

**UPDATE REPORT**

13 September 2013

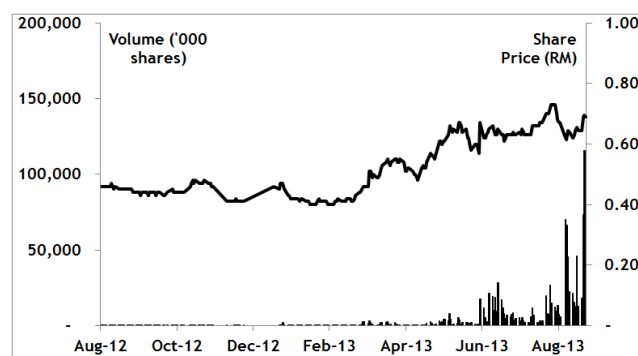
<b>Name of PLC:</b> <i>Salcon Berhad (Salcon)</i>	<b>Target Price:</b>	RM 0.91
<b>Business Summary :</b> <i>Investment holding company involved in water and wastewater treatment, raw water transfer via concession and O&amp;M contract, as well as water construction, and property development</i>		
<b>Major 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 414.3m
<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 0.69
	<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	2011	2012	2013F	2014F
EPS (sen)	3.1	2.2	2.1	2.5
P/E (x)	22.3	31.9	32.8	27.3
Dividend/Share (sen)	1.5	1.0	1.0	1.0
NTA/Share (RM)	0.82	0.80	0.70	0.72
Book Value/Share (RM)	0.82	0.80	0.70	0.72
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	0.72
Operating Cash Flow (sen) (11.9)	(3.1)	26.7	6.3	
Earnings (sen)	3.1	2.2	2.1	2.5
Dividend (sen)	1.5	1.0	1.0	1.0
Payout Ratio (%)	53.4	46.2	47.5	39.5
PER (x)	22.3	31.9	32.8	27.3
P/Cash Flow (x)	(5.8)	(22.1)	2.6	10.9
P/Book Value (x)	0.8	0.9	1.0	1.0
Dividend Yield (%)	2.2	1.4	1.4	1.4
ROE (%)	4.1	2.8	3.0	3.6
Net Gearing (%)	22.8	54.8	21.4	18.9

P&L Analysis (RM mil)	2011	2012	2013F	2014F
Revenue	472.5	340.8	330.9	350.0
Operating Profit	38.8	65.0	57.4	61.0
Finance, net	(12.6)	(16.1)	(17.0)	(16.0)
Associate	2.9	3.5	4.0	4.0
Pre-tax Profit	29.1	38.9	44.4	49.0
Effective Tax Rate (%)	(12.7)	(19.1)	(20.0)	(20.0)
Net Profit	14.6	11.3	12.7	15.2
Operating Margin (%)	8.2	19.1	17.3	17.4
Pre-tax Margin (%)	6.1	11.4	13.4	14.0
Net-Margin (%)	3.1	3.3	3.8	4.3

**Share Price Chart**



**1. Recent Development**

- 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).
- Separately, Salcon also announced that 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.

- 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.
- This disposal provides an opportunity for Salcon to realise and unlock its value in its investment in its China concessions and to strengthen its financial position by way of debt reduction. 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.
- Separately, Salcon also announced that 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 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 expected to be launched in 1HFY14.
- Salcon first property project is located in Selayang which features a 21-storey commercial building comprising 12 units of 2-storey shop office and 280 units of SOHO. Since its soft launch in Apr-2013, response has been encouraging with approximately 50% of the total units sold. The construction of the project is expected to commence in 4QFY13.

## 2. Earnings Outlook

- 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.

## 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.

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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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