES is a wholly-owned subsidiary of Arabtec Holding PJSC (Arabtec), which is listed on the Dubai Financial Market. Arabtec's construction arm, established in 1975, has completed and undertaking a very impressive profile of projects – specialising in high-rise buildings. Together with Samsung Corp of Korea and Six Construct of Belgium, Arabtec is undertaking construction of the Burj Dubai, set to be the world's tallest building upon completion.

**Beginning of a beautiful relationship.** WCT's existing Middle East projects are in Bahrain and Qatar. As this is the Group's first project in Dubai, we view its partnership with such an established contractor as a significant positive. Having a local partner is a key ingredient to WCT's success in Bahrain. Arabtec is familiar with local working conditions in Dubai, has an established relationship with authorities, suppliers, and clients, among others. This is important as it would reduce the uncertainty over undertaking projects in what is perceived as a difficult construction market and for a fast track project. In this case, we believe WCT is contributing its experience in civil engineering to its partner's extensive building project profile.

## Company Focus

**WCT Engineering**

**Immediate step-up in project and country.** Arabtec is already undertaking Passenger Terminal Structure Works, Air Control Traffic Tower and Cargo Terminal Building Works at the Dubai World Central worth Dh520m (c.RM520m). Their existing involvement in the airport will reduce WCT's learning curve in the project and country. Given the abundant construction opportunities in the UAE, we are optimistic WCT and Arabtec would undertake more jobs together going forward.

**Strong financials.** Arabtec has shareholder funds of Dh810.1m, as at end-Dec 06. For the 12 months ended Dec 06, Arabtec registered Dh216.9m net profit on Dh2.8bn revenue. This implies net profit margin of 7.7%, lifted by absence of corporate tax.

### Estimated Outstanding Order Book

Projects	Contract value (RMm)	Outstanding value (RMm)
New Doha International Airport, Qatar	282	768
Kota Kinabalu International Airport (KKIA) upgrading	720	652
Bahrain City Center (BCC)	653	509
Universiti Teknologi Mara (UTM)	435	435
Kajang-Seremban Highway	331	290
Dukhan Highway, Qatar	384	261
Dubai World Central International Airport	243	243
Tijani 2 North duplex & apartments	163	148
Kudat Water Supply	151	108
Bakun Dam	429	59
Putrajaya Plot 3C4 Office Building	140	93
Putrajaya Lot 2G3, 2G4	408	41
Others	n.a.	22
<b>Total</b>	<b>4,339</b>	<b>3,629</b>

As at 26 Mar 06.

Source: Company, Hwang-DBS Vickers Research

### Construction Sector - Comparison Table (sorted by market capitalisation)

Company	Price (RM)	Target (RM)	Rating	Diluted P/E (x)		CAGR (%)		Mkt cap (RMm)	Net (debt) (RMm)	Net Est. gearing (%)	Order Bk (RMbn)
				CY06	CY07	CY08	CY04-08				
WCT Eng	5.65	7.10	Buy	13.6	11.4	9.5	13.0	1,240	(275)	46	3.6
IJM	8.55	8.90	Buy	25.4	21.8	20.1	11.6	4,242	(717)	33	5.0
Gamuda	8.00	8.30	Buy	39.6	32.4	23.1	32.4	6,026	(561)	24	9.0
<b>Average</b>				26.2	21.9	17.6					

Source: Hwang-DBS Vickers Research

### Selected Arabtec projects

Name	Client	Description
Sky Gardens	Al Mazaya	The US\$136m (AED500m) Sky Gardens development is the first high-rise residential block to be built in the Dubai International Financial Centre. The 47-storey tower is being developed on a 6000 m2 plot of land.
Jumeirah Beach Residence - Sector 1	Technology, Electronic Commerce and Media Free Zone Authority	Located on the southern end of Jumeira District in Dubai city, the city is bordered by an artificially constructed marina on one side and the Arabian Gulf on the other side. Sector 1 comprises 6 towers on a common Podium. The Towers vary from 39 to 49 floors high incorporating a total of 1229 apartments, both 1,2 and 3 bedroom.
Jumeirah Beach Residence - Sector 3		Sector 3 comprises 7 towers on a common Podium. The Towers vary from 17 to 53 floors high incorporating a total of 1276 apartments, both 1,2 and 3 bedroom.
Le Reve	Le Reve International - Al Bassam	Le Reve is a residential building comprised of 80 Penthouses with 50 floors and just over 210m in height. Le Reve is located on a strategically selected site facing the Dubai International Marine Centre and with views of the Dubai coast, and the Jumeirah Palm Island.
AlFattan Marine Towers	Al Fattan Properties	The project is located within the Jumeirah Beach Residence property development in Dubai. The site is bordered by the JBR3 on one side and JBR4 on the other side, an artificial marina on the third and the hotel Oasis at the beach front on the fourth side.
Al Yamamah Residence	Mr Ali S. Shahri	The project is located on the Banyas Road in Dubai and very close to the Deira City Centre. The property is close to the Dubai Creek Golf and Yacht Club.
ADIA Headquarters Dubai Pearl - A1 Tower	Abu Dhabi Investment Authority Omnix (Dubai Pearl Inc.)	Located on the Corniche Road in the city of Abu Dhabi. 161,000m2 of built-up area, 232m high, 46 typical hotel floors plus podium leisure facilities.

Source: Company's website

## Company Focus

### Income Statement (MYR m)

FY Dec	2005A	2006A	2007F	2008F
Turnover	816.3	1,369.8	1,368.6	1,589.0
Cost of Goods Sold	(654.0)	(1,168.7)	(1,160.7)	(1,326.9)
<b>Gross Profit</b>	<b>162.3</b>	<b>201.1</b>	<b>207.9</b>	<b>262.1</b>
Other Opg (Exp)/Inc	(40.8)	(28.2)	(54.0)	(79.6)
<b>EBIT</b>	<b>121.4</b>	<b>172.9</b>	<b>153.9</b>	<b>182.6</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	25.1	4.2	18.5	19.4
Net Interest (Exp)/Inc	(17.4)	(27.2)	(10.3)	(11.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>129.2</b>	<b>149.8</b>	<b>162.0</b>	<b>190.7</b>
Tax	(34.1)	(34.6)	(43.7)	(49.6)
Minority Interest	(13.7)	(27.1)	(13.0)	(14.1)
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>81.3</b>	<b>88.1</b>	<b>105.3</b>	<b>127.0</b>
Net profit before Except.	81.3	88.1	105.3	127.0
EBITDA	147.8	252.3	282.0	335.1
Sales Gth (%)	3	68	0	16
EBITDA Gth (%)	18	71	12	19
EBIT Gth (%)	3	42	(11)	19
Effective Tax Rate (%)	26.4	23.1	27.0	26.0

### Cash Flow Statement (MYR m)

FY Dec	2005A	2006A	2007F	2008F
Pre-Tax Profit	129.2	149.8	162.0	190.7
Dep. & Amort.	25.2	79.4	128.2	152.5
Tax Paid	(40.9)	(32.9)	(43.7)	(49.6)
Assoc. & JV Inc/(loss)	(25.1)	(4.2)	(18.5)	(19.4)
Chg in Wkg.Cap.	0.0	33.1	161.5	(6.0)
Other Operating CF	(91.4)	27.2	31.5	36.8
<b>Net Operating CF</b>	<b>(3.1)</b>	<b>252.5</b>	<b>420.9</b>	<b>305.0</b>
Capital Exp.(net)	(7.9)	(42.6)	(275.0)	(250.0)
Other Invts.(net)	1.2	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	(0.6)	(109.7)	0.0	0.0
<b>Net Investing CF</b>	<b>(7.4)</b>	<b>(152.4)</b>	<b>(275.0)</b>	<b>(250.0)</b>
Div Paid	(47.2)	(23.0)	(23.0)	(23.0)
Chg in Gross Debt	34.8	(24.3)	110.0	80.0
Capital Issues	68.8	3.7	0.0	0.0
Other Financing CF	39.2	(9.8)	(31.5)	(36.8)
<b>Net Financing CF</b>	<b>95.6</b>	<b>(53.4)</b>	<b>58.6</b>	<b>23.3</b>
Net Cashflow	85.1	46.7	204.5	78.3

### Quarterly / Interim Income Statement (MYR m)

FY Dec	1Q2006	2Q2006	3Q2006	4Q2006
Turnover	149.6	218.7	416.3	585.1
Cost of Goods Sold	(101.2)	(177.7)	(368.3)	(521.4)
<b>Gross Profit</b>	<b>48.4</b>	<b>41.0</b>	<b>48.0</b>	<b>63.7</b>
Other Oper. (Exp)/Inc	(6.9)	(8.1)	(4.1)	(9.1)
<b>EBIT</b>	<b>41.5</b>	<b>32.9</b>	<b>43.9</b>	<b>54.6</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.9	1.5	1.9
Net Interest (Exp)/Inc	(7.0)	(6.6)	(6.9)	(6.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>34.4</b>	<b>27.2</b>	<b>38.5</b>	<b>49.8</b>
Tax	(11.3)	(5.9)	(4.8)	(12.7)
Minority Interest	(2.5)	(4.1)	(11.7)	(8.8)
<b>Net Profit</b>	<b>20.7</b>	<b>17.2</b>	<b>22.0</b>	<b>28.3</b>
Net profit bef Except.	20.7	17.2	22.0	28.3
Sales Gth (%)	(20)	46	90	41
EBITDA Gth (%)	57	(21)	33	24
Gross Margins (%)	32.3	18.8	11.5	10.9
EBIT Margins (%)	27.8	15.0	10.5	9.3

Source: Company, DBS Vickers

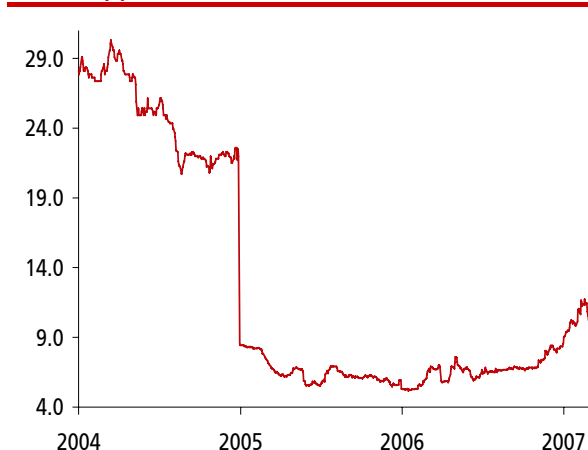
### Balance Sheet (MYR m)

FY Dec	2005A	2006A	2007F	2008F
Net Fixed Assets	387.2	515.4	662.3	759.7
Invts in Assocs & JVs	104.6	58.0	76.5	95.9
Other LT Assets	181.0	187.0	205.4	224.8
Cash & ST Invts	385.2	432.0	636.5	714.8
Other Current Assets	691.0	1,140.0	1,101.5	1,194.3
<b>Total Assets</b>	<b>1,638.6</b>	<b>2,274.4</b>	<b>2,605.7</b>	<b>2,893.7</b>
ST Debt	131.3	334.0	334.0	334.0
Other Current Liab	495.7	794.1	917.1	1,003.9
LT Debt	328.3	372.8	482.8	562.8
Other LT Liabilities	47.2	17.3	17.3	17.3
Shareholder's Equity	533.8	593.7	679.1	786.2
Minority Interests	102.4	162.5	175.4	189.6
<b>Total Cap. &amp; Liab.</b>	<b>1,638.6</b>	<b>2,274.4</b>	<b>2,605.7</b>	<b>2,893.7</b>
Non-Cash Wkg. Cap	63.9	11.9	(149.5)	(143.5)
Net Cash/(Debt)	(74.4)	(274.8)	(180.3)	(181.9)

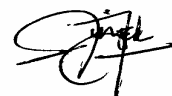
### Rates & Ratios

FY Dec	2005A	2006A	2007F	2008F
Gross Margin (%)	19.9	14.7	15.2	16.5
EBITDA Margin (%)	18.1	18.4	20.6	21.1
EBIT Margin (%)	14.9	12.6	11.2	11.5
Net Profit Margin (%)	10.0	6.4	7.7	8.0
ROAE (%)	16.9	15.6	16.5	17.3
ROA (%)	6.4	5.9	4.8	5.1
ROCE (%)	15.5	13.2	11.4	12.9
Div Payout Ratio (%)	24.3	26.1	18.9	15.7
Interest Cover (x)	7.0	6.3	14.9	16.2
Debtors Turn (days)	185.1	196.9	191.2	186.0
Creditors Turn (days)	230.8	256.4	305.0	289.6
Inventory Turn (days)	87.6	94.6	90.0	78.8
Current Ratio (x)	1.7	1.4	1.4	1.4
Quick Ratio (x)	1.5	1.1	1.2	1.2
Net Debt/Equity (X)	0.1	0.4	0.2	0.2
Capex to Debt (%)	1.7	6.0	33.7	27.9
N.Cash/(Debt)PS (sen)	35.0	129.4	84.9	85.7
Opg CFPS (sen)	(1.44)	103	122	146
Free CFPS (sen)	(5.2)	98.8	68.7	25.9

### PE Chart (x)



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Wong Ming Tek, Head of Research