

2Q FYE DEC 2014 RESULTS REPORT

28 August 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 556.4 m
<ul style="list-style-type: none"> - <i>FBM Small Cap</i> - <i>FBM Emas Shariah</i> 		Current Price :	RM 0.84
		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	0.9	3.4
P/E (x)	38.8	20.5	96.4	24.8
Dividend/Share (sen)	1.0	3.0	5.0	1.0
NTA/Share (RM)	0.80	0.85	0.86	0.99
Book Value/Share (RM)	0.80	0.85	0.86	0.99
Issued Capital (mil shares)	521.7	608.3	669.9	669.9
52-weeks Share Price Range (RM)	0.59 - 1.01			

Per Share Data	2012	2013	2014F	2015F
Year-end 31 Dec				
Book Value (RM)	0.80	0.85	0.86	0.99
Operating Cash Flow (sen)	(3.1)	(0.3)	1.7	4.6
Earnings (sen)	2.2	4.1	0.9	3.4
Dividend (sen)	1.0	3.0	5.0	1.0
Payout Ratio (%)	46.2	73.3	573.6	29.5
PER (x)	38.8	20.5	96.4	24.8
P/Cash Flow (x)	(26.9)	(331.8)	48.9	18.4
P/Book Value (x)	1.1	1.0	1.0	0.8
Dividend Yield (%)	1.2	3.6	6.0	1.2
ROE (%)	2.8	5.3	1.1	3.6
Net Gearing (%)	54.8	n.c.	n.c.	n.c.

P&L Analysis (RM mil)	2012	2013	2014F	2015F
Revenue	340.8	169.8	190.0	360.0
Operating Profit	65.0	(23.7)	(1.0)	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)	8.4	30.6
Effective Tax Rate (%)	(19.1)	9.6	(25.0)	(25.0)
Net Profit	11.3	24.6	5.8	22.4
Operating Margin (%)	19.1	(13.9)	(0.5)	5.6
Pre-tax Margin (%)	11.4	(15.6)	4.4	8.5
Net-Margin (%)	3.3	14.5	3.0	6.2

Share Price Chart

1. 2QFY14 Results Highlight

	2QFY14	2QFY13	Chg
	RMm	RMm	%
Revenue	33.27	14.98	122.2
Operating Profit	(3.95)	(3.28)	20.4
Net interest income	0.33	(1.16)	n.m.
Associates	0.87	0.74	18.1
Pre-tax Profit	(2.75)	(3.71)	(25.8)
Profit from discontinued ops	(0.85)	12.97	n.m.
Net Profit	(4.73)	1.32	(459.7)
Operating Margin (%)	(11.9)	(21.9)	
Pre-tax Margin (%)	(8.3)	(24.7)	
Net-Margin (%)	(14.2)	8.8	

- In 2QFY14, turnover more than doubled to RM33.27m due to higher contribution from construction division and additional contribution from property division.

- However, in the absence of earnings from China's concession, it continued to report a pretax loss of RM2.75m.
- The loss of construction division was attributed to higher operating expenses. However, it was mitigated by higher net interest income (arising for the proceeds of the disposal of its China concession) and small profit from its newly established property 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.

1HFY14 Results Highlight

	1H FY14	1H FY13	Chg
	RMm	RMm	%
Revenue	73.70	51.19	44.0
Operating Profit	(6.05)	(3.37)	79.8
Net interest income	1.47	(2.49)	n.m.
Associates	1.68	1.48	13.5
Pre-tax Profit	(2.90)	(4.37)	(33.6)
Profit from discontinued ops	31.55	22.29	41.6
Net Profit	11.66	3.74	211.8
Operating Margin (%)	(18.2)	(22.5)	
Pre-tax Margin (%)	(8.7)	(29.2)	
Net-Margin (%)	35.0	25.0	

- In 1HFY14, while turnover grew by 44.0% to RM73.70m, it recorded a reduced pretax loss of RM2.90m as compared with RM4.37m (1HFY13). It was due to higher contribution from construction division, maiden contribution from property division and higher net interest income.

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 RM348.0m (as at end-2QFY14) 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 to close to RM400m, translating into a net cash of around RM0.60/share. 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.

- This new project will take Salcon's outstanding orderbook to close to RM930m from RM572m and unbilled portion to RM642m from RM285m. It is also tendering for RM2.2bn of new projects in Malaysia (60%) and overseas (40%).
- 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

- Although Salcon reported a small pretax loss in 1HFY14, we are maintaining our earnings forecast and BUY recommendation on the stock. We expect it to report a better earnings performance due to the progress billings of its construction projects 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)

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