

4Q FYE DEC 2011 RESULTS REPORT

Date: 29 February 2012

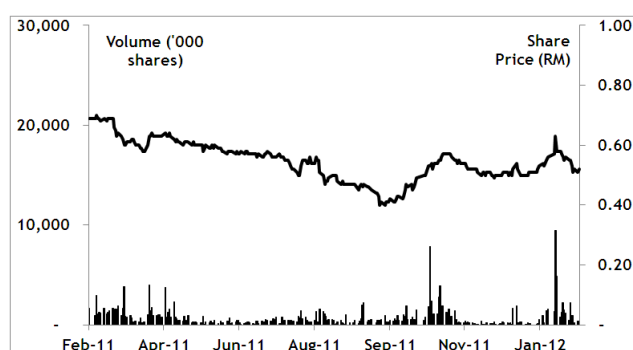
Name of PLC: Salcon Berhad (Salcon)		Target Price:	RM 0.75
Business Summary : Investment holding company involved in water and wastewater treatment, raw water transfer via concession and O&M contract, as well as water construction			
Major Shareholders :			
Dato' Seri Goh Eng Toon			14.1%
Dato' Tee Tiam 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 246.6m
- FBM Small Cap - FBM Emas Shariah		Current Price :	RM 0.52
		Market / Sector:	Trading/Services
		Stock Code:	8567
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my			

Key Stock Statistics	2009	2010	2011F	2012F
EPS (sen)	4.7	5.7	2.8	4.0
P/E (x)	11.0	9.2	18.3	13.1
Dividend/Share (sen)	1.5	1.5	1.5	1.5
NTA/Share (RM)	0.63	0.65	0.78	0.81
Book Value/Share (RM)	0.66	0.68	0.81	0.84
Issued Capital (mil shares)	467.7	473.5	474.3	474.3
52-weeks Share Price Range (RM)				0.38 - 0.67

Per Share Data	2009	2010	2011F	2012F
Book Value (RM)	0.66	0.68	0.81	0.84
Operating Cash Flow (sen)	9.3	1.4	10.2	(11.1)
Earnings (sen)	4.7	5.7	2.8	4.0
Dividend (sen)	1.5	1.5	1.5	1.5
Payout Ratio (%)	31.8	26.5	52.8	37.9
PER (x)	11.0	9.2	18.3	13.1
P/Cash Flow (x)	5.6	38.3	5.1	(4.7)
P/Book Value (x)	0.8	0.8	0.6	0.6
Dividend Yield (%)	2.9	2.9	2.9	2.9
ROE (%)	7.4	8.5	3.8	4.8
Net Gearing (%)	n.c.	28.2	23.0	41.6

P&L Analysis (RM mil)	2009	2010	2011F	2012F
Revenue	369.9	549.9	472.8	488.9
Operating Profit	33.6	37.4	29.6	50.8
Depreciation	(10.7)	(14.9)	(20.4)	(23.1)
Finance, net	(4.0)	(1.1)	(3.4)	(14.3)
Associate	3.8	3.6	2.9	4.0
EI	-	5.5	-	-
Pre-tax Profit	33.5	44.1	29.1	40.5
Effective Tax Rate (%)	(22.1)	(19.5)	(16.3)	(16.3)
Net Profit	22.1	26.8	13.5	18.8
Operating Margin (%)	9.1	6.8	6.3	10.4
Pre-tax Margin (%)	9.0	8.0	6.2	8.3
Net-Margin (%)	6.0	4.9	2.9	3.8

Share Price Chart



1. 4QFY11 Results Highlight

	4QFY11	4QFY10	Chg
	RMm	RMm	%
Revenue	180.7	151.5	19.3
Operating Profit	9.5	3.4	179.7
Net interest expense	2.0	1.4	50.5
Associates	0.7	1.0	(30.4)
Pre-tax Profit	12.2	5.7	113.2
Net Profit	5.6	1.6	261.6
Operating Margin (%)	5.3	2.2	
Pre-tax Margin (%)	6.8	3.8	
Net-Margin (%)	3.1	1.0	

- Reported net profit jumped by 261.6% to RM5.6 in 4QFY11 on the back of a 19.3% increase in turnover.

	4QFY11	4QFY10	Chg
	RMm	RMm	%
Revenue	105.27	118.58	(11.2)
Pre-tax Profit	7.25	4.01	80.8
Pre-tax Margin (%)	6.9	3.4	

- Starting 4QFY11, Salcon has adopted new IC Interpretation 12 on service concession agreement whereby revenue and profit are recognized in P&L during the construction of water treatment plants.
- Excluding IC12 adjustments, while turnover declined by 11.2% to RM105.3m in 4QFY11, PBT jumped by 80.8% to RM7.25m due to cost saving of construction projects. Based on our estimates, its construction division swung to an EBIT of RM7.5m (4QFY11) from a segment loss of RM2.8m (4QFY10). Its Concession division also contributed significantly as finance income (due to re-classification in compliance with IC12) jumped from RM1.7m (4QFY10) to RM10.8m (4QFY11). We believe the bulk of the finance income is derived from its water concessions. Excluding IC12 adjustments, PBT surged by 80.8% to RM7.25m in 4QFY11.

FY11 Results Highlight

	2011	2010	Chg
	RMm	RMm	%
Revenue	472.8	549.9	(14.0)
Operating Profit	29.6	41.5	(28.8)
Finance cost	(3.4)	(1.1)	208.7
Associates	2.9	3.6	(20.6)
Pre-tax Profit	29.1	44.1	(34.0)
Net Profit	13.5	26.8	(49.7)
Operating Margin (%)	16.4	27.4	
Pre-tax Margin (%)	16.1	29.1	
Net-Margin (%)	7.5	17.7	
Excluding IC12 adjustments			
Revenue	397.30	418.15	(5.0)
Pre-tax Profit	24.09	42.33	(43.1)
Pre-tax Margin (%)	6.1	10.1	

- Excluding IC12 adjustments, turnover declined marginally to RM397.3m in FY11. PBT declined by 43.1% to RM24.1m due to higher tendering and distribution costs as well as loss on disposal of assets. In FY10, Salcon also benefited from an exceptional gain from disposal of property amounting to RM5.5m in 2QFY10.

2. Earnings Outlook

- Salcon's current profit base especially its China concession has yet to reach its full potential as the larger-capacity concessions such as Changle new WTP (100MLD), Changle Raw Water (100MLD) and Nan An Raw Water (175MLD) will only be commissioned towards in 1HFY12.

Production Capacity of China Concessions

Concessions	Production Capacity (MLD) as at end-FY			
	FY09	FY10	FY11	FY12
Changle Sewage Treatment Plant	40	40	40	40
Linyi Water Treatment Plant	150	150	150	150
Haining Water Treatment Plant	150	300	300	300
Changle Water Treatment Plant (existing/new)	40	WIP	WIP	100
Changle Raw Water Transfer Project	WIP	WIP	WIP	100
Nan An Raw Water Supply Project	WIP	WIP	WIP	175
Yizheng Water Supply Project	-	-	WIP	50
Yizheng Sewage Treatment Plant	-	-	WIP	50
Changzhou Southeast Industrial WWTP	-	-	WIP	30
Total	380	490	490	995

- Salcon's outstanding orderbook stands at around RM1.3bn. The unbilled sale of RM243m represents a turnover cover of 1x based on the turnover of RM240m for its construction division for FY11.

3. Valuation and Recommendation

- We are maintaining our Buy recommendation on Salcon for its growing concession assets in China. The stock is currently trading at a 33% 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)

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.