

TRADE WISE

Order book of RM2 bil to fuel WZ Satu's earnings growth

STORIES BY TAN SIEW MUNG

Despite the moratorium on bauxite mining, WZ Satu Bhd seems to be doing well.

While its plan to take over the SILK Highway a few months ago was seen as too ambitious, the company has been able to replenish its order book in a short time and achieve an earnings growth.

After posting record high net earnings of RM23.02 million for the financial year ended Aug 31, 2016 (FY2016), WZ Satu continued to deliver stellar results in the first quarter of FY2017. Last week, it announced that its net profit almost doubled to RM8.5 million from the previous year.

The record high earnings are likely to be sustainable, says executive chairman and CEO Tengku Datuk Seri Uzir Tengku Ubaidillah. WZ Satu is projecting a 25% growth in its turnover and net profit for FY2017, underpinned by its sizeable order book, which is expected to double to RM2 billion, he adds.

In an interview with *The Edge*, Uzir reveals that WZ Satu's civil engineering and construction division will overtake its mining segment to become its main earnings contributor this year as the group is well positioned to secure several jobs in the next quarter.

To date, the company's outstanding order book stands at RM852 million. It is tendering for about RM2.4 billion of construction works.

"I do expect a few more contracts to be awarded, probably within the next three months, which will expand our order book well above RM1 billion. For the rest of the year, we are confident in securing another RM1 billion of works," says Uzir.

Come Aug 31, he is confident that the group's order book will reach RM2 billion, which will keep it busy for another two to three years.

Jobs that WZ Satu expects to secure include package 11 of the West Coast Expressway, Phase 3 of the Duta-Ulu Kelang Expressway and some contracts from the East Coast Economic Region Development Council.

Uzir's confidence comes from the fact that the jobs being tendered for are part of projects that the group had previously won contracts in, and it has established a good relationship with the clients. He says the group is able to maintain its margin, which is in line with the market.

With the escalation in construction cost, WZ Satu is mindful when tendering for contracts to ensure that it would not be affected by a cost overrun, he says.

Uzir reveals that the group may venture into housing construction under the 1Malaysia People's Housing Programme (PRIMA). "The poten-



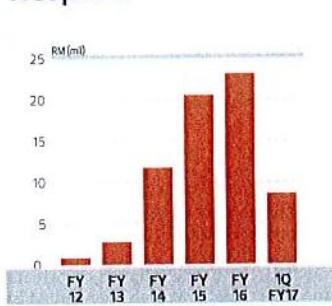
HARIS HASSAN THE EDGE

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WZ Satu



Net profit



tial value is about a few hundred million. We are actually looking at two [projects]. One is in Pahang and the other is in Putrajaya."

Having been affected by the moratorium on bauxite mining, WZ Satu's net earnings from its mining division halved to RM9.7 million in FY2016. However, it was still a major contributor to the group's bottom line. Civil engineering and construction

contributed RM8.7 million to its earnings.

Since the injection of the construction business into WZ Satu in 2014, the group has managed to grow the division by leaps and bounds. Uzir says the group's construction activities are likely to achieve a turnover of RM350 million this year, compared with RM257 million last year.

According to him, the risk of the bauxite mining moratorium being extended has been

taken into account in the group's growth target this year. The ban started last January and has been extended to March 31 this year.

"The moratorium was extended for more than a year and it is a loss of at least RM2 billion in revenue a year. I don't see a reason for the government to continue the moratorium," Uzir says, adding that the group still managed to register a profit because of its stockpiles.

Although WZ Satu has continued to report commendable results, its share price was relatively flat in the past year. The counter may have been affected by the poor sentiment following the moratorium.

"I believe the strong order book provides WZ Satu with earnings visibility. Based on its first quarter results, it should be able to achieve its growth target," Affin Hwang Capital Research analyst Loong Chee Wei tells *The Edge* over the phone.

As WZ Satu has reduced its reliance on mining activities by expanding more into the construction business this year, he believes there is a potential for the counter to be rerated.

The counter closed at RM1.10 last Thursday. It has surged 29.4% from a one-year low of 85 sen last January. The counter reached a five-year high of RM2.25 in October 2014. Based on its last closing price, it has a price-earnings ratio of 13.76 times.

Loong says the group's current share price is in line with other subcontractors, such as WCT Holdings Bhd. The main catalyst for WZ Satu is the group moving up the value chain to become a main contractor, he adds.

The proposed Central Spine Road, which had been seen as a game changer for the group, has been hanging in the balance due to a financing issue, amid the government's budget constraints. The highway is meant to link Kuala Krai and Kuala Pilah.

However, WZ Satu and its partner UEM Group Bhd have proposed a financing package for the project. WZ Satu entered into a collaboration agreement with UEM and proposed the implementation of the project to the government in March 2015.

According to Uzir, the financing package is pending a decision from Cabinet. He hopes that the group will see a positive result by end-February.

"The project is in an advanced stage. The government's response has been positive as the traffic in the area has increased and there is a need for the central highway," says Uzir. The highway will be toll-free.

If the project comes to fruition, WZ Satu may need to raise funds to undertake the construction of the highway. But the amount is not expected to be significant as the group holds only a 30% stake in it, Uzir explains.

Uzir continues to eye construction and O&G assets

After exiting plantation firm Tanah Makmur Bhd, Tengku Datuk Seri Uzir Tengku Ubaidillah is focusing on taking WZ Satu Bhd to the next level. He is the executive chairman and CEO of the company formerly known as Weng Zhong Resources Bhd.

The 57-year-old veteran businessman, who has actively embarked on mergers and acquisitions (M&A) since he took over WZ Satu in August 2013, says he will continue to search for opportunities in the construction and oil and gas (O&G) segments.

Uzir, who had a 26.25% stake in the company as at last Thursday, tells *The*

Edge that he plans to raise his holding to 30%, just below the level that would trigger a mandatory general offer.

He is the largest shareholder in WZ Satu. Founder Tan Ching Kee is the second largest shareholder with 14.12% equity interest, followed by Lembaga Tabung Haji with 9.34%.

"I have enjoyed the last three years in WZ Satu, and my career is beyond my expectation. This (WZ Satu) will be my final destination. I would like to retire here, after another 10 years," says Uzir, who was one of the founders of Road Builder (M) Holdings Bhd before it was acquired by IJM Corp Bhd.

He hopes WZ Satu will achieve a market capitalisation of RM1 billion in three years' time through internal growth and M&A. Based on its closing price last Thursday, the group has a market capitalisation of RM383.75 million.

The company was initially involved in steel trading. In May 2014, it acquired construction company WZS KenKeong Sdn Bhd. Then, in October of the same year, it purchased Misi Setia Oil & Gas Sdn Bhd, which is involved in O&G construction.

Under Uzir's leadership, WZ Satu now has four business pillars — civil engineering and construction, O&G

mining, manufacturing and other business.

Last year, the company had planned to acquire SILK Highway from SILK Holdings Bhd but the plan did not come to fruition as both parties could not reach an agreement.

"We are still open to M&A but it must be related to our current business segments," says Uzir.

As at Nov 30 last year, WZ Satu was in a net cash position of RM29.78 million.

Amid the low oil price environment, there are O&G assets poised for consolidation, he opines. "We have started one or two initial discussions

with some parties but nothing is concrete yet."

According to Uzir, other than the construction sector, the O&G segment will be the group's main focus going forward.

"The O&G industry is now stabilising. It still needs another two years to recover. To me, only when oil prices rebound to US\$60 per barrel will industry players bump up their production, but I think it is difficult to break through this level now," he says.

Uzir, however, believes the group can ride out the difficult period because 90% of its O&G business is in the downstream sector.