

UPDATE REPORT

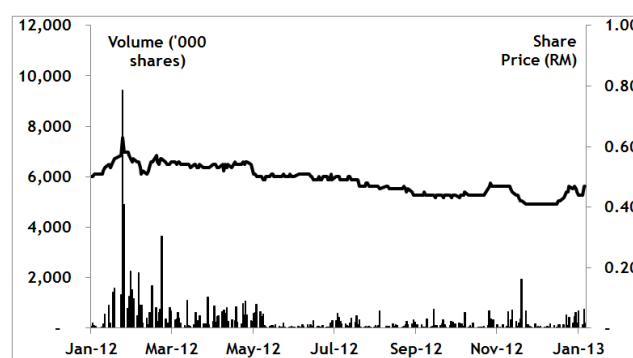
17 January 2013

Name of PLC: <i>Salcon Berhad (Salcon)</i>	Target Price:	RM 0.78
Business Summary : <i>Investment holding company involved in water and wastewater treatment, raw water transfer via concession and O&M contract, as well as water construction</i>		
Major Shareholders :	<i>Dato' Seri (Dr.) Goh Eng Toon</i>	12.8%
	<i>Tan Sri Dato' Tee Tiam Lee</i>	10.8%
<i>(as at 25 April 2012)</i>		
PLC Website : www.salcon.com.my	Recommendation:	BUY
IR Contact : <i>Ms Chern Meng Gaik</i> mgchern@salcon.com.my	Market Capitalisation:	RM242.6m
<ul style="list-style-type: none"> - <i>FBM Small Cap</i> - <i>FBM Emas Shariah</i> 	Current Price :	RM 0.465
	Market / Sector:	Trading/Services
	Stock Code:	8567
Analyst : Lim Boon Ngee <i>Tel : +603 2163 3200; Email : bnlim@nra.com.my</i>		

Key Stock Statistics	2010	2011	2012F	2013F
EPS (sen)	5.7	3.1	1.6	2.9
P/E (x)	8.2	15.1	28.9	15.9
Dividend/Share (sen)	1.5	1.5	1.5	1.5
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)	0.40 - 0.67			

Per Share Data	2010	2011	2012F	2013F
Year-end 31 Dec				
Book Value (RM)	0.68	0.82	0.79	0.81
Operating Cash Flow (sen) (20.1)	(11.9)	(2.1)	10.3	
Earnings (sen)	5.7	3.1	1.6	2.9
Dividend (sen)	1.5	1.5	1.5	1.5
Payout Ratio (%)	26.6	48.6	93.1	51.2
PER (x)	8.2	15.1	28.9	15.9
P/Cash Flow (x)	(2.3)	(3.9)	(22.3)	4.5
P/Book Value (x)	0.7	0.6	0.6	0.6
Dividend Yield (%)	3.2	3.2	3.2	3.2
ROE (%)	8.4	4.1	2.1	3.7
Net Gearing (%)	28.2	22.8	23.9	18.0

P&L Analysis (RM mil)	2010	2011	2012F	2013F
Revenue	549.9	472.5	318.7	384.6
Operating Profit	37.4	38.8	40.4	55.4
Depreciation	(11.7)	(14.0)	(16.8)	(17.7)
Finance, net	(1.1)	(12.6)	(13.9)	(13.8)
Associate	3.6	2.9	4.0	4.0
EI	5.5	-	-	-
Pre-tax Profit	44.1	29.1	30.5	45.6
Effective Tax Rate (%)	(19.5)	(12.7)	(20.0)	(20.0)
Net Profit	26.8	14.6	8.4	15.3
Operating Margin (%)	6.8	8.2	12.7	14.4
Pre-tax Margin (%)	8.0	6.1	9.6	11.9
Net-Margin (%)	4.9	3.1	2.6	4.0

Share Price Chart

1. Recent developments

- Salcon announced that its wholly-owned Salcon Engineering Berhad has been awarded with a project for the construction of sewage pipes network at Klang, Selangor from the Sewerage Services Department, Ministry of Energy, Green Technology and Water of Malaysia.
- The scope of works encompass all works associated with the sewage rationalisation within the South Klang sub-catchment located in Klang, Selangor
- This contract, with a value of RM110.0m is expected to be completed within 4 years from Jan-2013.

- Securing this project is timely, enabling Salcon to replenish its depleting orderbook after a slow progress in FY12. The last construction project secured by Salcon was in Oct-2011 for the Muda River Water Scheme Phase 4A amounting to RM20.7m.
- In addition, this is one of the sizeable projects secured by Salcon in recent years. In comparison, it secured 4 projects amounted to RM79.3m in FY11.

2. Earnings Outlook

- Based on our estimate, this new project will take Salcon's unbilled sales to RM300m. This should help to improve the performance of its construction division, which reported an operating loss of RM8.4m for 9MFY12 due to lower orderbook.
- 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 will drive earnings in FY13.

3. Valuation and Recommendation

- We are maintaining our Buy recommendation on Salcon for its growing earnings contribution from its concession assets in China. The stock is currently trading at a 40% discount to its book value of RM0.76/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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