

**UPDATE REPORT**

18 April 2014

<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 and wastewater treatment, raw water transfer via concession and O&amp;M contract, as well as water construction</i>			
<b>Major Shareholders :</b>			
<i>Dato' Seri (Dr.) Goh Eng Toon</i>			12.8%
<i>Tan Sri Dato' Tee Tiam Lee</i>			10.8%
<i>as at 30 April 2013</i>			
<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 485 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 0.79
		<b>Market / Sector:</b>	Trading/Services
		<b>Stock Code:</b>	8567
<b>Analyst : Lim Boon Ngee</b> <i>Tel : +603 2163 3200; Email : <a href="mailto:bnlim@nra.com.my">bnlim@nra.com.my</a></i>			

Key Stock Statistics	2012	2013	2014F	2015F
EPS (sen)	2.2	4.1	0.9	3.6
P/E (x)	36.5	19.3	89.6	21.8
Dividend/Share (sen)	1.0	3.0	-	-
NTA/Share (RM)	0.80	0.85	0.83	0.83
Book Value/Share (RM)	0.80	0.85	0.84	0.84
Issued Capital (mil shares)	521.7	608.3	608.3	608.3
52-weeks Share Price Range (RM)				0.48 - 0.86

Per Share Data	2012	2013	2014F	2015F
Year-end 31 Dec				
Book Value (RM)	0.80	0.85	0.84	0.84
Operating Cash Flow (sen)	(3.1)	(0.3)	1.8	4.9
Earnings (sen)	2.2	4.1	0.9	3.6
Dividend (sen)	1.0	3.0	-	-
Payout Ratio (%)	46.2	73.3	-	-
PER (x)	36.5	19.3	89.6	21.8
P/Cash Flow (x)	(25.3)	(312.1)	44.3	16.1
P/Book Value (x)	1.0	0.9	0.9	0.9
Dividend Yield (%)	1.3	3.8	-	-
ROE (%)	2.8	5.3	1.1	4.3
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)	3.0	24.0
Finance, net	(16.1)	(6.0)	0.9	2.4
Associate	3.5	3.2	4.0	4.0
Pre-tax Profit	38.9	(26.5)	7.9	30.4
Effective Tax Rate (%)	(19.1)	9.6	(25.0)	(25.0)
Net Profit	11.3	24.6	5.4	22.3
Operating Margin (%)	19.1	(13.9)	1.6	6.7
Pre-tax Margin (%)	11.4	(15.6)	4.2	8.5
Net-Margin (%)	3.3	14.5	2.9	6.2

**Share Price Chart**



**1. Recent Development**

- Salcon announced that its wholly-owned Salcon Engineering Berhad through the consortium Salcon- MMC-AZRB JV Sdn Bhd has been awarded with Langat 2 water treatment plant and reticulation contract by Pengurusan Aset Air Berhad.
- Salcon has a 36% stake in the JV company while MMC Corporation Berhad and Ahmad Zaki Sdn Bhd owns the remaining 34% and 30% each.
- The project comprises the construction and completion of Langat 2 water treatment plant with a design capacity of 1,130 MLD.
- This contract, with a value of RM994m, is expected to be completed within 3 years.

## 2. Earnings Outlook

- Salcon's portion of work is estimated at RM358m. 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%).
- Going forward, its earnings prospects is underpinned by the implementation of its existing orderbook and the award of new projects as well as its two property projects namely Selayang Res 280 and Johor land development project.

## 3. Valuation and Recommendation

- We are maintaining our Buy recommendation on the stock. 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](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.