UBS

# UBS Investment Research

# WCT Berhad

Global Equity Research

Malaysia

Heavy Construction

| | |
|---|---|
| 12-month rating | Buy |
| | *Prior: Not Rated* |
| 12m price target | RM4.30/US$1.41 |
| Price | RM2.99/US$0.98 |

RIC: WCTE.KL BBG: WCT MY

17 March 2011

## Building on its track record

### ■ Our most preferred company in Malaysia's construction sector

We initiate coverage of Malaysian construction firm, WCT, with a Buy rating. We believe: 1) it has an impressive track record of completing high-profile jobs that improves its ability to win major projects; 2) it is able to bid competitively due to its large capacity; 3) it provides good exposure to the construction sector, which we are positive on (we estimate WCT's construction business will contribute to 69% of earnings in 2011); and 4) it is trading at an attractive 13.4x 12-month forward PE compared to its historical average, which is also the lowest in the sector.

### ■ Exposure to high infrastructure spending in Qatar

According to Zawya.com, the total value of construction projects in Qatar is around US$265bn. We believe WCT will win a slice of the construction spend based on its reputation and experience in Qatar. In the medium term, we believe WCT will also benefit from Qatar hosting the World Cup in 2022.

### ■ Property business supports earnings growth trajectory

We are positive on WCT's planned new launches in: 1) Klang, as the area has a strong captive market; and 2) Medini, which we think is reaching an inflection point where the attractiveness of the area is likely to increase. We also expect earnings from its property investments to double in 2012, as the Paradigm Mall starts contributing.

### ■ Valuation: RM4.30 price target implies 19.5x 2011E PE

We derive our price target from a sum-of-the-parts valuation methodology, where we value the divisions using DCF (assuming a WACC of 10.5% and a 4% risk-free rate). We use book value for some of its property investments.

| Highlights (RMm) | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|
| Revenues | 4,667 | 1,709 | 2,836 | 3,219 | 3,733 |
| EBIT (UBS) | 244 | 300 | 359 | 426 | 502 |
| Net Income (UBS) | 147 | 141 | 173 | 213 | 259 |
| EPS (UBS, RM) | 0.19 | 0.18 | 0.22 | 0.25 | 0.28 |
| Net DPS (UBS, RM) | 0.08 | 0.08 | 0.09 | 0.10 | 0.11 |
| **Profitability & Valuation** | **5-yr hist av.** | **12/10** | **12/11E** | **12/12E** | **12/13E** |
| EBIT margin % | 9.9 | 17.6 | 12.7 | 13.2 | 13.4 |
| ROIC (EBIT) % | 20.1 | 17.7 | 19.0 | 20.5 | 22.0 |
| EV/EBITDA (core) x | 6.1 | 7.1 | 6.5 | 5.6 | 4.8 |
| PE (UBS) x | 11.3 | 16.0 | 13.7 | 12.0 | 10.5 |
| Net dividend yield % | 5.9 | 2.6 | 2.9 | 3.3 | 3.8 |

*Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of RM2.99 on 16 Mar 2011 23:38 SGT*


Khairul Rifaie
Analyst
khairul.rifaie@ubs.com
+603-2781 1166

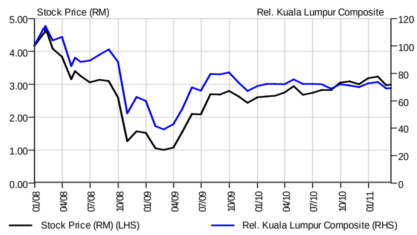

| Trading data (local/US$) | |
|---|---|
| 52-wk range | RM3.54-2.48/US$1.16-0.74 |
| Market cap. | RM2.45bn/US$0.80bn |
| Shares o/s | 820m (ORD) |
| Free float | 77% |
| Avg. daily volume ('000) | 3,133 |
| Avg. daily value (m) | RM10.2 |

| Balance sheet data 12/11E | |
|---|---|
| Shareholders' equity | RM1.35bn |
| P/BV (UBS) | 1.7x |
| Net Cash (debt) | (RM0.44bn) |

| Forecast returns | |
|---|---|
| Forecast price appreciation | +43.8% |
| Forecast dividend yield | 3.0% |
| Forecast stock return | +46.8% |
| Market return assumption | 9.0% |
| Forecast excess return | +37.8% |

| EPS (UBS, RM) | 12/11E | | | 12/10 |
|---|---|---|---|---|
| | From | To | Cons. | Actual |
| Q1E | - | 0.05 | - | 0.04 |
| Q2E | - | 0.05 | - | 0.04 |
| Q3E | - | 0.05 | - | 0.04 |
| Q4E | - | 0.05 | - | 0.04 |
| 12/11E | - | 0.22 | - | |
| 12/12E | - | 0.25 | - | |

Performance (RM)




*Source: UBS*

www.ubs.com/investmentresearch


This report has been prepared by UBS Securities Malaysia Sdn Bhd.
ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 32.
UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## Contents

page

Khairul Rifaie
Analyst
khairul.rifaie@ubs.com
+603-2781 1166

# Investment Thesis

WCT is our most preferred stock in Malaysia's construction sector due to the following.

(1) **Strong track record.** WCT has a strong track record in Malaysia and internationally—it has won high profile contracts such as the low cost carrier terminal (LCCT), the Kuala Lumpur International Airport (KLIA) integrated complex and the F1 circuit in Abu Dhabi. We believe a strong track record increases WCT's chances of winning future projects as it: 1) provides high credibility; 2) creates strong relationships with the authorities, suppliers and regulatory bodies; and 3) shows the company has the experience and knowledge to execute projects successfully.

(2) **Competitive.** We believe WCT can price its bids competitively and still record good margins because of its large machinery and staff capacity. WCT has RM300m worth of plant and machinery, and 700 supervisory staff and engineers. Based on our industry checks, WCT won the LCCT project because it submitted the lowest bid.

(3) **Strong management.** WCT's senior management team, which includes the founder and major shareholder, is highly experienced and involved in the day-to-day management of the company. We believe this helps WCT sustain strong relationships with its various stakeholders in the sector.

(4) **Exposure to high infrastructure spending in Qatar.** The total value of current and planned construction projects in Qatar is estimated at around US$265bn (Source: Zawya.com). In addition, UBS economists forecast Qatar's GDP will grow 14% and 7% in 2011 and 2012, respectively. We believe WCT will win a slice of this construction spending given its reputation and experience in Qatar.

(5) **Cheapest stock in the sector.** WCT's 12-month forward PE of 13.4x is below its three-year historical average of 13.7x. It is also lower than IJM and Gamuda's 12-month forward PE of 14.7x and 16.0x, respectively.

(6) **Large proportion of earnings from construction.** We believe WCT provides large exposure to the construction sector, which we are positive on. We estimate WCT's construction business will contribute 69% of its earnings in 2011. This is a higher proportion than those for Gamuda and IJM.

We expect WCT's property business to ride the property upcycle and record strong growth as its land bank in Klang, Petaling Jaya and Medini (Nusajaya) is strategically well-positioned. As we also believe further provisions for Bakun Dam are unlikely and concerns on this issue are overdone, it should not be an overhang on the stock.

## Key catalysts

Catalysts could come from positive newsflow on tender or contract awards

- **Newsflow on construction projects.** We think the key catalyst for WCT's share price is newsflow on the timing and value of the construction projects that WCT is likely to win. We believe newsflow related to the Sabah Dam, the second phase of the light rail transit (LRT), mass rail transit (MRT) and Qatar-related infrastructure spending could boost its share price.

- **Property.** Another catalyst could be the successful launch and high take-up rates of its property developments in 2011, such as Medini, Bandar Parklands and its 56-acre piece of land. We think strong interest and take-up rates for these launches will give confidence on the earnings trajectory of WCT's property division.

- **Results.** WCT is expected to announce its Q111 results in May 2011. The focus will likely be on: 1) the outlook on its order book pipeline; and 2) margins for the construction and property divisions.

- **More property investments.** Announcements of further property investments or greater clarity on the KLIA integrated complex in terms of the profit arrangement with Malaysia Airports Holdings (MAHB) and potential earnings could also drive its share price.

## Risks

Main risk is delays in contract awards/construction progress and a higher-than-expected increase in building material prices

- **Delays in construction progress or construction awards.** There is a risk of construction progress being slower-than-expected. This could be due to issues such as bottlenecks in raw material and labour, regulatory hurdles and land acquisition issues. Similarly, there could be delays in the awards of projects, which could be due to lobbying by various stakeholders, financing issues and slow processing by the client.

- **Building material prices.** Margins could be lower-than-expected due to a significant increase in building material prices. We believe CWT's contracts include some buffer for possibly higher building material prices. However, if steel and cement prices rise substantially like they did in 2008, margins could be lower than our estimates. Higher-than-expected building material prices could be driven by heightened geopolitical risks, a significant increase in oil prices as well as acute supply shortages of iron ore and coal driven by supply chain bottlenecks or natural disasters.

- **Progress of the Economic Transformation Programme (ETP).** We expect infrastructure spending to increase, partly driven by the ETP. However, if the government's execution of the ETP does not meet our expectation, infrastructure spending could be lower than our forecast.

- **Replenishment of order book.** We estimate WCT will win a certain level of construction jobs per year. However, this could be lower than we expect if price competition increases or other construction companies manage to build stronger competitive advantages to win projects.

## Valuation and basis for our price target

We base our price target on a sum-of-the-parts valuation methodology. For businesses that we value on a DCF methodology, we assume a 10.5% WACC and a 4% risk-free rate.

### Table 1: Sum-of-the-parts valuation

| | Value (RM m) | Stake | Attributable value (RM m) | Per share (RM) | Comments |
|---|---|---|---|---|---|
| Construction | 2,335 | 100% | 2,335 | 3.03 | DCF: Implies 13x 2011E PE |
| Property development | 843 | 100% | 843 | 1.09 | DCF: Assume new project acquisitions worth gross development value (GDV) of RM1.5bn |
| Property & investment holding | 1,050 | NA | 1,050 | 1.37 | |
| AEON Mall Bukit Tinggi | 371 | 100% | 371 | 0.48 | DCF |
| Paradigm | 463 | 70% | 324 | 0.42 | DCF |
| Others | 216 | NA | 216 | 0.28 | Book value: Premier Hotel, Indian tollway (30% stake) |
| Total value | 4,228 | | 4,237 | 5.48 | |
| Net debt (2011) | -444 | | -444 | -0.58 | |
| Equity value | 3,784 | | 3,784 | 4.91 | |
| Proceeds from warrants | 739 | | 739 | 0.96 | Warrants B = 123m at RM2.50 and Warrants C = 157 at RM2.75 |
| Price target (fair value) | 4,524 | | 4,524 | 4.30 | Fully diluted |

Source: UBS estimates

- **Construction.** We base the construction division's valuation of RM2.3bn on a DCF methodology, which implies 13x 2011E PE. We assume order book replenishment of RM2.5bn-3.8bn for 2011-15, with a longer term order book replenishment of RM2bn and relatively stable margins. In 2010, WCT won contracts worth RM2.2bn, only slightly lower than our 2011 assumption and a little higher than management's RM2bn target for 2011.

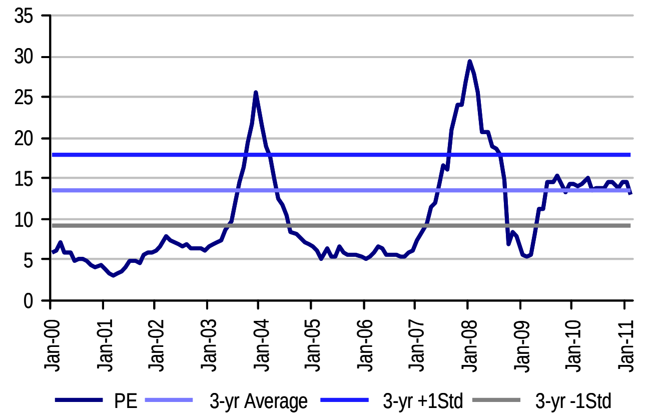
- **Property.** We base the property division's valuation of RM843m on a DCF methodology for existing projects, assuming longer-term new property developments have a GDV of RM1.5bn. The valuation implies 6x 2011E PE. In 2010, management increased its property portfolio GDV by around RM1bn (Medini Business District: 10 acres with a GDV of RM688m and its 56-acre land with a GDV of RM300m).

Valuations for construction, property investments, AEON Mall and Paradigm are based on a DCF methodology

- **AEON Mall Bukit Tinggi and Paradigm.** We base the valuation of AEON Mall on a DCF methodology, using the current lease term of a 10+5+5+5 year basis. Similarly for Paradigm, we base the valuation on a DCF methodology assuming a lease term of 20 years.

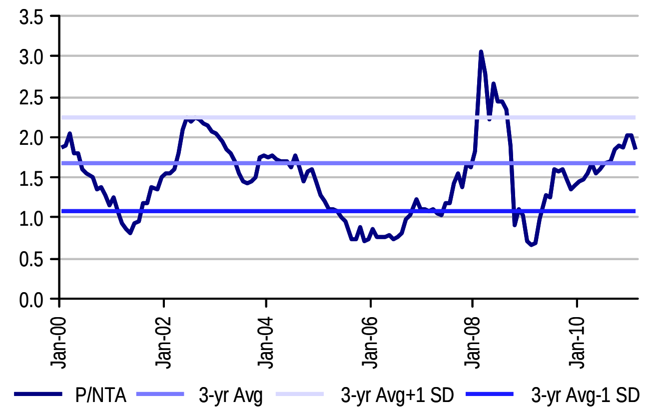
- **Others.** We value Premiere Hotel at book value as it has not broken even yet. We also use book value for WCT's 30% stake in two Indian tollways.

Chart 1: 12-month forward PE




Source: UBS estimates

Chart 2: 12-month forward P/NTA




Source: UBS estimates

The shares are trading at 13.4x 12-month forward PE, below the three-year average of 13.7x

The shares are trading at 13.4x 12-month forward PE (13.7x 2011E PE and 12.0x 2012E PE), below the three-year average of 13.7x and the three-year +1 standard deviation of 18.0x. At its peak in January 2008, WCT's 12-month PE was significantly higher at 29.5x. Thus, we believe the stock is undervalued and should be trading higher. In addition:

(1) WCT's 12-month forward PE of 13.4x is lower than Gamuda's 16.0x and IJM's 14.7x.

Table 2: Comparatives

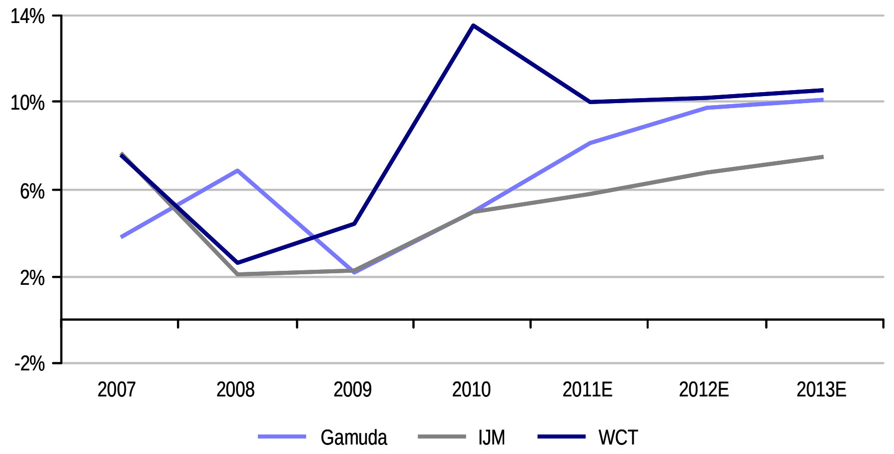
| | Rating | Share price (RM) | Price target (RM) | Upside/ downside | Mkt cap (RM m) | PE | | Earnings growth | | Order book | | Order book / market cap | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 2011E | 2012E | 2011E | 2012E | 2011E* | 2012E* | 2011E | 2012E |
| Gamuda | Sell | 3.69 | 3.65 | -1% | 7445 | 17.9 | 14.9 | 48% | 21% | 6,300 | 6,600 | 85% | 89% |
| IJM | Buy | 6.08 | 8.00 | 32% | 8031 | 18.8 | 14.4 | 29% | 31% | 3,694 | 4,614 | 46% | 57% |
| WCT | Buy | 2.99 | 4.30 | 44% | 2452 | 13.7 | 12.0 | 22% | 23% | 2809 | 3037 | 115% | 124% |

Note: Above data as of 16 March 2011. * We used IJM's (March year-end) 2012E and 2013E order book.
Source: UBS estimates

(2) WCT's three-year forward CAGR (2010-13E) is high at 22% and not substantially lower than Gamuda's 25% and IJM's 24%.

(3) We estimate WCT's construction margins (profit from operations) at 10.1%/10.2% in 2011/2012, higher than those for IJM and Gamuda. We expect high margins for WCT due to: 1) its focus on civil works, which have relatively higher margins than building projects; 2) its exposure to higher-margins contracts in Qatar; and 3) its low cost base given its large machinery and staff capacity. In 2010, WCT's margins were exceptionally high due to the completion of highly profitable large projects (including the Abu Dhabi F1 circuit) towards the end of 2009, which were then recognised in 2010.

Chart 3: Construction margins

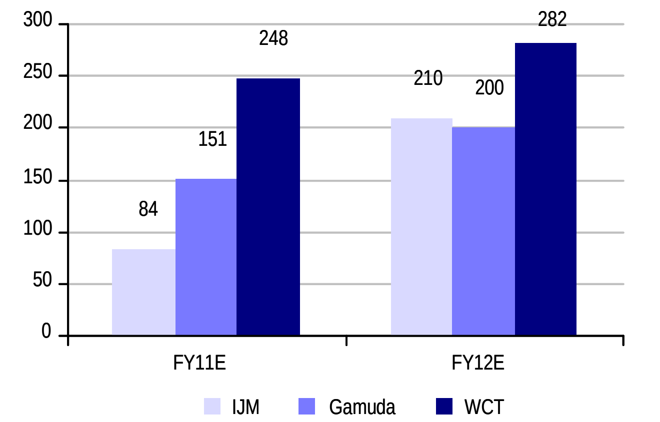



Source: UBS estimates

(4) We also believe WCT provides good exposure to the construction sector, which we are positive on. We estimate its construction business will contribute significantly to earnings at 69%/66% in 2011/2012.

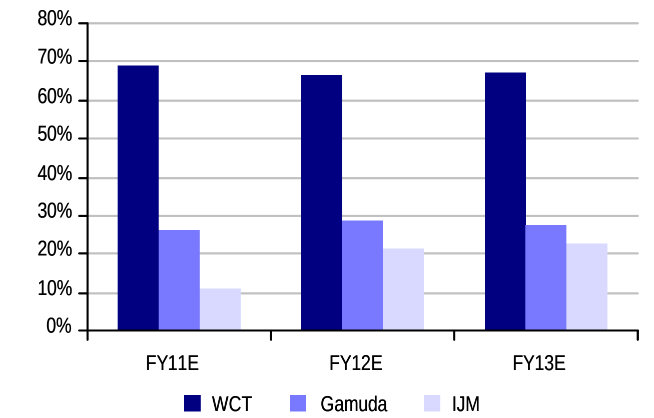
WCT is a purer play on the construction sector as construction could contribute 69% of total earnings in 2011

Chart 4: Construction contribution (RM m)




Note: Financial year-ends—IJM (March); Gamuda (July); WCT (December).
Source: UBS estimates

Chart 5: Construction contribution to total earnings




Note: Financial year-ends—IJM (March); Gamuda (July); WCT (December).
Source: UBS estimates

## UBS versus consensus

Our earnings forecasts for 2011 are below consensus despite our positive view of WCT's construction and property divisions as well as our expectation of higher overall revenue. We might be more conservative than the market on our margin assumptions in 2011 as we believe the high margins in the construction business in 2010 are not sustainable given significant projects were completed in 2010 and towards the end of 2009. In addition, we might be more conservative in our assumption of building material prices. Our 2012 earnings estimate is in line with consensus, while our 2013 estimate is ahead by 7%, which could be due to our more bullish forecasts on the replenishment of its order book.

### Table 3: Earnings estimates versus consensus

| | UBS forecasts (Rm m) | | | Difference versus market consensus | | |
|---|---|---|---|---|---|---|
| Net income adjusted | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E |
| WCT | 172.6 | 213.1 | 259.1 | -6% | 2% | 7% |

Source: Bloomberg, UBS estimates

## Sensitivity analysis

### Table 4: Earnings sensitivity to changes in key estimates

| | Base case | | | Impact on 2011E | | Impact on 2012E | |
|---|---|---|---|---|---|---|---|
| | 2011E | 2012E | Sensitivity | RM (m) | % change | RM (m) | % change |
| Order book replenishment (Rm m) | 2,500 | 3,000 | -10% | -4 | -2.3% | -11 | -5.2% |
| Construction margins | 10.1% | 10.2% | -1% | -14 | -8.2% | -15 | -7.1% |
| Property margins | 34.0% | 34.0% | -1% | -2 | -1.2% | -2 | -0.9% |

Source: UBS estimates

### Table 5: Price target sensitivity

| | | Price target | |
|---|---|---|---|
| | Sensitivity | RM | % change |
| Order book replenishment | -10% | 4.11 | -4.5% |
| Construction margins | -1% | 4.05 | -5.9% |
| Property margins | -1% | 4.27 | -0.8% |

Source: UBS estimates

# Sector outlook

## Malaysia construction: at the beginning of an investment cycle

We are positive on the Malaysian construction sector as we expect a significant increase in infrastructure spending

We are positive on the Malaysian construction sector given our view of a significant increase in infrastructure spending as the government's ETP gains traction. A key highlight of the ETP is the MRT project, which is the largest infrastructure development Malaysia has undertaken. The total cost of the MRT project is estimated at RM47bn and the Sg Buloh-Kajang line should be the first line to commence work in July 2011. Although we believe there is a significant risk of delays in construction progress, there is a strong possibility the government will kick-start the project and award contracts in Q2-Q311. The line is broken up by the underground portion (which we estimate will cost RM2-3bn) and the above-ground portion (which we estimate will cost RM10-11bn).

There will be greater visibility on the timeline for the other MRT lines once the contracts for the Sg Buloh-Kajang Line are finalised. These lines are undergoing project feasibility studies and have not yet commenced technical preparations. We estimate the value of the above-ground portion of these other lines at RM12-14bn in total, and the underground portion at RM11-13bn.

Table 6: Selected proposed large-scale projects to be developed over the next 10 years

| | Value (RM bn) |
|---|---|
| Urban Mass Rapid Transit System | 47.0 |
| Kuala Lumpur International Financial District (KLIFD) | 26.0 |
| Klang River Revitalisation | 17.9 |
| Singapore-Kuala Lumpur high speed railway | 16.5 |
| MATRADE centre | 15.0 |
| Public Private Partnerships as proposed under 2011 Budget | 12.5 |
| (6 highways, 300MW power plant in Sabah and 3 hospitals) | |
| Development of the Malaysian Rubber Board land in Sungai Buloh | 10.0 |
| Gemas-Johor Bahru double tracking | 7.5 |
| Pahang-Selangor Interstate Water Transfer Project | 7.0 |
| LRT extension lines | 7.0 |
| Warisan Merdeka Development | 5.0 |
| Pudu Jail | 5.0 |
| Tamansari Riverside Garden City (Pekeliling flats) | 4.8 |
| Solid Waste Management Treatment | 3.5 |
| Regassification LNG Plant | 3.0 |
| Academic Medical Centre (JV with Johns Hopkins and Royal College of Surgeons) | 2.0 |
| Total | 189.7 |
| Other significant proposed projects - development value unknown | |
| - Development of Sungai Besi Airport (400 acres) | |
| - Kampung Baru redevelopment | |
| - Redevelopment of Angkasapuri Complex as Media Centre | |

Source: 2011 Budget, Ninth Malaysia Plan (9MP), Tenth Malaysia Plan (10MP), ETP

In addition, the government has earmarked RM230bn in development expenditure under the 10MP. Industry participants have also commented that the order book replenishment pipeline is at its highest since 2007-08.

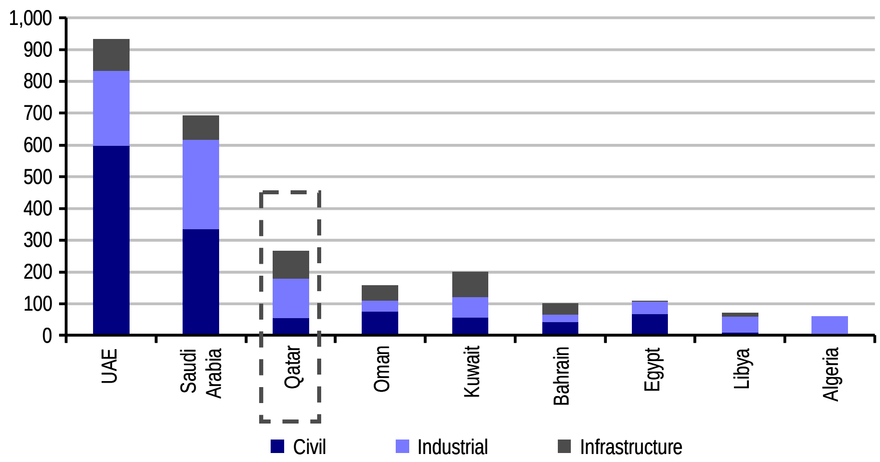
Some of these projects are listed in Table 6. Several have gained significant positive newsflow recently in terms of the timing of the awards such as the Sabah Dam (RM2.8bn), the second phase of the LRT extension (RM2.2bn), Klang River Revitalisation (RM18bn), West Coast Expressway (RM5bn), Gemas-Johor Bahru double tracking (RM8bn) and some of the highway projects (RM12.5bn) that are part of the proposed six under the 2011 budget.

## MENA construction: strong pipeline in Qatar

The value of current and planned projects in Qatar is estimated at around US$265bn—the third-largest in the MENA region

The total value of current and planned projects in the Middle East North Africa (MENA) region is estimated at around US$2.6trn, with the United Arab Emirates (UAE) and Saudi Arabia together accounting for roughly 63% of this (Source: Zawya.com). Meanwhile, the value of Qatar's projects is estimated at around US$265bn, around 11% of the MENA estimate and the third-largest in the MENA region. Please refer to Anuj Mehrotra's report *MENA Contractors: A promising pipeline—initiating coverage* published on 29 September 2010 for more details.

Chart 6: Value of planned and current projects in the MENA region (US$bn)



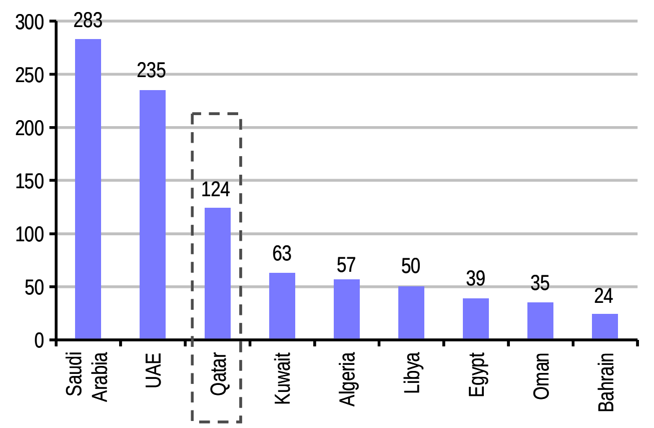

Source: Zawya.com

UBS forecasts real GDP growth of 14%/7% in 2011/2012 for Qatar, which should lead growth among the GCC countries

The construction boom in the MENA region is being driven by rising oil prices in recent years, which translate to above-average GDP and population growth for most countries. UBS economists forecast real GDP growth of 14%/7% in 2011/2012 for Qatar, making it a clear growth leader among the Gulf Cooperation Council (GCC) countries. Qatar's strong real GDP growth is mainly due to the positive contributions from its investments in the natural gas sector in the past four to five years.

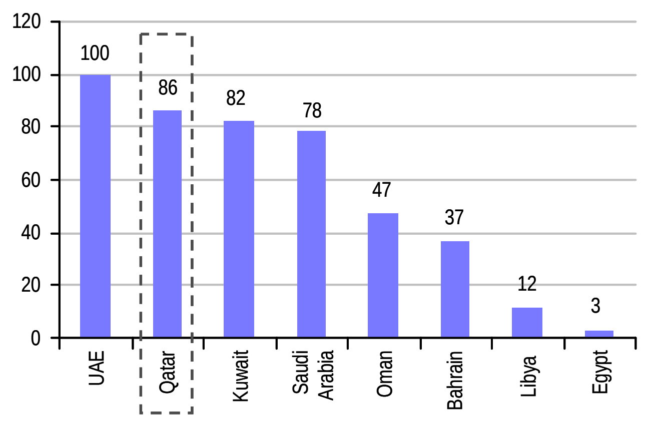
Combined with a gradual opening up of the MENA economies to foreigners and its historical underinvestment in core infrastructure, this has triggered a construction boom across the region. This is not to say the region has remained unaffected by the global financial crisis; about US$472bn worth of projects has been delayed, cancelled or put on hold.

Chart 7: US$124bn of industrial projects in Qatar (current and pipeline)




Source: Zawya.com

Chart 8: US$86bn infrastructure projects in Qatar (current and pipeline)



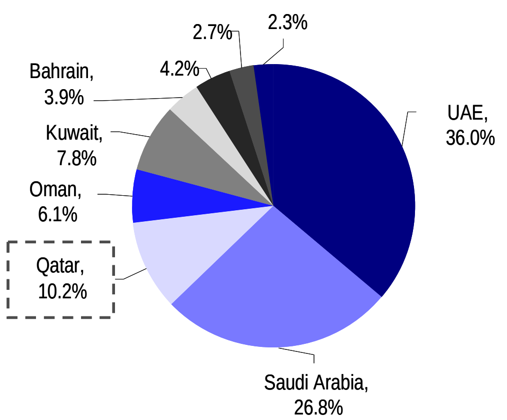

Source: Zawya.com

We believe civil construction in MENA, which accounts for a 48% share of the total value of current and planned projects in the region, is most susceptible to changing underlying economic conditions, while industrial and infrastructure projects are more stable and backed by government and private sector spending. We believe industrial and infrastructure spending in MENA will be largely driven by the oil and gas sector, water and power utilities, roads, railways, seaports and airports. There is significant need for additional power capacity in the region given recent blackouts.

On the infrastructure side, the key focus areas are likely to be the airports, seaports, roads and railways. A railway network for the Cooperation Council for the Arab States of the Gulf is being planned in addition to the road highway projects. Given current and planned industrial projects in Qatar are estimated at US$124bn, and infrastructure projects at US$86bn, we believe the pipeline of potential construction work in Qatar is healthy and should record strong growth.

Current and planned industrial projects in Qatar are estimated at US$124bn, and infrastructure projects at US$86bn

Chart 9: MENA project pipeline by country



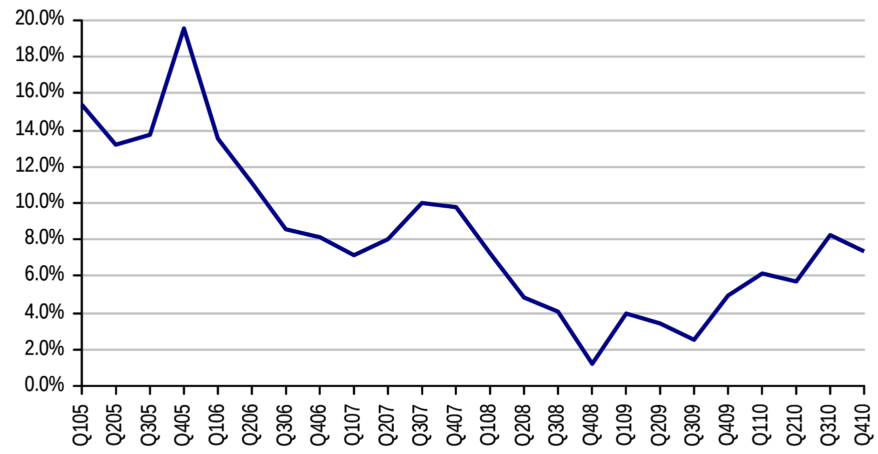

Source: Zawya.com

## Malaysia's construction margins have recovered from its trough

Pre-tax profit margins fell from 9% in 2007 to a low of 1% in Q408; recovering to around 7% in Q410. The low margins in 2008-09 were due to pressure from contracts that did not take into account high raw material prices in 2008. Margins have started to recover as the projects with low margins start to roll off and building material prices have fallen from their peak in 2008. We expect margins to continue to rise and estimate sector margins at around 8% in 2011-13.

Margins should continue to rise. We estimate sector margins at around 8% in 2011-13

Chart 10: Sector pre-tax margins

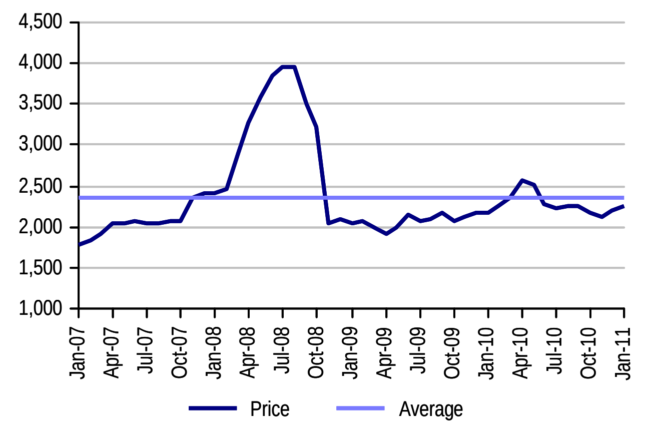



Source: UBS estimates

Our view is underpinned by the following.

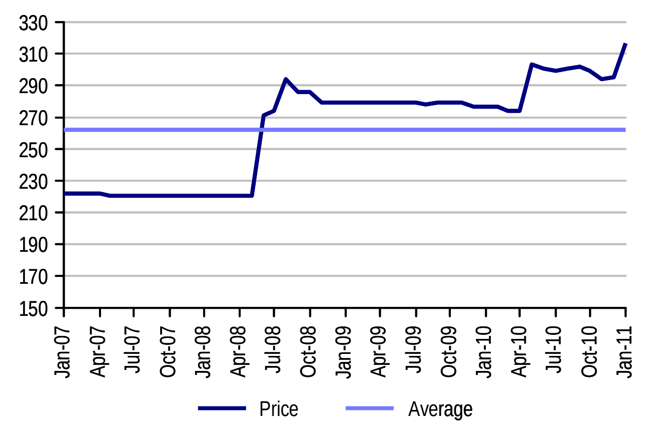
- **Significant buffers for raw material price increases are now included in contract prices.** Despite a recent increase in raw material prices, we believe cement margins in particular are likely to improve from their current levels. Based on our industry checks, raw material price volatility in 2008 has given the contractors invaluable experience in negotiating contracts to include significant buffers for possible increases in building material prices.

Chart 11: Steel prices (RM)




Source: CEIC

Chart 12: Cement prices (RM)




Source: CEIC

- **Building material prices are lower than in 2008.** Steel bar prices have fallen from their peak in 2008—currently at RM2,260/t, 43% below the August 2008 price of RM3,952/t. However, we expect the positive impact on margins from falling steel prices to be partially offset by higher cement prices, which has increased from RM294/t in 2008 to RM316/t.

- **Some contracts are agreed on a cost plus basis.** Based on our industry checks, some contracts are agreed on a cost plus basis where the costs are linked to an index related to building material prices. Even though building material price volatility will not be fully captured since it is an index, a major part of the cost fluctuations are hedged. Based on our industry checks, the margins for such projects are 6-10%, above the average of 7% in Q410.

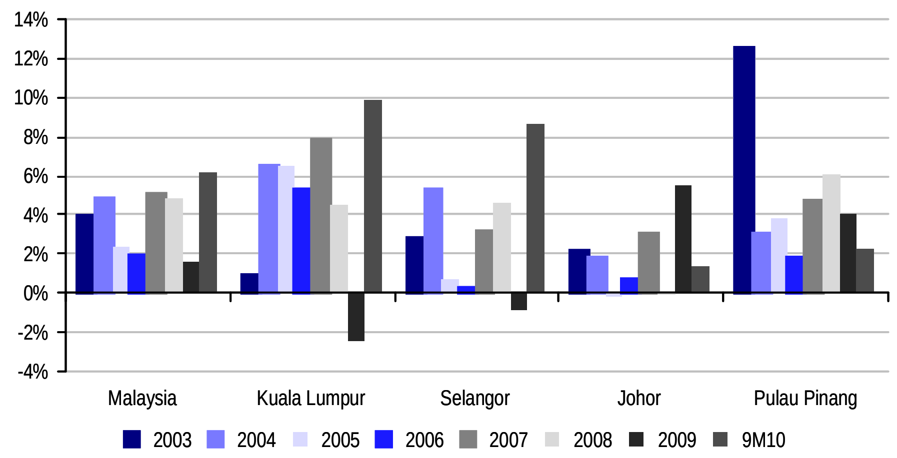
Some contracts are agreed on a cost plus basis, where costs are linked to an index related to building material prices

- **Low-margin projects rolling off.** Low-margin construction projects secured in 2007-08 are rolling off the order books. These projects had lower margins because they did not take into account the significant increase in raw material prices. We believe projects secured after 2007-08 have better margins as: 1) higher raw material prices are factored into the cost of the projects; 2) some contracts have been renegotiated due to the significant rise in building material prices; and 3) steel prices have fallen from its peak in 2008.

We believe projects secured after 2007-08 have higher margins

## Property: favourable environment for upcycle to continue

Chart 13: YoY increase in property prices for Malaysia and various key states




Source: National Property Information Centre (NAPIC), UBS

We believe the Malaysian property sector will record higher property ownership and price appreciation driven by the following (please refer to Chris Oh's report *Malaysia Market Strategy: Property boom-boom* published on 26 January 2011 for details).

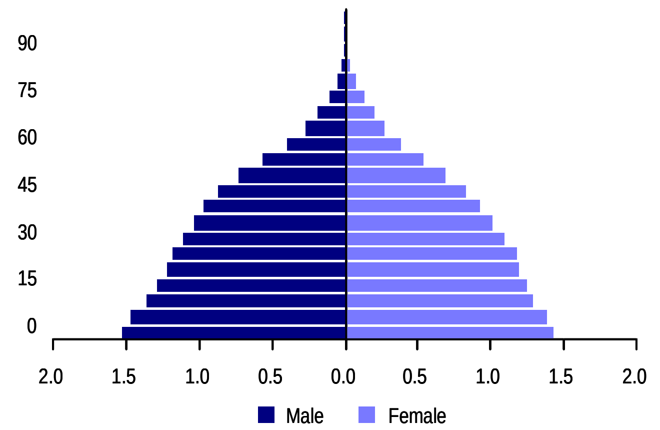
We are positive on the Malaysian property sector due to favourable demographics, affordability levels and improved connectivity

(1) Better connectivity from the MRT network and high speed railway between Kuala Lumpur and Singapore.

(2) Improved public services and structural reform initiatives, which should revitalise private investments through policy initiatives under the Government Transformation Programme and ETP.

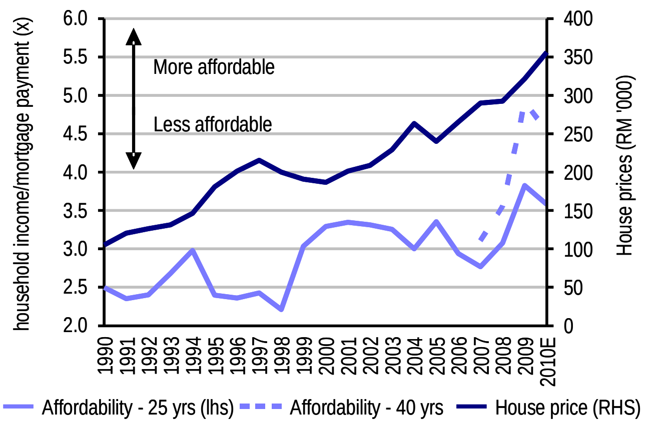
(3) Favourable demographics—32% of Malaysia's 28m population base are 20-40 years old.

Chart 14: Malaysia's population demographics (2010)




Source: International Data Base (IDB), US Census Bureau

Chart 15: Affordability levels in Klang Valley




Source: NAPIC, Bank Negara Malaysia (BNM), 10MP

(4) Favourable affordability levels with the easy availability of credit at low interest rates and longer loan tenures of 40 years. Mortgage rates are currently around the base lending rate (BLR) at 2.3-2.5%.

(5) No significant restrictions on property ownership by foreigners.

We believe Medini and Nusajaya are reaching an inflection point whereby the attractiveness of these areas is expected to increase

We are also positive on property developments in the Iskandar Development Region (IDR, South Malaysia), which includes the Medini and Nusajaya areas. The IDR was launched by Khazanah Nasional in 2006 and has attracted RM62bn in investments, of which 40% has been actualised, and RM1.4bn worth of property has been sold (at an average of RM355m per annum).

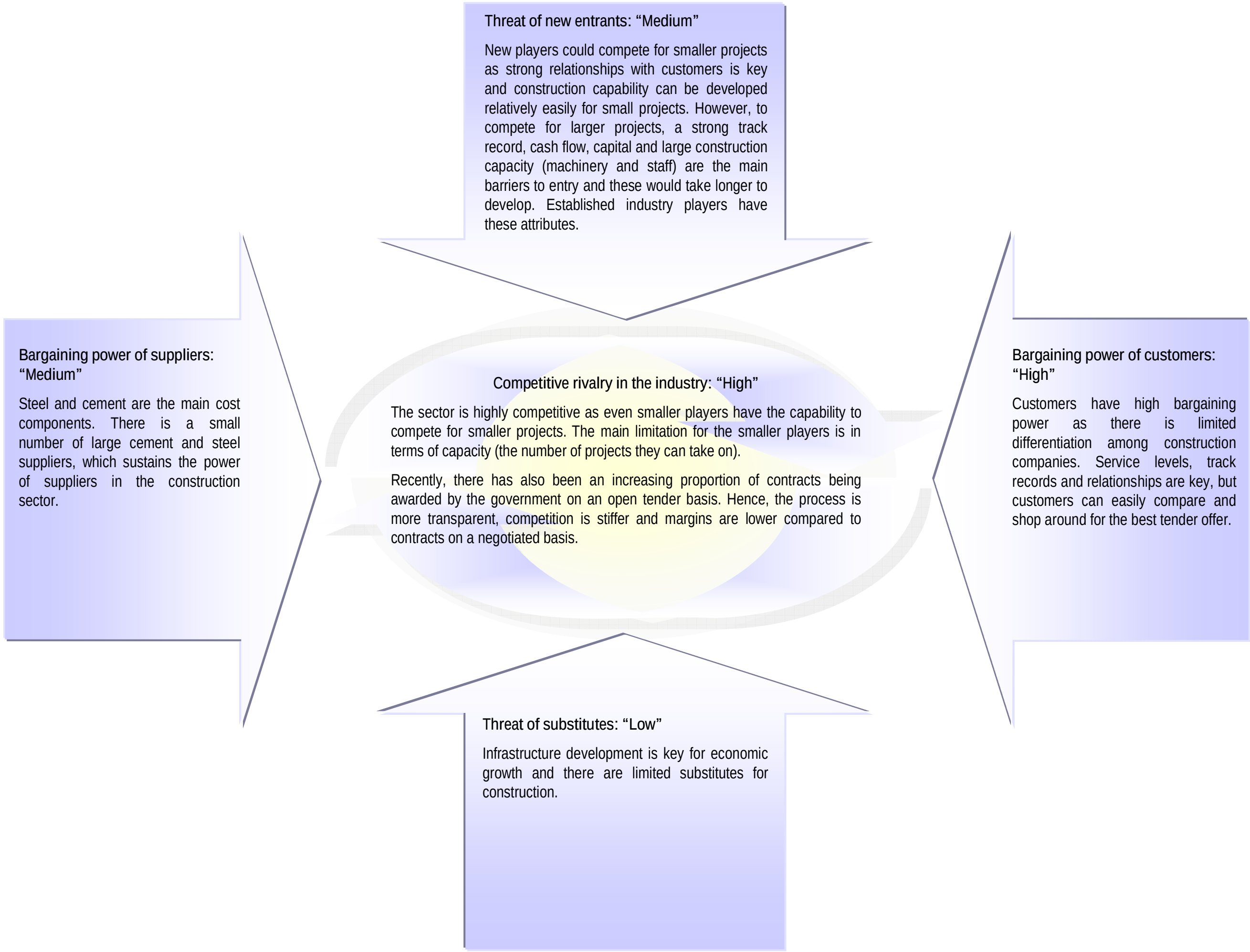
We believe Medini and Nusajaya are reaching an inflection point whereby their attractiveness is expected to increase among investors, visitors and house buyers. We think this will be driven by the completion of catalytic projects in the next one to two years. These projects include Legoland, Traders Hotel, the indoor theme park at Puteri Harbour, EduCity (which includes the NuMed campus, Management Development of Singapore, Marlborough College) and the Coastal Highway to Johor Bahru.

In addition, the meeting of the Malaysia and Singapore prime ministers in May 2010 and the subsequent agreement to cooperate on improving links between Johor and Singapore was a major breakthrough for the IDR. We believe the thawing of Malaysia and Singapore relations lays the foundation for stronger investment interest and cross-border activity between Johor and Singapore.

# Competitive analysis

## Assessment of industry attractiveness

Chart 16: Five competitive forces analysis



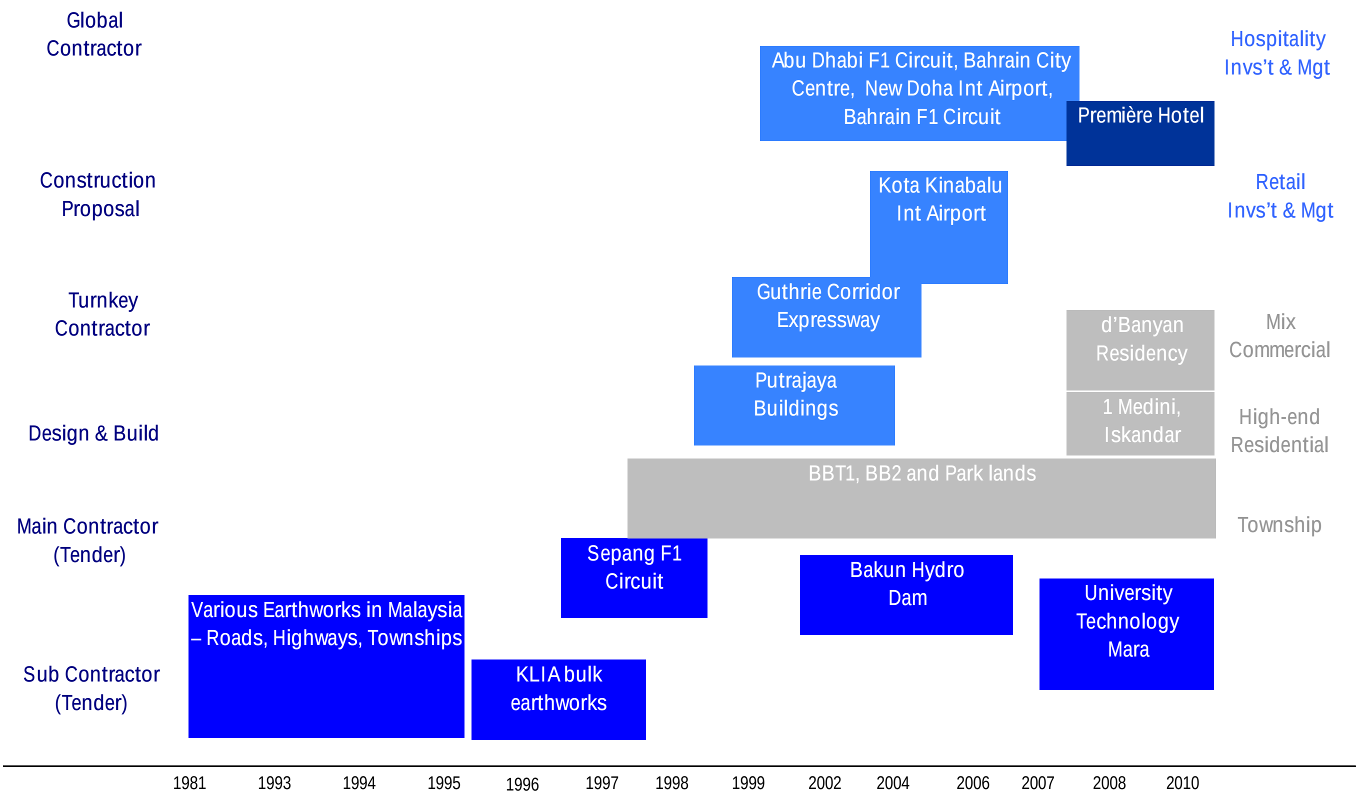

Source: Michael Porter, UBS

## Competitive strengths

Long track record of completing high profile projects provides strong credibility

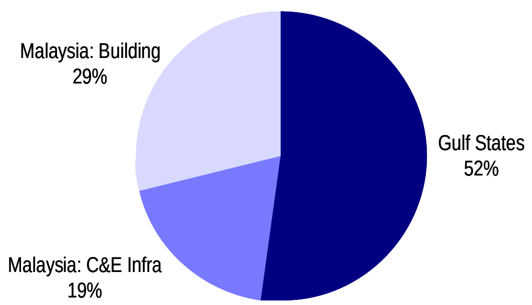
- **Strong track record**. WCT has a strong record of completing high profile projects in Malaysia and internationally within agreed timelines and with good profitability. A strong track record gives confidence to clients that the company has the expertise and is able to meet their requirements. In addition, we believe WCT's success in completing high profile jobs enhances its reputation, brand name and credibility. For example, we believe WCT won the Abu Dhabi and Bahrain F1 circuit jobs partly due to its successful construction of the Sepang F1 circuit. Another example is its completion of the KLIA project, which we believe provides WCT with an advantage to win the construction works for LCCT and the New Doha International Airport.

## Chart 17: Track record of significant projects



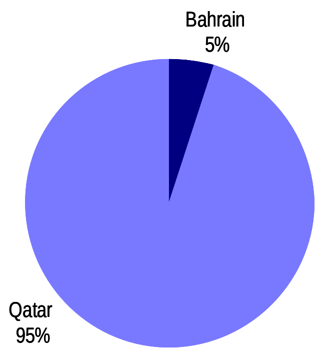

Source: Company data

## Chart 18: Order book composition as at 2010




Source: Company data

## Chart 19: Gulf State order book composition as at 2010




Source: Company data

- **Strong relationships.** We believe WCT's track record of building large-scale projects strengthens its relationships with clients, government bodies/officials, regulatory bodies and suppliers. Strong relationships with these stakeholders/parties is key in winning new construction work and successfully executing projects as it could ease the negotiation process and give WCT insights on the process, potential risks and opportunities.

- **Low cost base.** WCT has large capacity, which helps keep its cost base low. It owns more than RM300m in plant and machinery in the Middle East and Malaysia. In addition, WCT has 700 engineers and supervisory staff. This is important as it enables the company to price its bids competitively. Based on our industry checks, WCT's low cost base was key in winning the RM363m LCCT earthworks contract as it was the most competitively priced.

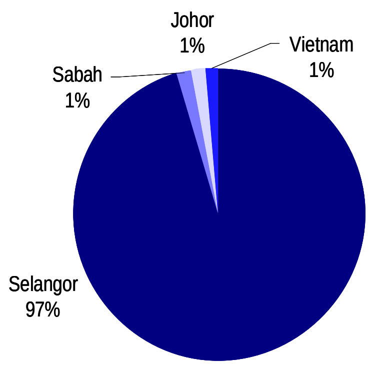
WCT's low cost base enables it to price its bids competitively

- **Strong senior management**. WCT's Group Managing Director, Taing Kim Hwa (the company's founder and a major shareholder) is responsible for the group's overall strategy and is very hands on with its day-to-day operations. He has been instrumental in transforming WCT from a private company specialising in earthworks into an international construction, property development and management company. In addition, a significant proportion of the senior management team has worked with WCT for more than 10 years and has extensive experience in the construction sector.

- **Property land bank.** We believe WCT has a good property land bank in attractive locations. Medini in the IDR is a relatively new development area, which should become increasingly attractive. Meanwhile, Petaling Jaya is a well-established suburb and WCT's Petaling Jaya development land bank is in a desirable area. Similarly, WCT's Klang land bank should continue to do well given the strong captive market and a revival in the Klang Corridor in the past five to eight years.

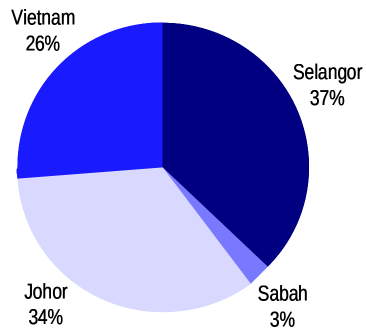
WCT has a good property land bank in attractive locations

Chart 20: Land area (acres) split as at 2010




Source: Company data

Chart 21: GDV split by area as at 2010




Source: Company data

- **Stable income.** WCT's property/infrastructure investments provide strong and stable recurring income and cash flow. This helps mitigate the risks of WCT's cyclical property and construction businesses, and provides a good cushion in a downturn. WCT's property investments include the AEON Mall in Bukit Tinggi, the Paradigm Mall (expected to open in end-2011) and the KLIA Integrated Complex (expected to open in 2012).

Management expects AEON Mall in Bukit Tinggi and Paradigm Mall to open in end-2011 and to provide stable recurring income

Table 7: Property investments as at December 2010

| Investment property | Stake | Property type | Location | Retail net lettable area (sq ft) |
|---|---|---|---|---|
| AEON BBT Shopping Mall | 100% | Retail and 5,000 car parks | Klang, Selangor, Malaysia | 1,000,612 |
| Premiere Hotel | 100% | Business Hotel | Klang, Selangor, Malaysia | 250 rooms, 900 capacity banquet hall, function rooms |
| Paradigm Mall | 70% | Retail and 5,000 car parks | Kelana Jaya, Petaling Jaya, Malaysia | 700,000 |
| KLIA2 Integrated Complex | 70% | Retail and 6,000 car parks (25-year concession) | KLIA2, Sepang, Malaysia | 400,000 |
| Platinum Plaza Mall | 67% | Retail and 5,000 car parks | Ho Chi Minh City, Vietnam | 1,300,000 |

Highway Concession Details

| Toll highway | Stake | Location | Form of receipts | Concession period | Length |
|---|---|---|---|---|---|
| Panagarh-Palsit Expressway | 30% | West Bangal, India | Semi-annuity payments by government of India | 2005-20 | 64km |
| Durgapur Expressway | 30% | West Bangal, India | Semi-annuity payments by government of India | 2005-20 | 64km |

Source: Company data

## Management strategy

- **Increase replenishment of the order book (value of construction project wins)**

  WCT plans to bid for all the projects that it has expertise in under the ETP and 10MP

  – **Ride the strong infrastructure spending wave.** Management is positive on the potential project pipeline given the government's push for improved infrastructure. WCT plans to bid for all projects where it has: 1) strong expertise and a track record in; and 2) strong relationships with the clients and authorities. We believe this would include projects such as the non-tunnelling portion of the MRT, the second phase of the LRT and the dam in Sabah.

  WCT will also focus on contracts in Qatar as management expects high infrastructure spending

  – **Focus on Qatar.** WCT plans to equally focus on growing its international construction projects as: 1) it has a strong reputation in the Gulf states; 2) they provide good margins; and 3) they would diversify its order book. WCT plans to focus on bidding for construction work particularly in Qatar as: 1) it has a strong track record there; 2) Qatar is insulated from the political turmoil in the MENA region; and 3) the strong pipeline of infrastructure projects. We believe WCT is bidding for projects worth RM2-3bn in Qatar. In the medium term, this also puts WCT in a strong position to benefit from the significant increase in infrastructure spending in preparation for the World Cup in Qatar in 2022.

WCT plans to launch Medini Residences, its 56-acre land and Bandar Parklands in 2011

- **Continue successful launches and look to acquire attractive land banks.** WCT plans to launch a mixture of luxury homes, mid-market homes and mixed commercial properties in the next one to two years across its relatively diverse land bank. This includes 1 Medini Residences (high rise), its 56-acre land (luxury homes) and Bandar Parklands (an integrated township). In 2010, WCT achieved sales of RM276m; management is targeting property launches of around RM450m in 2011.

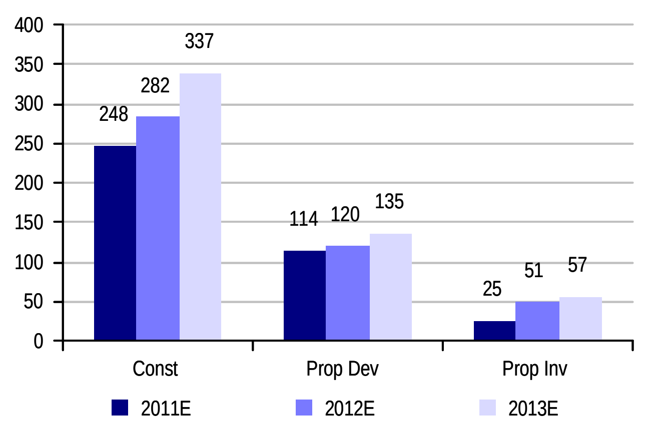
In the medium term, WCT will commence its maiden overseas property development by launching Platinum Plaza in Ho Chi Minh City, Vietnam. This is a mixed commercial property development with a land area of 22 acres and an estimated GDV of RM1,000m. Management aims for contributions from the Vietnam property to start in 2013.

Given its good track record in property development, we believe management will also continue to look to acquire more land bank to develop and joint venture opportunities to further expand this business.

To increase recurring income, management could focus on commercial retail properties

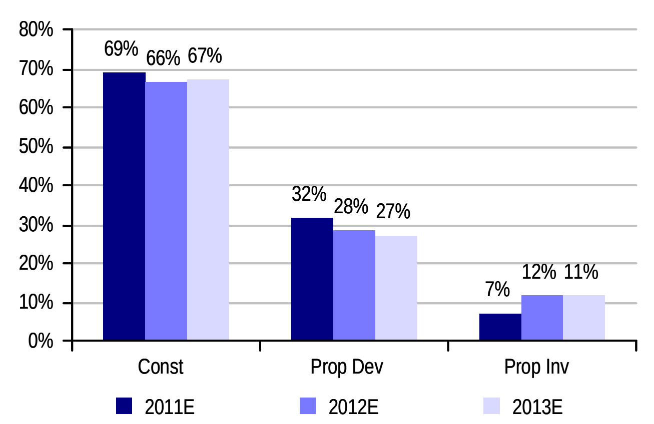
- **Increase proportion of recurring income.** WCT plans to increase its recurring income and will continue to actively search for attractive investments. We believe management will focus on commercial retail properties given WCT's experience and ability to leverage on its current investment portfolio. Management expects significant growth in recurring income in 2012 to be driven by contributions from Paradigm Mall and the completion of the KLIA integrated complex in 2012.

Chart 22: Breakdown of earnings (RM m)




Source: UBS estimates

Chart 23: Rising proportion of stable income (%)




Source: UBS estimates

# Financials

## Profit and loss

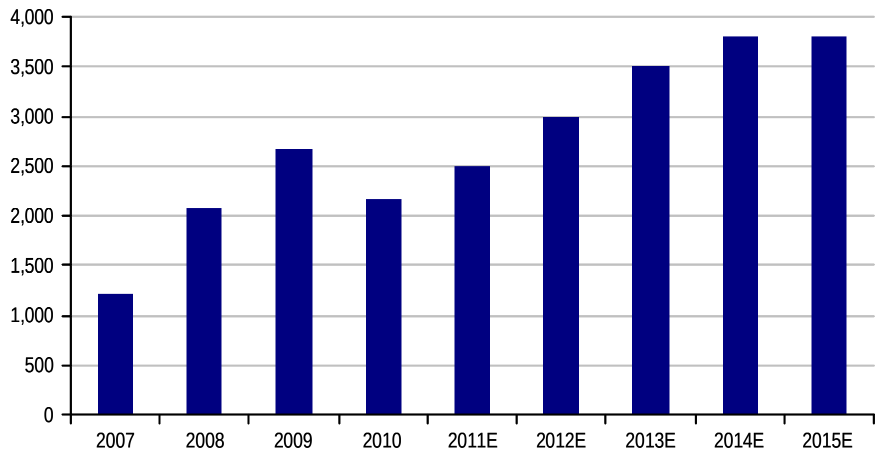
We forecast net income will increase 22% in 2011 (to RM173m) and 23% in 2012 (to RM213m). Its strong YoY growth should be primarily driven by higher contributions from construction, property development and property investments beginning from 2012 as the Paradigm Mall starts contributing. We estimate revenue will increase 66% in 2011 to RM2,836m, driven mainly by higher construction revenues from the progress of its existing jobs as well as new order wins. We forecast operating margins will decline slightly to 12.7% in 2011 and remain relatively stable at 13% from 2012 onwards.

We forecast net income will increase 22% in 2011 (to RM173m) and 23% in 2012 (to RM213m)

## Construction

- **Revenue.** We forecast construction revenue will expand 71% in 2011 to RM2,462m and 13% in 2012 to RM2,771m. The strong YoY growth in 2011 should be mainly driven by increased revenue from the progress of the NDIA project and KLIA integrated complex, the completion of Medini Iskandar and new project wins.

Chart 24: Replenishment of order book (RM m)




Source: Company data, UBS estimates

We expect strong order book replenishment (contract wins) given our positive outlook on the construction sector, which is driven by increased infrastructure spending and WCT's strong track record in winning projects in Malaysia and Qatar. We forecast order book replenishment of RM2.5bn in 2011 and RM3.5bn in 2013, with an average project duration of around 36 months. This is higher than management's guidance of around RM2bn for 2011, which we think is conservative given the outlook on infrastructure projects in Malaysia. However, our 2011 order book replenishment estimate is lower than the order wins in 2009, when most of the awards were in Qatar (86%). We forecast WCT's order book replenishment will be slightly skewed to Malaysia rather than the Gulf states in 2011 due to better visibility on specific potential projects in Malaysia.

We forecast order book replenishment of RM2.5bn in 2011 and RM3.5bn in 2013

We expect the ETP to gain traction and lead to higher construction activity in Malaysia. WCT's management has indicated it would like to participate in all the planned infrastructure projects that it has the expertise in. We estimate there could be more than RM190bn worth of projects in total awarded within the next five years. There could be positive newsflow for WCT in the near term with regard to project awards due to the following.

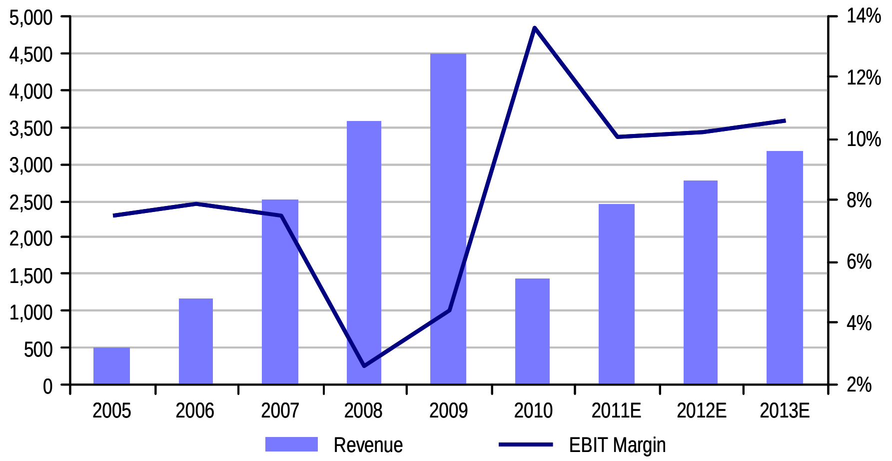
There could be positive newsflow for WCT in the near term

— We expect tenders for the MRT project in Q2-Q311. We estimate the Sg Buloh-Kajang line of the non-tunnelling portion will cost RM10-11bn.

— Based on our industry checks, the tender for the second phase of the LRT extension (worth around RM2.2bn) was closed on 14 March 2011. Thus, we expect the tender winners to be revealed within the next two to three months.

— WCT hopes to obtain a letter of award for the first phase of the Sabah Dam in 2011, which we estimate will cost RM2.8bn (entire project).

Chart 25: Construction revenue and margins (RM m)




Source: Company data, UBS estimates

- **Margins.** We estimate its operating profit margin in 2011 will fall from 13.6% (excluding the provisions for the Bakun project, the margin in 2010 was 16%) to 10.1% in 2011 and remain relatively stable in 2012-13. We believe the margin in 2010 was inflated due to the completion of some projects that year, the release of revenue and profits from high-margin projects completed towards end-2009, and high margins from the LCCT project, which we think could be hard to replicate. We believe WCT's margins are slightly higher than the overall sector's due to: 1) the company's exposure to Qatar, which offers favourable margins; 2) its scalable large capacity; and 3) our assumption that some project wins are on a negotiated basis, which typically offer higher margins.

- **Provisions**

  – **Bakun Dam**. We do not expect further provisions for the Bakun Dam given the RM36m in provisions made in Q410 (which brings total provisions for Bakun to RM64m). The Q410 provision was broken up into RM25m (WCT's share of additional costs in order to complete the project; 4% to the completion of project) and RM11m (WCT's share for the other members of the consortium which were unable to complete the project). This provision was based on an independent consultant report and the other members of the consortium (WCT is a consortium partner of the Malaysia-China Hydro joint venture) have taken the provision as well. Work on the dam continues and management expects the impoundment of the dam to be completed within the next few months and for testing to commence by end-Q211. Management expects a handover of the dam by the end of the year.

  We do not expect further provisions for the Bakun Dam

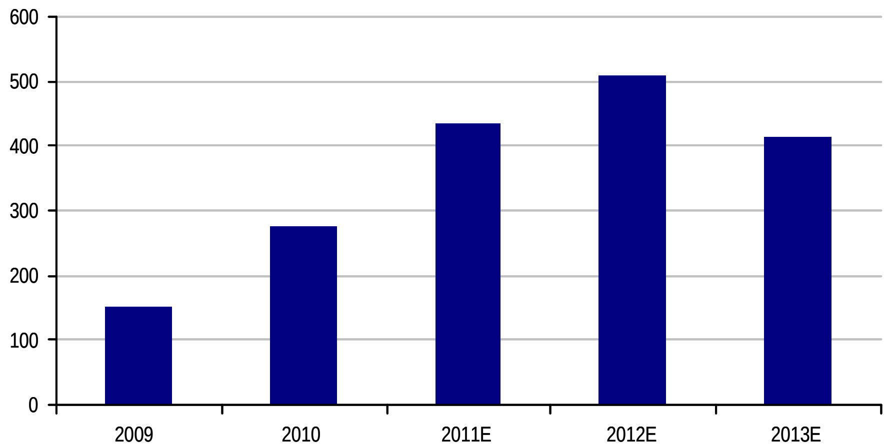
  – **Dubai horse racecourse**. WCT was awarded a project to build a horse racecourse in Dubai in 2007 worth RM4.6bn. The client terminated the contract in 2008 due to a dispute on the construction progress. The project was agreed to be completed by October 2009—at the point it was terminated, progress was around 65%. WCT is claiming for damages from the client and the outcome of the arbitration is expected in November 2011. WCT has made RM80m in provisions in 2008 for this project, which covers all the costs and receivables. The provision has been reviewed by the auditors and subsequently reviewed annually. We do not expect further provisions to be made for this contract.

## Property development

- **Revenue.** We forecast property development revenue will expand by 43% YoY to RM334m in 2011 and 5% to RM352m in 2012. The strong YoY growth should be mainly driven by sales from Bandar Parklands, its 56-acre land in Klang, Medini and The Paradigm Mall in Petaling Jaya (in 2012). We are slightly conservative on WCT's Vietnam venture and forecast RM100m in sales in 2014. We think there is a high likelihood of delays for its Vietnam launches based on the experience of other Malaysian property developers in Vietnam and the fact that the development requires land resettlement. Regulatory issues in Vietnam could also be significant stumbling blocks to WCT's progress.

Strong YoY revenue growth is mainly driven by sales from Bandar Parklands, the 56-acre land in Klang, Medini and the Paradigm Mall in Petaling Jaya (in 2012)

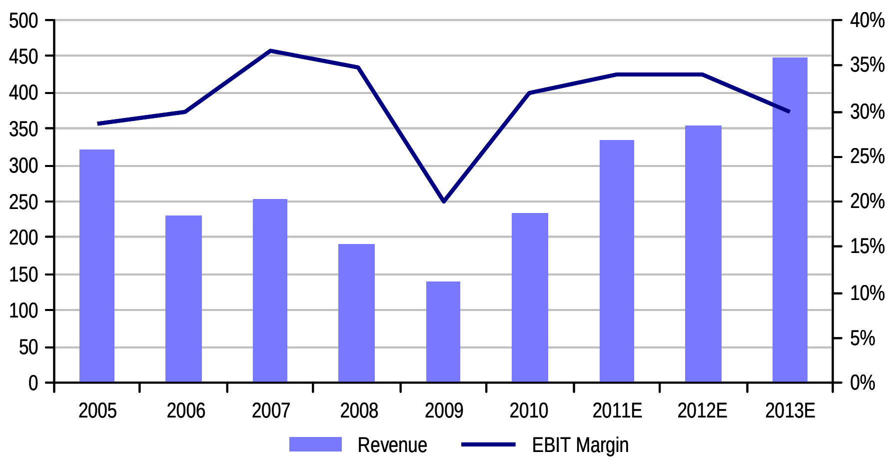
Chart 26: Property sales (RM m)




Source: Company data, UBS estimates

- **Margins.** We estimate margins will increase slightly from 32.1% in 2010 to 34% in 2011-12. We expect the proportion of contributions from higher-margin luxury products such as d'Banyan Residency and its 56-acre land in Klang to grow in 2011. Margins should decline from 2013 onwards as other projects start to take off and the proportion of luxury products falls.

Chart 27: Property development revenue and margins (RM m)



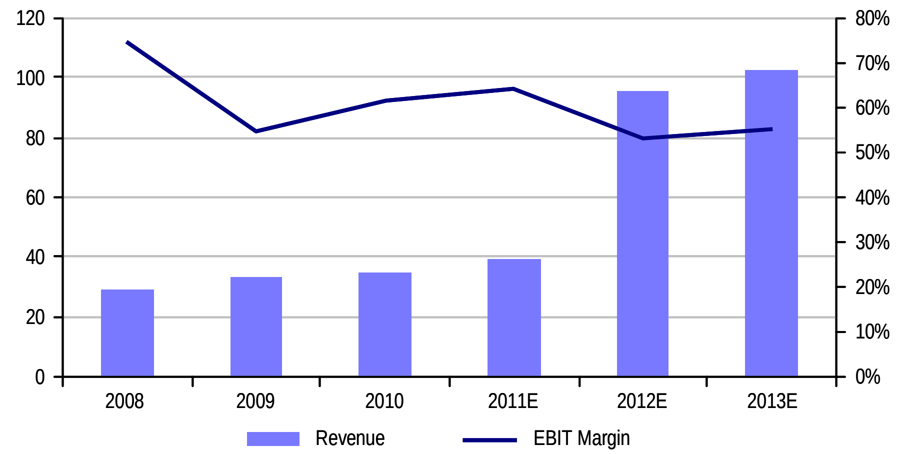

Source: Company data, UBS estimates

## Property investment

We expect revenue to double in 2012 from the full impact of Paradigm Mall's opening

- **Revenue.** We forecast revenue from property investments will grow 14% in 2011 to RM39m (RM35m in 2010) and 142% in 2012 to RM96m. We expect growth in 2011 to be driven by the full-year impact of rental revisions for AEON Mall, while YoY growth in 2012 should be driven by contributions from Paradigm Mall in Petaling Jaya, which management expects to open at the end of 2011.

## Chart 28: Property investment revenue and margins (RM m)




Source: Company data, UBS estimates

- **Margins.** We estimate its margin will rise from 61% in 2010 (excluding revaluation gains) to 64% in 2011 as the scalability of AEON Mall increases, particularly from the rental revision. However, this should weaken to 53% in 2012 as we believe the newly-opened Paradigm Mall will have lower margins initially before its scalability increases from higher rental and occupancy rates.

## Table 8: Profit and loss summary

| Income statement (RM m) | 2007 | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| Revenue | 2,782 | 3,795 | 4,667 | 1,709 | 2,836 | 3,219 | 3,733 |
| Construction | 2,525 | 3,575 | 4,495 | 1,440 | 2,462 | 2,771 | 3,182 |
| Property development | 254 | 192 | 139 | 234 | 334 | 352 | 449 |
| Property Investment | 3 | 29 | 33 | 35 | 39 | 96 | 102 |
| Profit from operations (EBIT) | 301 | 182 | 244 | 300 | 359 | 426 | 502 |
| Construction | 191 | 94 | 199 | 196 | 248 | 282 | 337 |
| Property development | 93 | 67 | 28 | 75 | 114 | 120 | 135 |
| Property investments | 17 | 21 | 18 | 56 | 25 | 51 | 57 |
| Others/elimination | 0 | 0 | 0 | -27 | -27 | -27 | -27 |
| Profit from operations margin | 10.8% | 4.8% | 5.2% | 17.6% | 12.7% | 13.2% | 13.4% |
| Construction | 7.5% | 2.6% | 4.4% | 13.6% | 10.1% | 10.2% | 10.6% |
| Property development | 36.7% | 34.9% | 19.9% | 32.1% | 34.0% | 34.0% | 30.0% |
| Property investments | 603.3% | 74.5% | 54.9% | 162.5% | 64.2% | 52.9% | 55.5% |
| Finance costs | -27 | -44 | -50 | -50 | -55 | -49 | -42 |
| Associate income | 10 | 21 | 17 | 8 | 8 | 9 | 9 |
| PBT | 284 | 159 | 211 | 257 | 312 | 386 | 469 |
| Tax | -54 | -13 | 5 | -48 | -56 | -69 | -84 |
| PAT | 229 | 146 | 216 | 209 | 256 | 316 | 384 |
| Minority interest | -81 | -44 | -69 | -68 | -83 | -103 | -125 |
| Net profit | 148 | 102 | 147 | 141 | 173 | 213 | 259 |

Source: Company data, UBS estimates

## Balance sheet

We expect its gross debt of RM1.6bn as at Q410 to remain relatively stable in 2011 as WCT recently raised RM600m from fixed rate bonds (of up to five years). The company had a strong cash balance of RM1.2bn as at end-Q410, but we expect this to decline. This should be driven by higher capex and working capital requirements given the significant expansion in business activity from growth in WCT's construction order book and property developments in 2011-13. We forecast WCT's net debt position will be relatively stable at RM444m in 2011 (RM470m in 2010). Net gearing should improve slightly from 37.6% in 2010 to 32.8% in 2011 and drop to 30.1% in 2012 due to strong growth in operating cash flow.

Strong cash balance of RM1.2bn as at end-Q410, but we expect this to fall due to high capex and working capital requirements

We estimate net gearing will improve slightly from 37.6% in 2010 to 32.8% in 2011

## Cash flow

We think WCT's cash flow could remain strong over the next few years despite significant growth in business activities and the high capex needed to fund new projects. We expect the company to maintain a cash balance of around RM1.1bn in 2011 and RM889m in 2012. The dividend payout has been relatively stable in 2009 and 2010 at 40% and 42%, respectively. We expect management to maintain a dividend payout ratio of 40%. There could be potential for higher dividends if the proportion of recurring income from WCT's property investments increases significantly.

## Table 9: Balance sheet

| Balance sheet (RM m) | 2007 | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 322 | 373 | 415 | 292 | 334 | 449 | 537 |
| Land held for property development | 156 | 253 | 187 | 215 | 215 | 215 | 215 |
| Investment properties | 404 | 424 | 426 | 614 | 614 | 614 | 614 |
| Investment in associates | 141 | 166 | 181 | 176 | 184 | 193 | 202 |
| Other Investments | 15 | 11 | 10 | 10 | 10 | 10 | 10 |
| Trade receivables | 136 | 439 | 405 | 418 | 418 | 418 | 418 |
| Other receivables | 0 | 284 | 282 | 260 | 301 | 348 | 405 |
| Deferred tax assets | 8 | 6 | 19 | 0 | 0 | 0 | 0 |
| Long term assets | 1,181 | 1,957 | 1,925 | 1,985 | 2,076 | 2,247 | 2,401 |
| Property development costs | 259 | 163 | 230 | 233 | 233 | 233 | 233 |
| Inventories | 94 | 151 | 114 | 74 | 132 | 149 | 173 |
| Trade receivables | 1,042 | 1,080 | 1,207 | 812 | 777 | 882 | 1,023 |
| Other receivables | 175 | 356 | 266 | 324 | 364 | 412 | 469 |
| Due from related parties | 14 | 15 | 6 | 4 | 4 | 4 | 4 |
| Cash & equivalents | 711 | 719 | 714 | 1,163 | 1,081 | 860 | 697 |
| Tax Recoverable | 8 | 17 | 18 | 0 | 0 | 0 | 0 |
| Current assets | 2,303 | 2,500 | 2,553 | 2,610 | 2,591 | 2,540 | 2,598 |
| Total Assets | 3,484 | 4,457 | 4,478 | 4,595 | 4,667 | 4,787 | 4,999 |
| | | | | | | | |
| Trade payables | 71 | 96 | 105 | 110 | 110 | 110 | 110 |
| Other payables | 0 | 497 | 278 | 250 | 250 | 250 | 250 |
| Borrowings (long term) | 357 | 831 | 792 | 1,127 | 1,067 | 947 | 827 |
| Deferred tax liabilities | 5 | 6 | 9 | 36 | 36 | 36 | 36 |
| Long term liabilities | 434 | 1,431 | 1,184 | 1,524 | 1,464 | 1,344 | 1,224 |
| Trade payables | 844 | 945 | 1,318 | 752 | 737 | 832 | 963 |
| Other payables | 441 | 444 | 282 | 285 | 285 | 285 | 285 |
| Borrowings (short term) | 585 | 302 | 207 | 505 | 465 | 385 | 305 |
| Taxation | 12 | 0 | 1 | 1 | 1 | 1 | 1 |
| Current liabilities | 1,883 | 1,692 | 1,808 | 1,544 | 1,489 | 1,504 | 1,555 |
| Total liabilities | 2,316 | 3,123 | 2,992 | 3,068 | 2,953 | 2,848 | 2,779 |
| | | | | | | | |
| Share capital | 339 | 386 | 389 | 393 | 393 | 393 | 393 |
| ICPS | 17 | 6 | 4 | 2 | 2 | 2 | 2 |
| Share premium | 141 | 368 | 369 | 380 | 380 | 380 | 380 |
| Reserves | 392 | 406 | 492 | 475 | 579 | 701 | 856 |
| Shareholder equity | 889 | 1,165 | 1,254 | 1,251 | 1,354 | 1,476 | 1,632 |
| Minority interests | 279 | 169 | 233 | 276 | 360 | 463 | 588 |
| Total equity | 1,168 | 1,334 | 1,487 | 1,527 | 1,714 | 1,939 | 2,220 |

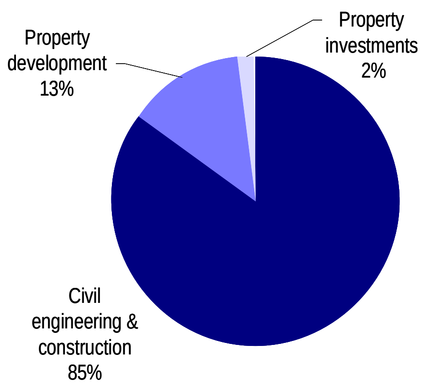
Source: Company data, UBS estimates

# Company background

WCT was established as WCT Earthworks and Building Contractors in 1981 and was listed on the Main Board in 1999. The company has evolved from a construction company into a diverse business group involved in civil works and construction, property development and property investments (asset management). In 2010, construction formed the largest proportion of its operating profit at 60%, followed by property development at 23%.

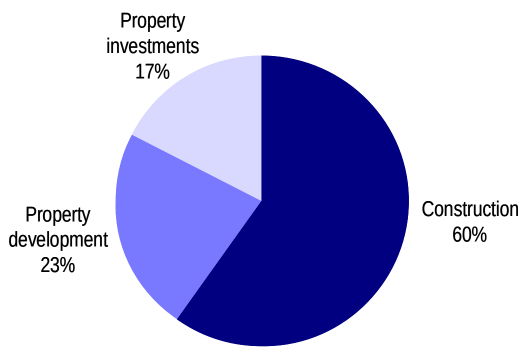
WCT is a civil works and engineering specialist—the segment contributed 85% to group revenue and 60% to group operating profit as at Q410

Chart 29: Revenue by segment (2010)




Source: Company data

Chart 30: Operating profit by segment in 2010 (excluding intra-group profit)




Source: Company data

- **Construction.** WCT has been involved in more than 300 construction projects in Malaysia, the UAE, Qatar, Bahrain, Oman, India and Vietnam—total completed construction value as at December 2010 was RM15.5bn. Notable construction projects undertaken by the company includes KLIA, the F1 racing circuits in Kuala Lumpur and Abu Dhabi, a university campus, highway concessions, and a hydroelectric and water dam.

WCT completed more than 300 construction projects valued at RM15.5bn across the UAE, Qatar, Dubai, Bahrain, Vietnam, India and Malaysia

- **Property development.** WCT ventured into property development in 1996 with Bandar Bukit Tinggi (BBT), which spans 1,346 acres in the Klang Corridor and has higher than 90% occupancy rates. Other property developments with significant GDVs include The Paradigm Mall in Petaling Jaya, Medini in Iskandar (Johor Bahru), Bandar Parklands in Klang, and Platinum Plaza in Ho Chi Minh City (Vietnam). WCT has delivered in excess of 12,000 units of residential and commercial properties amounting to a GDV of RM2.7bn as at December 2010.

Delivered more than 12,000 units of residential and commercial properties with total GDV of RM2.7bn

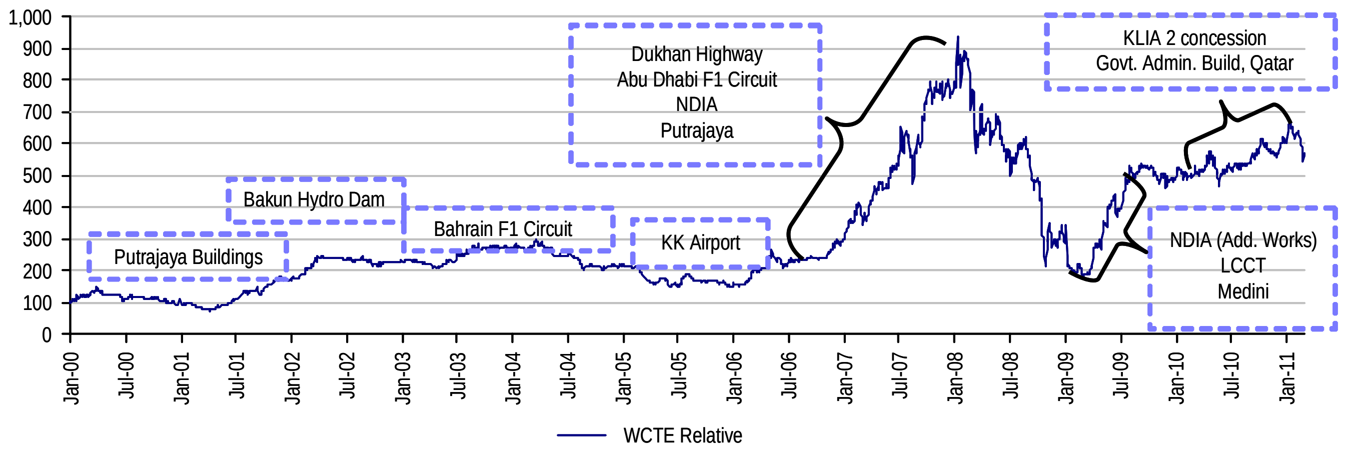
Table 10: WCT—property development projects as at December 2010

| Project | Stake | Development | Location | Land area (acres) | Status | GDV (RM m) | Sales (RM m) |
|---|---|---|---|---|---|---|---|
| Bandar Bukit Tinggi 1 | 100% | Integrated township | Klang,Selangor Malaysia | 347 | Freehold | 1,479 | 30 |
| Bandar Bukit Tinggi 2 | 100% | Integrated township | Klang,Selangor Malaysia | 562 | Freehold | 1,948 | 5 |
| Bandar Parklands | 100% | Integrated township | Klang,Selangor Malaysia | 427 | Freehold | 1,126 | 162 |
| The Paradigm PJ | 70% | Mixed commercial | Petaling Jaya,Selangor Malaysia | 12.4 | Leasehold | 1,400 | 0 |
| D'Banyan Residency | 100% | Luxury homes | Kota Kinabalu, Sabah Malaysia | 22 | Leasehold | 269 | 79 |
| 1 Medini Residences | 70% | High-rise homes | Iskandar Malaysia, Johor | 11 | Leasehold | 600 | 0 |
| 56-acre land | 100% | Luxury homes | Klang,Selangor Malaysia | 56 | Freehold | 300 | 0 |
| Medini Business District | 100% | Mixed commercial | Medini, Iskandar Malaysia, Johor | 10.3 | | 688 | 0 |
| Total | | | | | | 7,810 | 276 |
| Land bank | Stake | Property type | Location | Land area (acres) | Status | Potential GDV (RM m) | Sales (RM m) |
| Platinum Plaza | 67% | Mixed commercial | Ho Chi Minh City, Vietnam | 22 | Land use rights 50 years | 1,000 | 0 |

Source: Company data

- **Asset management.** WCT is involved in the management and investment of property assets. Its main property investment contribution is from AEON Mall in Bandar Bukit Tinggi. With a net lettable area of 1m sqft of retail space, it is currently leased to AEON on a 10+5+5+5 year basis. WCT also owns Premiere Hotel in Klang (which has 250 rooms) and will be opening Paradigm Mall in Petaling Jaya (net lettable area of 700,000 sqft) by the end of 2011.

Chart 31: WCT—share price performance relative to January 2000




Source: UBS estimates

# WCT Berhad

| Income statement (RMm) | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11E | % ch | 12/12E | % ch | 12/13E | % ch |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 1,400 | 2,782 | 3,795 | 4,667 | 1,709 | 2,836 | 66.0 | 3,219 | 13.5 | 3,733 | 16.0 |
| Operating expenses (ex depn) | (1,198) | (2,490) | (3,606) | (4,345) | (1,373) | (2,431) | 77.1 | (2,726) | 12.1 | (3,136) | 15.1 |
| EBITDA (UBS) | 225 | 353 | 256 | 331 | 398 | 470 | 18.2 | 561 | 19.5 | 668 | 19.1 |
| Depreciation | (52) | (52) | (74) | (87) | (98) | (110) | 12.9 | (136) | 23.0 | (167) | 22.9 |
| Operating income (EBIT, UBS) | 173 | 301 | 182 | 244 | 300 | 359 | 19.9 | 426 | 18.4 | 502 | 17.9 |
| Other income & associates | 4 | 10 | 21 | 17 | 8 | 8 | 5.0 | 9 | 5.0 | 9 | 5.0 |
| Net interest | (27) | (27) | (44) | (50) | (50) | (55) | 10.0 | (49) | -12.1 | (42) | -14.0 |
| Abnormal items (pre-tax) | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Profit before tax | 150 | 284 | 159 | 211 | 257 | 312 | 21.4 | 386 | 23.5 | 469 | 21.6 |
| Tax | (35) | (54) | (13) | 5 | (48) | (56) | 17.4 | (69) | 23.5 | (84) | 21.6 |
| Profit after tax | 115 | 229 | 146 | 216 | 209 | 256 | 22.3 | 316 | 23.5 | 384 | 21.6 |
| Abnormal items (post-tax) | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Minorities / pref dividends | (27) | (81) | (44) | (69) | (68) | (83) | 22.3 | (103) | 23.5 | (125) | 21.6 |
| Net income (local GAAP) | 88 | 148 | 102 | 147 | 141 | 173 | 22.3 | 213 | 23.5 | 259 | 21.6 |
| Net Income (UBS) | 88 | 148 | 102 | 147 | 141 | 173 | 22.3 | 213 | 23.5 | 259 | 21.6 |
| Tax rate (%) | 23 | 19 | 8 | 0 | 19 | 18 | -3.3 | 18 | 0.0 | 18 | 0.0 |
| Pre-abnormal tax rate (%) | 24 | 20 | 9 | 0 | 19 | 18 | -3.7 | 18 | -0.4 | 18 | -0.3 |

| Per share (RM) | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11E | % ch | 12/12E | % ch | 12/13E | % ch |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EPS (local GAAP) | 0.15 | 0.23 | 0.13 | 0.19 | 0.18 | 0.22 | 4.2 | 0.25 | 7.6 | 0.28 | 21.6 |
| EPS (UBS) | 0.15 | 0.23 | 0.13 | 0.19 | 0.18 | 0.22 | 21.9 | 0.25 | 14.6 | 0.28 | 13.4 |
| Net DPS | 0.11 | 0.09 | 0.07 | 0.08 | 0.08 | 0.09 | 16.5 | 0.10 | 14.6 | 0.11 | 13.4 |
| Cash EPS | 0.25 | 0.31 | 0.23 | 0.30 | 0.30 | 0.36 | 18.1 | 0.41 | 14.4 | 0.47 | 13.9 |
| BVPS | 1.02 | 1.47 | 1.42 | 1.53 | 1.53 | 1.71 | 12.4 | 1.62 | -5.7 | 1.79 | 10.5 |

| Balance sheet (RMm) | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11E | % ch | 12/12E | % ch | 12/13E | % ch |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net tangible fixed assets | 366 | 322 | 373 | 415 | 292 | 324 | 10.8 | 413 | 27.7 | 471 | 13.8 |
| Net intangible fixed assets | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Net working capital (incl. other assets) | 519 | 998 | 1,797 | 1,558 | 1,916 | 2,037 | 6.3 | 2,164 | 6.2 | 2,316 | 7.0 |
| Other liabilities | (17) | (76) | (600) | (392) | (397) | (397) | 0.0 | (397) | 0.0 | (397) | 0.0 |
| Operating invested capital | 868 | 1,244 | 1,570 | 1,581 | 1,811 | 1,964 | 8.4 | 2,181 | 11.0 | 2,390 | 9.6 |
| Investments | 159 | 156 | 177 | 191 | 186 | 194 | 4.4 | 203 | 4.4 | 212 | 4.5 |
| Total capital employed | 1,027 | 1,400 | 1,748 | 1,772 | 1,997 | 2,158 | 8.1 | 2,383 | 10.4 | 2,601 | 9.2 |
| Shareholders' equity | 593 | 889 | 1,165 | 1,254 | 1,251 | 1,354 | 8.3 | 1,476 | 9.0 | 1,632 | 10.5 |
| Minority interests | 163 | 279 | 169 | 233 | 276 | 360 | 30.2 | 463 | 28.6 | 588 | 27.1 |
| Total equity | 756 | 1,168 | 1,334 | 1,487 | 1,527 | 1,714 | 12.2 | 1,939 | 13.1 | 2,220 | 14.5 |
| Net debt / (cash) | 271 | 232 | 414 | 285 | 470 | 444 | -5.5 | 444 | 0.1 | 382 | -14.1 |
| Other debt-deemed items | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | - | 0 | - |
| Total capital employed | 1,027 | 1,400 | 1,748 | 1,772 | 1,997 | 2,158 | 8.1 | 2,383 | 10.4 | 2,601 | 9.2 |

| Cash flow (RMm) | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11E | % ch | 12/12E | % ch | 12/13E | % ch |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating income (EBIT, UBS) | 173 | 301 | 182 | 244 | 300 | 359 | 19.9 | 426 | 18.4 | 502 | 17.9 |
| Depreciation | 52 | 52 | 74 | 87 | 98 | 110 | 12.9 | 136 | 23.0 | 167 | 22.9 |
| Net change in working capital | 84 | (94) | (131) | (3) | (273) | (38) | -86.2 | (27) | -28.6 | (33) | 21.9 |
| Other (operating) | (62) | (35) | (126) | (38) | (71) | (84) | 18.2 | (100) | 19.5 | (119) | 19.1 |
| Operating cash flow (pre tax/interest) | 247 | 223 | (2) | 290 | 54 | 348 | 547.6 | 435 | 24.7 | 517 | 18.9 |
| Net interest received / (paid) | (26) | (37) | (35) | (37) | (36) | (55) | 51.8 | (49) | -12.1 | (42) | -14.0 |
| Dividends paid | (23) | (33) | (55) | (56) | (59) | (69) | 16.9 | (91) | 32.4 | (104) | 13.4 |
| Tax paid | (33) | (58) | (32) | (6) | (4) | (56) | 1230.1 | (69) | 23.5 | (84) | 21.6 |
| Capital expenditure | (228) | (96) | (97) | (33) | (7) | (142) | 1801.3 | (225) | 58.9 | (224) | -0.6 |
| Net (acquisitions) / disposals | (49) | 0 | (4) | 0 | (54) | 0 | - | 0 | - | 0 | - |
| Other | (157) | 215 | 543 | (9) | 0 | 0 | - | 0 | - | 0 | - |
| Share issues | 0 | 0 | 0 | 0 | 11 | 0 | - | 0 | - | 0 | - |
| Cash flow (inc)/dec in net debt | (268) | 214 | 318 | 150 | (97) | 26 | - | 0 | - | 63 | - |
| FX / non cash items | 48 | (175) | (500) | (21) | (88) | 0 | - | 0 | - | 0 | - |
| Balance sheet (inc)/dec in net debt | (220) | 39 | (181) | 129 | (185) | 26 | - | 0 | - | 63 | - |
| Core EBITDA | 225 | 353 | 256 | 331 | 398 | 470 | 18.2 | 561 | 19.5 | 668 | 19.1 |
| Maintenance capital expenditure | (23) | (10) | (10) | (3) | (1) | (14) | 1801.3 | (23) | 58.9 | (22) | -0.6 |
| Maintenance net working capital | (3) | (3) | (4) | (2) | (4) | (5) | 19.5 | (6) | 15.8 | (7) | 16.3 |
| Operating free cash flow, pre-tax | 200 | 340 | 242 | 326 | 393 | 451 | 14.8 | 533 | 18.3 | 640 | 19.9 |

*Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.*

Malaysia

Heavy Construction

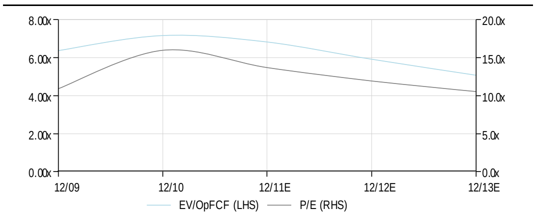
# WCT Berhad

| | |
|---|---|
| 12-month rating | Buy |
| 12m price target | RM4.30 |

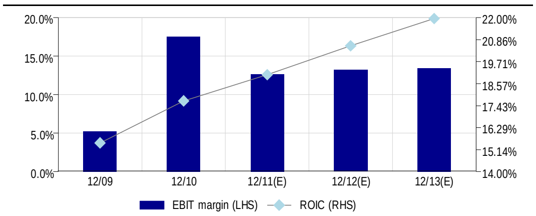
## Company profile

WCT Berhad was founded as WCT Earthworks and Building Contractors in 1981 and was listed on the main board of the Kuala Lumpur Stock Exchange in 1999. The company has evolved from a construction company to a diverse business group involved in civil works and construction, property development and property investment (asset management). In 2010, construction represented the largest proportion of profit from operations at 60%, followed by property development at 23%.

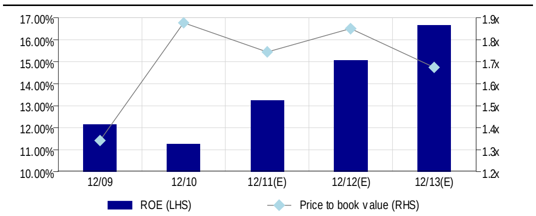
## Value (EV/OpFCF & P/E)



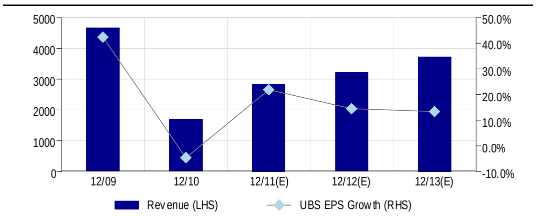

## Profitability




## ROE v Price to book value




## Growth (UBS EPS)




| Valuation (x) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| P/E (local GAAP) | 11.5 | 11.0 | 16.1 | 16.2 | 15.0 | 12.4 |
| P/E (UBS) | 11.3 | 10.9 | 16.0 | 13.7 | 12.0 | 10.5 |
| P/CEPS | 7.2 | 6.9 | 9.4 | 8.4 | 7.3 | 6.4 |
| Net dividend yield (%) | 5.9 | 3.7 | 2.6 | 2.9 | 3.3 | 3.8 |
| P/BV | 1.5 | 1.3 | 1.9 | 1.7 | 1.9 | 1.7 |
| EV/revenue (core) | 0.6 | 0.4 | 1.6 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (core) | 6.1 | 6.3 | 7.1 | 6.5 | 5.6 | 4.8 |
| EV/EBIT (core) | 7.8 | 8.5 | 9.4 | 8.6 | 7.4 | 6.5 |
| EV/OpFCF (core) | 6.3 | 6.4 | 7.2 | 6.8 | 5.9 | 5.1 |
| EV/op. invested capital | 1.6 | 1.3 | 1.7 | 1.6 | 1.5 | 1.4 |

| Enterprise value (RMm) | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|
| Average market cap | 1,683 | 2,348 | 2,452 | 2,452 | 2,452 |
| + minority interests | 233 | 276 | 360 | 463 | 588 |
| + average net debt (cash) | 349 | 377 | 457 | 444 | 413 |
| + pension obligations and other | 0 | 0 | 0 | 0 | 0 |
| - non-core asset value | (191) | (186) | (194) | (203) | (212) |
| Core enterprise value | 2,074 | 2,816 | 3,075 | 3,157 | 3,242 |

| Growth (%) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| Revenue | 54.2 | 23.0 | -63.4 | 66.0 | 13.5 | 16.0 |
| EBITDA (UBS) | 20.1 | 29.6 | 19.9 | 18.2 | 19.5 | 19.1 |
| EBIT (UBS) | 16.5 | 34.1 | 22.8 | 19.9 | 18.4 | 17.9 |
| EPS (UBS) | -17.1 | 42.4 | -4.5 | 21.9 | 14.6 | 13.4 |
| Cash EPS | -13.2 | 31.9 | 1.4 | 18.1 | 14.4 | 13.9 |
| Net DPS | -8.7 | 6.0 | 0.0 | 16.5 | 14.6 | 13.4 |
| BVPS | 13.7 | 7.6 | -0.3 | 12.4 | -5.7 | 10.5 |

| Margins (%) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| EBITDA / revenue | 12.4 | 7.1 | 23.3 | 16.6 | 17.4 | 17.9 |
| EBIT / revenue | 9.9 | 5.2 | 17.6 | 12.7 | 13.2 | 13.4 |
| Net profit (UBS) / revenue | 5.4 | 3.2 | 8.3 | 6.1 | 6.6 | 6.9 |

| Return on capital (%) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| EBIT ROIC (UBS) | 20.1 | 15.5 | 17.7 | 19.0 | 20.5 | 22.0 |
| ROIC post tax | - | 15.5 | 14.3 | 15.5 | 16.8 | 17.9 |
| Net ROE | 14.9 | 12.2 | 11.3 | 13.2 | 15.1 | 16.7 |

| Coverage ratios (x) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| EBIT / net interest | 6.6 | 5.2 | 6.1 | 6.6 | 8.9 | 12.2 |
| Dividend cover (UBS EPS) | 2.4 | 2.5 | 2.4 | 2.5 | 2.5 | 2.5 |
| Div. payout ratio (%, UBS EPS) | 45.8 | 40.0 | 41.9 | 40.0 | 40.0 | 40.0 |
| Net debt / EBITDA | 0.9 | 0.9 | 1.2 | 0.9 | 0.8 | 0.6 |

| Efficiency ratios (x) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| Revenue / op. invested capital | 2.6 | 3.0 | 1.0 | 1.5 | 1.6 | 1.6 |
| Revenue / fixed assets | 9.4 | 11.8 | 4.8 | 9.2 | 8.7 | 8.4 |
| Revenue / net working capital | 10.9 | 14.8 | 5.3 | 6.3 | 6.1 | 6.1 |

| Investment ratios (x) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| OpFCF / EBIT | 1.2 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Capex / revenue (%) | 3.4 | 0.7 | 0.4 | 5.0 | 7.0 | 6.0 |
| Capex / depreciation | 1.6 | 0.4 | 0.1 | 1.3 | 1.7 | 1.3 |

| Capital structure (%) | 5Yr Avg | 12/09 | 12/10 | 12/11E | 12/12E | 12/13E |
|---|---|---|---|---|---|---|
| Net debt / total equity | 28.2 | 22.7 | 37.6 | 32.8 | 30.1 | 23.4 |
| Net debt / (net debt + equity) | 22.0 | 18.5 | 27.3 | 24.7 | 23.1 | 19.0 |
| Net debt (core) / EV | 13.5 | 16.8 | 13.4 | 14.9 | 14.1 | 12.7 |

*Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.*
*Valuations: based on an average share price that year, (E): based on a share price of RM2.99 on 16 Mar 2011 23:38 SGT Market cap(E) may include forecast share issues/buybacks.*

Khairul Rifaie
Analyst
khairul.rifaie@ubs.com
+603-2781 1166

## ■ WCT Berhad

WCT Berhad was founded as WCT Earthworks and Building Contractors in 1981 and was listed on the main board of the Kuala Lumpur Stock Exchange in 1999. The company has evolved from a construction company to a diverse business group involved in civil works and construction, property development and property investment (asset management). In 2010, construction represented the largest proportion of profit from operations at 60%, followed by property development at 23%.

## ■ Statement of Risk

The main risk to our earnings estimates, price targets and rating for WCT Berhad are any abrupt changes of new construction job flows that could affect sentiment and delays in construction progress. Other risks are raw material prices and labour costs which are key drivers for construction margins.

## ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

This report has been prepared by UBS Securities Malaysia Sdn Bhd., an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

### UBS Investment Research: Global Equity Rating Allocations

| UBS 12-Month Rating | Rating Category | Coverage[1] | IB Services[2] |
|---|---|---|---|
| **Buy** | **Buy** | 49% | 40% |
| **Neutral** | **Hold/Neutral** | 42% | 35% |
| **Sell** | **Sell** | 8% | 21% |
| **UBS Short-Term Rating** | **Rating Category** | **Coverage[3]** | **IB Services[4]** |
| **Buy** | **Buy** | less than 1% | 14% |
| **Sell** | **Sell** | less than 1% | 0% |

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

### UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating | Definition |
|---|---|
| **Buy** | FSR is > 6% above the MRA. |
| **Neutral** | FSR is between -6% and 6% of the MRA. |
| **Sell** | FSR is > 6% below the MRA. |
| **UBS Short-Term Rating** | **Definition** |
| **Buy** | Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. |
| **Sell** | Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. |

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
**Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES**

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

**UBS Securities Malaysia Sdn Bhd.:** Khairul Rifaie.

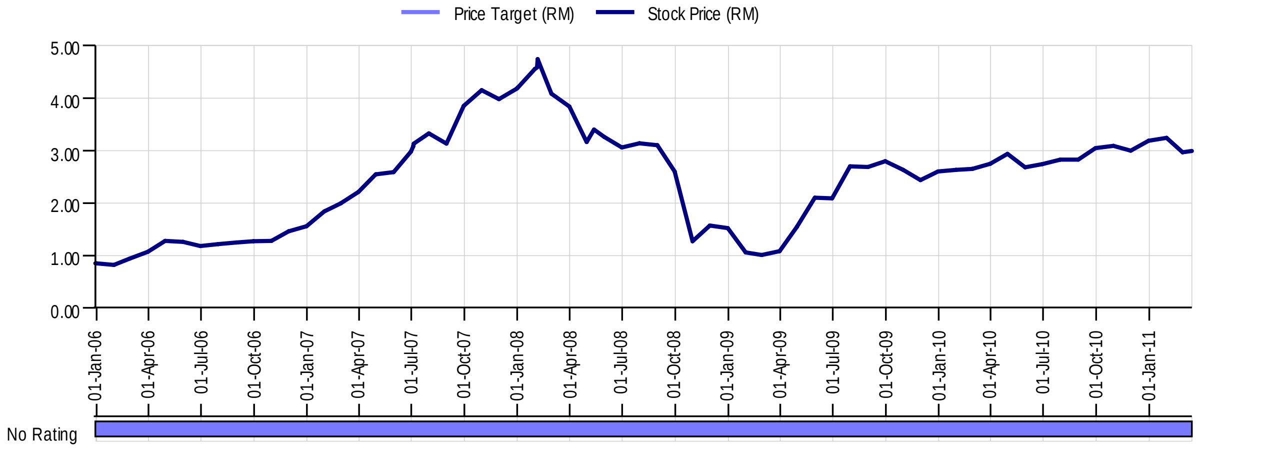
## Company Disclosures

| Company Name | Reuters | 12-mo rating | Short-term rating | Price | Price date |
|---|---|---|---|---|---|
| WCT Berhad | WCTE.KL | Not Rated | N/A | RM2.99 | 16 Mar 2011 |

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

## WCT Berhad (RM)




Source: UBS; as of 16 Mar 2011

## Global Disclaimer

This report has been prepared by UBS Securities Malaysia Sdn Bhd., an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein.

Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been effected at those prices and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions, by UBS or any other source, may yield substantially different results.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are eligible counterparties or professional clients and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, retail clients. UBS Limited is authorised and regulated by the Financial Services Authority (FSA). UBS research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Prepared by UBS Menkul Degerler AS on behalf of and distributed by UBS Limited. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at http:www.ubs.co.za. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a **'non-US affiliate'**), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd [mica (p) 039/11/2009 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte Ltd, an exempt financial advisor under the Singapore Financial Advisers Act (Cap. 110); or UBS AG Singapore branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or report. The recipient of this report represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. Where this report has been prepared by UBS Securities Japan Ltd, UBS Securities Japan Ltd is the author, publisher and distributor of the report. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services License No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd. An investment adviser and investment broker disclosure statement is available on request and free of charge by writing to PO Box 45, Auckland, NZ. **Dubai:** The research prepared and distributed by UBS AG Dubai Branch, is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This report may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (253825-x).**India :** Prepared by UBS Securities India Private Ltd. 2/F,2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431 , NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this material in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2011. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

UBS