

**4Q FYE DEC 2013 RESULTS REPORT**

27 February 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 444 m
- <i>FBM Small Cap</i> - <i>FBM Emas Shariah</i>		<b>Current Price :</b>	RM 0.74
		<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	2011	2012	2013	2014F
EPS (sen)	3.1	2.2	4.1	0.3
P/E (x)	24.0	34.2	18.1	286.6
Dividend/Share (sen)	1.5	1.0	3.0	3.0
NTA/Share (RM)	0.82	0.80	0.85	0.82
Book Value/Share (RM)	0.82	0.80	0.85	0.82
Issued Capital (mil shares)	474.3	521.7	608.3	608.3
52-weeks Share Price Range (RM)			0.40 - 0.75	

Per Share Data	2011	2012	2013	2014F
Year-end 31 Dec				
Book Value (RM)	0.82	0.80	0.85	0.82
Operating Cash Flow (sen) (11.9)	(3.1)	(0.3)		6.0
Earnings (sen)	3.1	2.2	4.1	0.3
Dividend (sen)	1.5	1.0	3.0	3.0
Payout Ratio (%)	53.4	46.2	73.3	1,161.8
PER (x)	24.0	34.2	18.1	286.6
P/Cash Flow (x)	(6.2)	(23.7)	(292.3)	12.4
P/Book Value (x)	0.9	0.9	0.9	0.9
Dividend Yield (%)	2.0	1.4	4.1	4.1
ROE (%)	4.1	2.8	5.3	0.3
Net Gearing (%)	22.8	54.8	n.c.	n.c.

P&L Analysis (RM mil)	2011	2012	2013	2014F
Revenue	472.5	340.8	169.8	140.0
Operating Profit	38.8	65.0	(23.7)	(2.0)
Finance, net	(12.6)	(16.1)	(6.0)	0.6
Associate	2.9	3.5	3.2	4.0
Pre-tax Profit	29.1	38.9	(26.5)	2.6
Effective Tax Rate (%)	(12.7)	(19.1)	9.6	(20.0)
Net Profit	14.6	11.3	24.6	1.6
Operating Margin (%)	8.2	19.1	(13.9)	(1.4)
Pre-tax Margin (%)	6.1	11.4	(15.6)	1.8
Net-Margin (%)	3.1	3.3	14.5	1.1

**Share Price Chart**

**1. 4QFY13 Results Highlight**

	4QFY13	4QFY12	Chg
	RMm	RMm	%
Revenue	91.09	61.45	48.3
Operating Profit	(15.14)	2.73	n.m.
Net interest expense	(1.83)	(1.70)	7.7
Associates	0.86	1.01	(15.1)
Pre-tax Profit	(16.12)	2.04	n.m.
Net Profit	20.26	8.11	149.9
Operating Margin (%)	(16.6)	4.4	
Pre-tax Margin (%)	(17.7)	3.3	
Net-Margin (%)	22.2	13.2	

- Turnover increased by 48.3% to RM91.09m in 4QFY13 due mainly to variation orders received for its construction division.
- It recorded a pretax loss of RM16.12m due to higher operating expenses.

- The contribution from its disposed concession business is now parked under discontinued operations. Hence, net profit grew to RM20.26m (4QFY13) from RM8.11m (4QFY12). It also included gain on disposal of RM26.11m.

### **FY13 Results Highlight**

	<b>FY13</b>	<b>FY12</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	169.76	182.15	(6.8)
Operating Profit	(23.66)	(1.48)	1,496.6
Net interest expense	(5.98)	(3.41)	75.4
Associates	3.17	3.48	(8.9)
Pre-tax Profit	(26.47)	(1.41)	1,776.1
Net Profit	24.59	11.28	117.9
Operating Margin (%)	(26.0)	(2.4)	
Pre-tax Margin (%)	(29.1)	(2.3)	
Net-Margin (%)	27.0	18.4	

- 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 Mar-2014.
- The disposal has changed the revenue mix of Salcon. Its construction division now accounted for 91% of its group turnover in FY13. In FY13, turnover dipped by 6.8% to RM169.76m due to orderbook depletion but it was mitigated by variation orders received in 4QFY13. It reported a pretax loss of RM26.47m in FY13 due to higher operating expenses.

## **2. Earnings Outlook**

- Upon completion, this disposal exercise will bring in total cash of RM270m net of liabilities and result in a disposal gain of RM78m (or 13 sen/share).
- The net cash addition of RM240m (after repayment of borrowings of RM97.5m and special dividend of RM30m) 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.
- Salcon managed to secure new contracts worth RM210m for FY13. It is also tendering for projects worth a total RM2.2b. Amongst the notable projects include Langat 2 water treatment plant in Selangor and Pengerang water treatment plant in Johor.
- Part of the proceeds from the proposed disposal of up to RM30m will be distributed to shareholders via a special dividend or capital repayment.

- 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 maintaining our Buy recommendation on the stock. The stock is trading at a discount to its 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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