

Saturday December 1, 2007

## Enhancing the value of WCT Engineering

Stories by **KATHY FONG** and **LAALITHA HUNT**, *Star Biz*, *The Star*

[starbiz@thestar.com.my](mailto:starbiz@thestar.com.my)

PETALING JAYA: WCT Engineering Bhd (WCTE) has jumped onto the privatisation bandwagon in Malaysia.

The construction group made a RM503.5mil voluntary takeover offer, via an issue of new shares, to privatise its 64.8%-owned property unit, WCT Land Bhd (WCTL), at RM2.09 per share.

“It will be a significant enhancement for the group if we merge the two companies together. It is a value-enhancing deal for WCT Land,” executive director Loh Siew Choh told *StarBiz* yesterday.



WCT Engineering's RM102mil Al-Seef flyover in Bahrain, completed in 2005

Loh said it was difficult to move as a group when WCTL was a listed entity that was required to be run by separate management team, and there were rules and regulations to observe.

Making WCTL a wholly-owned subsidiary would help clear these obstacles, thus enabling the property arm to follow in WCTE's footsteps abroad.

“Our plan is to bring WCT Land to all the places where the parent company is already established,” Loh added.

WCTE has built a strong footing in the Middle East over the past years.

Its solid track record has won the group several mega jobs, such as the RM4.6bil racecourse in Dubai and the RM2.1bil Formula One circuit in Abu Dhabi. WCTE has 50% stakes in the two projects.

Under the proposed exercise, WCTL shareholders would receive 524 WCTE shares (to be issued at RM3.985 each) for every 1,000 shares held in the property company.



An aerial view of the Bahrain International F1 Circuit

WCTE also proposed to acquire all the outstanding five-year 3% convertible redeemable registered debt securities that have nominal value of up to a total of RM61.25mil in WCTL not owned by it.

The acquisition of the debt securities will be settled by issue of shares on the basis of about 1.049 shares for every RM1 nominal value of the debts.

Last month, WCTE announced a share-split exercise to divide its RM1 shares into two new 50 sen shares. Thus, all the share consideration related to the privatisation will be issued after the share split.

“We thought long and hard about it (the structure of the deal). We looked at the share and cash option,” said Loh.

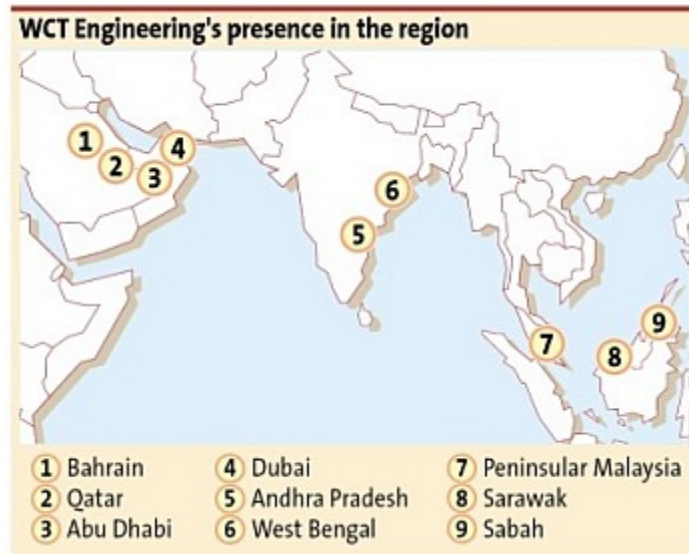
The group decided on the share-swap settlement because it would enable WCTL shareholders to migrate to the holding company.

“WCT Land shareholders would have the opportunity to participate in WCTE, which is bigger and more liquid. This will offer them the chance to enjoy the growth in WCTE,” Loh said.

WCTE's share base will balloon to at least 889 million up to one billion from the existing 321.4 million upon completion of the share-split and privatisation exercises.

Loh said there would not be earnings dilution in WCTE after the new shares issue.

The increase in earnings contributions from WCTL as a wholly-owned subsidiary would be able to offset the impact on the enlarged share base, he added. WCTL currently generates about 20% of the group's total net profit.



For the nine months ended Sept 30, the property firm posted higher net profit of RM45.2mil versus RM31.7mil in the previous corresponding period. Revenue rose 17% to RM209.3mil from RM177.9mil previously.

According to executive director Chua Siow Leng, who spearheads the group's venture in the Middle East, WCTE had achieved an annual compounded growth rate of 20% to 30% over the years.

Chua said the group was striving to maintain the growth momentum in future.

In the third-quarter financial result announcement to Bursa Malaysia, WCTE said with its RM6.1bil order book, it was "confident of a better financial performance in the remaining of the year."

For the nine months ended Sept 30, the group's revenue had more than doubled to RM1.95bil compared with RM784.6mil in the previous corresponding period. Its net profit expanded 67% to RM99.9mil from RM59.8mil previously.

WCTE's revenue surged above the RM1bil mark for the first time in the last financial year ended Dec 31, 2006 (FY06). Its turnover rose to RM1.4bil and net profit increased to RM115.2mil from FY05. The group derives 60% of its revenue from abroad.

Besides the works in the Persian Gulf, WCTE holds three toll road concessions in India.

The concession period for the two toll roads in West Bengal, in which WCTE has 30% stake each, stretches until 2020, while the toll collection in Andhra Pradesh, in which the group holds 21.6% stake, lasts until 2032.

Analysts concurred that the share-swap deal offered WCTL's minority shareholders a chance to participate in a bigger company and to ride on the group's growth potential, which could be good based on its past achievements.

“The intention to take WCTL private is indeed a vote of confidence on the property developer's prospects,” said an analyst.

“Although there isn't a windfall at the offer price of RM2.09 versus its last traded price of RM2.01, the deal allows you to hold shares in WCTE.”

Analysts viewed WCTE as a first-tier construction group, and no longer as a sub-contractor.

Some analysts reckoned that when WCTL came under the same management as the holding company, it might be better able to seize opportunities abroad.

As for WCTE, analysts said the privatisation would help prevent earnings leakages.

<b>WCT Engineering's Outstanding Order Book</b>	
<b>Overseas</b>	
<b>Contracts</b>	<b>RM mil</b>
Meydan Racecourse, Dubai	2,300
BBC Hotel Fits Out	135
Abu Dhabi F1	957
Dubai Storm Water	212
Bahrain City Centre, Bahrain	262
Dukhan Highway, Qatar	115
New Doha International Airport, Qatar	419
<b>TOTAL</b>	<b>4,400</b>
<b>CONTRIBUTION</b>	<b>67%</b>
<b>Local Civil Engineering &amp; Infrastructure</b>	
<b>Contracts</b>	<b>RM mil</b>
Kota Kinabalu International Airport	538
Kajang - Seremban Highway (KSH)	214
Kudat Water Supply	82
Bakun Dam	44
<b>TOTAL</b>	<b>878</b>
<b>CONTRIBUTION</b>	<b>13%</b>
<b>Local Buildings</b>	
<b>Contracts</b>	<b>RM mil</b>
AEON Mall, Johor Baru	185
Putrajaya Lot - 4G8	195
- 4G9	262
UiTM Campus	376
AEON Mall, Bandar Bukit Tinggi	100
Tijani 2 Apartments	127
Putrajaya Lot 3C4	24
Others	57
<b>TOTAL</b>	<b>1,326</b>
<b>CONTRIBUTION</b>	<b>20%</b>
<b>TOTAL</b>	<b>6,604</b>

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## **Moving in concert to seek better business opportunities**

**StarBiz: Why merge WCT Engineering Bhd (WCTE) and WCT Land Bhd (WCTL)?**

**WCT Engineering executive director Loh Siew Choh:** The rationale is very straightforward.

We wanted to merge so that we can directly manage WCTL and be able to move in concert as a group to seek better opportunities, taking WCTL to new heights.

We want WCTL to grow with WCTE in all the businesses and countries that WCTE is involved in. We want WCTL to move at the same pace as WCTE.

We could also enjoy better savings by eliminating the separate management costs.

***What can shareholders look forward to, post-merger?***

Shareholders' value would definitely be enhanced post-merger, and as a consolidated and bigger unit, we would be more recognised and we would leverage on our strengths and synergies to move forward.

***WCTE has built a name for itself in the Middle East?***

It was not created overnight. It was result of hard work by the business development team in the last six years, making WCTE well known as well as delivering results.

***How many offices do you have in the Middle East?***

We have our regional office in Abu Dhabi and offices in Dubai Doha, Oman and Bahrain.

***Tell us about the your latest projects in the Middle East.***

Two of our biggest projects are the RM4.6bil Dubai racecourse and RM2.1bil Abu Dhabi Formula One. We are in 50% partnership for these projects. We have also a number of jobs in Bahrain.

***What is your profit margin for these projects?***

Due to our experience, we are looking at a 10% profit margin. We can afford to be selective about the projects we choose, in terms of profit margin and level of risk for execution.

***Are you bidding for more projects there currently?***

No, we are focusing on executing the projects that we have.

***You have any big tie-ups in progress at the moment?***

We have been approached for partnerships, but we are not ready for any tie-ups now.

Partnerships are akin to marriages and it is not so simple to get into a marriage. We have to study the prospective partner, if they share similar business philosophies and values before committing ourselves.

***What is your advice to companies looking to expand overseas?***

It does not necessarily mean that since you have built a name for yourself in your home country, you would do well overseas.

You cannot just replicate the management style or be solely dependent on your technical abilities - you have to be dedicated in networking and to learn the different cultures and background to be successful overseas.

There are no short cuts, you would also need to be more hands-on to manage the overseas ventures to deliver results and not just operate from remote.

***What are the current exciting growth markets?***

Vietnam and the Middle East.

***Updates on WCTE in Vietnam?***

We have the investment certificate to start construction business in Vietnam, but it is in the preliminary stage.

***Do you normally bid just for big projects?***

We always endeavour to take on projects that not many have the ability to undertake. That's one way to build our company name.

***Why just focus on the Middle East and Vietnam?***

We just want to take it one step at the time and be focused. We were very involved in the Middle East and now we are venturing into Vietnam.

Our initial venture was India, which was a stepping-stone for expanding abroad. Malaysians are more mobile nowadays as well.

***Your views on Malaysian graduates travelling and working abroad?***

Malaysians are very mobile and adventurous in going abroad. They are also drawn to the premium wages and allowances offered overseas. Of course, they are paid for their sacrifice as well, being away from family, friends and familiar surroundings.

***What is the ratio, in terms of turnover between overseas and local projects for WCTE?***

60:40 (overseas: local), but we are aiming for a balance of 50:50.

***Are you still involved in the Bakun project?***

We have completed our part. We had some additional work on the project but that was resolved.

*Do you need to raise funds for any mega projects soon?*

Not at the moment.

*How do you see WCTE ranked among the top construction companies?*

We have no thoughts on such matters, we are just motivated to perform well and enhance value for our shareholders.

We do believe though that we are on par with other top players in the industry.

Saturday December 1, 2007

## **No plans for strategic partner**

PETALING JAYA: WCT Engineering Bhd has no immediate plan to take in a strategic partner.

“We have been approached by many. But, we are not ready for that yet,” said executive director Loh Siew Choh.

The group's proposal to privatise its property arm WCT Land Bhd is seen by some observers as a move to bring in new strategic partners, who may be foreign parties. This is viewed against the backdrop of an increasing number of companies doing so.

Furthermore, it is commonly thought that having a partner in a target market would be helpful especially for construction groups like WCT Engineering in bagging more and bigger contracts.

Loh, however, denied the privatisation was part of a bigger plan to take in new major shareholders.

He pointed out that there were no parties waiting in the wings for the completion of the privatisation to buy a stake in WCT Engineering.