

INDEPTH UPDATE REPORT

Date: 22-March 2011

Name of PLC: <i>Salcon Berhad</i>	Target Price:	RM 0.75
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 Goh Eng Toon</i>		14.3%
<i>Dato' Tee Tiam Lee</i>		11.9%
<i>(as at 30 Apr 2010)</i>		
PLC Website : <i>www.salcon.com.my</i>	Recommendation:	Buy
IR Contact : <i>Ms Chern Meng Gaik</i> mgchern@salcon.com.my	Market Capitalisation:	RM 284.1m
<ul style="list-style-type: none"> - <i>FBM Small Cap</i> - <i>FBM Emas Shariah</i> 	Current Price :	RM 0.60
	Market / Sector:	Trading/Services
	Stock Code:	8567
Analyst : <i>Lim Boon Ngee</i> <i>Tel : +603 2163 3200; Email : bnlim@nra.com.my</i>		

Key Stock Statistics	2009	2010	2011F	2012F
EPS (sen)	4.7	4.5	4.4	5.8
P/E (x)	12.7	13.4	13.6	10.3
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)		0.585 - 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)	12.7	13.4	13.6	10.3
P/Cash Flow (x)	6.4	44.2	4.9	10.8
P/Book Value (x)	0.9	0.9	0.7	0.7
Dividend Yield (%)	2.5	2.5	2.5	2.5
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

1. Recent developments

- Salcon Berhad (Salcon)'s wholly-owned Salcon Changzhou (HK) Limited has signed a concession agreement with Changzhou City Tian Ning District Diao Zhuang Street Office to acquire, upgrade, operate and maintain the Changzhou Southeast Industrial Wastewater Treatment Plant (Changzhou Southeast Industrial WWTP) for RMB60.0m (RM27.7m).
- The Changzhou Southeast Industrial WWTP is located at Tian Ning, Changzhou, Jiangsu Province, China.
- This is a 30 year TOT project with a capacity of 30 MLD upon completion of the upgrading works within a period of 9 months. Salcon will have to incur another RMB3.0m (RM1.4m) for the upgrading works.
- This marks Salcon first industrial WWTP project and third WWTP project after Changle and Yizheng municipals WWTPs.

2. Earnings Outlook

- This Changzhou Southeast Industrial WWTP with a capacity of 30 MLD would expand Salcon's total capacity to 995 MLD. More importantly, given that this is an industrial WWTP, the agreed wastewater treatment service fee of RMB3.8/m³ is much higher compared with the rates chargeable to its municipals' WTPs and WWTPs.
- Based on the minimum water volume of 17.8MLD (based on 320 days for first 5 years) and the agreed treatment fee of RMB3.8/m³, this project could potentially add RMB 21.6m (RM10.0m) to its turnover for FY12.

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 slightly below its NTA of RM0.62/share. After taking into account the exceptional gain of 11 sen from the disposal of Salcon Asia, its adjusted NTA would increase to RM0.75/share. The stock is currently trading at P/Es of 13.6x and 10.3x 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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