

3Q FYE DEC 2013 RESULTS REPORT

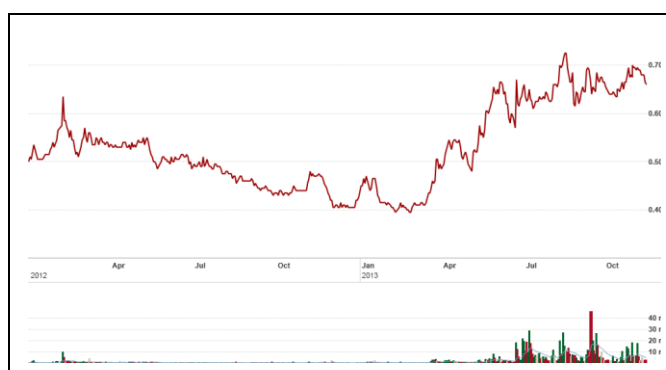
28 November 2013

Name of PLC: Salcon Berhad (Salcon)		Target Price:	RM 0.90
Business Summary : Investment holding company involved in water and wastewater treatment, raw water transfer via concession and O&M contract, as well as water construction			
Major Shareholders :			
Dato' Seri (Dr.) Goh Eng Toon			12.8%
Tan Sri Dato' Tee Tiam Lee			10.8%
as at 30 April 2013			
PLC Website : www.salcon.com.my		Recommendation:	BUY
IR Contact : Ms Chern Meng Gaik mgchern@salcon.com.my		Market Capitalisation:	RM 411.3m
- FBM Small Cap - FBM Emas Shariah		Current Price :	RM 0.685
		Market / Sector:	Trading/Services
		Stock Code:	8567
Analyst : Lim Boon Ngee			
Tel : +603 2163 3200; Email : bnlim@nra.com.my			

Key Stock Statistics	2011	2012	2013F	2014F
EPS (sen)	3.1	2.2	1.4	1.3
P/E (x)	22.2	31.7	48.9	51.7
Dividend/Share (sen)	1.5	1.0	1.0	6.0
NTA/Share (RM)	0.82	0.80	0.70	0.82
Book Value/Share (RM)	0.82	0.80	0.70	0.82
Issued Capital (mil shares)	474.3	521.7	521.7	521.7
52-weeks Share Price Range (RM)				0.40 - 0.75

Per Share Data	2011	2012	2013F	2014F
Year-end 31 Dec				
Book Value (RM)	0.82	0.80	0.70	0.82
Operating Cash Flow (sen) (11.9)		(3.1)	27.1	2.2
Earnings (sen)	3.1	2.2	1.4	1.3
Dividend (sen)	1.5	1.0	1.0	6.0
Payout Ratio (%)	53.4	46.2	71.4	452.9
PER (x)	22.2	31.7	48.9	51.7
P/Cash Flow (x)	(5.8)	(22.0)	2.5	31.1
P/Book Value (x)	0.8	0.9	1.0	0.8
Dividend Yield (%)	2.2	1.5	1.5	8.8
ROE (%)	4.1	2.8	2.0	1.7
Net Gearing (%)	22.8	54.8	21.1	21.1

P&L Analysis (RM mil)	2011	2012	2013F	2014F
Revenue	472.5	340.8	305.0	140.0
Operating Profit	38.8	65.0	58.5	6.0
Finance, net	(12.6)	(16.1)	(17.0)	0.6
Associate	2.9	3.5	4.0	4.0
Pre-tax Profit	29.1	38.9	45.5	10.6
Effective Tax Rate (%)	(12.7)	(19.1)	(20.0)	(20.0)
Net Profit	14.6	11.3	8.4	8.0
Operating Margin (%)	8.2	19.1	19.2	4.3
Pre-tax Margin (%)	6.1	11.4	14.9	7.5
Net-Margin (%)	3.1	3.3	2.8	5.7

Share Price Chart

1. 3QFY13 Results Highlight

	3QFY13	3QFY12	Chg
	RMm	RMm	%
Revenue	74.14	84.16	(11.9)
Operating Profit	11.09	7.60	46.0
Net interest expense	(0.97)	(2.61)	(63.1)
Associates	0.83	0.86	(4.1)
Pre-tax Profit	10.95	5.85	87.3
Net Profit	0.59	0.42	41.1
Operating Margin (%)	15.0	9.0	
Pre-tax Margin (%)	14.8	6.9	
Net-Margin (%)	0.8	0.5	

- In 3QFY13, Salcon's turnover declined by 11.9% to RM74.14m due to lower contribution from both concession and construction divisions.
- PBT and net profit rose by 87.3% and 41.1% to RM10.95m and RM0.59m due to higher installation income from its concession division.

9MFY13 Results Highlight

	9M FY13	9M FY12	Chg
	RMm	RMm	%
Revenue	212.51	232.83	(8.7)
Operating Profit	32.27	22.08	46.2
Net interest expense	(2.73)	(5.48)	(50.1)
Associates	2.31	2.47	(6.4)
Pre-tax Profit	31.85	19.07	67.0
Net Profit	4.33	3.18	36.3
Operating Margin (%)	43.5	26.2	
Pre-tax Margin (%)	43.0	22.7	
Net-Margin (%)	5.8	3.8	

- For 9MFY13, turnover declined by 8.7% to RM212.51m. However, PBT and net profit grew by 67.0% and 36.3% to RM31.85m and RM4.33m respectively.
- The PBT growth was attributed to higher profitability enjoyed by its concession division.

2. Earnings Outlook

- 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 (approximately RM518.3m). The disposal involves 6 water concessions, 1 wastewater concession and 2 raw water concessions located in Fujian, Zhejiang, Jiangsu and Shandong province with a total design capacity of 1,245 MLD.
- Upon completion, this disposal exercise will bring in total cash of RM284m net of liabilities and result in a disposal gain of RM94.61m (or 15.8 sen/share). Its book value will increase to RM0.91 from RM0.80 as at end-FY12.
- The net cash addition of RM284m (after repayment of borrowings of RM102.4m) 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.
- Part of the proceeds from the proposed disposal of up to RM30m will be distributed to shareholders via a special dividend or capital repayment.
- Post-disposal, Salcon's earnings stream will only be derived from its construction division and the newly-established property division. 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.
- Salcon managed to secure new contracts worth RM210m for FY13. Its current outstanding orderbook of RM330m is expected to be completed within 3 years. 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.

3. Valuation and Recommendation

- We are maintaining our Buy recommendation on the stock. Post-disposal, the stock is trading at a larger 24% discount to its book value of RM0.91/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.