

**1Q FYE DEC 2015 RESULTS REPORT**

29 May 2015

<b>Name of PLC:</b> <i>Salcon Berhad (Salcon)</i>		<b>Target Price:</b>	RM 0.90
<b>Business Summary :</b> <i>Investment holding company involved in water construction, water O&amp;M contract and property development</i>			
<b>Major Shareholders :</b>			
<i>Dato' Seri (Dr.) Goh Eng Toon</i>			10.2%
<i>Havenport Asset Management Pte Ltd</i>			7.0%
<i>Great Eastern Holdings Limited</i>			4.9%
<b>PLC Website :</b> <a href="http://www.salcon.com.my">www.salcon.com.my</a>		<b>Recommendation:</b>	BUY
<b>IR Contact :</b> <i>Ms Chern Meng Gaik</i> <a href="mailto:mgchern@salcon.com.my">mgchern@salcon.com.my</a>		<b>Market Capitalisation:</b>	RM 547.9 m
<ul style="list-style-type: none"> <li>- <i>FBM Small Cap</i></li> <li>- <i>FBM Emas Shariah</i></li> </ul>		<b>Current Price :</b>	RM 0.83
		<b>Market / Sector:</b>	Trading/Services
		<b>Stock Code:</b>	8567
<b>Analyst :</b> <i>Lim Boon Ngee</i> <i>Tel : +603 2163 3200; Email : <a href="mailto:bnlim@nra.com.my">bnlim@nra.com.my</a></i>			

Key Stock Statistics	2012	2013	2014	2015F
EPS (sen)	2.2	4.2	0.7	3.4
P/E (x)	38.4	20.0	121.4	24.7
Dividend/Share (sen)	1.0	3.0	3.0	3.0
NTA/Share (RM)	0.80	0.85	0.79	0.79
Book Value/Share (RM)	0.80	0.85	0.84	0.84
Issued Capital (mil shares)	521.7	608.3	674.6	674.6
52-weeks Share Price Range (RM)				0.56 - 1.01

Per Share Data	2012	2013	2014	2015F
Year-end 31 Dec				
Book Value (RM)	0.80	0.85	0.84	0.84
Operating Cash Flow (sen)	(3.1)	(0.9)	(17.8)	(1.5)
Earnings (sen)	2.2	4.2	0.7	3.4
Dividend (sen)	1.0	3.0	3.0	3.0
Payout Ratio (%)	46.2	81.4	438.7	89.3
PER (x)	38.4	20.0	121.4	24.7
P/Cash Flow (x)	(26.6)	(94.7)	(4.7)	(56.7)
P/Book Value (x)	1.0	1.0	1.0	1.0
Dividend Yield (%)	1.2	3.6	3.6	3.6
ROE (%)	2.8	5.4	0.8	4.0
Net Gearing (%)	54.8	n.c.	n.c.	n.c.

P&L Analysis (RM mil)	2012	2013	2014	2015F
Revenue	340.8	164.6	201.9	360.0
Operating Profit	65.0	(23.7)	(3.7)	20.0
Finance, net	(16.1)	(6.0)	7.2	6.6
Associate	3.5	3.2	3.4	4.0
Pre-tax Profit	38.9	(30.8)	1.6	30.6
Effective Tax Rate (%)	(19.1)	(3.5)	(239.7)	(25.0)
Net Profit	11.3	24.9	4.5	22.4
Operating Margin (%)	19.1	(14.4)	(1.8)	5.6
Pre-tax Margin (%)	11.4	(18.7)	0.8	8.5
Net-Margin (%)	3.3	15.2	2.2	6.2

**Share Price Chart**

**1. 1QFY15 Results Highlight**

	1Q FY15	1Q FY14	Chg
	RMm	RMm	%
Revenue	21.41	40.42	(47.0)
Operating Profit	7.94	(2.10)	n.m.
Net interest income	1.49	1.14	31.1
Associates	1.06	0.82	29.8
Pre-tax Profit	10.49	(0.15)	n.m.
Profit from discontinued ops	(4.59)	32.40	n.m.
Net Profit	7.61	16.39	(53.6)
Operating Margin (%)	37.1	(5.2)	
Pre-tax Margin (%)	49.0	(0.4)	
Net-Margin (%)	35.5	40.6	

- In 1QFY15, turnover declined by 47% to RM21.41m due to lower progress of projects of its construction division.

- Despite the lower revenue, it recorded a PBT of RM10.49m in 1QFY15 as compared with a small pretax loss of RM0.15. This was due mainly to forex gain.
- In Sep-2013, Salcon announced the disposal of all its entire interest in China's water and wastewater concessions to HKEx-listed Beijing Enterprises Water Group Limited (BEWGL) for RMB955m. The disposal of Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited was completed on 23-Dec-2013. The completion of the disposal of the remaining concession assets will be completed by 23-Aug-2015. Consequently, the contribution from its disposed concession business is now parked under discontinued operations.
- After the disposal of water and wastewater concessions, construction division accounted for 92% of group turnover in FY14. Its current operations consist of construction and property development, which is in the initial stage of projects implementation.

## 2. Earnings Outlook

- Salcon's first property project is located in Selayang (Selayang Res 280) with an estimated GDV of RM155m, which features a 21-storey commercial building comprising 12 units of 2-storey shop office and 280 units of SOHO. The construction of the project has started since 4QFY13. Its second property development is to jointly develop 2 pieces of land, measuring 51,476 sqm in Johor with Eco World Development Sdn Bhd. This project has an estimated GDV of RM1.2b, which will comprise mixed residential and commercial development, strategically located within the Flagship Zone A of the Iskandar Malaysia and approximately 2 km north of the central business district of Johor Bahru.
- The performance of its Construction division will be underpinned by the secure of 2 main projects in FY14. Through the consortium Salcon- MMC-AZRB JV Sdn Bhd, it secured a RM994m Langat 2 water treatment plant project in Apr-2014. Salcon's portion of work is estimated at RM358m. Works on the project has commenced and the packages of site clearing and earthworks jobs have been awarded. As Salcon is involved in the M&E portion of the project, initial contribution will not be significant in FY14. Salcon's M&E works will come into full swing in FY15 onwards. In Dec-2014, it secured Langat centralised sewage treatment plant worth RM470m through JV with Loh & Loh Construction Sdn Bhd.
- In addition, its 40%-owned Emas Utilities Corporation Sdn Bhd owns 90% interest in Binh An Water Corporation Ltd. which is a concession holder to treat and supply 100 MLD of potable water to Ho Chi Minh City.

## 3. Valuation and Recommendation

- We are still maintaining our BUY recommendation on the stock. We expect it to report a better earnings performance in FY15 due to the higher progress billings of its construction projects and property projects. The stock is trading at a discount to its adjusted book value of RM0.90/share.

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## Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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