

4Q FYE DEC 2012 RESULTS REPORT

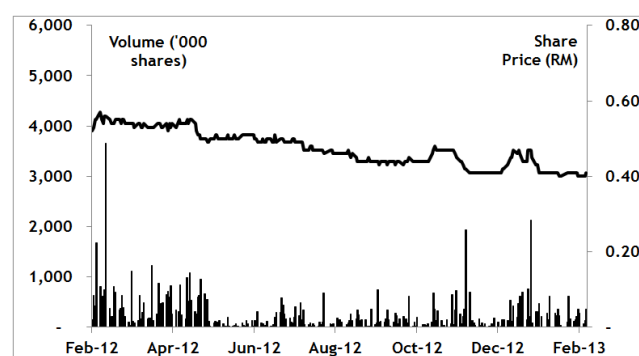
28 February 2013

Name of PLC: Salcon Berhad (Salcon)		Target Price:	RM 0.78
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 25 April 2012)			
PLC Website : www.salcon.com.my		Recommendation:	BUY
IR Contact : Ms Chern Meng Gaik mgchern@salcon.com.my		Market Capitalisation:	RM211.3m
- FBM Small Cap - FBM Emas Shariah		Current Price :	RM 0.405
		Market / Sector:	Trading/Services
		Stock Code:	8567
Analyst : Lim Boon Ngee			
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Key Stock Statistics	2010	2011	2012	2013F
EPS (sen)	5.7	3.1	2.1	2.9
P/E (x)	7.2	13.1	19.0	13.8
Dividend/Share (sen)	1.5	1.5	1.0	1.0
NTA/Share (RM)	0.65	0.79	0.76	0.78
Book Value/Share (RM)	0.68	0.82	0.79	0.81
Issued Capital (mil shares)	473.5	474.3	521.7	521.7
52-weeks Share Price Range (RM)	0.395 - 0.585			

Per Share Data	2010	2011	2012	2013F
Year-end 31 Dec				
Book Value (RM)	0.68	0.82	0.79	0.81
Operating Cash Flow (sen) (20.1)	(11.9)	(1.7)	13.0	
Earnings (sen)	5.7	3.1	2.1	2.9
Dividend (sen)	1.5	1.5	1.0	1.0
Payout Ratio (%)	26.6	48.6	46.8	34.1
PER (x)	7.2	13.1	19.0	13.8
P/Cash Flow (x)	(2.0)	(3.4)	(24.2)	3.1
P/Book Value (x)	0.6	0.5	0.5	0.5
Dividend Yield (%)	3.7	3.7	2.5	2.5
ROE (%)	8.4	4.1	2.8	3.7
Net Gearing (%)	28.2	22.8	57.1	45.0

P&L Analysis (RM mil)	2010	2011	2012	2013F
Revenue	549.9	472.5	343.9	384.6
Operating Profit	37.4	38.8	45.7	55.4
Finance, net	(1.1)	(12.6)	(16.1)	(13.8)
Associate	3.6	2.9	3.5	4.0
EI	5.5	-	7.0	-
Pre-tax Profit	44.1	29.1	40.1	45.6
Effective Tax Rate (%)	(19.5)	(12.7)	(17.6)	(20.0)
Net Profit	26.8	14.6	11.1	15.3
Operating Margin (%)	6.8	8.2	13.3	14.4
Pre-tax Margin (%)	8.0	6.1	11.7	11.9
Net-Margin (%)	4.9	3.1	3.2	4.0

Share Price Chart

1. 4QFY12 Results Highlight

	4QFY12	4QFY11	Chg
	RMm	RMm	%
Revenue	111.08	180.43	(38.4)
Operating Profit	19.48	9.50	105.1
Net interest expense	0.52	2.03	(74.3)
Associates	1.02	0.68	48.4
Pre-tax Profit	21.02	12.21	72.1
Net Profit	7.96	6.78	17.5
Operating Margin (%)	17.5	5.3	
Pre-tax Margin (%)	18.9	6.8	
Net-Margin (%)	7.2	3.8	

- In 4QFY12, Salcon's turnover declined by 38.4% to RM111.08m. This was mainly attributed to lower revenue recognised on the construction of water treatment plants (WTPs) in China.

- PBT and net profit improved by 72.1% and 17.5% to RM21.02m and RM7.96m each due mainly to gain in bargain purchased on an acquisition of subsidiaries (negative goodwill) and higher concession income, but it was mitigated by loss in construction division. The negative goodwill, which amounted to RM7m in 4QFY12 arose as a result of the completion of the acquisition of a 60% stake in a JV company, Darco Environmental Pte Ltd. The company owns and operates 2 existing water treatment plants namely Wukang and Qian Yua water treatment plants in Deqing County, Zhejiang Province of China.
- The strong profit growth at concession division was driven by the full impact of higher-capacity water and sewage treatment plants. Changle WTP (100MLD), Yizheng WTP (50 MLD) and Yizheng STP (50 MLD) commenced operations in 2QFY12, while the larger-capacity Nan An water supply project was commissioned in 3QFY12. In addition, its concession business was also boosted by additional revenue coming from Wukang and Qian Yua WTPs.
- However, its construction division turned in a loss of RM3.96m (4QFY12) from an EBIT of RM7.54m (4QFY11) due to lower orderbook and lower construction margin.
- Although PBT jumped by 72.1% in 4QFY12, the bottomline net profit only grew by 17.5% due to higher minority interest as its concession businesses are parked under 60%-owned Salcon Water (Asia) Limited and 60%-owned JV company, Darco Environmental Pte Ltd.

FY12 Results Highlight

	FY12	FY11	Chg
	RMm	RMm	%
Revenue	343.91	472.46	(27.2)
Operating Profit	41.56	29.54	40.7
Finance cost	(4.96)	(3.38)	46.7
Associates	3.48	2.89	20.5
Pre-tax Profit	40.09	29.05	38.0
Net Profit	11.14	14.65	(23.9)
Operating Margin (%)	37.4	16.4	
Pre-tax Margin (%)	36.1	16.1	
Net-Margin (%)	10.0	8.1	

- For FY12, turnover showed a decline of 27.2% to RM343.91m due to lower revenue recognised on the construction of water treatment plants (WTPs) in China. PBT improved by 38.0% to RM40.09m due mainly to negative goodwill amounting to RM7m.
- EBIT at construction division sprang into a loss of RM12.3m (FY12) from RM12.57m (FY11) due to lower construction orderbook. However, this was offset by higher installation income of its concession business.
- The decline in net profit was due mainly to higher minority interest, as the bulk of group earnings was derived from concession earnings in which Salcon has a 60% share of the profit.

2. Earnings Outlook

- Overall, the group earnings will be underpinned by its concession business. The commissioning of Nan An Raw Water (175 MLD) and completion of the acquisition of Wukang and Qian Yua WTPs in 4QFY12 will drive earnings in FY13.

Production Capacity of China Concessions (MLD as at end-FY)

	FY09	FY10	FY11	FY12	FY13	
Changle sewage treatment plant	40	40	40	40	40	
Linyi water treatment plant	150	150	150	150	150	
Haining water treatment plant	150	300	300	300	300	
Changle water treatment plant (existing/new)	40	WIP	WIP	100	100	operational in 1QFY12
Changle raw water transfer project	WIP	WIP	WIP	100	100	operational in 1QFY12
Yizheng water supply project	-	-	WIP	50	50	operational in 1QFY12
Yizheng sewage treatment plant	-	-	WIP	50	50	operational in 1QFY12
Nan An raw water supply project	WIP	WIP	WIP	175	350	operational in 3QFY12
Wukang water treatment plants	-	-	-	60	60	contributing in 4QFY12
Qian Yua water treatment plants	-	-	-	100	100	contributing in 4QFY12
Total	380	490	490	1,125	1,300	

- After a slow progress in FY12, Salcon has been able to secure new projects beginning FY13. Year-to-date, it has secured 4 new projects worth a total RM139.48m to replenish its depleting orderbook. Based on our estimate, this new project will take Salcon's unbilled sales to RM350m. This should help to reduce the losses of its construction division in FY13.

3. Valuation and Recommendation

- We are maintaining our earnings forecast for FY13 and our Buy recommendation on the stock. We like Salcon for its growing earnings contribution from its concession assets in China. The stock is currently trading at a 49% discount to its book value of RM0.79/share, which does not reflect the promising long-term prospects of its growing concession-based business in China.

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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