

- Our 2008 earnings forecast is now in line with consensus, as the market's forecast has finally headed our way.
- Our target price is ahead of consensus as we have factored in the impact of its maiden Vietnamese project.

Net Profit 08MYR246m
..... (Unchanged)

Diff from Consensus.... 0.8%
Consensus (mean) MYR244m
Consensus (momentum) ↔

Target Price.....MYR5.10
..... (Unchanged)

Diff from Consensus....5.6%
Consensus (median).....MYR4.83
Consensus (momentum) ↔

Current Price.....MYR3.40
Upside/(Downside).....50.0%

BUY
(Unchanged)

Recs in the Market

Positive **9**
Neutral **1**
Negative **0**
Consensus (momentum)..... **↑**

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

We met management and remain sure that WCT margin will be intact despite higher building material cost. We're also more convinced of new order flows with MYR2b new guidance in 2008, well above our forecast. WCT is the least affected by political risks in Malaysia given its leverage to the Middle East infrastructure boom. We see 50% upside. BUY.

Positive news flows coming up

Margins remain intact

WCT's share price has declined by 28.9% over the last three months on fears of political risk as well as profit margin compression for its projects. We met management recently, and remain as convinced as ever that WCT's profitability will remain intact. We were given to understand that results will be released on 15 May, and believe that construction margins in 1Q08 should be at least as high as the EBIT margin in 4Q07, while net profits should at least be as high as 4Q07 (note that the 2H are typically strong quarters for WCT).

Positive news flows coming up

We understand that WCT will soon disclose the amount of additional works for the Abu Dhabi Formula 1 Circuit. This is in addition to the MYR2.1b project size (including MYR800m new jobs secured). The scope of new works could be in excess of MYR1b, thereby beating our 2008 new construction order book assumption of MYR700m for 2008.

Maintain BUY

WCT remains our top pick in the construction sector, insulated from the political situation in Malaysia, as 67% of its construction order book is leveraged to the Middle East boom. Of the remaining 33% local jobs, 20.5% is from a company owned by the Federal government (for jobs at Putrajaya, the federal administrative centre), 13% is from the private sector and 27% from the federal-led Sabah state. Therefore, only 6.4% of its total order book is at risk, implying little earnings risk.

With record high crude oil prices, we believe the prospects for further infrastructure spending from recycling of petro dollars in the Middle East is promising.

Valuation is undemanding at 2008E P/E of 10.5x and 2009E P/E of 9.1x, against a three-year fully diluted EPS CAGR of 30.2% pa. Share price catalyst will be tied to more construction order flows in the next few months leading to earnings re-rating, and incrementally higher construction margins.

Mak Hoy Kit

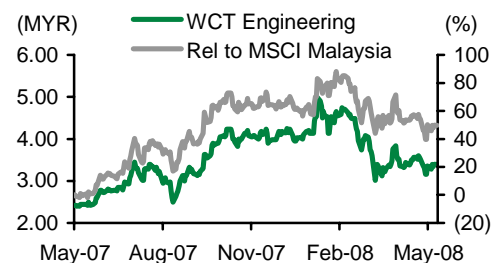
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Earnings Estimates And Valuation Ratios

YE Dec (MYR m)	2007	2008E	2009E	2010E
Revenue	2,835	3,572	3,404	3,772
Reported net profit	147	246	290	347
Recurring net profit	134	246	290	347
Previous rec net profit	134	246	290	347
Chg from previous (%)	—	—	—	—
Recurring EPS (MYR)	0.20	0.32	0.37	0.44
Prev rec EPS (MYR)	0.20	0.32	0.37	0.44
Rec EPS growth (%)	36.0	59.0	15.2	17.2
Recurring P/E (x)	16.7	10.5	9.1	7.8
Dividend yield (%)	1.2	1.8	1.8	1.9
EV/EBITDA (x)	8.1	5.3	5.7	4.8
Price/book (x)	2.6	2.2	1.8	1.4
ROE (%)	17.9	25.5	24.8	23.7
Net debt/equity (%)	20.4	43.5	31.0	17.6

*Adjusted for share split, ICPS and Warrants
Sources: WCT Engineering; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	May 2008
Market cap (USD m)	720
12m avg daily turnover (USD m)	2.0
Free float (%)	62
Major shareholder	WCT Capital (24%)
12m high/low (MYR)	4.98/2.40
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

Margins remain intact

WCT's share price has declined by 28.9% over the last three months on fears of political risk as well as profit margin compression for its projects. We met up with management recently, and remain as convinced as ever that WCT's profitability will remain intact. It is important to note that two of WCT's largest projects – the MYR2.1b Abu Dhabi Formula 1 Circuit project (WCT's share of works is MYR1.05b) and the MYR4.6b (WCT's share of works is MYR2.3b) Meydan Racecourse project in Dubai, will feature more prominently in WCT's results over the next few quarters. These two projects alone account for 53% of WCT's outstanding order book of MYR5.67b as of 31 Dec 2007 (current outstanding order book now stands approximately at MYR5.2b). As such, we believe construction margins will continue to improve in the next few quarters.

We were given to understand that results will be released on 15 May. We believe construction margins in 1Q08 will be at least as high as EBIT margin in 4Q07, while net profits should at least be as high as 4Q07 (note that the 2H are typically strong quarters for WCT).

Exhibit 1: Outstanding Construction Order Book As Of 31 Dec 2007

	O/S value (MYR m)
Local jobs	
Lekas Highway	160.0
Kudat Water Supply Project	69.0
Tijani 2 Bukit Tunku	111.0
Kota Kinabalu International Airport upgrading project	394.0
BBT Jusco Shopping Centre	43.0
UiTM campus	343.0
Bakun hydroelectric dam	33.0
Lots 4G8 and 4G9, Precint 4, Putrajaya	457.0
AEON shopping mall, Bukit Indah, Johor	185.0
Total outstanding local jobs	1,795.0
Overseas jobs	
Dukhan Highway Project, Qatar	51.0
New Doha International Airport, Qatar	369.0
Bahrain City Centre, Bahrain	176.0
Dubai World Central International Airport (Stormwater Drainage and Sewerage Syste (Phase 1)	10.0
*Abu Dhabi F1 Track, UAE	552.0
Additional Fit-Out works for Bahrain City Centre project	135.0
Meydan Racecourse Dubai	2,300.0
Total outstanding overseas jobs	3,593.0
Total outstanding order book	5,388.0

* Excluding MYR800m additional works secured, and more to come
Sources: WCT Engineering; BNP Paribas estimates

Management's guidance of minimum 10% net margin from the two projects remain unchanged. The reasons: 1) the projects started in 3Q07-4Q07 where prices of building materials were already high (so far we were told there is 10% increase in building material costs since then), so this has already been imputed in project costing. 2) the projects are of high importance to their client with tight deadlines to meet, with close co-operation among client, consultants, contractors and sub-contractor. 3) WCT's local partner's influence in procurement, 4) assistance by client in procurement of construction materials (note their clients are owned by the royal family of Abu Dhabi and Dubai where the Meydan Racecourse will be the second most iconic project after Burj in Dubai, and the Abu Dhabi Formula 1 circuit is the centre-piece of the USD40

Yas Island development), and 5) there are ample buffers and contingencies built into project cost.

Note also that both the Meydan Racecourse and Abu Dhabi Formula 1 Circuit are about 30% complete. As the amount of direct works (involving the most steel, cement, etc) is approximately MYR1.3b each or 61.9% of the Abu Dhabi Formula 1 track and 28.3% of the Meydan Racecourse, we can safely assume that the most crucial part of the projects that are susceptible to material cost pressures have been completed. Margins for the non-direct works are protected since WCT and its joint venture partners earn a coordination fee of 10% net. Furthermore, the sub-contractors for the non-direct portion of works is nominated by their clients, therefore WCT and its joint-venture partners are not liable for any cost overruns on that portion.

Positive news flows coming up

We understand that WCT will soon disclose the amount of additional works for the Abu Dhabi Formula 1 Circuit. This is in addition to the MYR2.1b project size (including MYR800m new jobs secured). The scope of new works could be in excess of MYR1b, thereby beating our 2008 new construction order book assumption of MYR700m for 2008.

Furthermore, management has given a new construction order book guidance of MYR2b over and above the additional Abu Dhabi Formula 1 Circuit works that is likely to be announced. This means a MYR3b new construction order for 2008 is likely. We have not adjusted our earnings forecast yet, pending disclosure, which we believe is during the analyst briefing on 16 May.

The new construction jobs are likely to come from the Middle East, and may even be from its existing clients. The new jobs are likely to be civil engineering-related (roads, bridges, airports etc). WCT will be increasing its management staff size from 700 to 800 by end-2008, to increase capacity. Note that WCT increased its staff size from 500 to 700 in 2007.

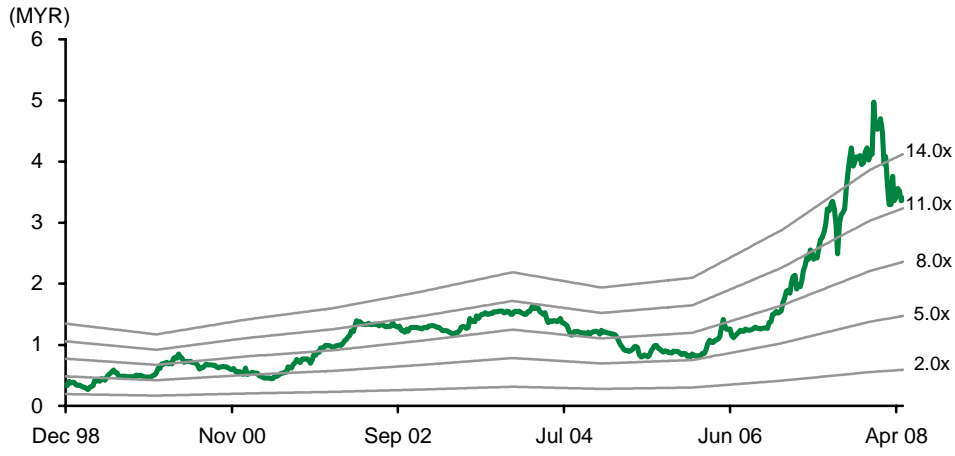
Maintain BUY

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With record high crude oil prices, we believe the prospects for further infrastructure spending from recycling of petro dollars in the Middle East is promising.

Valuation is undemanding at 2008E P/E of 10.5x and 2009E P/E of 9.1x, against a three-year fully diluted EPS CAGR of 30.2% pa. Share price catalyst will be tied to more construction order flows in the next few months leading to earnings re-rating, and incrementally higher construction margins.

Exhibit 2: P/E Band Chart



Sources: Bloomberg, BNP Paribas estimates

FINANCIAL STATEMENTS

WCT Engineering

Profit and Loss (MYR m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Revenue	1,370	2,835	3,572	3,404	3,772
Cost of sales ex depreciation	-	-	-	-	-
Gross profit ex depreciation	1,370	2,835	3,572	3,404	3,772
Other operating income	-	-	-	-	-
Operating costs	(1,163)	(2,523)	(3,027)	(2,839)	(3,115)
Operating EBITDA	207	312	545	565	657
Depreciation	(38)	(60)	(62)	(86)	(103)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	169	252	483	479	554
Net financing costs	(23)	(10)	(37)	(33)	(29)
Associates	4	10	26	6	6
Recurring non operating income	(0)	-	-	-	-
Non recurring items	-	13	-	-	-
Profit before tax	150	265	472	452	531
Tax	(35)	(40)	(123)	(117)	(138)
Profit after tax	115	225	349	334	393
Minority interests	(27)	(79)	(103)	(44)	(46)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	88	147	246	290	347
Non recurring items & goodwill (net)	-	(13)	(0)	(0)	(0)
Recurring net profit	88	134	246	290	347

Per share (MYR)

Recurring EPS *	0.15	0.20	0.32	0.37	0.44
Reported EPS	0.15	0.22	0.36	0.43	0.51
DPS	0.04	0.04	0.06	0.06	0.07

Growth

Revenue (%)	67.8	107.0	26.0	(4.7)	10.8
Operating EBITDA (%)	34.1	51.1	74.4	3.7	16.3
Operating EBIT (%)	32.1	49.4	91.2	(0.8)	15.8
Recurring EPS (%)	8.2	36.0	59.0	15.2	17.2
Reported EPS (%)	8.1	43.1	67.8	18.0	19.7

Operating performance

Gross margin inc depreciation (%)	na	na	na	na	na
Operating EBITDA margin (%)	15.1	11.0	15.3	16.6	17.4
Operating EBIT margin (%)	12.3	8.9	13.5	14.1	14.7
Net margin (%)	6.4	4.7	6.9	8.5	9.2
Effective tax rate (%)	23.1	14.9	26.0	26.0	26.0
Dividend payout on recurring profit (%)	26.4	20.5	19.3	16.6	15.0
Interest cover (x)	7.4	26.8	13.8	14.6	19.6
Inventory days	na	na	na	na	na
Debtor days	153.6	131.8	165.3	201.7	187.2
Creditor days	na	na	na	na	na
Operating ROIC (%)	14.9	16.4	22.9	18.0	18.7
Operating ROIC - WACC (%)	2.2	3.8	10.2	5.4	6.1
ROIC (%)	13.5	15.3	21.6	16.6	17.3
ROIC - WACC (%)	0.8	2.7	8.9	3.9	4.7
ROE (%)	15.6	17.9	25.5	24.8	23.7
ROA (%)	6.9	7.8	9.2	7.4	8.1

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (MYR m)					
	2006A	2007A	2008E	2009E	2010E
Engineering & Construction	1,049	2,422	3,027	2,650	3,007
Trading	86	152	113	125	137
Property development	229	254	396	583	546
Property & investment holding	5	7	37	47	82

Sources: WCT Engineering; BNP Paribas estimates

Strong growth on the back of locked-in construction order book and rising contribution from property division

Excluding Vietnamese property projects

Cash Flow (MYR m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Recurring net profit	88	134	246	290	347
Depreciation	38	60	62	86	103
Associates & minorities	23	69	77	38	40
Other non-cash items	110	128	(350)	(102)	(204)
Recurring cash flow	259	391	35	313	286
Change in working capital	(7)	(128)	228	(37)	(11)
Capex - maintenance	(207)	(112)	(250)	(200)	(100)
Capex - new investment	-	-	-	-	-
Free cash flow to equity	46	151	13	75	175
Net acquisitions & disposals	54	32	-	-	-
Dividends paid	(23)	(28)	(42)	(42)	(44)
Non recurring cash flows	-	-	-	-	-
Net cash flow	77	154	(29)	33	131
Equity finance	4	80	-	-	-
Debt finance	(24)	76	20	(58)	(56)
Movement in cash	57	310	(10)	(25)	75

Improving free cash flow

Per share (MYR)					
Recurring cash flow per share	0.44	0.58	0.05	0.46	0.42
FCF to equity per share	0.08	0.22	0.02	0.11	0.26

Balance Sheet (MYR m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Working capital assets	1,146	1,644	2,819	2,802	3,175
Working capital liabilities	(794)	(1,277)	(2,110)	(1,979)	(2,171)
Net working capital	352	367	710	824	1,004
Tangible fixed assets	611	881	1,083	1,210	1,222
Operating invested capital	962	1,247	1,792	2,034	2,226
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	58	141	167	173	179
Other assets	34	22	22	22	22
Invested capital	1,054	1,410	1,981	2,229	2,427
Cash & equivalents	(392)	(705)	(692)	(668)	(743)
Short term debt	300	529	540	477	416
Long term debt *	373	414	750	716	690
Net debt	281	238	598	525	362
Deferred tax	8	2	2	2	2
Other liabilities	9	6	6	6	6
Total equity	594	899	1,031	1,308	1,622
Minority interests	162	265	344	388	434
Invested capital	1,054	1,410	1,981	2,229	2,427

* Includes convertibles and preferred stock which is being treated as debt

Per share (MYR)					
Book value per share	1.02	1.33	1.52	1.93	2.39
Tangible book value per share	1.02	1.33	1.52	1.93	2.39
Financial strength					
Net debt/equity (%)	37.1	20.4	43.5	31.0	17.6
Net debt/total assets (%)	12.5	7.0	12.5	10.8	6.8
Current ratio (x)	1.4	1.3	1.3	1.4	1.5
CF interest cover (x)	3.0	16.4	1.3	3.3	7.1

Increased due to MYR300m bonds to be issued

Valuation					
	2006A	2007A	2008E	2009E	2010E
Recurring P/E (x) *	22.7	16.7	10.5	9.1	7.8
Recurring P/E @ target price (x) *	34.1	25.0	15.7	13.7	11.7
Reported P/E (x)	22.5	15.7	9.4	7.9	6.6
Dividend yield (%)	1.2	1.2	1.8	1.8	1.9
P/CF (x)	7.6	5.9	65.9	7.4	8.1
P/FCF (x)	43.1	15.3	178.5	30.6	13.2
Price/book (x)	3.3	2.6	2.2	1.8	1.4
Price/tangible book (x)	3.3	2.6	2.2	1.8	1.4
EV/EBITDA (x) **	11.0	8.1	5.3	5.7	4.8
EV/EBITDA @ target price (x) **	15.7	11.4	7.3	7.7	6.5
EV/invested capital (x)	2.3	2.0	1.6	1.4	1.3

P/Es undemanding

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: WCT Engineering; BNP Paribas estimates

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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