

Corporate Highlights



RHB Research Institute Sdn Bhd
A member of the RHB Group
Company No: 233327 -M

Results Note

30 August 2007

WCT Engineering

1HFY12/07 Net Profit Jumps 61% YoY,
Property Division Spared The Downturn

Share Price : RM6.00
Fair Value : RM7.46
Recom : **Outperform**
(Upgraded)

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RHBRI	Consensus
<input checked="" type="checkbox"/> Above	<input checked="" type="checkbox"/>
<input type="checkbox"/> In Line	<input type="checkbox"/>
<input type="checkbox"/> Below	<input type="checkbox"/>

- ◆ 1HFY12/07 net profit came in above expectations at 54% of our full-year forecast and the full-year market consensus. The variance with our forecast came largely from the stronger-than-expected property profits. For 1HFY12/07, property EBIT grew 11% yoy, vis-à-vis our projection of a 30% decline for full-year FY12/07.
- ◆ WCT has managed to counter the general slowdown in the property market by cutting back on new launches of link houses where a glut has developed, but putting aggressively onto the market more high-end landed residential units and shop units that are still very much sought after by the buyers.
- ◆ We are upgrading FY12/07-09 net profit forecasts by 14-17% largely to reflect an average property EBIT growth rate of 12% per annum in FY12/07-09, from -30%, 5% and 5% we assumed previously. Correspondingly, indicative fair value is raised by 15% from RM6.48 to RM7.46 based on 15x revised FY12/08 EPS, in line with our 1-year forward target PER for the construction sector.
- ◆ We continue to like WCT for:
 1. WCT's faithfully guarded self-sufficient "insourcing" business model, crafted primarily to ensure full control and hence minimising completion risks, that works extremely well in certain new overseas markets that have yet to build

Table 1: Investment Statistics (WCT; Code: 9679)

							Bloomberg Ticker : WCT MK				
FYE	Turnover	Net Profit	EPS	Core EPS#	EPS Growth	PER#	C.EPS*	P/NTA	Net Gearing	ROE	GDY
	(RMm)	(RMm)	(sen)	(sen)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
2006	1,369.8	88.1	31.0	31.0	2.8	19.4	-	2.9	0.4	14.9	1.9
2007f	1,518.7	133.0	43.9	43.9	41.7	13.7	40.0	2.6	Cash	19.0	2.0
2008f	2,060.6	175.6	49.7	49.7	13.2	12.1	49.0	2.1	Cash	17.7	2.0
2009f	2,733.9	226.0	64.0	64.0	28.7	9.4	55.0	1.8	Cash	19.0	2.0
Issued Capital (m shares)						303.4 Major shareholders					(%)
Market Capitalisation (RMm)						1,820.3 Taing Kim Hwa & Wong Sewe Wing					23.5
Daily Trading Volume (m shares)						0.9 EPF					15.2
52-week Price Range (RM / s)						2.31-6.90 Invesco HK Ltd					7.6

Main Board Listing /Trustee Stock/Syariah Approved Stock By The SC

*Consensus based on IBES Estimates #Excluding EI

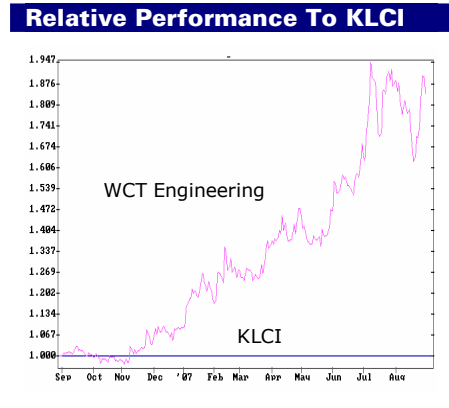
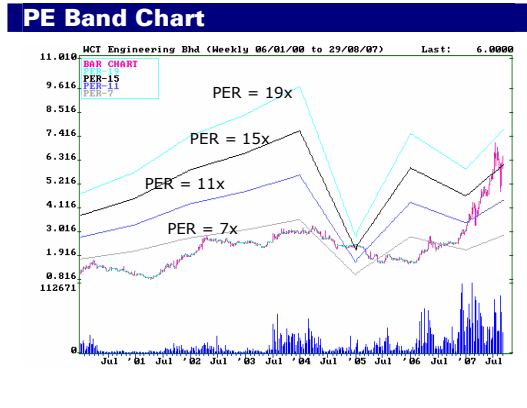
- up a pool of reliable sub-contractors;
2. WCT is a good proxy to the vibrant local construction sector over the medium term on the back of the 9MP, as well as the booming construction sector in the Gulf states; and
 3. Its strong earnings visibility underpinned by RM3.2bn outstanding construction orderbook. Upgrade from Market Perform to **Outperform**.

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2006 6M	2007 6M	YoY Chg	Observations/Comments
Turnover	368.4	1,319.0	>100%	Anchored by strong topline performance from the construction division.
Construction	248.5	1,365.9	>100%	Major construction projects, in particular the overseas ones, hit key billing milestones. Also, we believe, due to the change in accounting policy where WCT now booked in half the turnover of 50%-owned projects, vis-à-vis zero previously.
Property	130.4	130.1	(0%)	Sustained sales by changing product mix towards more high-end landed residential units and shop units that were still in good demand.
Others	19.1	84.1	>100%	
Elimination	(29.6)	(261.0)	>100%	
EBIT	74.4	138.6	86%	Again, anchored by strong construction profits.
Construction	49.4	86.8	76%	Major construction projects, in particular the overseas ones, hit key billing milestones.
Property	35.9	40.0	11%	A shift towards more high-margin products.
Others	(1.6)	29.1	nm	
Elimination	(9.3)	(17.2)	86%	
Net inc/(exp)	(13.7)	(12.3)	(10%)	
Associates	0.8	4.6	>100%	
Pretax profit	61.6	130.9	>100%	
Taxation	(17.1)	(32.2)	88%	
Minority interest	(6.6)	(37.6)	>100%	
Net profit	37.9	61.0	61%	
EPS (sen)	17.8	27.5	55%	
Construction EBIT margin	20%	6%	(14% pts)	Dragged down by the Durkhan Highway project in Qatar that was only breaking even or slightly loss-making. Also, we believe, due to the change in accounting policy where WCT now booked in half the turnover of 50%-owned projects, vis-à-vis zero previously.
EBIT margin	20%	11%	(10% pts)	
Pretax margin	17%	10%	(7% pts)	
Effective tax rate	28%	25%	(3% pts)	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2007 1Q	2007 2Q	QoQ Chg	Observations/Comments
Turnover	550.7	768.3	40%	Strong topline performance from the construction division.
Construction	576.2	789.6	37%	Major construction projects, in particular the overseas ones, hit key billing milestones.
Property	67.2	62.9	(6%)	Normal quarterly fluctuation.
Others	40.1	44.0	10%	
Elimination	(132.8)	(128.2)	(3%)	
EBIT	50.6	88.0	74%	
Construction	22.8	63.9	>100%	We believe as the Durkhan Highway project in Qatar broke even or registered reduced losses.
Property	18.6	21.4	15%	A shift towards more high-margin products.
Others	14.0	15.1	8%	
Elimination	(4.8)	(12.4)	>100%	
Net inc/(exp)	(5.9)	(6.4)	8%	
Associates	1.6	3.0	84%	
Pretax profit	46.3	84.6	83%	
Taxation	(9.1)	(23.2)	>100%	
Minority interest	(10.0)	(27.6)	>100%	
Net profit	27.2	33.8	24%	Eroded by a higher effective tax rate.
EPS (sen)	12.5	15.0	20%	
Construction EBIT margin	4%	8%	4% pts	We believe as the Durkhan Highway project in Qatar became less of a drag, i.e. it broke even or registered reduced losses.
EBIT margin	9%	11%	2% pts	
Pretax margin	8%	11%	3% pts	
Effective tax rate	20%	27%	8% pts	



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Stock Ratings

Outperform = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three

months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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