

## Company Note

### I Malaysia

#### ADD (no change)

Consensus ratings\*: Buy 2 Hold 0 Sell 0

Current price: RM0.63  
Target price: ➔ RM0.76  
Previous target: RM0.76  
Up/downside: 21.6%  
CIMB / Consensus: -5.0%

Reuters: SLCN.KL  
Bloomberg: SALC MK  
Market cap: US\$99.75m  
RM402.9m

Average daily turnover: US\$0.15m  
RM0.61m

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 (%)	0	-1.6	8.7
Relative (%)	-1.5	-5.1	-1.1

Major shareholders	% held
Naga Muhibbah Sdn Bhd	11.0

#### Analyst(s)



#### Sharizan ROSELY

T (60) 3 2261 9077

E sharizan.rosely@cimb.com

## Salcon

### Turnaround scenario in 2H16

- Salcon reported 1H16 core net loss versus our and consensus full-year net profit forecasts. We deem 1H16 results in line, as we expect earnings recovery in 2H16.
- Anticipated key drivers in 2H16 include strong construction billings as the Langat 2 project crosses the 50% progress mark.
- Order wins YTD of RM300m has potential upside from other WTP contracts.
- Our EPS forecasts are retained. We still expect FY16 to be a turnaround year.
- Water contract wins are potential key catalysts. Add retained.

#### 1H16 net loss to reverse in 2H16

Although Salcon reported 1H16 core net loss versus our and Bloomberg consensus full-year net profit forecasts, we consider the performance to be broadly in line as we expect strong earnings turnaround in 2H16. This is to be anchored by stronger progress billings from construction and the recognition of new jobs won early this year. We also expect the property division to chip in RM11m-15m operating profit from the completion of the Selayang project. The absence of dividends was not a surprise.

#### Langat 2 water treatment plant at 50% physical progress mark

The Langat 2 water treatment plant (WTP), which is the biggest job Salcon secured in Selangor, will cross the 50% physical completion mark by 3Q, suggesting upside to the RM362k construction EBIT in 1H16. Separately, the Langat sewage treatment plant (STP) project is in a relatively early phase of work and did not contribute meaningfully in 1H16 (10% physical progress mark at end-2Q16).

#### RM300m total wins YTD; RM600m target for FY16

YTD, the group has secured RM300m new domestic water infrastructure projects, including the recent RM218m EPCC contract for the building of a 120 MLD WTP for the Kuala Terengganu Utara water supply scheme. We retain our RM600m total win target for FY16, as we expect water tenders and awards to pick in 4Q16. Although it lost out on the RM150m Semenyih 2 WTP contract, we think Salcon stands a fair chance of clinching the larger RM350m-400m Lebuhan Dagang WTP (400 MLD).

#### EPS forecasts maintained

Our FY16-18 EPS forecasts are unchanged. We continue to expect FY16 to be an earnings recovery year. Our RM19m FY16 net profit forecast assumes strong construction billings, maiden profit from Volksbahn Technologies (VBT) and Res 280 (RM150m) property venture profit of RM11m-15m (based on 15% pretax margin, to be recognised upon full completion). However, our forecast does not impute VBT's Metro-E contract with Celcom or any other new recurring income streams in 2016/17.

#### Add retained with unchanged target price

Salcon is still the only listed company under our coverage that is a proxy for the recovery in water infrastructure backlog. Historically, share prices of companies with exposure to water restructuring and infra move in tandem with water sector newsflow. Our target price remains pegged to a 40% RNAV discount. Add maintained. A possible downside risk is a delay in securing more water contracts beyond 2016.

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	75.80	22.55	19.23	17.61
DPS (RM)	0.030	0.030	0.030	0.035	0.040
Dividend Yield	4.80%	4.80%	4.80%	5.60%	6.40%
EV/EBITDA (x)	NA	33.14	8.25	3.62	2.85
P/FCFE (x)	5.45	NA	7.30	16.02	NA
Net Gearing	(31.1%)	(56.2%)	(50.6%)	(49.1%)	(52.2%)
P/BV (x)	0.76	0.97	0.86	0.76	0.75
ROE	(7.29%)	1.12%	4.05%	4.20%	4.28%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.15	1.05	1.01

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Dec (RM m)	2QFY16	2QFY15	yoy %	qoq %	2QFY16	2QFY15	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY16F	Comments
Revenue	21.7	21.9	(0.9)	36.9	37.6	43.2	(13.1)	141.5	Slower progress billings
Operating costs	(19.5)	(38.1)	(48.7)	(8.7)	(51.1)	(67.5)	(24.3)	(118.8)	In line
EBITDA	2.2	(16.2)	113.3	138.8	(13.6)	(24.3)	(44.2)	17.9	Delayed profits from Langat jobs
<b>EBITDA margin (%)</b>	<b>9.9</b>	<b>(73.9)</b>	<b>113.4</b>	<b>128.3</b>	<b>(36.1)</b>	<b>(56.2)</b>	<b>(35.8)</b>	<b>12.6</b>	Broadly in line
EBIT	2.2	(16.2)	113.3	138.8	(13.6)	(24.3)	(44.2)	8.8	Delayed profits from Langat jobs
Interest expense	(1.2)	(2.6)	(53.9)	(1.5)	(2.4)	(2.9)	(16.4)	(4.5)	Borrowings stood at RM82m
Interest & invt inc	0.7	6.2	(89.5)	(30.9)	1.6	21.2	(92.5)	11.6	Cash stood at RM230m
Associates' contrib	3.6	4.6	(22.0)	41.6	6.2	5.7	8.4	10.4	
Exceptionals	(4.7)	11.6	(140.8)	(58.4)	(5.9)	14.4	-	-	Forex losses
<b>Pretax profit</b>	<b>0.5</b>	<b>3.6</b>	<b>(86.5)</b>	<b>103.3</b>	<b>(14.2)</b>	<b>14.1</b>	<b>(200.5)</b>	<b>30.3</b>	
Tax	(0.4)	(1.1)	(64.0)	(181.8)	(0.9)	(1.7)	(48.0)	(7.8)	Below
Tax rate (%)	80.8	30.2	167.5	2,371.3	(6.2)	11.9	(151.7)	25.8	Lower than expected
Minority interests	(15.3)	4.7	(423.7)	(529.8)	(11.8)	7.0	(267.7)	(3.7)	
<b>Net profit</b>	<b>0.1</b>	<b>2.5</b>	<b>(96.3)</b>	<b>100.6</b>	<b>(15.0)</b>	<b>12.4</b>	<b>(221.1)</b>	<b>18.7</b>	Annualised 1H16 core losses vs
Core net profit	4.8	(9.1)	153.0	227.9	(9.1)	(2.0)	358.5	18.7	our full-year net profit
EPS (sen)	0.3	0.5	(29.8)	115.1	(1.9)	1.8	(200.5)	3.0	forecasts
Core EPS (sen)	0.7	(1.3)	153.0	132.5	(1.9)	1.8	(200.5)	3.0	

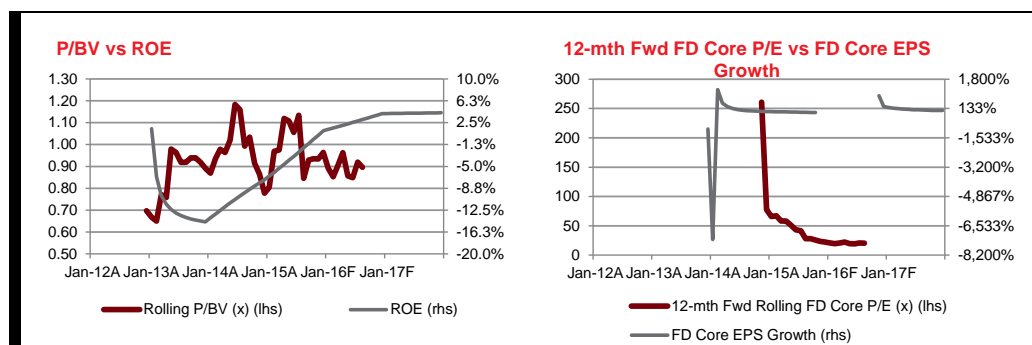
SOURCE: CIMB RESEARCH, COMPANY

Figure 2: RNAV

	FY17	P/E	Stake	Value
	RM m	(x)	(%)	(RM m)
Construction net profit	12.4	15	100%	185.5
	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	250	70%
Cash (2Q16)				230.0
Borrowings (2Q16)				(80.1)
Property investments				8.4
Investment in associate & JVs				52.7
Net current asset less property dev. cost				275.6
<b>RNAV</b>				<b>837.5</b>
No. of shares (m)				665.4
<b>RNAV/share (RM)</b>				<b>1.26</b>
RNAV discount (%)				40%
<b>Target price (RM)</b>				<b>0.76</b>

SOURCES: CIMB, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

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

### Cash Flow

(RMm)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
<b>EBITDA</b>	<b>(9.0)</b>	<b>4.6</b>	<b>17.9</b>	<b>33.8</b>	<b>36.0</b>
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)
<b>Cashflow From Operations</b>	<b>(199.2)</b>	<b>(257.6)</b>	<b>80.2</b>	<b>48.7</b>	<b>5.2</b>
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
<b>Cash Flow From Investing</b>	<b>207.2</b>	<b>40.9</b>	<b>0.3</b>	<b>0.3</b>	<b>(3.1)</b>
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)
<b>Cash Flow From Financing</b>	<b>(38.0)</b>	<b>(18.6)</b>	<b>(104.2)</b>	<b>(95.7)</b>	<b>(69.9)</b>
Total Cash Generated	(30.0)	(235.3)	(23.7)	(46.8)	(67.9)
<b>Free Cashflow To Equity</b>	<b>77.9</b>	<b>(239.5)</b>	<b>57.8</b>	<b>26.3</b>	<b>(20.6)</b>
<b>Free Cashflow To Firm</b>	<b>9.3</b>	<b>(211.2)</b>	<b>85.0</b>	<b>53.3</b>	<b>6.2</b>

## BY THE NUMBERS

### 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
<b>Total Current Assets</b>	<b>803.7</b>	<b>486.3</b>	<b>509.5</b>	<b>587.9</b>	<b>589.6</b>
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
<b>Total Non-current Assets</b>	<b>149.7</b>	<b>153.5</b>	<b>155.1</b>	<b>156.8</b>	<b>160.1</b>
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
<b>Total Current Liabilities</b>	<b>209.1</b>	<b>117.1</b>	<b>92.9</b>	<b>107.0</b>	<b>109.4</b>
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
<b>Total Non-current Liabilities</b>	<b>85.4</b>	<b>81.1</b>	<b>77.1</b>	<b>73.2</b>	<b>69.6</b>
Total Provisions	4.6	4.6	4.6	4.6	4.6
<b>Total Liabilities</b>	<b>299.1</b>	<b>202.8</b>	<b>174.5</b>	<b>184.8</b>	<b>183.5</b>
Shareholders' Equity	555.5	434.0	488.7	556.4	562.3
Minority Interests	98.8	3.1	1.4	3.5	3.9
<b>Total Equity</b>	<b>654.3</b>	<b>437.1</b>	<b>490.1</b>	<b>559.9</b>	<b>566.2</b>

### 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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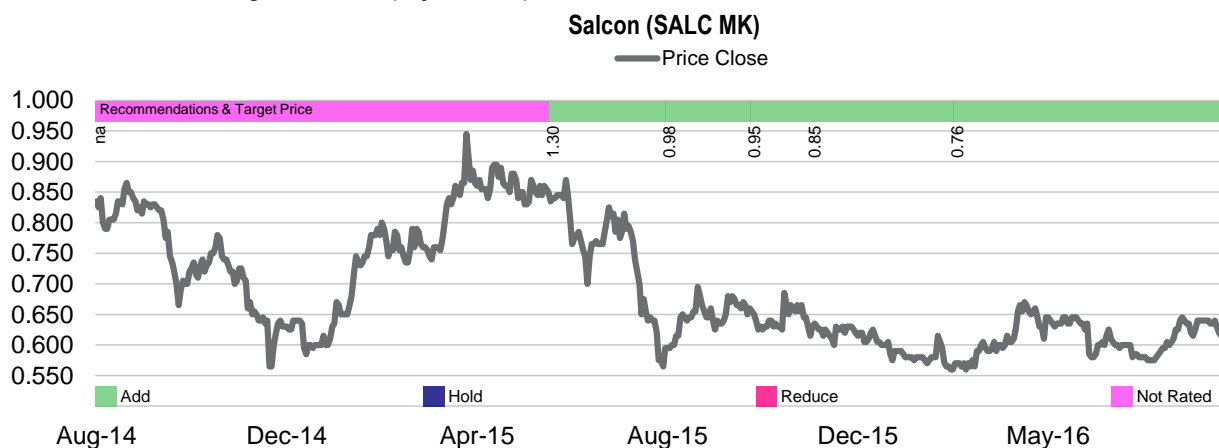
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1574 companies under coverage for quarter ended on 30 June 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	56.5%	7.1%
Hold	32.2%	2.9%
Reduce	9.8%	0.6%

**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.**

AAV – Very Good, 3B, ADVANC – Excellent, 3A, AEONTS – Good, 1, AMATA – Very Good, 2, ANAN – Very Good, 3A, AOT – Very Good, 2, AP – Good, 3A, ASK – Very Good, 3B, ASP – Very Good, 4, BANPU – Very Good, 4, BAY – Very Good, 4, BBL – Very Good, 4, BCH – not available, no progress, BCP - Excellent, 5, BEM – not available, no progress, BDMS – Very Good, 3B, BEAUTY – Good, 2, BEC - Good, 3B, BH - Good, 2, BIGC - Excellent, 3A, BJC – Good, 1, BLA – Very Good, 4, 1, BTS - Excellent, 3A, CBG – Good, 1, CCET – not available, 1, CENTEL – Very Good, 3A, CHG – Good, 3B, CK – Excellent, 3B, COL – Very Good, 3A, CPALL – Good, 3A, CPF – Very Good, 3A, CPN - Excellent, 5, DELTA - Very Good, 3A, DEMCO – Very Good, 3A, DTAC – Excellent, 3A, EA – not available, 3A, ECL – Good, 4, EGCO - Excellent, 4, EPG – not available, 3B, GFPT - Very Good, 3A, GLOBAL – Very Good, 2, GLOW - Good, 3A, GPSC – not available, 3B, GRAMMY - Excellent, 3B, GUNKUL – Very Good, 1, HANA - Excellent, 4, HMPRO - Excellent, 3A, ICHI – Very Good, 3A, INTUCH - Excellent, 4, ITD – Good, 1, IVL - Excellent, 4, JAS – not available, 3A, JASIF – not available, no progress, JUBILE – Good, 3A, KAMART – not available, no progress, KBANK - Excellent, 4, KCE - Excellent, 4, KGI – Good, 4, KKP – Excellent, 4, KSL – Very Good, 2, KTB - Excellent, 4, KTC – Very Good, 3A, LH - Very Good, 3B, LPN – Excellent, 3A, M - Good, 2, MAJOR - Good, 1, MAKRO – Good, 3A, MALEE – not available, 2, MBKET – Good, 2, MC – Very Good, 3A, MCOT – Excellent, 3A, MEGA – Very Good, 2, MINT - Excellent, 3A, MTLs – Good, 2, NYT – Good, no progress, OISHI – Very Good,

3B, PLANB – Good, 3B, PS – Excellent, 3A, PSL - Excellent, 4, PTT - Excellent, 5, PTTEP - Excellent, 4, PTTGC - Excellent, 5, QH – Very Good, 2, RATCH – Excellent, 3A, ROBINS – Excellent, 3A, RS – Very Good, 1, SAMART - Excellent, 3B, SAPPE - Good, 3B, SAT – Excellent, 5, SAWAD – Good, 1, SC – Excellent, 3B, SCB - Excellent, 4, SCBLIF – not available, no progress, SCC – Excellent, 5, SCN – Good, 1, SCCC - Good, 3A, SIM - Excellent, 3B, SIRI - Good, 1, SPALI - Excellent, 3A, SPRC – not available, no progress, STA – Very Good, 1, STEC – Very Good, 3B, SVI – Very Good, 3A, TASCO – Very Good, 3A, TCAP – Very Good, 4, THAI – Very Good, 3A, THANI – Very Good, 5, THCOM – Excellent, 4, THRE – Very Good, 3A, THREL – Very Good, 3A, TICON – Very Good, 3A, TISCO - Excellent, 4, TK – Very Good, 3B, TKN – not available, no progress, TMB - Excellent, 4, TPCH – Good, 3B, TOP - Excellent, 5, TRUE – Very Good, 2, TTW – Very Good, 2, TU – Very Good, 3A, UNIQ – not available, 2, VGI – Excellent, 3A, WHA – Good, 3A, WORK – not available, no progress.

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Level 2: Declared

Level 3: Established (3A: Established by Declaration of Intent, 3B: Established by Internal Commitment and Policy)

Level 4: Certified

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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

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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.

#### 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.