

Company Focus

WCT Engineering

Bloomberg: WCT MK | Reuters: WCTE.KL

Malaysia Equity Research PP 11272/7/2008

16 May 2008

BUY RM3.52 KLCI : 1,294.15

Price Target : 12 months RM 4.70 (Prev RM 5.35)

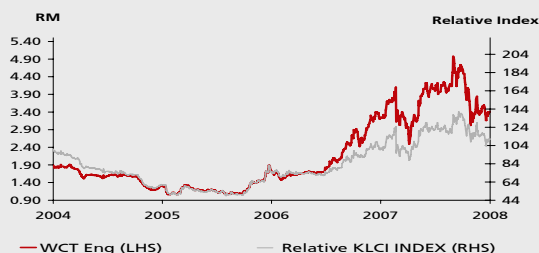
Reason for Report : 1Q08 results

Potential Catalyst: New construction contracts, consistent delivery of earnings

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2007A	2008F	2009F	2010F
Turnover	2,782	3,658	4,424	4,586
EBITDA	290	387	411	460
Pre-tax Profit	284	350	340	387
Net Profit	148	216	245	275
Net Pft (Pre Ex.)	148	216	245	275
EPS (sen)	21.8	27.9	30.5	33.1
EPS Pre Ex. (sen)	21.8	27.9	30.5	33.1
EPS Gth Pre Ex (%)	6	28	9	9
Diluted EPS (sen)	21.8	24.1	27.2	30.6
Net DPS (sen)	5.5	5.6	5.6	5.6
BV Per Share (sen)	131.1	162.3	186.7	213.0
PE (X)	16.1	12.6	11.6	10.6
PE Pre Ex. (X)	16.1	12.6	11.6	10.6
P/Cash Flow (X)	16.5	11.6	9.4	8.6
EV/EBITDA (X)	10.0	8.2	7.8	7.0
Net Div Yield (%)	1.6	1.6	1.6	1.6
P/Book Value (X)	2.7	2.2	1.9	1.7
Net Debt/Equity (X)	0.2	0.1	0.1	0.0
ROAE (%)	20.0	20.2	17.7	16.8

Earnings Rev (%): - - -
Consensus EPS (sen): 32.8 35.1 37.7

Sector : Construction

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

Strong work progress

Story: WCT Engineering's 1Q08 net profit grew 104% y-o-y and 19% q-o-q to RM55.6m, lifted by stronger Middle East construction contributions. This was within expectations. Effective tax rate was lower at 13.4% for 1Q08 (versus 19.6% in 1Q07) due to higher tax-exempt contributions from the Middle East.

Point: Construction revenue for the quarter remained high at RM977.3m (+70% y-o-y; -0.5% q-o-q). Construction margins of 8.3% (pre-elimination) were decent, although it slipped from 4Q07's 10.9% (1Q07: 4.0%). The stronger construction earnings more than compensated for lower property development earnings due to lower sales at Bandar Bukit Tinggi townships. We believe the strong Middle East construction earnings are sustainable for the year driven by progress on the Meydan Racecourse and Abu Dhabi F1.

Relevance: WCT has lost 29% since early January on weak sentiment for construction stocks. This set of results should help alleviate concerns on its ability to translate its high outstanding RM5.2b order book into earnings. In our opinion, 1Q08 results demonstrated again WCT's key strengths in execution and implementation. Although the Malaysian Government may delay the roll out of projects that have not been awarded, we understand demand for construction services in the Middle East remains robust. Our RNAV-based target price is adjusted to RM4.70 (from RM5.35), as we factor in dilution from its new warrants (assumed 20% conversion in 08; expiry 2013) and tweak our RNAV calculation. Catalysts for the stock include securing new construction projects and consistent delivery of earnings. Maintain Buy.

At A Glance

Issued Capital (m shrs)	764
Mkt. Cap (RMm/US\$m)	2,690 / 824
Major Shareholders	
WCT Capital (%)	21.2
Employees Provident Fund (%)	11.8
Free Float (%)	79
Avg. Daily Vol.('000)	1,668

Results summary

FY Dec (RMm)	1Q08	1Q07	% chg y-o-y	4Q07	% chg q-o-q	Comments
Income statement						
Turnover	920.3	550.7	67.1	885.2	4.0	Driven by Middle East (ME) construction projects
Cost of sales	(841.4)	(493.9)	70.4	(838.3)	0.4	
Gross profit	78.9	56.8	38.9	47.0	67.9	
Operating expenses	(21.8)	(16.8)	29.4	(12.3)	77.1	
Other income	20.8	10.6	94.9	31.8	(34.7)	
EBIT	77.9	50.6	53.8	66.5	17.1	
Interest expense	(7.8)	(5.9)	31.0	(6.9)	12.5	
Associates & JVs	6.5	1.6	306.6	4.1	58.7	
Pretax profit	76.6	46.3	65.5	63.7	20.3	
Taxation	(10.3)	(9.1)	13.4	0.2	n.m.	Lower effective rate because of tax-exemption on ME projects
Minority interest	(10.7)	(10.0)	7.1	(17.1)	(37.1)	Despite higher stake in WCTL, MI increased because of contributions from ME projects
Net profit	55.6	27.2	104.5	46.8	18.8	
EBIT margin (%)	8.5	9.2		7.5		
Effective tax rate (%)	13.4	19.6		(0.3)		
Segmentals						
Turnover						
Construction	977.3	576.2	69.6	982.1	(0.5)	Strong work progress on Middle East projects
Property development	42.2	66.5	(36.5)	46.7	(9.5)	Slower sales in Bandar Bukit Tinggi prior to launch of mall in Nov 07
Property investment	1.6	0.7	129.5	42.7	(96.2)	
Trading activities	38.7	40.1	(3.4)	46.7	(17.0)	
Elimination	(139.6)	(132.8)	5.1	(233.0)	(40.1)	
Total	920.3	550.7	67.1	885.2	4.0	Lift from construction division
Earnings						
Construction	80.6	22.8	253.2	107.5	(25.0)	Margins of 8.3% in 1Q08 versus 10.9% in 4Q07 and 4.0% in 1Q07 (pre-elimination)
Property development	12.4	21.6	(42.7)	31.3	(60.5)	Sales on lower margin products
Property investment	2.8	(3.0)	n.m.	36.2	(92.2)	
Financing activities	6.8	5.1	31.7	7.6	(11.3)	
Trading activities	0.4	8.8	(95.9)	(10.4)	n.m.	
Elimination	(25.1)	(4.8)	426.0	(105.6)	(76.3)	
Total	77.9	50.6	53.8	66.5	17.1	Stronger construction contributions

Source: Company, HwangDBS Vickers Research

Comparison table (sorted by market capitalisation)

Company	Price	Target	Diluted P/E (x)		Mkt cap	Est. Order Bk	Mkt cap/ ord bk
	(RM)	(RM)	CY08	CY09	(RMb)	(RMb)	(x)
Gamuda	3.16	4.50	15.9	12.4	6.3	10.9	0.6
IJM Corp	5.90	UR	13.1	11.5	5.0	6.5	0.8
WCT Eng	3.52	4.70	12.6	11.6	2.7	5.2	0.5
MRCB	1.65	2.25	16.2	13.4	1.5	1.8	0.8
Sunway Holdings	1.50	1.95	9.2	7.9	0.8	2.0	0.4
TRC Synergy	1.75	2.95	6.5	6.1	0.2	1.0	0.2
Average			12.3	10.5			0.6

Source: Bloomberg, HwangDBS Vickers Research

RNAV calculation

Division	Value (RMm)	Comment
Construction	2,820.0	15x sustainable profit of RM188m
Property landbank & assets	452.6	Book value of landbank and assets
Property development profits	321.0	Discount development profits at 11%
India toll concessions	94.1	1.1x estimated NTA
Sub-total	3,687.6	
Cash from warrant conversion	83.9	Assume 20% of warrants exercised
RNAV	3,771.5	
Share base	790.2	
RNAV/share	4.67	
Implied 09 PE (x)	15.3	

Source: HwangDBS Vickers Research

Income Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Turnover	2,782	3,658	4,424	4,586
Cost of Goods Sold	(2,477)	(3,254)	(4,022)	(4,130)
Gross Profit	305	404	402	456
Other Opng (Exp)/Inc	(22)	(43)	(55)	(69)
Operating Profit	283	361	347	387
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	10	8	9	9
Net Interest (Exp)/Inc	(9)	(18)	(16)	(10)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	284	350	340	387
Tax	(54)	(42)	(39)	(40)
Minority Interest	(81)	(91)	(56)	(71)
Preference Dividend	0	0	0	0
Net Profit	148	216	245	275
Net Profit before Except.	148	216	245	275
EBITDA	290	387	411	460
Sales Gth (%)	98.6	31.5	20.9	3.7
EBITDA Gth (%)	76.2	33.5	6.3	12.0
Opg Profit Gth (%)	77.5	27.5	(3.9)	11.8
Net Profit Gth (%)	67.9	46.4	13.0	12.6
Effective Tax Rate (%)	19.2	12.1	11.6	10.4

Cash Flow Statement (RM m)

FY Dec	2007A	2008F	2009F	2010F
Pre-Tax Profit	284	350	340	387
Dep. & Amort.	7	26	65	73
Tax Paid	(58)	(42)	(39)	(40)
Assoc. & JV Inc/(loss)	(10)	(8)	(9)	(9)
Chg in Wkg.Cap.	(86)	(112)	(98)	(85)
Other Operating CF	(9)	47	53	60
Net Operating CF	127	260	311	386
Capital Exp.(net)	(159)	(200)	(150)	(150)
Other Invts.(net)	64	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	39	0	0	0
Net Investing CF	(57)	(200)	(150)	(150)
Div Paid	(33)	(43)	(45)	(46)
Chg in Gross Debt	7	80	80	80
Capital Issues	196	42	42	42
Other Financing CF	57	(47)	(53)	(60)
Net Financing CF	227	33	24	16
Net Cashflow	297	93	185	252

Quarterly / Interim Income Statement (RM m)

FY Dec	2Q2007	3Q2007	4Q2007	1Q2008
Turnover	768	631	885	920
Cost of Goods Sold	(674)	(549)	(838)	(841)
Gross Profit	94	82	47	79
Other Oper. (Exp)/Inc	(6)	(6)	19	(1)
Operating Profit	88	76	66	78
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	2	1	4	7
Net Interest (Exp)/Inc	(6)	(7)	(7)	(8)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	84	71	64	77
Tax	(23)	(8)	0	(10)
Minority Interest	(28)	(24)	(17)	(11)
Net Profit	34	39	47	56
Net profit bef Except.	33	39	47	56
Sales Gth (%)	39.5	(17.9)	40.3	4.0
Opg Profit Gth (%)	73.9	(13.1)	(13.1)	17.1
Net Profit Gth (%)	24.3	15.3	20.2	18.8
Gross Margins (%)	12.3	13.0	5.3	8.6
Opg Profit Margins (%)	11.5	12.1	7.5	8.5
Net Profit Margins (%)	4.4	6.2	5.3	6.0

Balance Sheet (RM m)

FY Dec	2007A	2008F	2009F	2010F
Net Fixed Assets	478	652	737	814
Invts in Associates & JVs	141	149	158	167
Other LT Assets	427	427	427	427
Cash & ST Invts	711	804	989	1,240
Other Current Assets	1,728	2,129	2,479	2,616
Total Assets	3,484	4,160	4,789	5,264
ST Debt	585	585	585	585
Other Current Liab	1,368	1,656	1,908	1,962
LT Debt	357	437	517	597
Other LT Liabilities	5	5	5	5
Shareholder's Equity	889	1,258	1,499	1,770
Minority Interests	279	217	273	344
Total Cap. & Liab.	3,484	4,160	4,789	5,264
Non-Cash Wkg. Capital	360	472	570	655
Net Cash/(Debt)	(232)	(219)	(114)	57

Rates & Ratio

FY Dec	2007A	2008F	2009F	2010F
Gross Margins (%)	10.9	11.0	9.1	9.9
Opg Profit Margin (%)	10.2	9.9	7.8	8.4
Net Profit Margin (%)	5.3	5.9	5.5	6.0
ROAE (%)	20.0	20.2	17.7	16.8
ROA (%)	5.1	5.7	5.5	5.5
ROCE (%)	19.2	20.5	17.1	17.3
Div Payout Ratio (%)	25.1	19.9	18.5	17.0
Net Interest Cover (x)	31.3	19.8	22.3	40.1
Asset Turnover (x)	1.0	1.0	1.0	0.9
Debtors Turn (avg days)	137.3	150.8	153.4	166.1
Creditors Turn (avg days)	155.3	164.0	158.2	167.4
Inventory Turn (avg days)	47.1	41.2	35.8	36.3
Current Ratio (x)	1.2	1.3	1.4	1.5
Quick Ratio (x)	1.1	1.1	1.2	1.4
Net Debt/Equity (X)	0.2	0.1	0.1	0.0
Capex to Debt (%)	16.9	19.6	13.6	12.7
N. Cash/(Debt)/PS (sen)	(34.2)	(28.3)	(14.2)	6.9
Opg CFPS (sen)	31.4	48.1	51.0	56.6
Free CFPS (sen)	(4.7)	7.8	20.1	28.4

Segmental Breakdown

FY Dec	2007A	2008F	2009F	2010F
Revenues (RM m)				
Construction	2,438	3,263	4,002	4,093
Property	257	304	326	393
Trading	87	91	96	100
Total	2,782	3,658	4,424	4,586
(RM m)				
Construction	190	259	239	261
Property	97	89	97	119
Trading	1	5	5	5
Others	(4)	(3)	(1)	2
Total	284	350	340	387
Margins (%)				
Construction	7.8	8.0	6.0	6.4
Property	37.9	29.4	29.8	30.3
Trading	1.0	5.1	5.1	5.1
Total	10.2	9.6	7.7	8.4

Source: Company, DBS Vickers

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