

Company Note

Malaysia

HOLD (no change)

Consensus ratings*: Buy 0 Hold 1 Sell 0

Current price:	RM0.44
Target price:	RM0.45
Previous target:	RM0.67
Up/downside:	3.4%
CIMB / Consensus:	-29.1%

Reuters:	SLCN.KL
Bloomberg:	SALC MK
Market cap:	US\$68.78m
	RM293.5m
Average daily turnover:	US\$0.13m
	RM0.53m
Current shares o/s:	665.4m
Free float:	89.0%

*Source: Bloomberg

Key changes in this note

▶ No changes



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-16.4	-27.1	-27.1
Relative (%)	-16.1	-26.9	-31.8

Major shareholders	% held
Naga Muhibbah Sdn Bhd	11.0

Analyst(s)



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Salcon

1H17: Worst could be over, but catalysts lacking still

- 1H17's core net loss of RM11m was broadly in line as we foresee a strong 2H17.
- We expect a strong earnings turnaround in 2H17, underpinned by strong construction billings, completion of a property development project, and marketing cost savings.
- Water infra tender outlook for 2H17 remains subdued with a likely delay in the award of Langat 2 WTP phase 2.
- We would not discount potential domestic land sale that would enhance cash.
- Maintain Hold call with lower TP given the unexciting outlook in 2H17F.

1H17 core losses largely expected

Salcon reported 1H17 core net losses of RM11m vs. our full-year net profit forecast of RM22m. We consider the performance to be broadly in line as we expect an earnings turnaround in 2H17F, driven by infra and properties. We expect stronger construction billings in 2H17F on top of a property margin recovery in 3Q17F due to the completion of a project. Weak property earnings and slow construction billings were the main reasons for the core losses in 1H17.

Targeting small NRW works for water tenders

Results aside, Salcon's job tender outlook for the rest of FY17 remains unexciting, in our view. Given that new sizeable water treatment plant (WTP) projects have been awarded (including the Labuhan Dagang 400 MLD WTP in Selangor), Salcon will be vying small non-revenue water (NRW) contracts. We understand that it is targeting contract sizes of RM10m-20m each. There are roughly 50 NRW contracts up for grabs in Selangor, of which 30 have been tendered out and some others pending awards by end-2017.

Delays in new Langat 2 WTP (phase 2) contract?

While we are positive that Salcon's existing Langat 2 WTP phase 1 job (RM994m, 36% stake) is on track for completion by 2019, we are negative on the possible delays of phase 2 of the WTP contract, which we had earlier expected to be awarded by end-2017. Indications from our industry checks suggest that there is likely no immediate need for the government to award phase 2 this year given the ample capacity in the medium term.

2H17F earnings outlook

1H17 losses aside, we continue to expect earnings improvement in 2H17. We expect this to be supported by 1) property development profit recognition from Res 280 in Selayang: RM160m total GDV at 15% net margin and 50% stake implies RM8m-9m profit, and 2) reversal/write back of RM4m-5m marketing cost from its Yarra One property development project in Melbourne, Australia (RM728m GDV). Sale of a 80% stake in this project to Ecworld International (ECWI MK, ADD) has been completed.

Other divisions steady

With the completion of the Res 280 property project, we would not discount potential domestic land sale. Currently, Salcon's outstanding land bank comprises a 12.5-acre plot in Johor and a 5.4-acre plot in central KL. Separately, subsidiary Volksbahn Technologies (VBT) has been actively pursuing new fibre optic laying contracts across all rail networks on top of its existing concession on the LRT lines.

Hold retained with lower TP

Salcon's share price has declined 26.3% in the past three months in light of its sustained losses and weak visibility of its overall prospects in 2H17F. While it appears that most negatives are priced-in, we fail to see strong medium-term catalysts for the stock. We keep our Hold call but with a lower TP as we raise our RNAV discount from 40% to 60% and update the balance sheet items. Upside risks to our call are strong infra job wins and more rail fibre optic concessions for VBT. Key downside risk is sustained losses in 2H17.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	125.4	101.2	204.7	210.3	221.7
Operating EBITDA (RMm)	4.56	(32.52)	33.80	35.96	37.91
Net Profit (RMm)	5.56	11.17	21.92	23.94	24.37
Core EPS (RM)	0.008	0.017	0.032	0.035	0.036
Core EPS Growth		101%	96%	9%	2%
FD Core P/E (x)	52.75	26.27	13.39	12.26	12.04
DPS (RM)	0.020	-	0.020	0.025	0.030
Dividend Yield	4.60%	0.00%	4.60%	5.75%	6.90%
EV/EBITDA (x)	15.46	NA	2.03	2.00	2.01
P/FCFE (x)	NA	NA	138.7	NA	NA
Net Gearing	(33.1%)	(27.3%)	(37.3%)	(36.4%)	(35.1%)
P/BV (x)	0.51	0.60	0.59	0.59	0.58
ROE	0.98%	2.10%	4.46%	4.80%	4.82%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.08	1.08	1.06

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	2QFY17	2QFY16	yoy %	qoq %	2QFY17	2QFY16	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY17F	Comments
Revenue	21.5	21.7	(1.0)	10.7	40.9	37.6	8.9	204.7	Steady billings in 1H17
Operating costs	(29.3)	(18.1)	61.9	16.3	(52.5)	(48.2)	9.0	(179.1)	In line
EBITDA	(7.8)	3.6	(315.1)	35.4	(11.6)	(10.6)	9.3	33.8	Slower progress billings
EBITDA margin (%)	(36.2)	16.7	(317.2)	22.3	(28.5)	(28.3)	0.4	16.5	
Depn & amort.	(0.7)	(1.5)	(52.9)	(51.7)	(2.2)	(2.9)	(26.6)	(5.5)	
EBIT	(8.5)	2.1	(499.1)	17.8	(13.8)	(13.6)	1.6	28.3	
Interest expense	(1.1)	(1.2)	(11.6)	(1.4)	(2.2)	(2.4)	(11.6)	(3.5)	RM62.6m borrowings at end-June 2017
Interest & invt inc	1.3	0.7	105.5	(48.6)	3.936	1.6	147.4	8.1	Cash stood at RM173m
Associates' contrib	3.9	3.6	6.4	173.0	5.3	6.2	(14.8)	11.6	
Exceptionals	0.0	(4.7)	100.9	-	(1.8)	(5.9)	-	-	Unrealised forex losses
Pretax profit	(4.3)	0.5	(993.0)	2.2	(8.6)	(14.2)	(39.5)	44.4	
Tax	(1.2)	(0.4)	215.3	789.2	(1.4)	(0.9)	57.9	(11.4)	
Tax rate (%)	(28.5)	80.8	(135.3)	770.1	(16.0)	(6.2)	160.9	25.6	
Minority interests	2.3	(15.4)	114.7	290.3	2.8	(11.8)	124.0	(11.2)	
Net profit	(9.0)	27.9	(132.4)	138.1	(12.8)	11.2	(214.4)	21.9	1H17 core net loss vs our full-year
Core net profit	(9.1)	32.6	(127.9)	136.6	(11.0)	17.1	(164.4)	21.9	net profit forecast of RM22m
EPS (sen)	(1.4)	4.2	(133.5)	139.0	2.0	1.7	18.3	3.0	

SOURCE: CIMB RESEARCH, COMPANY

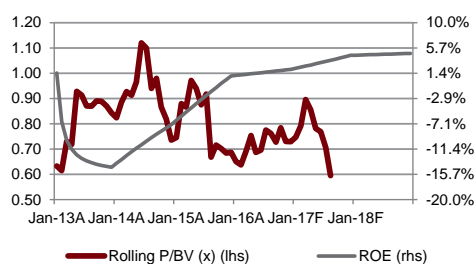
Figure 2: RNAV

	FY18	P/E	Stake	Value
	RM m	(x)	(%)	(RM m)
Construction net profit	13.5	15	100%	202.4
	DCF value	WACC	Stake	
	(RM m)	(%)	(%)	
10-year contract (VBT, RM4-5m revenue per telco)	91.3	7%	50.1%	45.8
Water concession in Vietnam (110 MLD) at BV	75.0		36%	27.0
Land bank	Acres	m sq ft	RM psf	Stake
Eco Mid Town - Johor	12.5	0.54	216	50%
Belfield Crest	5.35	0.23	550	70%
Cash (2Q17)				173.0
Borrowings (2Q17)				(62.2)
Property investments				8.4
Net current asset less property dev. cost				205.9
RNAV				748.9
No. of shares (m)				665.4
RNAV/share (RM)				1.13
RNAV discount (%)				60%
Target price (RM)				0.45

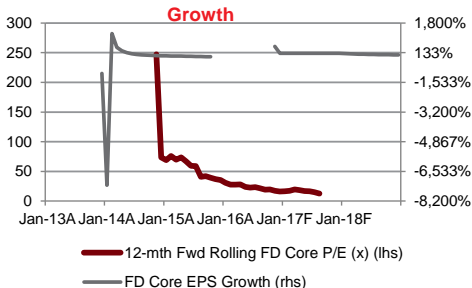
SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	125.4	101.2	212.9	218.7	230.6
Gross Profit	31.0	25.4	43.0	44.2	46.6
Operating EBITDA	4.6	(32.5)	33.8	36.0	37.9
Depreciation And Amortisation	(6.7)	(5.8)	(5.5)	(5.9)	(6.3)
Operating EBIT	(2.1)	(38.4)	28.3	30.0	31.6
Financial Income/(Expense)	(0.5)	8.8	4.6	4.5	4.5
Pretax Income/(Loss) from Assoc.	5.0	11.3	11.6	11.6	11.6
Non-Operating Income/(Expense)	0.0	43.9	0.0	0.0	0.0
Profit Before Tax (pre-EI)	2.4	25.6	44.4	46.2	47.7
Exceptional Items					
Pre-tax Profit	2.4	25.6	44.4	46.2	47.7
Taxation	(8.6)	(5.5)	(11.4)	(11.5)	(11.4)
Exceptional Income - post-tax					
Profit After Tax	(6.1)	20.1	33.1	34.6	36.2
Minority Interests	11.7	(8.9)	(11.2)	(10.7)	(11.9)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5.6	11.2	21.9	23.9	24.4
Recurring Net Profit	5.6	11.2	21.9	23.9	24.4
Fully Diluted Recurring Net Profit	5.6	11.2	21.9	23.9	24.4

Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	4.56	(32.52)	33.80	35.96	37.91
Cash Flow from Invt. & Assoc.					
Change In Working Capital	57.63	(21.11)	5.52	(1.44)	3.14
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(9.41)	(47.04)	(34.77)	(38.24)	(42.07)
Other Operating Cashflow	(0.50)	49.75	12.44	14.93	17.91
Net Interest (Paid)/Received	(0.49)	8.75	4.57	4.54	4.47
Tax Paid	(8.55)	(5.54)	(11.36)	(11.54)	(11.42)
Cashflow From Operations	43.25	(47.71)	10.20	4.20	9.95
Capex	(2.63)	(1.98)	(1.50)	(2.80)	(2.90)
Disposals Of FAs/subsidiaries	0.24	29.56	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	9.21	(4.67)	(1.25)	(2.55)	(2.65)
Other Investing Cashflow	(43.15)	6.02	3.54	3.54	3.54
Cash Flow From Investing	(36.33)	28.93	0.80	(1.80)	(2.01)
Debt Raised/(repaid)	(16.32)	(5.89)	(8.88)	(8.93)	(7.97)
Proceeds From Issue Of Shares	1.65	0.00	0.00	0.00	0.00
Shares Repurchased	(4.32)	(17.84)	0.00	0.00	0.00
Dividends Paid	(20.33)	0.00	(13.30)	(16.63)	(18.95)
Preferred Dividends	(1.46)	(15.34)	0.00	0.00	0.00
Other Financing Cashflow	25.69	(22.25)	(43.98)	(76.07)	(51.45)
Cash Flow From Financing	(15.08)	(61.31)	(66.17)	(101.63)	(78.37)
Total Cash Generated	(8.16)	(80.09)	(55.17)	(99.23)	(70.43)
Free Cashflow To Equity	(9.40)	(24.66)	2.12	(6.54)	(0.03)
Free Cashflow To Firm	12.43	(13.96)	14.48	5.71	11.11

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	277.9	215.9	268.4	261.9	254.7
Total Debtors	158.8	129.3	122.8	126.2	133.0
Inventories	163.1	219.3	163.8	168.2	177.4
Total Other Current Assets	198.6	1.5	1.5	1.5	1.5
Total Current Assets	798.5	566.0	556.5	557.8	566.6
Fixed Assets	67.9	62.5	63.8	66.3	69.0
Total Investments	58.8	70.7	70.7	70.7	70.7
Intangible Assets	21.8	21.9	21.9	21.9	21.9
Total Other Non-Current Assets	3.7	3.7	3.7	3.7	3.7
Total Non-current Assets	152.2	158.8	160.1	162.6	165.3
Short-term Debt	9.7	6.1	6.1	6.0	6.0
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	257.6	117.3	102.4	105.1	110.9
Other Current Liabilities	1.2	1.3	1.3	1.3	1.3
Total Current Liabilities	268.5	124.7	109.7	112.4	118.1
Total Long-term Debt	68.3	66.9	63.6	60.4	57.4
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	68.3	66.9	63.6	60.4	57.4
Total Provisions	10.0	10.6	10.6	10.6	10.6
Total Liabilities	346.8	202.2	183.9	183.4	186.0
Shareholders' Equity	576.7	486.4	496.5	500.8	509.6
Minority Interests	27.2	36.2	36.2	36.2	36.2
Total Equity	604.0	522.6	532.7	537.0	545.8

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(38%)	(19%)	102%	3%	5%
Operating EBITDA Growth	N/A	(813%)	N/A	6%	5%
Operating EBITDA Margin	3.6%	(32.1%)	16.5%	17.1%	17.1%
Net Cash Per Share (RM)	0.30	0.21	0.29	0.29	0.28
BVPS (RM)	0.85	0.72	0.74	0.74	0.76
Gross Interest Cover	(0.38)	(7.96)	8.12	9.05	9.97
Effective Tax Rate	354%	22%	26%	25%	24%
Net Dividend Payout Ratio	239%	NA	61%	69%	82%
Accounts Receivables Days	539.9	520.9	224.8	216.1	213.4
Inventory Days	598.2	922.9	411.4	347.1	342.7
Accounts Payables Days	465.4	568.1	236.0	217.0	214.2
ROIC (%)	(0.37%)	(8.10%)	6.64%	8.23%	8.42%
ROCE (%)	0.40%	(3.82%)	5.96%	6.18%	6.36%
Return On Average Assets	(0.61%)	1.61%	4.11%	4.35%	4.53%

Key Drivers

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Outstanding Orderbook	470	645	843	1,139	1,428
Order Book Depletion	125	101	205	210	222
Orderbook Replenishment	300	300	500	500	500
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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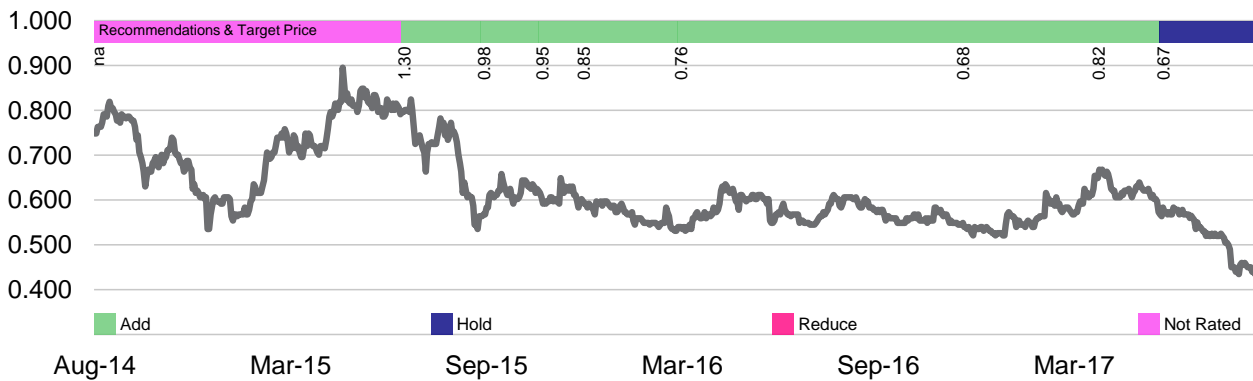
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1288 companies under coverage for quarter ended on 30 June 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	51.2%	5.5%
Hold	35.7%	3.1%
Reduce	11.9%	0.1%

Spitzer Chart for stock being researched (2 year data)

Salcon (SALC MK)

— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016

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- Companies certified by CAC

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.