

3Q FYE DEC 2014 RESULTS REPORT

21 November 2014

Name of PLC: <i>Salcon Berhad (Salcon)</i>		Target Price:	RM 0.90
Business Summary : <i>Investment holding company involved in water construction, water O&M contract and property development</i>			
Major Shareholders :			
<i>Dato' Seri (Dr.) Goh Eng Toon</i>			11.1%
<i>Tan Sri Dato' Tee Tiam Lee</i>			9.1%
<i>Great Eastern Holdings Limited</i>			6.1%
<i>as at 30 April 2014</i>			
PLC Website : www.salcon.com.my		Recommendation:	BUY
IR Contact : <i>Ms Chern Meng Gaik</i> mgchern@salcon.com.my		Market Capitalisation:	RM 480.1 m
<ul style="list-style-type: none"> - <i>FBM Small Cap</i> - <i>FBM Emas Shariah</i> 		Current Price :	RM 0.72
		Market / Sector:	Trading/Services
		Stock Code:	8567
Analyst : <i>Lim Boon Ngee</i>			
<i>Tel : +603 2163 3200; Email : bnlim@nra.com.my</i>			

Key Stock Statistics	2012	2013	2014F	2015F
EPS (sen)	2.2	4.1	(1.2)	3.4
P/E (x)	33.3	17.6	(59.0)	21.4
Dividend/Share (sen)	1.0	3.0	5.0	1.0
NTA/Share (RM)	0.80	0.85	0.84	0.97
Book Value/Share (RM)	0.80	0.85	0.85	0.98
Issued Capital (mil shares)	521.7	608.3	674.6	674.6
52-weeks Share Price Range (RM)	0.63 - 1.01			

Per Share Data	2012	2013	2014F	2015F
Year-end 31 Dec				
Book Value (RM)	0.80	0.85	0.85	0.98
Operating Cash Flow (sen)	(3.1)	(0.3)	3.5	8.1
Earnings (sen)	2.2	4.1	(1.2)	3.4
Dividend (sen)	1.0	3.0	5.0	1.0
Payout Ratio (%)	46.2	81.4	(409.6)	29.7
PER (x)	33.3	17.6	(59.0)	21.4
P/Cash Flow (x)	(23.1)	(284.4)	20.3	8.9
P/Book Value (x)	0.9	0.8	0.9	0.7
Dividend Yield (%)	1.4	4.2	6.9	1.4
ROE (%)	2.8	5.3	(1.5)	3.7
Net Gearing (%)	54.8	n.c.	n.c.	n.c.

P&L Analysis (RM mil)	2012	2013	2014F	2015F
Revenue	340.8	169.8	150.0	360.0
Operating Profit	65.0	(23.7)	(14.0)	20.0
Finance, net	(16.1)	(6.0)	5.4	6.6
Associate	3.5	3.2	4.0	4.0
Pre-tax Profit	38.9	(26.5)	(4.6)	30.6
Effective Tax Rate (%)	(19.1)	9.6	64.7	(25.0)
Net Profit	11.3	24.6	(8.1)	22.4
Operating Margin (%)	19.1	(13.9)	(9.3)	5.6
Pre-tax Margin (%)	11.4	(15.6)	(3.1)	8.5
Net-Margin (%)	3.3	14.5	(5.4)	6.2

Share Price Chart

1. 3QFY14 Results Highlight

	3QFY14	3QFY13	Chg
	RMm	RMm	%
Revenue	20.84	27.48	(24.1)
Operating Profit	(5.31)	(4.94)	7.4
Net interest income	1.45	(1.66)	n.m.
Associates	0.82	0.83	(0.5)
Pre-tax Profit	(3.03)	(5.78)	(47.6)
Profit from discontinued ops	(0.15)	14.24	n.m.
Net Profit	(1.76)	0.59	n.m.
Operating Margin (%)	(25.5)	(18.0)	
Pre-tax Margin (%)	(14.5)	(21.0)	
Net-Margin (%)	(8.4)	2.1	

- In 3QFY14, turnover was lower by 24.1% at RM20.84m due mainly to the reversal of revenue recognised in 1HFY14 amounting to RM7.97m.

- This was because of an adjustment made to its property division in accordance to MASB standard which prevents companies from recognizing income and profits on stages of completion.
- It recorded a lower pretax loss of RM3.03m (3QFY14) as compared with RM5.78m (3QFY13) due to the adjustment made to its property division despite the improvement at its construction division.
- 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 26-Nov-2014. Consequently, the contribution from its disposed concession business is now parked under discontinued operations.
- Pursuant to the disposal, its current operations consist of construction and property development, which is in the initial stage of projects implementation.
- Its construction division improved its revenue slightly by 4.3% to RM24.86m in 3QFY14. Due to lower operating expenses, its pretax loss reduced to RM2.99m in 3QFY14 from RM5.35m in 3QFY13. Property division incurred a higher pretax loss of RM1.57m in 3QFY14 due to the reversal of revenue.

9MFY14 Results Highlight

	9M FY14	9M FY13	Chg
	RMm	RMm	%
Revenue	94.54	78.67	20.2
Operating Profit	(11.36)	(8.31)	36.7
Net interest income	2.92	(4.15)	n.m.
Associates	2.51	2.31	8.5
Pre-tax Profit	(5.93)	(10.14)	(41.6)
Profit from discontinued ops	31.41	36.53	(14.0)
Net Profit	9.90	4.33	128.8
Operating Margin (%)	(54.5)	(30.2)	
Pre-tax Margin (%)	(28.4)	(36.9)	
Net-Margin (%)	47.5	15.8	

- In 9MFY14, while turnover grew by 20.2% to RM94.54m, it recorded a reduced pretax loss of RM5.93m. This was due to losses at its construction and property divisions, offsetting by higher interest income arising from the cash proceeds from the disposal of all its water and wastewater assets in China.

2. Earnings Outlook

- The disposal of its entire interest in China's water and wastewater concessions has already greatly improved its balance sheet position. It now has a net cash position of RM319.4.0m (as at end-3QFY14) as compared with net debt position as at end-FY12. Upon the fulfilment of final tranche of the transaction, its net cash position could improve by another RM80m. The net cash addition will be re-allocated for its expansion into its newly established property development and investment in new income stream.
- 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. Since its official launch in Oct-2013, response has been encouraging with 60% of the total units sold. The construction of the project has started since 4QFY13.
- Salcon through its 50.01%-owned Nusantara Megajuta Sdn Bhd (NMSB), had signed a Letter of Intent with Eco World Development Sdn Bhd to jointly develop 2 pieces of land, measuring 51,476 sqm in Johor. This will be Salcon's second property venture with 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 Johor project is targeted to be launched in 2HFY14.

- Recently, Salcon through the consortium Salcon- MMC-AZRB JV Sdn Bhd secured a RM994m Langat 2 water treatment plant project. 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 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 have tweaked our earnings forecast to factor in the reversal of revenue contribution from property division and lower progress billings of its construction division. As such, we now expect it to report a pretax loss in FY14.
- Nonetheless, we are still maintaining our BUY recommendation on the stock. We expect it to report a better earnings performance in FY15 due to the progress billings of its construction projects especially the Langat 2 water treatment project and property projects. The stock is trading at a discount to its book value of RM0.90/share.

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)

This report has been prepared by Netresearch-Asia Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") III, administered by Bursa Malaysia Berhad ("Administrator") and has been compensated to undertake the scheme. Netresearch-Asia Sdn Bhd has produced this report independent of any influence from the Administrator or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/eResearch.jsp

The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.