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Engineering growth

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THERE is a school of thought that argues there is no such thing as bad press, that the publicity generated each time a name is splashed across headlines is priceless. WCT Engineering Bhd, however, belongs firmly in the opposite camp.

The construction company is well known for its low profile, a trait that makes it hard to identify at which point the company started becoming less of an underdog and more of a big league player.

WCT has come a long way from the days when it used to ride on the coattails of bigger players in the construction sector.

Today, it is an established player,



WCT Engineering built the Bahrain F1 circuit together with local partner Cebarco.

not just in the domestic industry that is sparking into life once again thanks to renewed government spending, but also overseas.

The fact is, WCT has successfully scaled up the construction value chain. In the past, its claim to fame was that of a sub-contractor who dealt mostly in earthworks and infrastructure. That focus changed about ten years ago to include higher value-added jobs like civil and building works and purpose-built racing circuits.

Whether coincidentally or otherwise, this shift in strategy occurred at the time when the local construction sector was experiencing a downturn and players had to look for overseas jobs to sustain themselves. The change in strategy is yielding exceptional results.

“Our revenue and profit figures over the last ten years show that we have been growing consistently, even during the time after the Asian financial crisis. This was not easy to achieve, but we managed it because the thinking has always been that doing is more important than talking.

“But now that we are getting more jobs, there is a need to raise our profile. Foreign investors especially want to hear more about us and what we are up to,” WCT executive director Chua Siow Leng tells *BizWeek*.

Indeed, the WCT of today is able to hold its own among the top-tier players in the domestic construction sector not least because it has made a name for itself in the Middle East, where is it riding the crest of the construction spending wave.

That the stock is taking on more of an institutional flavour is obvious from the changes in its foreign shareholding interest, which has surged to 20% from 3%-4% a year back. This is also owing to the improvement in the company's share liquidity.

Another factor that has enhanced its appeal is the realisation in the middle of last year that the company had made quick progress boosting its order book by RM2bil, as targeted.

And judging by the way things are moving this year, the feat is likely be repeated - and very soon. “Put it this way, we have already started working for next year,” says Loh Siew Choh, an executive director at the company.

While company officials insist that the domestic market will continue to form the basis for WCT's growth, they are clearly all set to grab opportunities abroad, particularly in the Middle East.

“We will explore overseas opportunities but we don't want our growth to hinge entirely on overseas markets. The Government is pushing out a lot of projects locally and we are following up on some of those. We plan to have a 50:50 ratio of local and overseas jobs, with a variation of 10% on either side,” Chua explains. This, the company has already achieved.

On the home front, the company appears to be paying more attention on East Malaysia. It makes good sense, as the company is one of a few contractors who are able to undertake large-scale projects. This means less competition and higher chances of securing new contracts.

And there is going to be a lot of that going around what with the RM32bil development expenditure allocated for Sabah and Sarawak under the Ninth Malaysia Plan.

Delivering the goods over and over again

The central theme to the Malaysian contractor's investment thesis is its bulging outstanding order book of about RM4bil. Undoubtedly, its hit rate on securing jobs in the Middle East is rather inspiring.

A foreign research house notes that the bulk of those jobs were awarded to the contractor last year and this year, which means that WCT's earnings stream over the next two to three years is secure.

For this year alone, the company has submitted bids for up to RM9bil worth of new jobs, the bulk of which are in the Middle East.

In addition, its track record has enabled the contractor to secure larger contracts in the Gulf states.

Among its recent successes is the RM1.3bil job to build a Formula 1 circuit in Abu Dhabi, which it will undertake with a local partner.

In March, it was awarded an RM486mil contract to undertake the drainage and sewerage system for the Dubai World Central International Airport project, together with local partner Arabtec Engineering Services. This job is significant because it signals the company's entry into a new market in the Middle East – Dubai.

Its share will work out to be half the value of the job, as WCT's modus operandi in the region is to tie up with local partners who are familiar with the market environment. While this is increasingly becoming a common strategy among companies seeking jobs abroad, it has nevertheless endeared investment analysts to the group.

Generally, the strategy is favoured because it lowers WCT's execution risks in the region and makes it easier for the company to scale the learning curve.

Says Loh: "Our model to reduce risks is to have a local joint venture partner who is also involved in the construction sector there. This way, our skills can complement one another's."

The strategy has also opened up avenues for WCT to secure more projects in the region, as proven to be the case with Cebarco, the company WCT partnered with to build the Bahrain F1 circuit in 2003.

Once again, the two have come together to build the Abu Dhabi F1 circuit. For WCT, this latest project award also marks a return to familiar territory. The Abu Dhabi circuit will be the third purpose-built one, after Sepang and Bahrain, to bear the WCT stamp.

The other benefit of having a plump order book is that the company can be more selective when taking on projects. "The important thing now is for us to take on jobs that involve our

core skills or those that we like to do,” Loh comments.

An analyst says this could also lead to a phase of stronger margin projects over the next few years.

As it is, Chua says Middle East projects tend to yield better margins as clients are willing to pay more for contractors with a track record. “Over there, there is no compromise when it comes to quality and delivery, so if you have a track record, the client will willingly mark up the job by 10%.”

New markets beckon?

Now that WCT has found the success formula for the Middle East, it is natural that many in the investing fraternity are beginning to wonder if the contractor has plans to replicate that blueprint in new markets.

Loh says that outside of Malaysia, much of the group's focus will be on the Middle East.

“Our focus now is on the construction sector in the Middle East, but this does not preclude us from going into property development there. In fact, some of our local partners are already talking about going into property development, so that is something for us to think about for the future,” he explains.

That said, it is obvious that WCT, its cup runneth over and all, cannot ignore the lure of Vietnam.

Vietnam looks set to become the company's next profit centre.

WCT has applied for an investment certificate, which it expects to receive before the year is up. This will enable the group to commence work on a mixed development project on 9ha in Ho Chi Minh. A contract to build a retail office and hotel is likely to be the next job on its Vietnam project list.

“We are looking at Vietnam quite seriously. Apart from property development, we are also looking at opportunities in the construction and build-operate-transfer sectors. Realistically, we are looking at our businesses in Vietnam to start contributing from next year,” Loh explains.

Hard to ignore

That the majority of analysts who cover the company have been compelled to revise their earnings forecasts or target prices for WCT several times in the last few months provide some indication about the company's promising growth path.

In essence, there's consensus that WCT's growth will be led by record outstanding

construction order book and growing property earnings.

Indeed, the group's construction division is not the only one that is showing potential.

WCT's Bandar Bukit Tinggi flagship property project has to date delivered a gross development value of about RM2.6bil. Phase 3, which will stretch over the next seven years, is expected to bring in a further RM1bil.

In addition, there are pockets of undeveloped land in the first two phases of the project that have been earmarked for commercial development. "So we are looking at higher value jobs with higher margins. We are also concentrating on completing the Aeon Mall in Bukit Tinggi so that we can leverage on the crowd at the mall to build our future commercial centres," Loh says.

The mall, which is wholly owned by the group, will be leased out to Aeon, which operates the Jusco stores. The venture marks WCT's maiden foray into property investment and will guarantee some recurring income for the group.

The other major property project that will keep the group going for a good six to seven years is the RM1.3bil Paradigm development in Kelana Jaya.

So it is not surprising if the thinking now is that the mid-tier construction company has earned itself a place in the big league and thus should trade on par with the sector's bigwigs like IJM Corp Bhd and Gamuda Bhd. As such, analysts say the discount placed on its shares is considered unjustifiable given WCT's clear earnings visibility.

As pointed out by a foreign research house a few months ago, WCT's secured order book is about four times (x) its market capitalisation compared with 0.7x for Gamuda and 1x for IJM. "Yet, it is the cheapest construction stock in our universe," the house said in a recent report.

AmResearch's target price of RM7.25 per share is up for review pending further updates from management.

The house reckons there is scope for value enhancement if the group continues to secure contracts at the current rate and it deepens its penetration of markets in the Middle Eastern and its Vietnam property projects come to fruition.