

Company Note

I Malaysia

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price: RM0.58
 Target price: RM0.68
 Previous target: RM0.76
 Up/downside: 18.3%
 CIMB / Consensus: -10.5%

Reuters: SLCN.KL
 Bloomberg: SALC MK
 Market cap: US\$83.78m
 RM370.3m

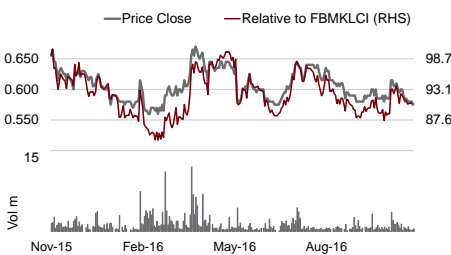
Average daily turnover: US\$0.12m
 RM0.49m

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

*Source: Bloomberg

Key changes in this note

No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.6	-6.5	-13.5
Relative (%)	0	-2.7	-11.4

Major shareholders	% held
Naga Muhibbah Sdn Bhd	11.0

Analyst(s)



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Salcon

Making headway in new ventures

- We deem 9M16's results in line even though annualised core net profit made up 89% of our forecast as we expect a stronger performance in 4Q.
- Slow progress billings were a slight disappointment but this is mitigated by RM304m in jobs secured YTD.
- RM1.5bn jobs in tender, with potential new contracts in Selangor and Johor.
- VBT making more headway; new revenue stream from Beijing Xinlian deal.
- Water jobs and new ventures as potential catalysts. Maintain Add.

9M16 results broadly in line

Annualised 9M16 core net profit was 89% of our full-year forecast. The performance was broadly in line as we expect a stronger 4Q16. The still-slow progress billings for existing jobs YTD was a slight disappointment but could be mitigated by the completion of the Selayang property development. The absence of dividends was expected.

RM675m outstanding order book; RM304m secured YTD

YTD, Salcon has made good progress in replenishing its order book. The total value of jobs secured YTD amount to RM304m. The biggest package was the RM218m EPCC for a water treatment plant in Terengganu. The balance includes new contracts relating to network pumping stations and non-revenue water (NRW) which also falls under the group's core expertise. Total outstanding order book as at 3Q16 was RM645m. The higher-value Langat 2 WTP and CSTP contracts make up 60% of the total.

More jobs in tender book

Compared to six months ago, there are now a bigger number of contracts under the group's tender book. The total value of domestic jobs in tender stands at RM1.5bn. The states of Selangor and Johor are key focus areas that are likely to roll out big value water treatment plants (WTP) over the next 6-9 months. We retain our RM600m assumed new jobs in FY16-18F. The RM600m targeted for FY16F remains achievable (50% secured YTD), in our view, given two pending tender outcomes in the short term.

VBT has secured new revenue streams

VBT, the 50.1%-owned subsidiary which operates a 10-year concession with Prasarana to lay fibre-optic cables along the LRT network, has secured additional revenue streams via an expansion of its broadband wholesale model with E.co (a 100% subsidiary of Axiata). It signed a master agreement in Aug 16 to undertake the fiberisation of 1,400 cell sites to provide mobile backhaul services to other telcos. This is effectively a scaling up of VBT's revenue stream from the current expected RM10m-15m p.a.

Tourism and e-commerce via Beijing Xinlian acquisition

Salcon Water International recently signed a RM5.2m deal to acquire Beijing Xinlian Yitong Technology Co Ltd and Signcharge Sdn Bhd. The primary strategy is to tap into the growing outbound China tourist market into Malaysia via an online (e-commerce) travel portal Malaysian Tourism Pavilion (MTP). Beijing Xinlian is the sole operator of MTP which leverages on the Alitrip tourism platform of Alilbaba (China) Co. Ltd.

Water jobs and new ventures as potential catalysts

We expect more clarity on the group's new ventures once the deals are finalised and therefore, retain our FY16-18F EPS forecasts. Although we roll over to end-2017, our target price (still pegged to a 40% RNAV discount) falls due to housekeeping and updates for balance sheet items. Key catalysts are job flows, while downside risks are prolonged losses for construction. Add retained.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (RMm)	201.9	125.4	141.5	204.7	210.3
Operating EBITDA (RMm)	(9.01)	4.56	17.87	33.80	35.96
Net Profit (RMm)	4.51	5.56	18.70	21.92	23.94
Core EPS (RM)	(0.057)	0.008	0.028	0.032	0.035
Core EPS Growth	(42%)		236%	17%	9%
FD Core P/E (x)	NA	69.73	20.75	17.69	16.21
DPS (RM)	0.030	0.030	0.030	0.035	0.040
Dividend Yield	5.22%	5.22%	5.22%	6.09%	6.96%
EV/EBITDA (x)	NA	25.75	6.36	2.63	1.91
P/FCFE (x)	5.02	NA	6.71	14.74	NA
Net Gearing	(31.1%)	(56.2%)	(50.6%)	(49.1%)	(52.2%)
P/BV (x)	0.70	0.89	0.79	0.70	0.69
ROE	(7.29%)	1.12%	4.05%	4.20%	4.28%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.99	1.02	1.01

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	3QFY16	3QFY15	yoy % chg	qoq % chg	3QFY16 Cum	3QFY15 Cum	yoy % chg	Prev. FY16F	Comments
Revenue	22.9	22.5	1.8	5.8	60.5	65.8	(8.1)	141.5	Slower progress billings
Operating costs	(24.5)	(58.5)	(58.1)	25.3	(79.7)	(126.1)	(36.8)	(118.8)	In line
EBITDA	(1.6)	(35.9)	(95.7)	(172.0)	(19.2)	(60.3)	(68.2)	17.9	Slower progress billings
EBITDA margin (%)	(6.8)	(159.4)	(95.8)	(168.0)	(31.7)	(91.6)	(65.4)	12.6	
EBIT	(1.6)	(35.9)	(95.7)	(172.0)	(19.2)	(60.3)	(68.2)	8.8	
Interest expense	(1.1)	(1.3)	(12.6)	(8.6)	(3.5)	(4.2)	(15.2)	(4.5)	Borrowings stood at RM77.1m
Interest & invt inc	2.0	22.8	(91.1)	210.2	3.6	44.0	(91.8)	11.6	Cash stood at RM223m
Associates' contrib	1.1	(1.9)	157.2	(70.1)	7.3	3.8	90.5	10.4	
Exceptionals	(0.2)	23.2	(100.7)	(96.6)	(2.0)	37.6	-	-	Unrealised forex losses
Pretax profit	0.3	6.9	(96.0)	(42.9)	(13.8)	21.0	(166.0)	30.3	
Tax	(1.7)	(1.1)	63.2	338.5	(2.6)	(2.7)	(5.1)	(7.8)	Below
Tax rate (%)	620.6	15.3	3,951.7	667.8	(18.7)	13.0	(243.8)	25.8	Lower than expected
Minority interests	0.8	2.7	(71.7)	105.0	(11.0)	9.7	(213.2)	(3.7)	
Net profit	(0.8)	3.5	(121.5)	(911.8)	10.5	12.0	(12.7)	18.7	Annualised 9M16 core net
Core net profit	(0.6)	(19.7)	(97.0)	(112.3)	12.5	(25.6)	148.7	18.7	profit made up 90% of our
EPS (sen)	(0.1)	0.8	(112.7)	(130.3)	(2.0)	2.6	(174.5)	3.0	full-year forecast
Core EPS (sen)	(0.1)	(2.9)	(97.0)	(112.3)	(2.0)	2.6	(174.5)	3.0	

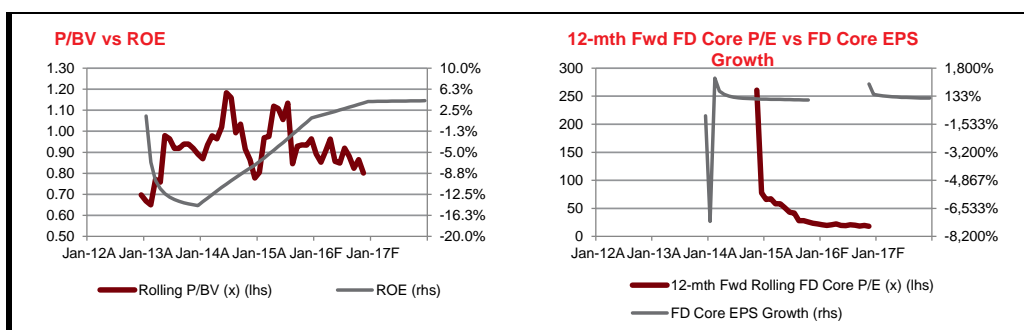
SOURCE: CIMB RESEARCH, COMPANY

Figure 2: RNAV

	FY18 RM m	P/E (x)	Stake (%)	Value (RM m)
Construction net profit	13.5	15	100%	202.4
	DCF value (RM m)	WACC (%)	Stake (%)	
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
	Acres	m sq ft	RM psf	Stake
Land bank				
Eco Mid Town - Johor	12.5	0.54	190	50%
Belfield Crest	5.35	0.23	250	70%
Cash (3Q16)				219.6
Borrowings (3Q16)				(77.1)
Property investments				8.4
Net current asset less property dev. cost				230.4
RNAV				749.0
No. of shares (m)				665.4
RNAV/share (RM)				1.13
RNAV discount (%)				40%
Target price (RM)				0.68

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	201.9	125.4	147.1	212.9	218.7
Gross Profit	26.4	31.0	28.3	43.0	44.2
Operating EBITDA	(9.0)	4.6	17.9	33.8	36.0
Depreciation And Amortisation	(4.6)	(6.7)	(5.2)	(5.5)	(5.9)
Operating EBIT	(13.6)	(2.1)	12.7	28.3	30.0
Financial Income/(Expense)	7.2	(0.5)	7.1	7.7	8.7
Pretax Income/(Loss) from Assoc.	3.4	5.0	10.4	11.6	11.6
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	(3.0)	2.4	30.3	47.6	50.4
Exceptional Items					
Pre-tax Profit	(3.0)	2.4	30.3	47.6	50.4
Taxation	(3.7)	(8.6)	(7.8)	(12.1)	(12.6)
Exceptional Income - post-tax	43.2				
Profit After Tax	36.5	(6.1)	22.4	35.4	37.8
Minority Interests	(32.0)	11.7	(3.7)	(13.5)	(13.9)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4.5	5.6	18.7	21.9	23.9
Recurring Net Profit	(38.7)	5.6	18.7	21.9	23.9
Fully Diluted Recurring Net Profit	(38.7)	5.6	18.7	21.9	23.9

Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	(9.0)	4.6	17.9	33.8	36.0
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(119.8)	(223.1)	94.6	54.1	11.3
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(66.8)	(30.1)	(31.6)	(34.8)	(38.2)
Other Operating Cashflow	(7.0)	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	7.2	(0.5)	7.1	7.7	8.7
Tax Paid	(3.7)	(8.6)	(7.8)	(12.1)	(12.6)
Cashflow From Operations	(199.2)	(257.6)	80.2	48.7	5.2
Capex	(18.6)	(3.8)	(1.6)	(1.6)	(3.3)
Disposals Of FAs/subsidiaries	0.1	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(18.6)	(3.8)	(1.6)	(1.6)	(3.3)
Other Investing Cashflow	244.2	48.5	3.5	3.5	3.5
Cash Flow From Investing	207.2	40.9	0.3	0.3	(3.1)
Debt Raised/(repaid)	69.9	(22.8)	(22.7)	(22.7)	(22.6)
Proceeds From Issue Of Shares	45.9	0.0	0.0	0.0	0.0
Shares Repurchased	(4.0)	0.0	0.0	0.0	0.0
Dividends Paid	(65.0)	(20.2)	(20.2)	(23.6)	(27.0)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	(84.8)	24.4	(61.2)	(49.5)	(20.3)
Cash Flow From Financing	(38.0)	(18.6)	(104.2)	(95.7)	(69.9)
Total Cash Generated	(30.0)	(235.3)	(23.7)	(46.8)	(67.9)
Free Cashflow To Equity	77.9	(239.5)	57.8	26.3	(20.6)
Free Cashflow To Firm	9.3	(211.2)	85.0	53.3	6.2

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	302.7	340.5	338.4	361.4	378.0
Total Debtors	212.0	81.3	99.0	122.8	105.1
Inventories	146.1	63.3	70.7	102.4	105.1
Total Other Current Assets	142.8	1.3	1.3	1.3	1.3
Total Current Assets	803.7	486.3	509.5	587.9	589.6
Fixed Assets	76.5	80.3	81.9	83.5	86.9
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	149.7	153.5	155.1	156.8	160.1
Short-term Debt	13.6	13.5	13.3	13.2	13.1
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	193.8	101.9	77.8	92.1	94.6
Other Current Liabilities	1.7	1.7	1.7	1.7	1.7
Total Current Liabilities	209.1	117.1	92.9	107.0	109.4
Total Long-term Debt	85.4	81.1	77.1	73.2	69.6
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	85.4	81.1	77.1	73.2	69.6
Total Provisions	4.6	4.6	4.6	4.6	4.6
Total Liabilities	299.1	202.8	174.5	184.8	183.5
Shareholders' Equity	555.5	434.0	488.7	556.4	562.3
Minority Interests	98.8	3.1	1.4	3.5	3.9
Total Equity	654.3	437.1	490.1	559.9	566.2

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	22.7%	(37.9%)	12.8%	44.7%	2.7%
Operating EBITDA Growth	(68%)	N/A	292%	89%	6%
Operating EBITDA Margin	(4.5%)	3.6%	12.6%	16.5%	17.1%
Net Cash Per Share (RM)	0.30	0.36	0.37	0.41	0.44
BVPS (RM)	0.82	0.64	0.72	0.82	0.83
Gross Interest Cover	(10.51)	(0.38)	2.81	6.54	7.27
Effective Tax Rate	0%	354%	26%	26%	25%
Net Dividend Payout Ratio	NA	364%	108%	108%	113%
Accounts Receivables Days	410.9	427.0	233.3	197.8	197.8
Inventory Days	179.0	405.0	206.3	185.9	217.0
Accounts Payables Days	301.6	333.1	196.4	182.5	195.3
ROIC (%)	(1.8%)	(0.4%)	6.0%	10.1%	8.9%
ROCE (%)	(0.68%)	0.45%	4.34%	6.52%	6.58%
Return On Average Assets	(1.13%)	(0.72%)	2.62%	4.21%	4.18%

Key Drivers

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Outstanding Orderbook	650	696	746	1,096	1,446
Order Book Depletion	220	250	250	250	250
Orderbook Replenishment	600	300	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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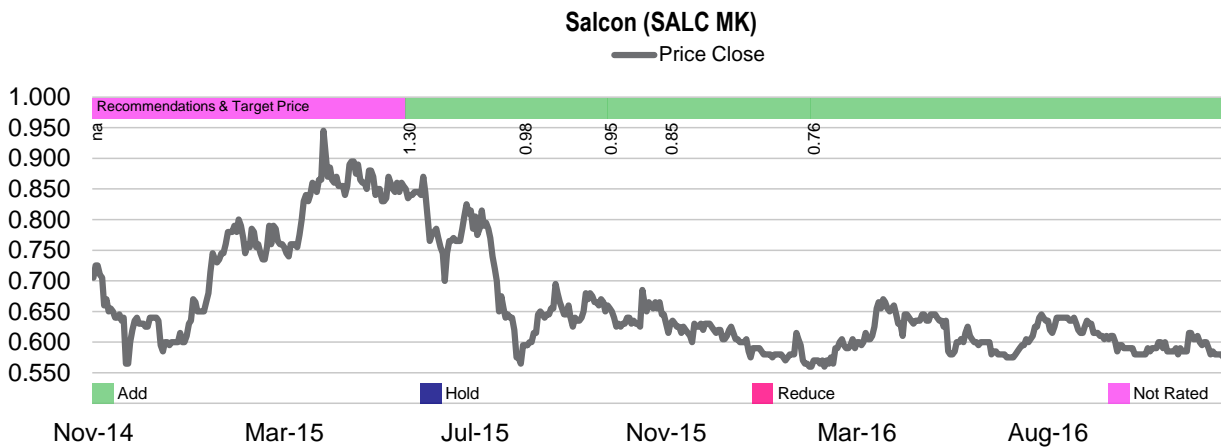
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2016		
1598 companies under coverage for quarter ended on 30 September 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.7%	7.5%
Hold	31.7%	2.8%
Reduce	9.8%	0.6%

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 2015, Anti-Corruption Progress Indicator 2015.

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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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- 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.