

1Q FYE DEC 2011 RESULTS REPORT

Date: 27-May 2011

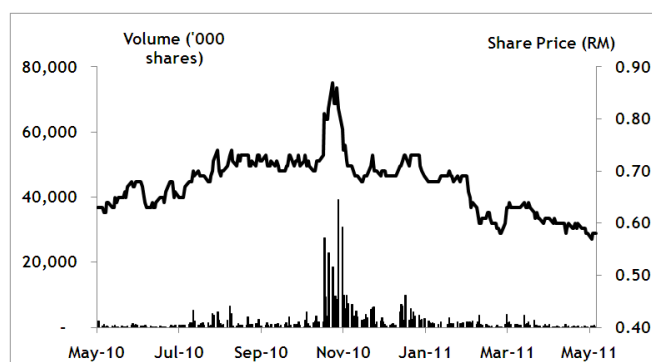
Name of PLC: Salcon Berhad (Salcon)		Target Price:	RM 0.75
Business Summary : Investment holding company involved in water and wastewater treatment, raw water transfer via concession and O&M contract, as well as water construction			
Major Shareholders :			
Dato' Seri Goh Eng Toon			14.3%
Dato' Tee Tiam Lee			11.9%
(as at 30 Apr 2010)			
PLC Website : www.salcon.com.my		Recommendation:	Buy
IR Contact : Ms Chern Meng Gaik mgchern@salcon.com.my		Market Capitalisation:	RM 274.7m
- FBM Small Cap - FBM Emas Shariah		Current Price :	RM 0.58
		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	4.5	4.4	5.8
P/E (x)	12.3	12.9	13.1	10.0
Dividend/Share (sen)	1.5	1.5	1.5	1.5
NTA/Share (RM)	0.63	0.62	0.78	0.82
Book Value/Share (RM)	0.66	0.65	0.81	0.85
Issued Capital (mil shares)	467.7	473.5	473.5	473.5
52-weeks Share Price Range (RM)	0.565 - 0.89			

Per Share Data	2009	2010	2011F	2012F
Book Value (RM)	0.66	0.65	0.81	0.85
Operating Cash Flow (sen)	9.3	1.4	12.2	5.6
Earnings (sen)	4.7	4.5	4.4	5.8
Dividend (sen)	1.5	1.5	1.5	1.5
Payout Ratio (%)	31.8	33.4	33.9	25.8
PER (x)	12.3	12.9	13.1	10.0
P/Cash Flow (x)	6.2	42.7	4.8	10.4
P/Book Value (x)	0.9	0.9	0.7	0.7
Dividend Yield (%)	2.6	2.6	2.6	2.6
ROE (%)	7.4	6.9	6.0	7.0
Net Gearing (%)	n.c.	29.4	6.3	6.9

n.c. - net cash

P&L Analysis (RM mil)	2009	2010	2011F	2012F
Revenue	369.9	418.2	404.0	488.9
Operating Profit	33.6	31.5	42.1	53.7
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	42.6	54.8
Effective Tax Rate (%)	(22.1)	(22.8)	(25.0)	(25.0)
Net Profit	22.1	21.3	21.0	27.5
Operating Margin (%)	9.1	7.5	10.4	11.0
Pre-tax Margin (%)	9.0	8.9	10.5	11.2
Net-Margin (%)	6.0	5.1	5.2	5.6

Share Price Chart

1. 1QFY11 Results Highlight

	1Q 2011	1Q 2010	Chg
	RMm	RMm	%
Revenue	110.4	113.0	(2.2)
Operating Profit	8.1	10.3	(21.8)
Finance cost	(2.0)	(1.0)	90.4
Associates	0.6	0.8	(29.9)
Pre-tax Profit	6.7	10.1	(33.9)
Net Profit	4.3	5.6	(22.6)
Operating Margin (%)	7.3	9.1	
Pre-tax Margin (%)	6.0	8.9	
Net-Margin (%)	3.9	4.9	

- Although Salcon reported a marginal 2.2% decline in turnover to RM110.4m in 1QFY11, net profit declined by 22.6% to RM4.3m.

- The lower profit performance was mainly due to lower Construction and Concession margin. In 1QFY11, EBIT from its Construction Division declined by 39.8% to RM3.3m (from RM5.5m in 1QFY10) while Concession Division saw a slight 9.0% decline in EBIT to RM4.5m (from RM4.9m in 1QFY10).
- Its Construction Division experienced a decline in profit margin due to lower-margin jobs. Salcon's Concession Division seasonally reports a lower earnings performance in 1Q and traditionally performs better in 2Q and 3Q. In addition, the lower profitability in 1QFY11 was also due to start-up expenses.
- Finance cost nearly doubled in 1QFY11 due to heavy capex of around RM150m in FY10.

2. Earnings Outlook

- Annualised net profit for 1QFY11 is 18% below our earnings forecast for FY11. However, we are maintaining our earnings forecast for FY11, as we believe its current profit base has yet to reflect its full potential and the design capacity of the Concession segment, as some of its WTPs have yet to commence operations.
- We expect Haining WTP which was commissioned in 4QFY10 to contribute more meaningfully in 2HFY11 due to the doubling in capacity. In addition, the progressive commissioning of its other concession assets such as Changle new WTP, Changle Raw Water, Nan An Raw Water and Yizheng Water Supply that will only come on stream towards the later part of FY11.

Production Capacity of China Concessions

Concessions	Production Capacity (MLD) as at end-FY		
	FY09	FY10	FY11
Changle Water Treatment Plant (existing/new)	40	WIP	100
Changle Sewage Treatment Plant	40	40	40
Linyi Water Treatment Plant	150	150	150
Haining Water Treatment Plant	150	300	300
Changle Raw Water Transfer Project	WIP	WIP	100
Nan An Raw Water Supply Project	WIP	WIP	175
Yizheng Water Supply Project	WIP	WIP	50
Yizheng Sewage Treatment Plant	WIP	WIP	50
Total	380	490	965

- In addition, Salcon also secured another concession contract in Mar-11 for the Changzhou Southeast Industrial Wastewater Treatment Plant (Changzhou Southeast Industrial WWTP). This Changzhou Southeast Industrial WWTP with a capacity of 30 MLD would expand Salcon's total capacity to 995 MLD.

3. Valuation and Recommendation

- We are maintaining our Buy recommendation on Salcon for the earnings growth in FY12-FY13 arising from the doubling in production capacity towards the latter part of FY11.
- The stock is currently trading at 26% discount to its NTA of RM0.78/share. The stock is currently trading at P/Es of 13.1x and 10.0x for FY11 and FY12.

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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