

Company Note

I Malaysia

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price: RM0.61
 Target price: RM0.68
 Previous target: RM0.68
 Up/downside: 12.4%
 CIMB / Consensus: 0.0%

Reuters: SLCN.KL
 Bloomberg: SALC MK
 Market cap: US\$87.62m
 RM388.9m

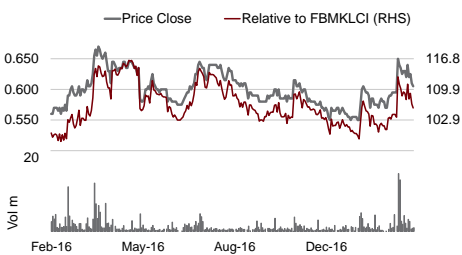
Average daily turnover: US\$0.22m
 RM0.98m

Current shares o/s: 674.6m
 Free float: 89.0%

*Source: Bloomberg

Key changes in this note

No changes



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.3	6.1	7.1
Relative (%)	3.9	2.1	5.3

Major shareholders	% held
Naga Muhibbah Sdn Bhd	11.0

Analyst(s)



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Salcon

Sluggish earnings flow

- Salcon's FY16 core net profit was below expectations (40% below our full-year forecast) due to construction delays and property losses.
- Langat 2 WTP and centralised STP have crossed their 20-70% physical milestones; EBIT margins should normalise to 9-10% in FY17F.
- The c.RM600m outstanding order book is anchored by a RM1.5bn bid book with a 20-30% success rate.
- Upside to earnings from VBT's new revenue streams and e-commerce ventures.
- Job wins and potential land sales are catalysts; Add retained with unchanged TP.

FY16 results below expectations

Full-year core net profit accounted for 60% of our FY16 number. The disappointment was largely due to the delay in the completion of Res 280 property ventures (from end-2016 to mid-2017), which could have chalked up c.RM7m in net profit in 4Q16. The construction EBIT margin stood at 6%, which could have been better if not for site-related delays, largely in 2H16. The declared dividend-in-specie was a surprise, with one treasury share for every 18 ordinary shares (1:18) vs. our forecast DPS of 3.5 sen.

Unbilled order book at c.RM600m

Based on an average annual construction burn rate of RM60m, we estimate that the outstanding order book will have depleted to c.RM600m as at end-2016. This translates to a healthy order book-total revenue cover of over 3x, including the RM66.9m Langat Centralised Sewage treatment Plant (STP – phase 1 and 2 network pumping stations). Langat 2 WTP and centralised STP have crossed their 20-70% physical milestones suggesting EBIT margins should normalise to 9-10% in FY17F.

Tendering for RM1.5bn worth of domestic jobs

The 2017 tender book has grown in line with the roll-out of government and private sector water capex. The total value of contracts in tender amounts to RM1.5bn, of which 70% comprise the larger-value WTP jobs, including the RM800m Langat 2 phase WTP in Selangor which could see some progress in tenders in 2H17. Salcon, being one of the major contractors in phase 1, is likely to be a front runner for this. Other smaller-value bids include some non-revenue water NRW work under the 11th Malaysia Plan (11MP).

Upside from VBT's prospects and e-commerce

Despite the lack of details on the scalability of its revenue model, earnings prospects of the 50.1%-owned VBT has upside in 2017. VBT operates a 10-year concession with Prasarana to lay fibre-optic cables along the LRT network. To date, it has secured new revenue streams via an expansion of its broadband wholesale model with E.co. This could generate RM400m in revenue over 4 years. Separately, the group is looking to venture into e-commerce via a travel portal riding on the growth in Chinese tourists.

Water jobs and likely land sale as catalysts; Add retained

We retain our FY17-18F EPS forecasts (FY17: RM600m targeted wins). New ventures in tourism and e-commerce from recent acquisitions are positive but more longer-term, in our view. Disappointing results aside, we are more optimistic about water jobs and see more details on VBT's additional revenue streams in the medium term as an added catalyst. We also would not discount land sale moves given the weak property sales outlook. The TP stays pegged to a 40% RNAV discount. Downside risks are job delays.

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)	73.37	36.53	18.62	17.05	16.75
DPS (RM)	0.030	0.030	0.035	0.040	0.050
Dividend Yield	4.96%	4.96%	5.79%	6.61%	8.26%
EV/EBITDA (x)	30.18	NA	3.22	2.47	2.29
P/FCFE (x)	NA	36.08	15.51	NA	NA
Net Gearing	(56.2%)	(50.6%)	(49.1%)	(52.2%)	(51.9%)
P/BV (x)	0.94	0.84	0.73	0.73	0.71
ROE	1.12%	2.42%	4.20%	4.28%	4.30%
% Change In Core EPS Estimates			0%	0%	
CIMB/consensus EPS (x)			1.02	1.01	

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	4QFY16	4QFY15	yoy %	qoq %	4QFY16	4QFY15	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY16F	Comments
Revenue	40.7	57.2	(28.9)	77.4	101.2	123.1	(17.8)	141.5	Slower progress billings
Operating costs	(50.6)	(48.6)	4.1	106.4	(127.9)	(132.2)	(3.3)	(118.8)	In line
EBITDA	(9.8)	8.7	(213.8)	535.4	(26.7)	(9.1)	192.8	17.9	Slower progress billings
EBITDA margin (%)	(24.2)	15.1	(260.0)	258.2	(26.4)	(7.4)	256.1	12.6	
Depn & amort.	(1.5)	(2.2)	(31.8)	nm	(5.8)	(7.1)	(17.5)	(5.2)	
EBIT	(11.3)	6.5	(274.0)	630.1	(32.5)	(16.2)	100.8	8.8	
Interest expense	(1.3)	(1.4)	(8.6)	15.0	(4.8)	(5.6)	(13.6)	(4.5)	Borrowings stood at RM73.1m
Interest & invt inc	10.0	(6.9)	244.0	394.3	13.6	37.1	(63.4)	11.6	Cash stood at RM216m
Associates' contrib	4.1	0.7	493.6	276.1	11.3	4.5	152.0	10.4	
Pretax profit	1.4	(1.1)	228.2	420.2	(12.4)	19.8	(162.7)	30.3	
Tax	(2.9)	(6.6)	(56.9)	66.6	(5.5)	(9.4)	(42.0)	(7.8)	Unprovided tax in prior years
Tax rate (%)	198.7	(590.8)	133.6	(68.0)	(43.8)	47.4	(192.5)	25.8	
Minority interests	2.1	3.4	(37.4)	180.3	(8.9)	13.2	(167.5)	(3.7)	
Net profit	0.7	(6.5)	111.2	195.6	11.2	5.5	101.6	18.7	FY17 core net profit made up 60%
Core net profit	0.7	(6.5)	111.2	222.0	11.2	5.5	101.6	18.7	of our full-year forecasts
EPS (sen)	0.1	(1.0)	110.5	200.0	1.7	0.8	101.2	3.0	

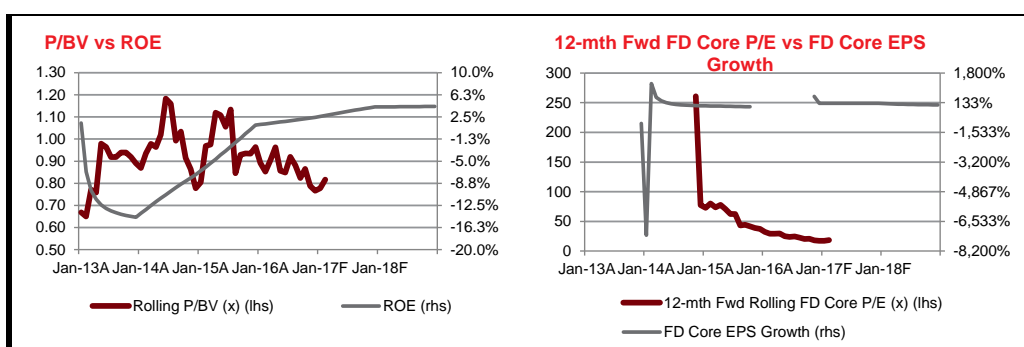
SOURCE: CIMB RESEARCH, COMPANY

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	190	50%
Belfield Crest	5.35	0.23	320	70%
Cash (4Q16)				215.9
Borrowings (4Q16)				(73.1)
Property investments				8.4
Net current asset less property dev. cost				225.4
RNAV				755.7
No. of shares (m)				665.4
RNAV/share (RM)				1.14
RNAV discount (%)				40%
Target price (RM)				0.68

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



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	7.7	8.7	8.9
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	47.6	50.4	52.1
Exceptional Items					
Pre-tax Profit	2.4	25.6	47.6	50.4	52.1
Taxation	(8.6)	(5.5)	(12.1)	(12.6)	(12.4)
Exceptional Income - post-tax					
Profit After Tax	(6.1)	20.1	35.4	37.8	39.7
Minority Interests	11.7	(8.9)	(13.5)	(13.9)	(15.3)
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	4.6	(32.5)	33.8	36.0	37.9
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(223.1)	94.6	54.1	11.3	6.4
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(30.1)	(31.6)	(34.8)	(38.2)	(42.1)
Other Operating Cashflow	0.0	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	(0.5)	8.8	7.7	8.7	8.9
Tax Paid	(8.6)	(5.5)	(12.1)	(12.6)	(12.4)
Cashflow From Operations	(257.6)	33.7	48.7	5.2	(1.2)
Capex	(3.8)	(1.6)	(1.6)	(3.3)	(3.5)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	1.0
Acq. Of Subsidiaries/investments	(3.8)	(1.6)	(1.6)	(3.3)	(3.5)
Other Investing Cashflow	48.5	3.5	3.5	3.5	3.5
Cash Flow From Investing	40.9	0.3	0.3	(3.1)	(2.4)
Debt Raised/(repaid)	(22.8)	(22.7)	(22.7)	(22.6)	(21.5)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(20.2)	(20.2)	(23.6)	(27.0)	(32.7)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	24.4	(61.2)	(49.5)	(20.3)	(20.3)
Cash Flow From Financing	(18.6)	(104.2)	(95.7)	(69.9)	(74.6)
Total Cash Generated	(235.3)	(70.2)	(46.8)	(67.9)	(78.2)
Free Cashflow To Equity	(239.5)	11.3	26.3	(20.6)	(25.2)
Free Cashflow To Firm	(211.2)	38.9	53.3	6.2	0.3

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	340.5	338.4	361.4	378.0	378.0
Total Debtors	81.3	99.0	122.8	105.1	110.9
Inventories	63.3	70.7	102.4	105.1	110.9
Total Other Current Assets	1.3	1.3	1.3	1.3	2.3
Total Current Assets	486.3	509.5	587.9	589.6	602.0
Fixed Assets	80.3	81.9	83.5	86.9	87.0
Total Investments	36.1	36.1	36.1	36.1	36.1
Intangible Assets	31.4	31.4	31.4	31.4	31.4
Total Other Non-Current Assets	5.7	5.7	5.7	5.7	5.7
Total Non-current Assets	153.5	155.1	156.8	160.1	160.3
Short-term Debt	13.5	13.3	13.2	13.1	12.9
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	101.9	77.8	92.1	94.6	100.8
Other Current Liabilities	1.7	1.7	1.7	1.7	1.7
Total Current Liabilities	117.1	92.9	107.0	109.4	115.4
Total Long-term Debt	81.1	77.1	73.2	69.6	66.1
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	81.1	77.1	73.2	69.6	66.1
Total Provisions	4.6	4.6	4.6	4.6	4.6
Total Liabilities	202.8	174.5	184.8	183.5	186.1
Shareholders' Equity	434.0	488.7	556.4	562.3	570.9
Minority Interests	3.1	1.4	3.5	3.9	5.3
Total Equity	437.1	490.1	559.9	566.2	576.2

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)	0.36	0.37	0.41	0.44	0.44
BVPS (RM)	0.64	0.72	0.82	0.83	0.85
Gross Interest Cover	(0.38)	(7.96)	6.54	7.27	7.99
Effective Tax Rate	354%	22%	26%	25%	24%
Net Dividend Payout Ratio	364%	181%	108%	113%	138%
Accounts Receivables Days	427.0	326.1	197.8	197.8	177.8
Inventory Days	405.0	323.4	185.9	217.0	214.2
Accounts Payables Days	333.1	307.7	182.5	195.3	192.8
ROIC (%)	(0.4%)	(18.0%)	10.1%	8.9%	9.9%
ROCE (%)	0.45%	(4.42%)	6.52%	6.58%	6.77%
Return On Average Assets	(0.72%)	2.07%	4.21%	4.18%	4.36%

Key Drivers

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Outstanding Orderbook	696	746	1,096	1,446	1,796
Order Book Depletion	250	250	250	250	250
Orderbook Replenishment	300	600	600	600	600
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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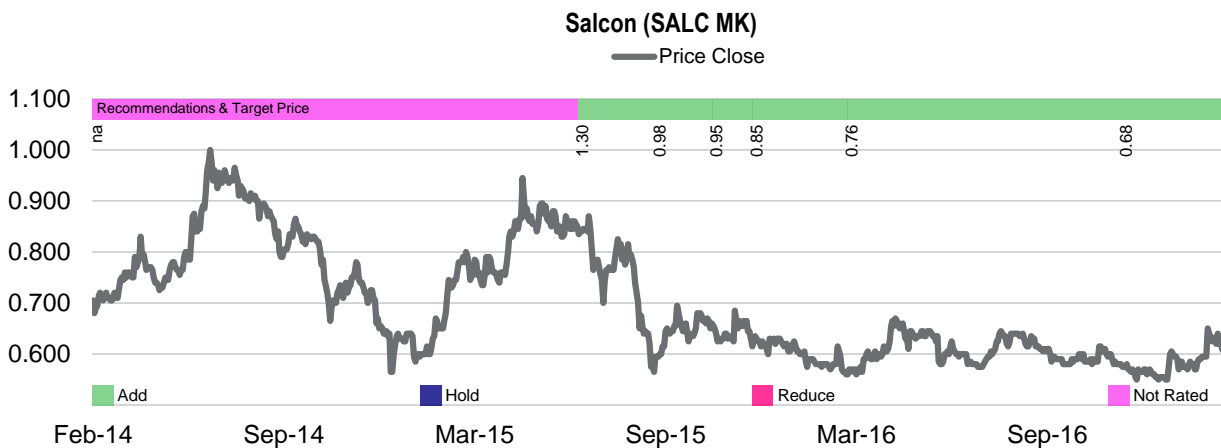
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1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



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

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared,

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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.
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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.

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Definition:

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- 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.

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