

⊙ Action

Although construction remains a significant contributor, property development will lead earnings growth for WCT from here. In line with our positive view on the Malaysian construction sector, we believe improved news flow and better margins, with possible order accretion surprises, will drive a re-rating. At 14.6x FY10F P/E, WCT is inexpensive compared to peers. We initiate with a BUY, and PT of RM3.11.

✂ Catalysts

A pick-up in construction activity in the target markets can lead to positive surprises on the order accretion front, which may provide upside risk to our earnings.

⚓ Anchor themes

The Malaysian government plans to achieve construction sector growth of 5-6% over the next two years, compared with the sector's growth of 2-3% achieved over the past few years. Highly anticipated mega-projects have started rolling, and we expect more of such awards in the near term.

A value pick on news flow

① Construction division to post sustainable earnings

We expect WCT to maintain order book accretion by bagging more construction projects in the near term on strong expected activity in the Middle East and Malaysia. Although order book coverage ratios and revenues may fall, we believe inflection in margins will keep construction earnings stable. Nevertheless, we believe the construction segment's contribution to earnings will remain significant at some 80% of operating profit in FY10F.

② Property development poised to lead earnings growth

WCT's recent forays into high-margin luxury homes and commercial property development should lead to a significant jump in its property segment's contribution from FY10F. We expect the property division to post an earnings CAGR of 35% over FY09-11F and the segment's contribution to total earnings to rise to 26% by FY11F. Our SOTP-based price target (PT) of RM3.11 implies potential upside of 20%. Construction accounts for 57% of our target valuation, whereas property and expressway concessions form 22% and 7%, respectively.

③ Macro concerns present buying opportunities, IJM remains our top pick

Last month's macro surprises from Dubai (the debt moratorium of Dubai World) and Vietnam (dong devaluation) have led to a sharp correction in Malaysian construction stocks over fears of substantial negative earnings impact. We believe the concerns are overdone, as Malaysian construction players have a very limited exposure to these markets. We believe any sentiment-driven correction in Malaysian construction stocks should be viewed as a buying opportunity. IJM remains our top pick in the sector since we believe its diversified model looks the most favourable from a risk-reward perspective.

Closing price on 11 Dec RM2.58

Price target **RM3.11**

Upside/downside 20.4%

Difference from consensus **3.3%**

FY10F net profit (RMmn) 165.3

Difference from consensus **-11.4%**

Source: Nomura

Nomura vs consensus

Our estimates are below consensus because of the impact of dilution from warrant conversion.

Key financials & valuations

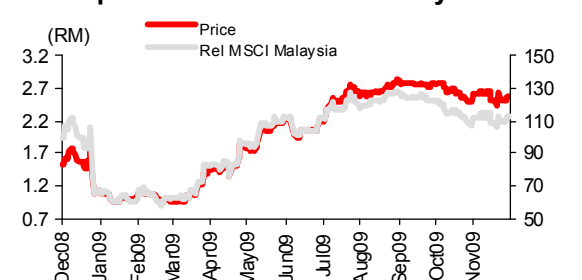
31 Dec (RMmn)	FY08	FY09F	FY10F	FY11F
Revenue	3,795	4,110	3,035	3,096
Reported net profit	101.8	150.8	165.3	190.2
Normalised net profit	101.8	150.8	165.3	190.2
Normalised EPS (RM)	0.13	0.19	0.18	0.20
Norm. EPS growth (%)	(42.0)	46.1	(6.8)	15.1
Norm. P/E (x)	19.8	13.6	14.6	12.7
EV/EBITDA (x)	8.8	7.1	5.0	4.2
Price/book (x)	1.7	1.5	1.1	1.0
Dividend yield (%)	2.8	2.3	2.5	2.9
ROE (%)	9.9	12.2	10.6	10.1
Net debt/equity (%)	34.8	40.7	net cash	net cash

Earnings revisions

Previous norm. net profit	na	na	na
Change from previous (%)	na	na	na
Previous norm. EPS (RM)	na	na	na

Source: Company, Nomura estimates

Share price relative to MSCI Malaysia



	1m	3m	6m
Absolute (RM)	(0.4)	(8.8)	15.1
Absolute (US\$)	(1.0)	(6.3)	18.9
Relative to Index	0.7	(12.4)	(0.1)
Market cap (US\$mn)			590
Estimated free float (%)			40.3
52-week range (RM)			2.84/0.93
3-mth avg daily turnover (US\$mn)			1.47
Stock borrowability			Hard
Major shareholders (%)			
Employees Provident Fund			26.0
Cash Carat Sdn Bhd			20.8

Source: Company, Nomura estimates

**Any authors named on this report are research analysts unless otherwise indicated.
See the important disclosures and analyst certifications on pages 25 to 28.**

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We initiate coverage of WCT with a BUY rating

A value pick on improving news flow

WCT's FY08 results were pressured by a fourth quarter loss, due to a slowdown in its construction and property development businesses affected by the global slowdown. However, these businesses have already started to turn around, as WCT posted net income of RM114mn in 9M09 (as compared to RM102mn in FY08). Although we expect WCT to post core earnings growth of 12.3% over FY09-FY11F, we estimate diluted earnings will witness a CAGR of only 3.6% over FY09-11F, as we assume outstanding warrant conversion in FY10F. We believe core earnings growth should pick up again in FY11F, led by the likely award of new projects over the next few months by the Malaysian government and margin expansion in its construction and property arms. We initiate coverage of WCT with a BUY rating and a 12-month price target of RM3.11, representing potential upside of 20% from current levels. The stock is currently trading at historical mean valuations, which we expect to re-rate following likely positive news flow over the next couple of years.

WCT's construction and property businesses turned around in 9M09

Initiate with a BUY; PT of RM3.11 implies 20% potential upside

Our sum-of-the-parts (SOTP) valuation for WCT implies a fair value of RM2.9bn (RM3.11/share on a fully-diluted basis), which represents potential upside of 20% from current levels, since our price target runs off this fair value. The construction division constitutes 57% of the total valuation, while the property development business accounts for 22% and the build-operate-transfer (BOT) assets business accounts for 7%. We are not incorporating any significant impact from its trading and investment holdings businesses, due to the volatile nature of their earnings.

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We value WCT's construction business at 12x FY11F earnings (in-line with its five-year historical trading multiple); at a 20% discount to our valuation multiple for IJM's and Gamuda's construction arms to factor in falling order book assumptions. We apply a 15% discount to our NAV estimates for the property development business and BOT assets, in-line with our assumptions for other construction players, IJM and Gamuda.

Exhibit 1. WCT: SOTP valuation

Segment	FY11F Net income / NAV	Stake (%)	NAV discount (%)	P/E (x)	WCT's stake value (RMmn)	Value per share (RM)
Construction FY11F net income	136.5	100		12.0	1,638.4	1.75
Property NAV	765.1	100	15		650.4	0.70
Concession assets						
Durgapur expressway			15		52	
Panagarh-Palsit expressway			15		85	
Swarna (Tada-Nellore) tollway			15		55	
Total concession assets					192	0.21
Cash from conversion of warrants (RMmn)					418.1	0.45
Total NAV (RMmn)					2,898.6	
Total number of dilutive shares (mn)					933.1	
NAV/share (RM)					3.11	3.11

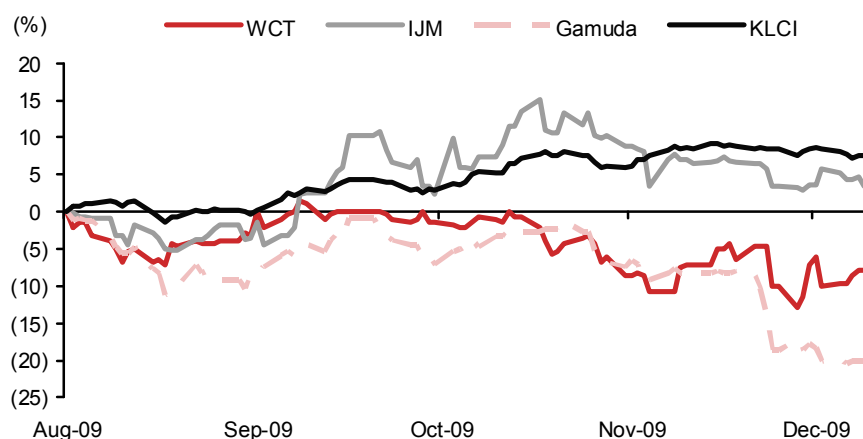
Source: Nomura estimates

Share-price underperformance led by concerns about earnings sustainability

The stock has underperformed the KLCI by 15.4% and its peer IJM by 11.3% since August 2009. We believe that uncertainties surrounding earnings sustainability and a lack of news flow regarding new projects have been a drag on the share price over the past few months. However, the recent announcement of the Low Cost Carrier Terminal (LCCT) Works Package and the bagging of infrastructure development rights at Medini Iskandar should help quell market uncertainties about sustaining construction revenues and pave the way for a re-rating of the stock, in our view. These two projects comprise 31% of the current orderbook, and thus will form a meaningful contribution of WCT construction's earnings going forward.

We believe the recent announcement of the LCCT Works Package and the bagging of infrastructure development rights at Medini Iskandar should help quell market uncertainties

Exhibit 2. Relative share-price performance since August 2009



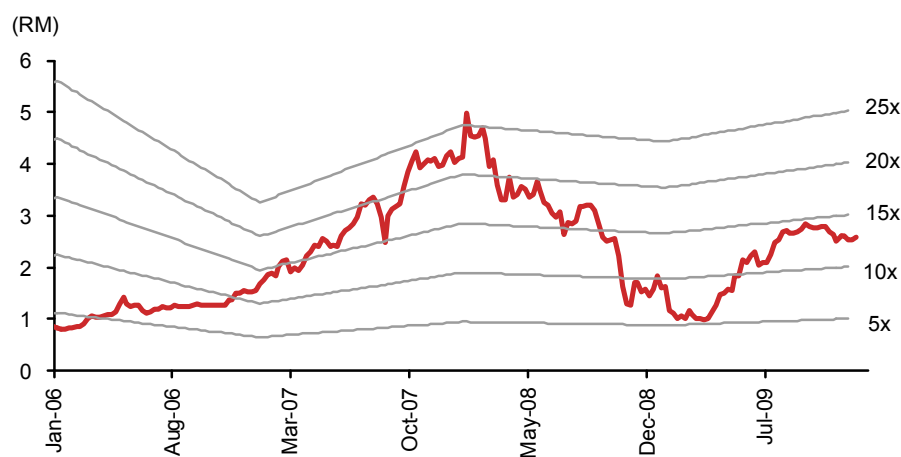
Source: Bloomberg

Valuation looks inexpensive, compared with regional peers

Our PT on WCT implies an FY11F P/E multiple of 15.2x, at a discount to the trading multiple of its regional peers, which is justified given the muted diluted earnings growth profile of the company. Its transformation from a small sub-contractor to a well-regarded construction player, improving macro news flow, and increasing diversification into the high-margin commercial property space can support higher than historical valuations going forward, in our view.

We believe the discount between Malaysian and Indian construction players should narrow from here

Exhibit 3. WCT: two-year forward P/E



Source: Bloomberg, Nomura estimates

Exhibit 4. Construction sector valuation summary

Name	Nomura rating	Mkt cap (US\$m)	Closing price (11 Dec)	P/E (x)			EPS CAGR 09-11F	ROE (%)			Net margin (%)		Net debt to equity FY09F (%)	EV/EBITDA (x)		
				FY09	FY10	FY11F		FY09	FY10	FY11	FY10	FY11F		FY09	FY10	FY11F
Gamuda (GAM MK)	BUY	1,601.8	2.7	28.1	15.4	11.6	55.7	6.2	17.5	13.0	18.5	12.1	12.2	18.1	10.5	8.2
IJM (IJM MK)	BUY	1,751.1	4.5	20.6	17.6	13.0	25.9	6.2	6.5	7.9	6.4	7.7	58.5	10.6	8.6	6.7
WCT (WCT MK)	BUY	590.0	2.58	13.6	14.6	12.7	3.6	12.2	10.6	10.1	5.4	6.1	40.7	7.1	5.0	4.2
Subsector average				20.8	15.9	12.4	28.4	8.2	11.5	10.3	10.1	8.6	37.1	11.9	8.1	6.3
IVRCL (IVRC IN)	BUY	1,046.1	364.9	21.9	18.0	14.9	21.1	12.5	13.3	13.9	4.4	4.4	70.0	17.9	12.8	10.6
Nagarjuna (NJCC IN)	BUY	831.5	150.9	25.2	17.8	15.2	28.5	9.1	9.5	10.2	4.5	4.7	66.0	17.1	13.4	11.8
L&T (LT IN)	BUY	21,794.3	1,690.65	37.7	34.9	26.4	19.4	28.2	20.8	24.5	7.7	7.8	50.0	13.6	11.7	8.9
Punj Lloyd (PUNJ IN)	NEUTRAL	1,467.7	205.95	-28.6	13.1	10.3	n.m.	-9.0	13.6	14.8	3.8	4.5	111.0	14.0	4.8	4.1
HCC (HCC IN)	BUY	893.5	137.2	28.6	29.2	18.3	25.0	12.5	9.0	12.8	3.5	4.4	216.0	10.5	8.1	6.4
Subsector average				16.9	22.6	17.0	23.5	10.7	13.2	15.2	4.8	5.2	102.6	14.6	10.1	8.4
Daelim Ind (000210 KS)	BUY	2,506.6	83,500	12.7	10.4	10.3	10.9	7.2	8.4	7.8	3.9	3.4	36.9	9.8	8.6	8.6
GS E&C (006360 KS)	BUY	4,971.3	113,000	15.3	12.9	12.0	13.1	13.2	16.0	15.7	6.1	6.4	net cash	11.2	9.6	8.6
Hyundai Dev (012630 KS)	BUY	2,461.3	37,850	54.2	13.5	9.0	145.0	2.3	8.7	12.2	7.8	9.7	52.0	32.7	13.5	9.1
Hyundai E&C (000720 KS)	BUY	6,291.8	65,500	20.6	16.6	13.2	24.9	15.3	15.1	15.3	4.6	4.4	8.5	13.4	11.2	9.5
Samsung C&T (000830 KS)	BUY	6,454.9	47,900	25.1	19.4	18.4	16.9	5.8	6.9	6.9	3.2	3.2	10.8	19.8	15.6	14.8
Samsung Engg (028050 KS)	BUY	3,881.8	112,500	16.3	12.6	10.3	25.4	39.5	35.0	30.8	6.5	5.8	net cash	11.5	9.0	7.0
Sub-sector average				24.0	14.3	12.2	39.4	13.9	15.0	14.8	5.3	5.5	27.1	16.4	11.3	9.6
Sector average				20.8	17.6	14.0	31.9	11.5	13.6	14.0	6.2	6.0	61.1	14.8	10.2	8.5

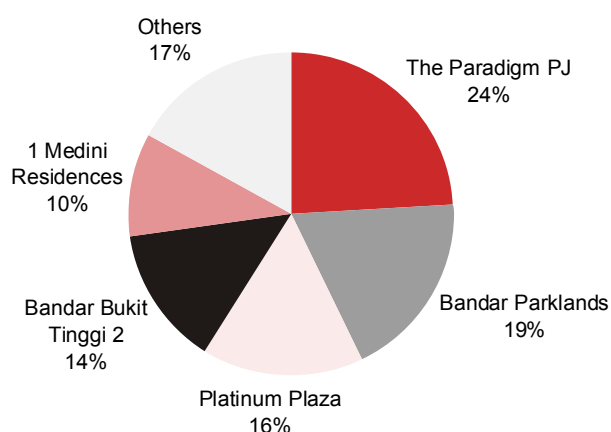
Note: WCT's diluted earnings CAGR is 3.6%, but its core earnings CAGR for FY09-11F is 12.3%

Prevailing share prices implies zero value for the property business, highlighting concerns on Vietnam

Adjusting for our target valuation for WCT's construction and BOT businesses, the implied value of its property development business looks insignificant, highlighting concerns about its target property development project in Vietnam. Although we expect less warm sentiment towards Vietnam's property market, the project accounts for only 16% of our property NAV estimate. WCT has a couple of mature assets in the Klang Valley, which have a few years of launches ahead. The property arm contributed RM31.6mn of earnings in 9M09 and we believe its contribution may increase further given that WCT is venturing into high-margin commercial property development.

The implied value of its property development business looks insignificant, highlighting concern about its target property development project in Vietnam

Exhibit 5. Property NAV contribution by project



Source: Nomura research

Key catalysts: positive news flow and property market recovery

The recent muted performance of the Malaysian construction sector is probably due to the fact that most of the contract awards in the past few months have been small, not benefiting any of the major listed players. The government is planning a few mega-projects alongside regular jobs to drive infrastructure development across the region, according to government data. As such, we believe the pace of award for bigger and strategic jobs should accelerate, and this is likely to be a key catalyst for Malaysian construction stocks. In our view, the re-rating of the Malaysian construction sector in the near term will likely be driven by positive news flow on investment activity.

Property assets may provide a positive surprise for construction players amid the economic recovery, providing significant potential upside option value in terms of order inflows and property asset margins. We note that momentum in the real estate market has picked up in the past few quarters and a strong economic revival could lead to a further up-tick in sales and margins. WCT is gearing up for some key property launches over the next one to two years, which should provide strong growth in property contributions.

Stimulus packages and 2010 budget imply a jump in construction activity

The government is targeting construction growth of 5-6% for the next couple of years, after 2-3% pa growth over the past two years. It has launched various initiatives, such as the first stimulus package of RM7bn and the second leg of its stimulus package, which promises to deliver RM17bn worth of infrastructure-related investment over the next couple of years. The Tenth Five-Year Malaysia Plan (10MP) is likely to focus further on increasing infrastructure and construction activity. The recent awarding of the Iskandar infrastructure works and the LCCT works package shows that mega project awards have started and we expect to see more awards in the near and medium term.

Construction order accretion to continue; however backlog coverage ratios may fall

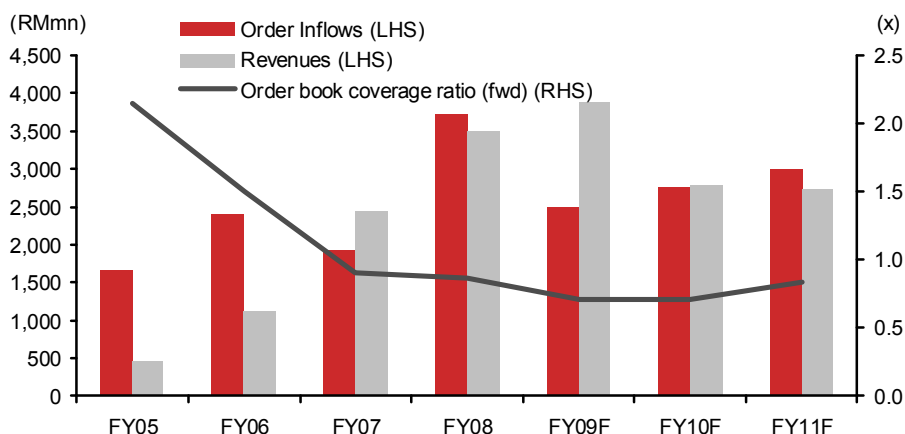
As the company is coming off a strong orderbook, incremental order inflow may not be able to sustain the historical high backlog coverage ratios. This may lead to a fall in revenues despite strong order accretion activity. However, we think the company has the potential to surprise positively on order inflows, as incremental construction activity in both its targeted markets — the Middle East and Malaysia — is picking up substantially. Please note that most of the infrastructure activity in the Middle East is being driven by Gulf Co-operative Council (GCC) countries, ex Dubai, which are backed by oil reserves for financial stability. Given the significant opportunity and the fact that WCT has historically positively surprised on order inflows (for example, it has bagged some RM2bn of order inflows in FY09 so far, compared with earlier guidance of some RM1bn of new orders), we believe that WCT has the potential to capture higher-than-guided order inflows of RM1.5-2bn in FY10F.

Despite falling revenues, we estimate construction earnings will remain flat, as respective margins are likely to rise further in FY10F. Construction margins have expanded from 2.4% in FY08 to 6% in 9M09.

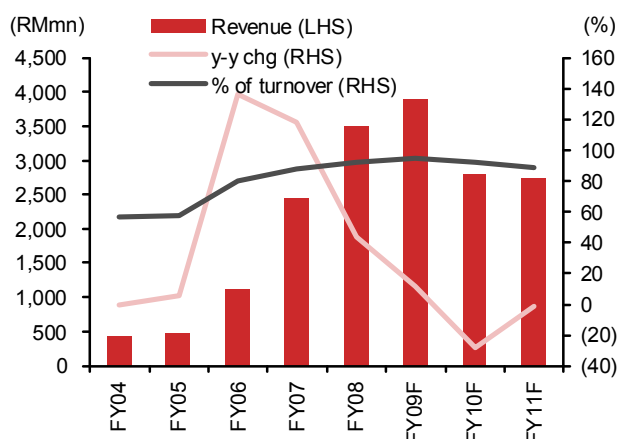
The re-rating of the Malaysian construction sector will be driven by positive news flow on investment activity, in our view

The recent muted performance of the construction sector is due to the fact that most of the announced mega projects have been delayed

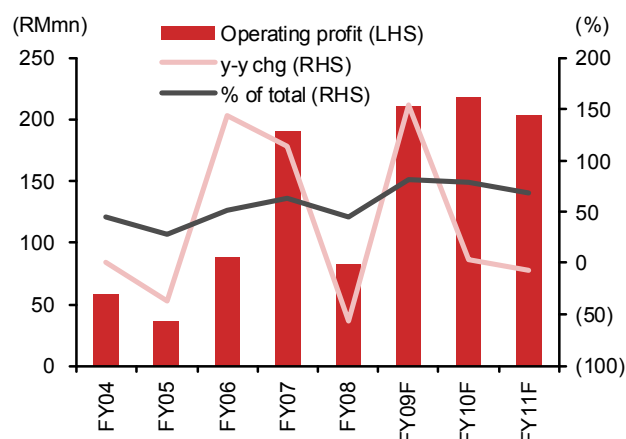
We think the company has the potential to surprise positively on order inflows

Exhibit 6. WCT: construction order inflows / revenues

Source: Company data, Nomura estimates

Exhibit 7. Construction revenues and contribution to total

Source: Company data, Nomura estimates

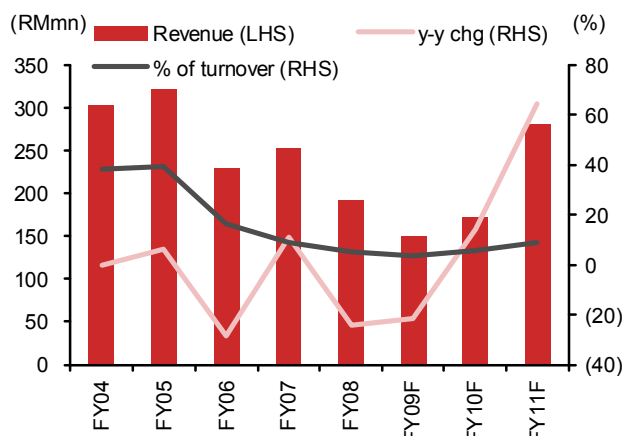
Exhibit 8. Construction operating profit and contribution to total

Source: Company data, Nomura estimates

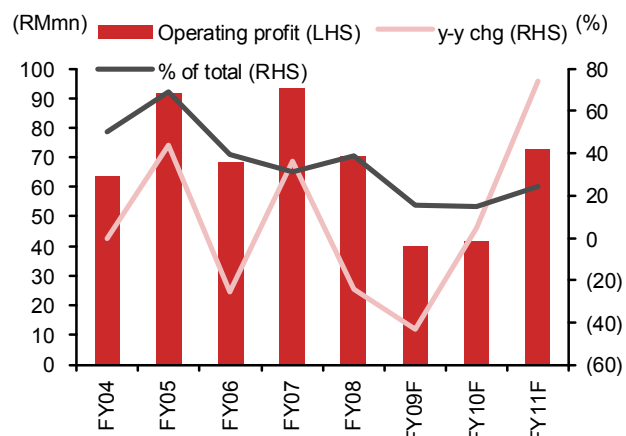
Property arm to drive earnings growth

WCT is gearing up for several launches, which should boost property earnings. As the company is moving towards high-end launches, we expect operating margins will improve significantly over the next three years. Overall, we see an earnings CAGR of 35% for WCT's property development arm over FY09F-FY11F.

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Exhibit 9. Property revenues, contribution to total

Source: Company data, Nomura estimates

Exhibit 10. Property OP, contribution to total

Source: Company data, Nomura estimates

Risks to our investment view

Valuation risks

Delay in awarding of key projects

We expect the awarding of key mega projects to drive order book growth of the construction companies under our coverage. Any substantial delay may affect our construction revenue estimates and thus hurt our earnings projections. However, with the award process starting in LCCT projects, we believe other mega projects should start getting rolled out in 1Q10F.

Any delay in the awarding of key projects may sap earnings

Exhibit 11. Sensitivity to order inflows

	Outcome if FY10F and FY11F order inflow
Impact on FY11F	Lower by 10%
Construction revenues	-14.1
Total revenues	-12.4
Construction op profit	-14.3
Net income	-10.2

Source: Nomura research

Margin expansion more muted than our expectations

Any strong rise in raw material prices (eg, steel and other commodities) may affect our margin assumptions, leading to lower earnings estimates. Similarly, a further drop in commodity prices could provide upside risk to our margin and earnings estimates.

Higher raw material prices would dent earnings prospects

Exhibit 12. WCT: sensitivity to construction margins

	Outcome if construction PBT margin
Impact on FY11F	Lower by 10%
Construction op profit	-10.0
Net income	-7.2

Source: Nomura research

Correction in property market could delay launches/take-up rates

We expect property contributions to increase substantially. Any correction in the property market may lead to a delay in launches and a fall in take-up rates for important projects. This may hurt our revenue and earnings estimates for the property arm.

Correction in the property market is a risk

Exhibit 13. WCT: sensitivity to take-up rates

	Outcome if take-up rate
Impact on FY11F	Lower by 10%
Total turnover	-0.7%
Property turnover	-8.0%
Property op profit	-8.0%
Net income	-2.6%

Source: Nomura research

We expect a property earnings CAGR of 34.8% over FY09-11F

Property to lead earnings growth

We expect WCT's diluted earnings to deliver a muted CAGR of 3.6% over the next two years, as we assume it will convert its warrants issued in 2008 at an exercise price of RM3.00 in 2010. However, we estimate it will post core earnings CAGR of 12.3% over FY09-11F, led by margin expansion at both the construction and property arms. Construction order accretion should remain strong, as activity in both Malaysian and Middle East markets is picking up.

On the property side, we estimate margins will pick up as the company is venturing into high-margin luxury homes and mixed-commercial development. Overall, we expect construction's contribution to fall from 82% in FY09F to 69% in FY11F. We think a healthy balance sheet ensures that the company is well-positioned to capitalise on any potential opportunities on the property or infrastructure side. According to management, WCT will likely retain a dividend payout ratio of 30% that translates into a 2.9% dividend yield in FY11F, in line with its peers.

Construction earnings growth to remain muted over the near term

With the pick-up in construction activity across WCT's primary markets, the Middle East and Malaysia, we expect order accretion to remain stable. The company has so far bagged RM2.6bn of order inflows in FY09 against initial guidance of RM1.5bn, implying construction revenues of RM3.9bn in FY09, according to our estimates (11% y-y growth). However, we expect construction revenues to fall to RM2.7bn by FY12F, as we estimate a drop in orderbook coverage ratios. As the construction activity picks up in the region, the company may surprise positively on order inflows and construction earnings, in our view.

Despite falling revenues, we estimate construction earnings will remain flat as margins are likely to expand further in FY10F. Note that construction margins have expanded from 2.4% in FY08 to 6% in 9M09. Overall, we expect construction's contribution to total PBT to fall from 82% in FY09F to 69% by FY11F.

We estimate the company will post core earnings CAGR of 12.3% over FY09-11F led by margin expansion at both the construction and property arms

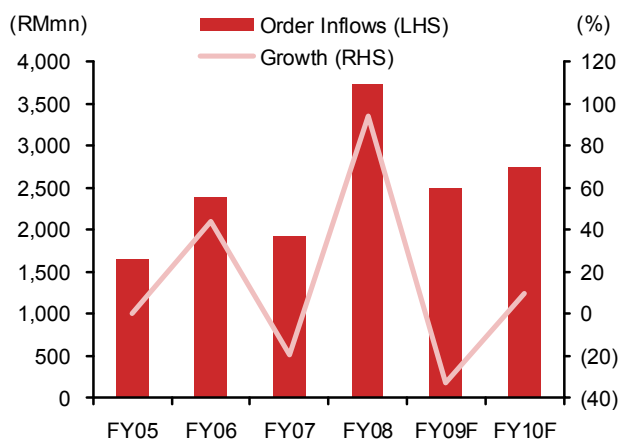
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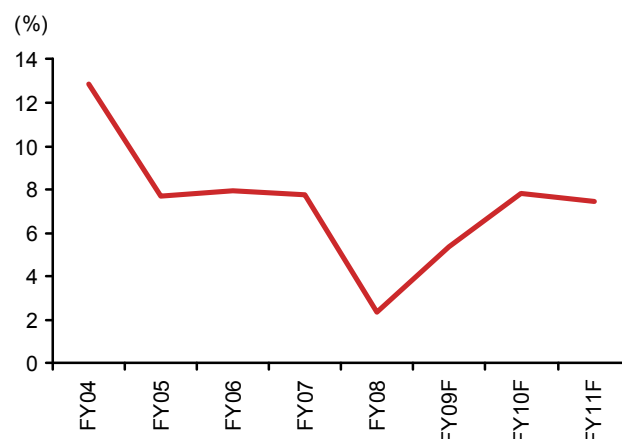
Exhibit 14. Construction revenues and coverage ratio

	FY04	FY05	FY06	FY07	FY08	FY09F	FY10F	FY11F
Revenues	447.3	472.7	1,117.0	2,438.2	3,497.9	3,895.1	2,788.7	2,734.5
Order book	1,202.0	2,395.0	3,672.0	3,157.0	3,387.0	1,992.0	1,953.2	2,218.7
Order book coverage ratio (fwd)		2.14	1.51	0.90	0.87	0.71	0.71	0.83

Source: Company data, Nomura estimates

Exhibit 15. WCT: construction order inflows

Source: Company data, Nomura estimates

Exhibit 16. Construction operating margins

Source: Company data, Nomura estimates

Property arm to increase contributions; gearing up for key launches

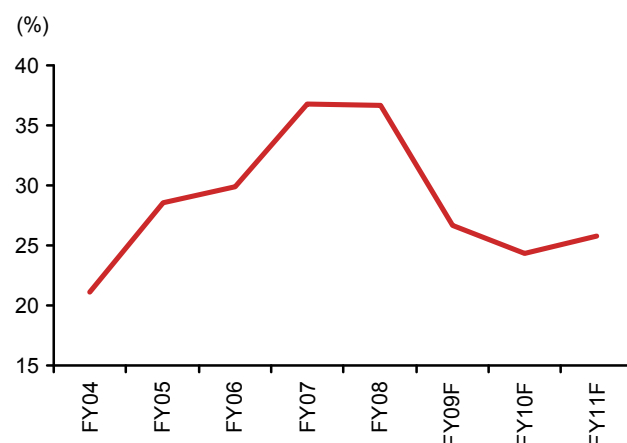
WCT is gearing up for a few important launches, which should lead to a substantial pick-up in property earnings. Although less rosy sentiment towards the Vietnam property market may affect its upcoming commercial mall project, the other assets in Malaysia should continue to do well over the near to medium term, in our view. Moreover, as the company is moving towards high-end launches, we expect operating margins to improve significantly over the next three years. Overall, we expect an earnings CAGR of 34.8% from the property development arm over FY09-11F.

We see an earnings CAGR of 34.8% from the property development arm over FY09-11F

Exhibit 17. Property projects: O/S GDV and NAV estimates

Property	Outstanding GDV (RMmn)	Nomura NAV estimate (RMmn)
Bandar Bukit Tinggi 1	436	73
Bandar Bukit Tinggi 2	637	105
Bandar Parklands	833	142
The Paradigm PJ	1,400	35
d'Banyan Residency	189	185
1 Medini Residences	600	79
Platinum Plaza	1,000	124

Source: Company data, Nomura estimates

Exhibit 18. Property development operating margins

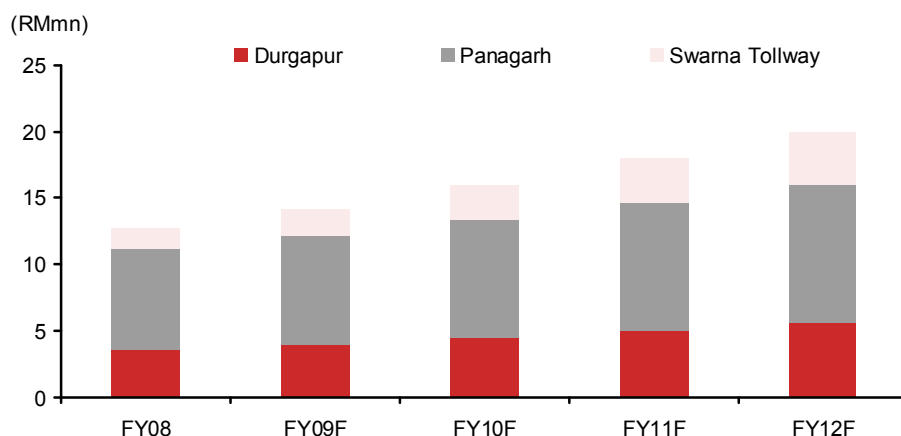
Source: Company data, Nomura estimates

Highway concession assets provide stable cashflows

WCT has invested in three Indian highway concessions, on a BOT basis. It has a 30% stake in both the Durgapur and Panagarh-Palsit Expressways, which provide stable semi-annuity payments of RM33mn and RM46mn, respectively, with the 70% stakeholder being Gamuda. The third, the Swarna tollway, in collaboration with IJM, is a toll asset. According to management, it has achieved breakeven in FY09 and thus should be accretive to earnings. We expect contributions from these businesses to grow from RM14mn in FY09F to RM18mn in FY11F.

We expect contributions from Indian highway concessions to grow from RM14mn in FY09F to RM18mn in FY11F

Exhibit 19. Contributions from highway concessions



Source: Nomura estimates

Healthy balance sheet to help capture growth opportunities

WCT's balance sheet looks robust, with an FY09F projected net debt-to-equity ratio of 30%. According to management, the company typically raises capital once every three years, with the most recent round in FY08. So, we do not expect any significant rise in capital over the medium term, and assume it turns net cash by FY11F, primarily on the warrant conversion.

Moreover, the slowdown in activity over the past two years has led to a reduction in working capital requirements. Thus low gearing and stable working capital requirements may help the company to take advantage of future growth opportunities in property and infrastructure assets.

Low gearing and stable working capital requirements may help WCT to take advantage of growth opportunities

Exhibit 20. Net debt/equity ratio trend



Source: Company data, Nomura estimates

Construction behemoth with a diversified orderbook

Evolving from a subcontractor to diversified player

WCT has evolved from a being a subcontractor at the time of its incorporation into being a fully fledged civil engineering and construction player with competence in areas as wide-ranging as Formula 1 circuits, airports and dams. It has a strong order book, comprising projects in both Malaysia and the Middle East, with visibility on order book replenishment. We believe that WCT's strong execution record puts it in good stead to benefit from the next leg of construction sector growth in Malaysia in 2010-15. In the property development segment, it has ventured into integrated township development, luxury homes as well as commercial real estate development. Its investments in the Indian concession assets provide it with stable cashflows, due to the semi-annuity nature of their payments.

Fully fledged civil engineering and construction player

Construction still constitutes the lion's share

Civil engineering and construction are WCT's core businesses, comprising the majority share of revenues and operating profits (92% of revenues and 45% of operating profit in FY08, Exhibits 7 and 8).

WCT has diversified order book exposure to both Malaysia and the Middle East, with 75% of the current outstanding order book from Malaysia and the remainder from the Middle East. Its Middle East outstanding project order book of RM914mn is from the GCC cash-rich countries of the UAE, Bahrain and Qatar, with no current exposure to Dubai.

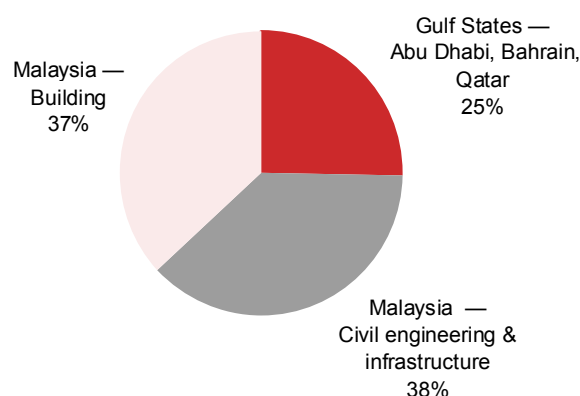
Diversified order book exposure to both Malaysia and the Middle East

It recently bagged a couple of infrastructure projects in Malaysia, infrastructure works at Medini Iskandar for RM766mn and a proportion of the LCCT mega-project for RM363mn, bringing its total Malaysia civil engineering orderbook to RM1.4bn. In addition, it has RM1.3bn worth of Malaysia-building projects, including internal projects relating to the development of the Paradigm PJ of about RM740mn.

Exhibit 21. WCT: current outstanding order book

Project details	Value (RMmn)
Gulf States (Dubai, Abu Dhabi, Bahrain, Qatar)	914
Abu Dhabi F1	195
Yas Marina, Royal Yacht Club, UAE	44
NDIA, Qatar	491
BCC Hotel Fits Out	148
Bahrain City Centre (BCC), Bahrain	24
Dukhan Highway, Qatar	12
Malaysia - Civil Engg & Infra	1,364
Medini Iskandar, Johor	766
Kota Kinabalu Intl Airport	113
Kudat Water Supply Scheme	11
Bakun Hydro Dam	106
LCCT, Sepang, Selangor	363
Others	5
Malaysia - Building	1,331
AEON Melaka	119
UiTM Campus	31
Putrajaya Lot 4G9	213
Putrajaya Lot 4G8	167
Tijani 2 Apartments	9
Others	48
Internal	
The Paradigm Offices & Shopping Mall	713
Others	31
Total O/S Orderbook	3,609

Source: Company data, Nomura research

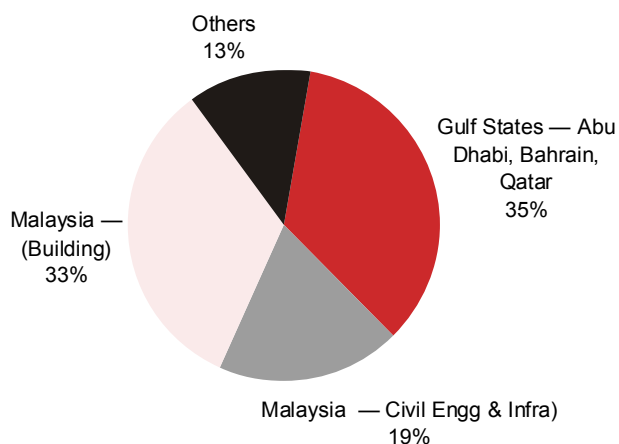
Exhibit 22. Order book exposure by geography

Source: Company data, Nomura research

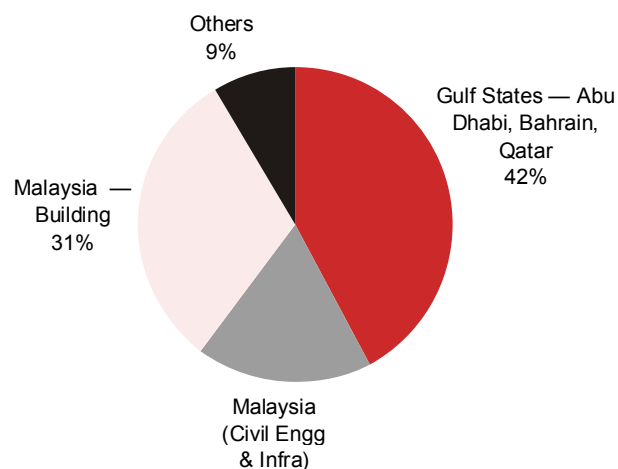
Higher construction margins due to Middle East projects

According to management, its construction projects in the Middle East enable it to earn margins of ~8% compared with ~5% for Malaysian projects. These margins may effectively turn out to be higher due to efficiencies realised during execution. WCT's operating margins for construction have been relatively higher than those of its Malaysian peers IJM and Gamuda post the economic slowdown over the past few quarters, due to the fact that both Gamuda's and IJM's margins have been severely impacted because of Indian and domestic Malaysian projects, respectively.

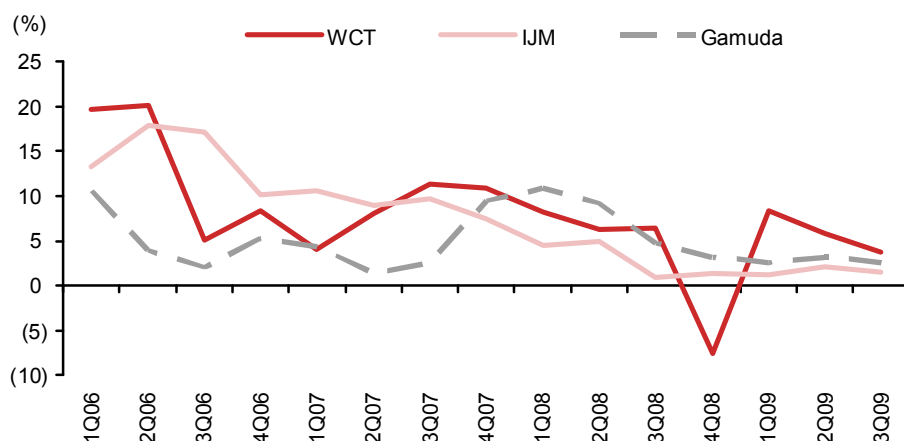
Construction projects in the Middle East enable it to earn margins of ~8% compared with ~5% for Malaysian projects

Exhibit 23. FY11F construction revenues by geography

Source: Nomura research

Exhibit 24. FY11F construction operating income by geography

Source: Nomura research

Exhibit 25. Construction operating margin comparison

Source: Company data, Nomura research

Property development: increasing the stakes

WCT has in the past concentrated on integrated township development in the Bandar Bukit Tinggi region in Klang, Selangor, over an estimated area of ~1,300 acres, spread over three phases, two of which (Bandar Bukit Tinggi 1 and 2) are almost complete. The third phase, Bandar Parklands, has been partially launched and may be fully developed by 2015F. WCT recently secured a project to develop high rise homes in Medini Iskandar, through a 70:30 JV with Iskandar Investment Board. In addition, the company has leased BBT Shopping Mall to AEON Co for an estimated annual operating income of RM28mn over the next 23 years.

WCT recently secured a project to develop high rise homes in Medini Iskandar, through a 70:30 JV with Iskandar Investment Board

Exhibit 26. WCT: property projects at end-9M09

Project	Stake (%)	Development type	Location	Land area	GDV (RMmn)	Sales to date (RMmn)	Billings to date (RMmn)	Nomura comment
Bandar Bukit Tinggi 1	100	Integrated township	Klang	347 acres	1,479	1,043	1,043	10 acres of commercial land left, management targeting hospital / college
Bandar Bukit Tinggi 2	100	Integrated township	Klang	562 acres	1,948	1,311	1,298	20 acres of commercial land left, management targeting extension of BBT Shopping Mall
Bandar Parklands	100	Integrated township	Klang	427 acres	1,126	293	240	300 acres of land remaining for development, expected to be completed in the next five-six years
The Paradigm PJ	70	Mix-Commercial	Petaling Jaya	12.4 acres, 1.8mn sq ft (offices) 700k sq ft (shopping mall)	1,400	0	0	Management expects the shopping mall to be opened in June 2011. Good take-up rates expected for prime offices because of shortages of prime office space in Kuala Lumpur
d'Banyan Residency	100	Luxury Homes	Kota Kinabalu	21 acres	262	73	24	Fully launched, expect higher margins
1 Medini Residences	70	High rise Homes	Iskandar Malaysia	11 acres	600			Expects to be completed by 2015
Total					6,815	2,720	2,605	
Investment property	Stake (%)	Property type	Location	Net lettable area	Annual income (RMmn)		Nomura Comment	
BBT Shopping Mall (Leased to AEON Co Bhd)	100	Shopping Mall & 5k car parks	Klang	1mn sqft		28	WCT retains control over the car parks. Expects earnings to increase post extension of the mall	
Land bank	Stake (%)	Property type	Location	Land area	Est GDV (RMmn)	Sales to dt (RMmn)	Nomura Comment	
Platinum Plaza	67	Integrated Commercial	Ho Chi Minh City, Vietnam	22 acres, 7.2mn sqft (gross complex)	1,000	0	The company has not made significant investments yet. Only land clearing operations have been carried out	

Note: Unbilled sales = RM115mn

Source: Company data, Nomura research

Margin expansion driven by luxury and commercial properties

WCT has forayed into mix-commercial development (through The Paradigm Petaling Jaya) and luxury homes (d'Banyan Residency), which is likely to increase operating margins from its property development segment, in our view. In 9M09, the property development business delivered operating margins of 25%, due to the maturing profile of current projects. We expect operating margins from property development to increase from 27% in FY09F to 29% in FY11F, on better take-up rates in the Paradigm's prime offices (given the shortage of prime office space in Kuala Lumpur) and opening of the shopping mall in FY11F (Exhibits 9 and 10).

Foray into mix-commercial development and luxury homes bodes well, in our view

Cautious on Vietnam in the near term

The recent devaluation of the Vietnamese dong has been an overhang on the share price performance of construction players with Vietnam exposure. WCT has 7.2mn sq ft of gross space as part of its planned Platinum Plaza project in Vietnam, with a potential GDV of RM1bn. However, the company said it has not made any significant investments in the project yet, save for the administrative expenses, which to-date are not substantial. The compensation to be paid to the settlers is capped at US\$8mn. Yet management is optimistic on Vietnam, indicating that it is scouting for other development opportunities such as highway construction projects with a strong local JV partner. We believe that since the devaluation will affect costs equally, the overall impact on operating incomes may be limited.

Management is optimistic on Vietnam, indicating that it is scouting for other development opportunities, such as highway construction projects with a strong local JV partner

Industry analysis

Malaysia construction: re-rating due

In our Anchor Report on the Malaysian Construction sector, *Earnings U-turn*, dated 9 October, 2009, we forecast strong earnings growth for the Malaysian construction sector over the next two years, helped by margin improvements, increased contributions from infrastructure assets and high take-up rates for real estate development projects. In addition, valuations are not yet pricing in future earnings upgrades by the street, in our view. Positive news flow surrounding the award of key projects and continuing momentum in the real estate market will be key potential catalysts for a sector re-rating. The fixed-price nature of construction contracts, delays in property launches, currency fluctuations and the government's interference in implementing toll hikes remain key risks to our investment view.

We forecast strong earnings growth for the Malaysian construction sector over the next two years

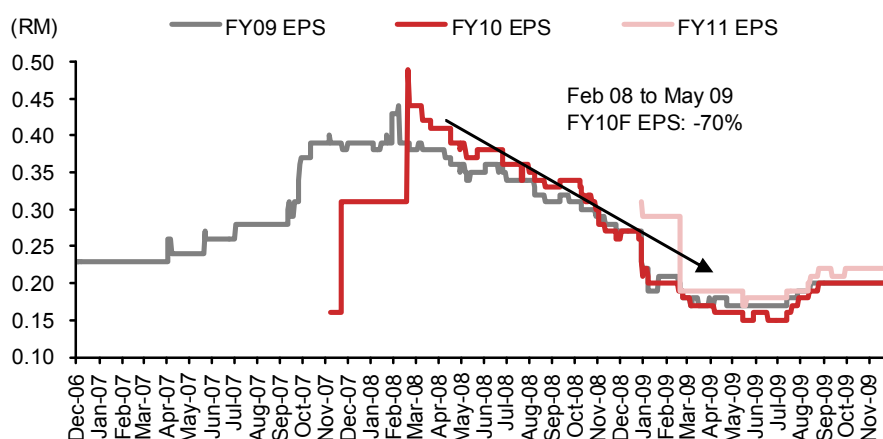
Earnings downgrades have not turned back yet

The sharp deterioration in industry fundamentals last year led to a significant de-rating of the Malaysian construction sector. The earnings downgrades matched the level of de-rating in valuations for the construction players, and the level of de-rating matched that seen in previous down-cycles, while the fall in earnings has been much lower than in earlier down-cycles.

The level of de-rating matched that seen in previous down-cycles, while the fall in earnings has been much lower than in earlier down-cycles

We believe the next leg for upgrades may come as the companies start delivering strong earnings upticks, which may lead to a further re-rating of construction stocks.

Exhibit 27. WCT: EPS downgrades



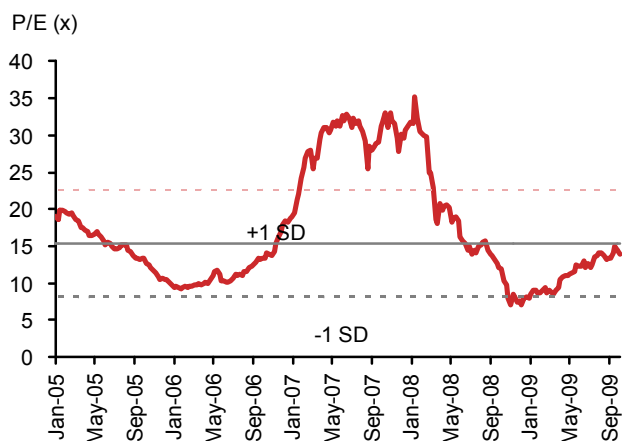
Source: Bloomberg

Sector trading at mid-cycle valuations; earnings growth will lead a sector re-rating, in our view

We expect the construction players to deliver strong earnings performances over the next two years, driven by margin expansion and revenue growth. In our view, earnings momentum supported by street upgrades should lead to a re-rating of Malaysian construction stock valuations, which are at historical mean valuations.

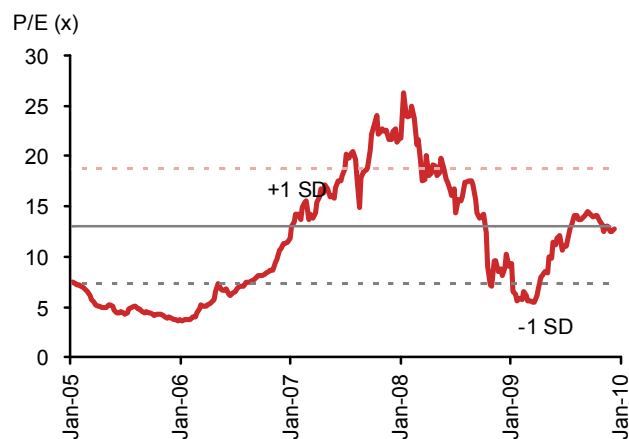
We believe earnings momentum supported by street upgrades should lead to a re-rating of Malaysian construction stocks

Exhibit 28. Malaysian construction sector two-year forward P/E



Source: Bloomberg, Nomura research

Exhibit 29. WCT two-year forward P/E



Source: Bloomberg, Nomura research

We believe that WCT should trade at a premium to its historical valuations, as the company has evolved from being a small subcontractor at the time of inception to a construction behemoth with the know-how to execute high-profile projects such as F1 racetracks and dams. Also, its property business is poised for a margin improvement because of its ventures into luxury and mixed commercial development.

WCT should trade at a premium to historical valuations

9MP, 2010 budget and second stimulus imply a jump in construction activity

We see the 2010 budget providing a key catalyst in terms of news flow, which could start the potential re-rating of construction companies in the near to medium term.

In line with our expectations, the Malaysia 2010 budget delivered a strong emphasis on infrastructure and construction investment over the next 12 months. The government announced some RM14bn worth of infrastructure investments over the next year, focused primarily on roads and water sectors. The targeted investment in 2010F is about double the infrastructure spending announced in last year's budget (excluding potential investments in public transportation such as LRT extensions, which are yet to come through). The targeted construction sector growth, at 3.2% in 2010, is much higher than growth of 2% achieved in 2008 and 1H09. Moreover, highly anticipated mega-projects, such as the LCCT, have already been launched, with the RM363mn earthworks package 1 being awarded to WCT.

The Malaysia 2010 budget stresses infrastructure and construction investment over the next 12 months

We see the 2010 Budget providing a key potential catalyst in terms of news flow, which could start the potential re-rating of the construction companies in the near-to-medium term.

Exhibit 30. Potential construction opportunities from the 2010 budget

Project	Opportunity (RMmn)
Allocation of RM9bn for infrastructure, among which:	
<i>Road and bridge projects</i>	4,700
<i>Water supply and sewerage services</i>	2,600
<i>Rail facilities</i>	899
<i>Ports and sea services</i>	820
<i>Airport projects</i>	276
Strengthening of rural infrastructure, among which:	
<i>Construction of rural roads</i>	857
<i>Rural water supply</i>	530
<i>Social amenity projects</i>	88
Implementation of private sector projects in regional corridors (infrastructure and basic amenities)	3,500
Upgrading tourism infrastructure	
Upgrade and improve drainage and irrigation infrastructure in paddy fields	137
Implement Paya Peda dam project	70
Total potential opportunity	14,477

Source: 2010 Budget, Nomura research

Mega project awards have finally started

The much anticipated mega-project awards have begun, with WCT winning the first work package for the LCCT at the Kuala Lumpur International Airport worth RM363mn. We expect the rollout in other mega projects to start going into 1Q10F, which should lead to improved sentiment around the construction stocks.

We expect the rollout of other mega projects to start in 1Q10, which should lead to improving sentiment towards construction stocks

Exhibit 31. Mega projects: current status

Mega projects planned	Opportunity (RMbn)	Comments
LRT extension	7-8	Will mostly be awarded in smaller packets. Construction opportunity would be around ~RM4bn. Expected to start being awarded early next year.
Pahang-Selangor water transfer – tunnel works	4-8	Phase 1 of project has been awarded. Construction contracts and other phases would most probably be awarded by 2H10F.
Low-cost carrier terminal	2	WCT won a package worth RM363mn for earthworks and drainage, to be completed by 2010F.

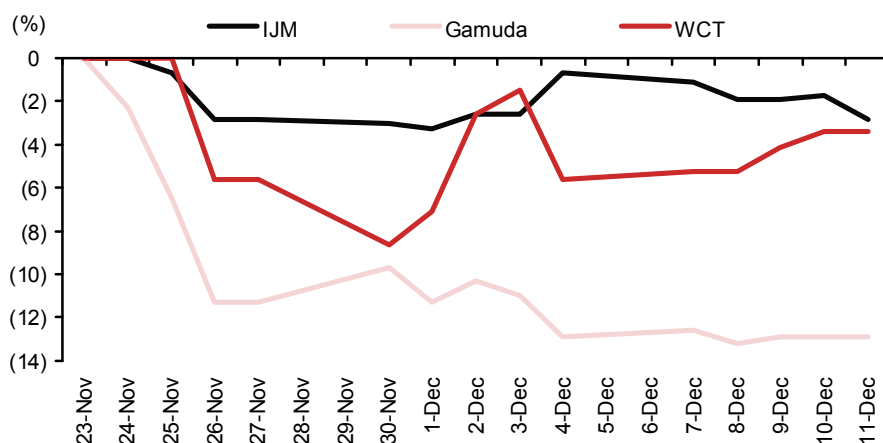
Source: Master Builders Association Malaysia website

Macro-driven correction amplifies buying opportunities

Last month's macro surprises from Dubai (debt moratorium of Dubai World) and Vietnam (the devaluation of the dong) have led to a sharp correction in Malaysian construction stocks amid fears of substantial negative earnings impact. Gamuda was the company hardest hit, down 13% during the period, as it has a major property development project in Vietnam (compared to a 1% fall in the KLCI over the same period).

Sharp corrections in Malaysian construction stocks on Dubai and Vietnam news

Exhibit 32. Share price performance since VND devaluation



Source: Bloomberg

We believe the concerns are overdone, as Malaysian construction players have very limited exposure to these markets. For Dubai, although both IJM and Gamuda have some construction order book from the Middle East, their pending works from the Dubai region are negligible, according to management. Indeed, most of the infrastructure opportunities out of the Middle East come from GCC countries ex-Dubai, which are in turn backed by oil reserves for funding support.

We believe these concerns are overdone

While IJM does not have any projects in Vietnam, WCT and Gamuda are both developing property assets in Vietnam. Gamuda's exposure increases further as its construction arm is also undertaking infrastructure development for the project. While we expect the project to be one of the key contributors of the company's earnings, we believe the devaluation impact is likely to be muted as most of the project contribution is denominated in US dollars. Almost 70% of Gamuda's construction and property transactions are denominated in US dollars, and thus the devaluation of the dong should not affect the company's earnings adversely. In a worst-case scenario (assuming the dong as the revenue currency), we estimate that this would pressure our FY10F and FY11F forecasts by 0.5% and 0.8%, respectively.

Almost 70% of Gamuda's construction and property transactions are denominated in US dollars

WCT, on the other hand, has not yet invested much capital in its Vietnam project, according to management. Although the recent developments may affect buyers' sentiment in Vietnam's property market, we believe the share price corrections in response to these concerns are overdone. As such, we believe any sentiment-driven correction in Malaysian construction players should be viewed as a buying opportunity.

WCT has yet to invest much capital in Vietnam

Exhibit 33. Malaysian construction: upsides

	Current price (11-Dec)	Price target	Upside (%)
IJM	4.50	5.78	28.4
Gamuda	2.70	3.87	43.3
WCT	2.58	3.11	20.2

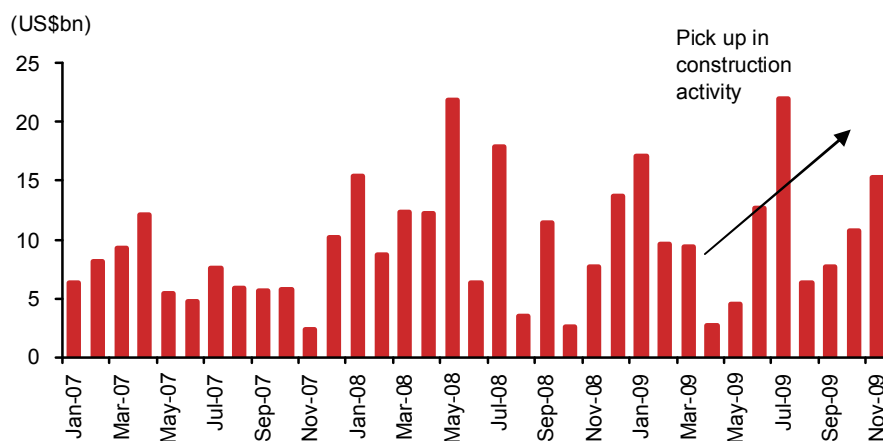
Source: Nomura estimates

Construction activity in the Middle East steady

Barring the overhang on construction projects from Dubai, there has been a steady award of construction projects in the other Middle Eastern countries. The Malaysian construction players are aggressively bidding for contracts in the other GCC countries such as Bahrain and Qatar, thereby presenting potential order accretion opportunity for all three construction players, in our view.

Malaysian construction players are aggressively bidding for contracts in other GCC participants

Exhibit 34. Value of construction projects awarded in the Middle East



Source: Middle East Economic Database (MEED)

Valuation methodology and investment risk

Valuation methodologies and investment risks

Valuation methodology

Gamuda: We value Gamuda using SOTP methodology. We value its construction business at 15x and its water assets at their NAV. We apply a 15% discount to our NAV estimates for its property business and expressway BOT assets. Our SOTP valuation implies a price target of RM7.8bn, for an existing price target of RM3.87/share.

IJM: We value IJM using a sum-of-the-parts (SOTP) methodology. We value its construction and plantation businesses at 15x and industrial business at 12x, and apply a 15% discount to our NAV estimates for its IJM Land and BOT assets. Our SOTP valuation implies a price target of RM7.7bn, or RM5.78/share.

Investment risks

Gamuda: A delay in the award of key mega-projects may impact our order inflow assumptions thereby affecting construction revenues and earnings negatively. Delays in upcoming launches due to correction in property markets and/or lower margins would result in downside risks to our property revenues and earnings estimates. Any regulatory action directed towards decreasing/abolishing tolls from concession assets could also hurt revenues and earnings.

IJM: Delays in the awarding of key mega projects may affect our order inflow assumptions, which could have a negative impact on construction revenue and earnings. Delays in upcoming launches due to correction in property markets and/or lower margins could also result in downside risks to our property revenue and earnings estimates. Moreover, any regulatory action directed towards decreasing/abolishing tolls from concession assets could hurt revenue and earnings.

Appendix

Appendix

Exhibit 35. WCT: key E&C projects executed

Category	Name	Value (RMmn)
Earthwork	Kuala Lumpur Intl Airport	138
	Bakun Hydroelectric Dam – Main Civil Works, WCT's portion	380
Infrastructure	Durrat Al-Bahrain Highway, Bahrain	188.8
	Dukhan Highway, Qatar	780
	Malaysia-Singapore Second Crossing - Taman Perling to Pulau Interchange - Package 3	n.a.
	North Manama Corridor Improvement Project - SEEF, Bahrain	100
	Sungai Kelalong Dam, Bintulu, Sarawak	24
	Guthrie Corridor Expressway, Selangor	n.a.
	Middle Ring Road II - Karak to Jalan Taman Melati - Package 4	n.a.
	Improvement of Existing Subang Jaya Interchange	76
	Simpang Pulau - Gua Musang - Kuala Berang Highway - Package 3/1B	75
	Kuala Kangsar - Grik	75
	East Coast Expressway 1E3 & 1E4	101
	Connaught Bridge	19.3
Building	AEON Bukit Tinggi Shopping Centre	283.3
	Putrajaya Lot 2G3, 2G4 & 3C4	408
	The Curve Shopping Mall	226
	UiTM University Campus – Health Science & Pharmaceutical	450
	Tesco Hypermarkets	65
	Tractor Malaysia Engineering Complex	90
	Bukit Subang Township	n.a.
	Matriculation College in Penang	57
	Polytechnic Complex Tanjung Malim	158
	Bank Negara Malaysia FSRC (Site A) - Substructure	22.7
Iconic	TTDI Bungalows and Semi-detached houses	45.6
	Abu Dhabi F1 Circuit, UAE	4,200
	Bahrain City Centre	1,500
	Sepang F1 Circuit, Malaysia	308
	Bahrain Intl Circuit	586

Source: Company website

Financial statements

Income statement (RMmn)					
Year-end 31 Dec	FY07	FY08	FY09F	FY10F	FY11F
Revenue	2,782	3,795	4,110	3,035	3,096
Cost of goods sold	(2,481)	(3,613)	(3,853)	(2,758)	(2,800)
Gross profit	301	182	257	277	297
SG&A					
Employee share expense					
Operating profit	301	182	257	277	297
EBITDA	353	256	343	373	408
Depreciation	(52)	(74)	(86)	(97)	(111)
Amortisation	-	-	-	-	-
EBIT	301	182	257	277	297
Net interest expense	(27)	(44)	(48)	(48)	(48)
Associates & JCEs	10	21	14	16	18
Other income					
Earnings before tax	284	159	223	245	267
Income tax	(54)	(13)	(33)	(37)	(40)
Net profit after tax	229	146	190	208	227
Minority interests	(81)	(44)	(39)	(43)	(36)
Other items	-	(0)	(0)	0	(0)
Preferred dividends					
Normalised NPAT	148	102	151	165	190
Extraordinary items	-	-	-	-	-
Reported NPAT	148	102	151	165	190
Dividends	(33)	(55)	(45)	(50)	(57)
Transfer to reserves	114	47	106	116	133
Valuation and ratio analysis					
FD normalised P/E (x)	11.5	19.8	13.6	14.6	12.7
FD normalised P/E at price target (x)	13.8	23.9	16.3	17.5	15.2
Reported P/E (x)	11.5	19.8	13.6	14.6	12.7
Dividend yield (%)	2.0	2.8	2.3	2.5	2.9
Price/cashflow (x)	13.3	na	9.5	9.5	9.3
Price/book (x)	1.9	1.7	1.5	1.1	1.0
EV/EBITDA (x)	6.2	8.8	7.1	5.0	4.2
EV/EBIT (x)	7.2	11.9	9.3	6.7	5.7
Gross margin (%)	10.8	4.8	6.3	9.1	9.6
EBITDA margin (%)	12.7	6.7	8.3	12.3	13.2
EBIT margin (%)	10.8	4.8	6.3	9.1	9.6
Net margin (%)	5.3	2.7	3.7	5.4	6.1
Effective tax rate (%)	19.2	8.2	15.0	15.0	15.0
Dividend payout (%)	22.6	54.2	30.0	30.0	30.0
Capex to sales (%)	5.7	3.2	1.2	3.3	3.2
Capex to depreciation (x)	3.1	1.7	0.6	1.0	0.9
ROE (%)	20.2	9.9	12.2	10.6	10.1
ROA (pretax %)	13.4	6.2	6.6	7.0	8.0
Growth (%)					
Revenue	98.6	36.4	8.3	(26.2)	2.0
EBITDA	56.5	(27.5)	34.1	8.9	9.1
EBIT	73.9	(39.5)	41.2	7.7	7.1
Normalised EPS	46.8	(42.0)	46.1	(6.8)	15.1
Normalised FDEPS	46.8	(42.0)	46.1	(6.8)	15.1
Per share					
Reported EPS (RM)	0.22	0.13	0.19	0.18	0.20
Norm EPS (RM)	0.22	0.13	0.19	0.18	0.20
Fully diluted norm EPS (RM)	0.22	0.13	0.19	0.18	0.20
Book value per share (RM)	1.38	1.53	1.67	2.36	2.53
DPS (RM)	0.05	0.07	0.06	0.06	0.07

Source: Nomura estimates

We assume dilution due to warrant conversion in FY10F

Cashflow (RMmn)

Year-end 31 Dec	FY07	FY08	FY09F	FY10F	FY11F
EBITDA	353	256	343	373	408
Change in working capital	(27)	(96)	(46)	(36)	(62)
Other operating cashflow	(198)	(225)	(81)	(85)	(88)
Cashflow from operations	127	(65)	215	253	258
Capital expenditure	(159)	(122)	(50)	(100)	(100)
Free cashflow	(32)	(187)	165	153	158
Reduction in investments	(305)	(65)	(15)	(16)	(18)
Net acquisitions	30	5	-	-	-
Reduction in other LT assets	(136)	(587)	(61)	-	-
Addition in other LT liabilities	60	524	(161)	-	-
Adjustments	486	68	4	78	68
Cashflow after investing acts	103	(242)	(68)	215	208
Cash dividends	(33)	(55)	(45)	(50)	(57)
Equity issue	45	47	-	418	-
Debt issue	32	258	-	-	-
Convertible debt issue	151	-	-	-	-
Others	1	1	-	-	-
Cashflow from financial acts	196	251	(45)	369	(57)
Net cashflow	299	9	(113)	583	151
Beginning cash	412	711	719	606	1,189
Ending cash	711	719	606	1,189	1,340
Ending net debt	232	414	527	(56)	(207)

Source: Nomura estimates

Balance sheet (RMmn)

As at 31 Dec	FY07	FY08	FY09F	FY10F	FY11F
Cash & equivalents	711	719	606	1,189	1,340
Marketable securities					
Accounts receivable	1,232	1,451	2,145	1,586	1,618
Inventories	94	151	127	91	92
Other current assets	267	180	171	233	283
Total current assets	2,303	2,500	3,049	3,099	3,333
LT investments	560	625	640	656	673
Fixed assets	478	627	599	541	480
Goodwill	-	-	-	-	-
Other intangible assets	8	6	8	8	8
Other LT assets	136	722	784	784	784
Total assets	3,484	4,480	5,080	5,087	5,278
Short-term debt	585	302	302	302	302
Accounts payable	1,285	1,390	2,006	1,436	1,457
Other current liabilities	12	0	0	0	0
Total current liabilities	1,883	1,692	2,308	1,738	1,759
Long-term debt	357	831	831	831	831
Convertible debt					
Other LT liabilities	76	600	439	439	439
Total liabilities	2,316	3,123	3,578	3,008	3,030
Minority interest	279	169	208	251	287
Preferred stock	17	6	6	6	6
Common stock	141	368	368	786	786
Retained earnings	414	372	477	593	726
Proposed dividends					
Other equity and reserves	318	443	443	443	443
Total shareholders' equity	889	1,188	1,294	1,828	1,961
Total equity & liabilities	3,484	4,480	5,080	5,087	5,278

Liquidity (x)

Current ratio	1.22	1.48	1.32	1.78	1.89
Interest cover	11.2	4.2	5.4	5.8	6.2

Leverage

Net debt/EBITDA (x)	0.66	1.62	1.54	net cash	net cash
Net debt/equity (%)	26.1	34.8	40.7	net cash	net cash

Activity (days)

Days receivable	132.4	129.3	159.7	224.4	188.8
Days inventory	9.2	12.4	13.1	14.4	11.9
Days payable	153.4	135.5	160.8	227.7	188.6
Cash cycle	(11.9)	6.2	12.0	11.0	12.1

Source: Nomura estimates

Net cash position due to warrant conversion

Other Team Members:

Tushar Mohata (Associate) — All enquiries arising from this note should be directed to Tanuj Shori.

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Gamuda	GAM MK	2.70 MYR	11 Dec 2009	Buy	
IJM Corp	IJM MK	4.50 MYR	11 Dec 2009	Buy	
WCT Bhd	WCT MK			No Rating	

Previous Ratings

Issuer	Previous Rating	Date of change
Gamuda	Reduce	09 Oct 2009
IJM Corp	Reduce	09 Oct 2009
WCT Bhd	No Rating	

Three-year stock price and rating history

Not Available for Gamuda
Not Available for IJM Corp
Not Available for WCT Bhd

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As at 30 September 2009.

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Nomura Singapore Limited
5 Temasek Boulevard #11-01, Suntec Tower Five, Singapore 038985, Singapore

Tel: +65 6433 6288
Fax: +65 6433 6169

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