

**UPDATE REPORT**

Date: 3 October 2011

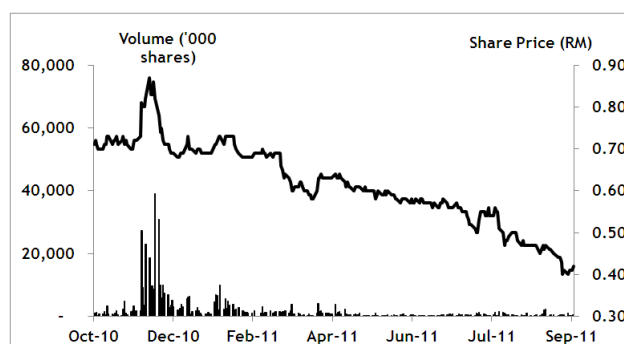
<b>Name of PLC:</b> <i>Salcon Berhad (Salcon)</i>		<b>Target Price:</b>	RM 0.75
<b>Business Summary :</b> <i>Investment holding company involved in water and wastewater treatment, raw water transfer via concession and O&amp;M contract, as well as water construction</i>			
<b>Major Shareholders :</b>			
<i>Dato' Seri Goh Eng Toon</i>			14.1%
<i>Dato' Tee Tiam Lee</i>			11.8%
<i>(as at 29 April 2011)</i>			
<b>PLC Website :</b> <i>www.salcon.com.my</i>		<b>Recommendation:</b>	Buy
<b>IR Contact :</b> <i>Ms Chern Meng Gaik</i> <i>mgchern@salcon.com.my</i>		<b>Market Capitalisation:</b>	RM 198.9m
<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 0.42
		<b>Market / Sector:</b>	Trading/Services
		<b>Stock Code:</b>	8567
<b>Analyst :</b> <i>Lim Boon Ngee</i>			
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Key Stock Statistics	2009	2010	2011F	2012F
EPS (sen)	4.7	4.5	3.7	5.5
P/E (x)	8.9	9.4	11.3	7.6
Dividend/Share (sen)	1.5	1.5	1.5	1.5
NTA/Share (RM)	0.63	0.62	0.77	0.81
Book Value/Share (RM)	0.66	0.65	0.80	0.84
Issued Capital (mil shares)	467.7	473.5	473.5	473.5
52-weeks Share Price Range (RM)				0.38 - 0.89

Per Share Data	2009	2010	2011F	2012F
Book Value (RM)	0.66	0.65	0.80	0.84
Operating Cash Flow (sen)	9.3	1.4	12.6	2.2
Earnings (sen)	4.7	4.5	3.7	5.5
Dividend (sen)	1.5	1.5	1.5	1.5
Payout Ratio (%)	31.8	33.4	40.3	27.2
PER (x)	8.9	9.4	11.3	7.6
P/Cash Flow (x)	4.5	31.0	3.3	18.7
P/Book Value (x)	0.6	0.6	0.5	0.5
Dividend Yield (%)	3.6	3.6	3.6	3.6
ROE (%)	7.4	6.9	5.1	6.7
Net Gearing (%)	n.c.	29.4	5.8	10.4

P&L Analysis (RM mil)	2009	2010	2011F	2012F
Revenue	369.9	418.2	404.0	488.9
Operating Profit	33.6	31.5	34.7	50.3
Depreciation	(10.7)	(14.9)	(20.2)	(22.8)
Finance, net	(4.0)	(3.8)	(3.5)	(2.8)
Associate	3.8	3.6	4.0	4.0
EI	-	5.9	-	-
Pre-tax Profit	33.5	37.2	35.2	51.5
Effective Tax Rate (%)	(22.1)	(22.8)	(25.0)	(25.0)
Net Profit	22.1	21.3	17.6	26.1
Operating Margin (%)	9.1	7.5	8.6	10.3
Pre-tax Margin (%)	9.0	8.9	8.7	10.5
Net-Margin (%)	6.0	5.1	4.4	5.3

**Share Price Chart**



**1. Recent developments**

- Salcon announced that its wholly-owned Salcon Engineering Berhad through its consortium Hydrotek-Salcon Consortium has been awarded with a project for the construction of reservoirs for Phet Kasem and Rat Burana distribution pumping stations and related works in Bangkok, Thailand from Metropolitan Waterworks Authority, Thailand.
- This contract, with a value of RM22.0m (THB215.7m), is expected to be completed in within 2 years from Notice to Proceed.
- This project, which is under the Eight Bangkok Water Supply Improvement Project, is funded by Japan International Cooperation Agency (JICA).

- This represents Salcon's 4<sup>th</sup> project in Thailand after the Min Buri water distribution pumping station, supply and installation of trunk mains and the construction of Sam Lae Raw Water Pumping Station.
- The pace of the secure of new projects has picked up in 2HFY11 after a slower progress in 1HFY11. In Jul-11, Salcon secured a maiden project in India worth RM16.2m for providing and laying of raw water pumping main in Davanagere City, Karnataka, India.
- Subsequently in early Sep-11, Salcon secured a sub-contract project for the upgrading, repairing works and its related works of Sg. Chukai, Kemaman, Terengganu (Chukai flood mitigation plan), with a project value of RM20.4m.

## 2. Earnings Outlook

- This new project will take Salcon's outstanding orderbook to RM1.3bn. The unbilled sales of RM322m represents a turnover cover of 1.2x based on the turnover of RM271.8m for its construction division for FY10.

## 3. Valuation and Recommendation

- We are maintaining our Buy recommendation on the stock for its growing recurring earnings stream from concession business and strong orderbook.
- The stock is currently trading at 44% discount to its NTA of RM0.75/share, which does not reflect the promising long-term prospects of its growing concession-based business in China and the doubling in design capacity of its China concession by end-FY11.

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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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