

<b>Salcon Berhad</b>	<b>Price:</b>	RM0.61	
	<b>Market Capitalisation:</b>	RM285.3m	
	<b>Board:</b>	Main	
	<b>Sector:</b>	Trading/Services	
	<b>Index Component:</b>	FBMEMAS/FBM Emas Shariah	
<b>Stock Code:</b>	8567	<b>Recommendation:</b>	BUY

Key Stock Statistics	FY09	FY10F	FY11F
EPS (sen)	4.7	5.7	6.4
P/E (x)	12.9	10.6	9.6
Dividend/Share (sen)	1.5	1.5	1.5
NTA/Share (RM)	0.63	0.67	0.72
Book Value/Share (RM)	0.66	0.70	0.75
Issued Capital (m shares)	467.7	467.7	467.7
52-weeks Share Price Range (RM)	0.45 - 0.81		

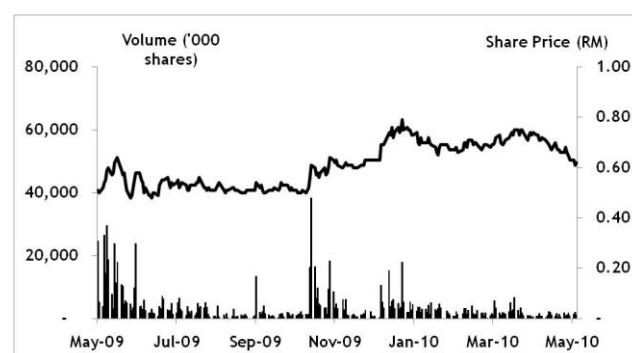
Major Shareholders:	%
Naga Muhibah Sdn Bhd	14.3%
Liew Siew Ping	4.8%
Teng Li Ling	4.2%
Leong Lai Shen	4.0%
Pheim Asset Management Sdn Bhd for EPF	3.2%
Chai Moy Fong	3.2%

as at 27 April 09

Per Share Data	FY08	FY09	FY10F	FY11F
Year-end 31 Dec				
Book Value (RM)	0.62	0.66	0.70	0.75
Cash Flow (sen)	1.2	10.4	6.9	11.7
Earnings (sen)	1.9	4.7	5.7	6.4
Dividend (sen)	0.9	1.5	1.5	1.5
Payout Ratio (%)	0.5	0.3	0.3	0.2
PER (x)	32.3	12.9	10.6	9.6
P/Cash Flow (x)	51.9	5.8	8.8	5.2
P/Book Value (x)	1.0	0.9	0.9	0.8
Dividend Yield (%)	1.5	2.5	2.5	2.5
ROE (%)	3.4	7.4	8.4	8.8
Net Gearing (%)	(8.1)	(11.8)	(8.8)	(10.5)

P&L Analysis (RMm)	FY08	FY09	FY10F	FY11F
Year-end 31 Dec				
Revenue	252.5	369.8	446.0	486.0
Operating Profit	22.8	36.2	42.3	48.0
Depreciation & amortization	(12.6)	(14.3)	(16.7)	(18.8)
Net Interest Expense	(5.1)	(4.0)	(3.1)	(3.3)
Pre-tax profit	16.0	33.3	39.6	45.4
Effective Tax Rate (%)	(25.8)	(21.8)	(22.0)	(22.0)
Net Profit	8.8	22.1	26.8	29.7
Operating Margin (%)	9.0	9.8	9.5	9.9
Pre-tax margin (%)	6.3	9.0	8.9	9.3
Net margin (%)	3.5	6.0	6.0	6.1

### Share Price Chart



### 1. 1QFY10 Results Highlights

	1Q 2010	1Q 2009	Chg
	RMm	RMm	%
Revenue	113.0	79.8	41.6
Operating Profit	10.2	5.5	86.4
Net interest expense	(1.0)	(2.1)	n.m.
Associate	0.8	1.1	(26.1)
Pre-tax Profit	10.1	4.5	123.2
Net Profit	5.6	3.2	70.9
Operating Margin (%)	9.1	6.9	
Pre-tax Margin (%)	8.9	5.7	
Net-Margin (%)	4.9	4.1	

- Salcon recorded a turnover of RM113.0m in 1QFY10, up 41.6% yoy. Both PBT and net profit posted a strong growth rate of 123.2% and 70.9% to RM10.1m and RM5.6m respectively.
- In terms of segmental breakdown, its construction division, the main growth driver, surged by 60.5% to RM91.5m in 1QFY10. This was attributed to higher construction revenue recorded by its wastewater subsidiary.
- Revenue at its concession division held steady at RM21.1m.

- Going forward, its construction division will be underpinned by its strong orderbook of RM1.3bn. Since beginning of FY10, Salcon has secured two projects namely sewerage treatment plants in Kota Bahru, Kelantan and water treatment plant in Sg. Labu, Selangor worth a total RM96.0m.
- Salcon has started to benefit from the growing and recurring earnings stream of its concession business in China. In total, the group operates 7 water concessions and 1 wastewater concession in Linyi Municipality & Changle County in Shandong Province, Haining city in Zhejiang Province, Nanan City in Fujian Province and Yizheng City in Jiangsu Province as well as Binh An in Vietnam.
- On an annualised basis, 1QFY10 net profit is below our earnings forecast. However, we are maintaining our earnings forecast for FY10, as we expect profit to be higher in the subsequent quarters.
- Salcon remains in net cash position, which amounted to RM7.2m as at end 1QFY10.

## **2. Recommendation**

- Going forward, its future earnings performance will be underpinned by the recurring earnings stream from long-term concessions investments and its strong orderbook of RM1.3bn.
- 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 a P/E of 10.6x for FY10. It's also trading at its NTA of RM0.63, which does not capture the enhancing value of its concession investments.
- With its strong net cash position and recurring earnings stream, Salcon is well positioned to expand its water assets portfolio.

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### 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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