

1Q FYE DEC 2012 RESULTS REPORT

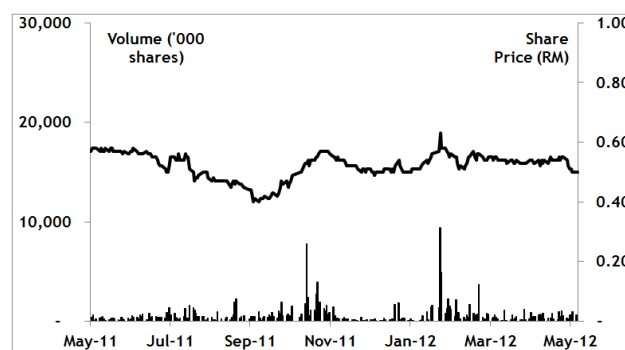
23 May 2012

| | | | |
|--|--|-------------------------------|------------------|
| 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 | | | 14.1% |
| Tan Sri Dato' Tee Tiam Lee | | | 11.8% |
| (as at 29 April 2011) | | | |
| PLC Website : www.salcon.com.my | | Recommendation: | Buy |
| IR Contact : Ms Chern Meng Gaik mgchern@salcon.com.my | | Market Capitalisation: | RM 258.3m |
| - FBM Small Cap - FBM Emas Shariah | | Current Price : | RM 0.495 |
| | | Market / Sector: | Trading/Services |
| | | Stock Code: | 8567 |
| Analyst : Lim Boon Ngee | | | |
| Tel : +603 2163 3200; Email : bnlim@nra.com.my | | | |

| Key Stock Statistics | 2010 | 2011 | 2012F | 2013F |
|---------------------------------|-------|-------|-------------|-------|
| EPS (sen) | 5.7 | 3.1 | 3.3 | 4.3 |
| P/E (x) | 8.7 | 16.0 | 14.9 | 11.5 |
| Dividend/Share (sen) | 1.5 | 1.5 | 1.5 | 1.5 |
| NTA/Share (RM) | 0.65 | 0.79 | 0.78 | 0.81 |
| Book Value/Share (RM) | 0.68 | 0.82 | 0.81 | 0.84 |
| Issued Capital (mil shares) | 473.5 | 474.3 | 521.7 | 521.7 |
| 52-weeks Share Price Range (RM) | | | 0.38 - 0.67 | |

| Per Share Data | 2010 | 2011 | 2012F | 2013F |
|----------------------------------|--------|-------|-------|-------|
| Book Value (RM) | 0.68 | 0.82 | 0.81 | 0.84 |
| Operating Cash Flow (sen) (20.1) | (11.9) | (6.2) | 16.4 | |
| Earnings (sen) | 5.7 | 3.1 | 3.3 | 4.3 |
| Dividend (sen) | 1.5 | 1.5 | 1.5 | 1.5 |
| Payout Ratio (%) | 26.6 | 48.6 | 45.2 | 34.9 |
| PER (x) | 8.7 | 16.0 | 14.9 | 11.5 |
| P/Cash Flow (x) | (2.5) | (4.2) | (7.9) | 3.0 |
| P/Book Value (x) | 0.7 | 0.6 | 0.6 | 0.6 |
| Dividend Yield (%) | 3.0 | 3.0 | 3.0 | 3.0 |
| ROE (%) | 8.4 | 4.1 | 4.3 | 5.2 |
| Net Gearing (%) | 28.2 | 22.8 | 28.5 | 15.0 |

| P&L Analysis (RM mil) | 2010 | 2011 | 2012F | 2013F |
|------------------------|--------|--------|--------|--------|
| Revenue | 549.9 | 472.5 | 368.7 | 426.0 |
| Operating Profit | 37.4 | 38.8 | 44.4 | 54.4 |
| Depreciation | (11.7) | (14.0) | (16.8) | (17.7) |
| Finance, net | (1.1) | (12.6) | (14.1) | (13.9) |
| Associate | 3.6 | 2.9 | 4.0 | 4.0 |
| EI | 5.5 | - | - | - |
| Pre-tax Profit | 44.1 | 29.1 | 34.3 | 44.5 |
| Effective Tax Rate (%) | (19.5) | (12.7) | (12.7) | (12.7) |
| Net Profit | 26.8 | 14.6 | 17.3 | 22.4 |
| Operating Margin (%) | 6.8 | 8.2 | 12.0 | 12.8 |
| Pre-tax Margin (%) | 8.0 | 6.1 | 9.3 | 10.4 |
| Net-Margin (%) | 4.9 | 3.1 | 4.7 | 5.3 |

Share Price Chart

1. 1QFY12 Results Highlight

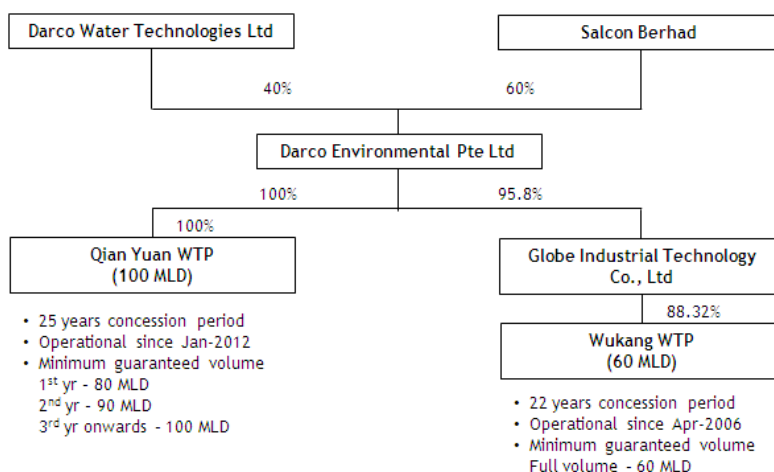
| | 1QFY12 RMm | 1QFY11 RMm | Chg % |
|----------------------|---------------|---------------|----------|
| Revenue | 78.9 | 110.4 | (28.5) |
| Operating Profit | 7.3 | 7.8 | (6.2) |
| Net interest expense | (1.3) | (1.7) | (23.6) |
| Associates | 0.8 | 0.6 | 45.6 |
| Pre-tax Profit | 6.8 | 6.7 | 2.6 |
| Net Profit | 2.5 | 4.3 | (41.6) |
| Operating Margin (%) | 9.3 | 7.1 | |
| Pre-tax Margin (%) | 8.7 | 6.0 | |
| Net-Margin (%) | 3.2 | 3.9 | |

- 1QFY12's turnover and net profit declined by 28.5% and 41.6% to RM78.9m and RM2.5m, due to lower contribution from construction division despite a higher contribution from the concession division.

- In 1QFY12, EBIT from Construction division declined sharply to RM0.6m (1QFY12) from RM3.3m (1QFY11) due to the timing of project implementation. However, we are expecting higher progress billings in the subsequent quarters.
- Due to the re-classification in compliance with IC 12, its concession assets in China are classified into concession intangible assets and long-term receivables. In 1QFY12, concession division recorded EBIT and finance income of RM5.75m and RM2.63m respectively. In total, EBIT from concession division jumped by 86.5% to RM8.4m (1QFY12) from RM4.5m (1QFY11). This was attributed to the expanded capacity of its water and wastewater treatment plants in China.

2. Earnings Outlook

- On 21-May-2012, Salcon entered into a sale and purchase agreement with SGX-listed Darco Water Technologies Limited (Darco) to acquire a 60% stake in a JV company, Darco Environmental Pte Ltd for RMB95.8m cash (RM47.5m), which owns and operates 2 existing water treatment plants namely Wukang and Qian Yua water treatment plants in Deqing County, Zhejiang Province of China as shown below



- Beginning FY12, Salcon's larger-capacity concessions such as Changle new WTP (100 MLD) and Changle Raw Water (100 MLD) will start to contribute more significantly to the group. This is already reflected in the 67.2% and 86.5% jump in turnover and EBIT from concession division in 1QFY12. 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.

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 |
| Changzhou Southeast Industrial wastewater treatment plant | - | - | WIP | 30 | 30 | operational in 1QFY12 |
| Nan An raw water supply project | WIP | WIP | WIP | 175 | 350 | operational in 3QFY12 |
| Wukang water treatment plants | - | - | - | 60 | 60 | |
| Qian Yua water treatment plants | - | - | - | 100 | 100 | |
| Total | 380 | 490 | 490 | 1,155 | 1,330 | |

- Inclusive of Wukang and Qian Yua WTPs, Salcon owns 8 water concessions, 2 municipal wastewater concessions and 1 industrial wastewater concession located in Shandong, Fujian, Zhejiang and Jiangsu Province with a total combined capacity of 1,300 MLD. The increased contribution from concession division will help to offset the declining orderbook of construction division.
- Salcon's outstanding orderbook stands at around RM1.2bn. The unbilled sale of RM210m represents a turnover cover of 0.9x based on the turnover of RM240m for its construction division for FY11.

3. Valuation and Recommendation

- We are reducing our earnings forecast for FY12 by 8% to factor in the lower contribution from construction division.
- However, 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 36% discount to its book value of RM0.78/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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