

Company Update

Lim Boon Ngee
18 May 2010

Salcon Berhad	Price:	RM0.66
	Market Capitalisation:	RM308.7m
	Board:	Main
	Sector:	Trading/Services
	Index Component:	FBM EMAS/FBM Emas Shariah
Stock Code:	8567	Recommendation: BUY

Key Stock Statistics	FY08	FY09	FY10F
EPS (sen)	1.9	4.7	5.7
P/E (x)	35.0	14.0	11.5
Dividend/Share (sen)	0.9	1.5	1.5
NTA/Share (RM)	0.59	0.63	0.67
Book Value/Share (RM)	0.62	0.66	0.70
Issued Capital (m shares)	467.7	467.7	467.7
52-weeks Share Price Range (RM)	0.43 - 0.81		

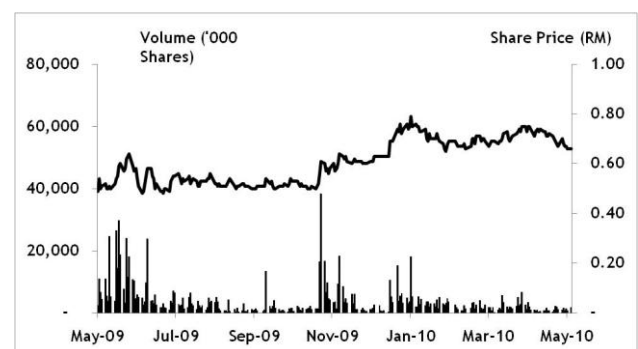
Major Shareholders:	%
Naga Muhibah Sdn Bhd	14.3%
Liew Siew Ping	4.8%
Teng Li Ling	4.2%
Leong Lai Shen	4.0%
Pheim Asset Management Sdn Bhd for EPF	3.2%
Chai Moy Fong	3.2%

as at 27 April 09

Per Share Data	FY07	FY08	FY09	FY10F
Year-end 31 Dec				
Book Value (RM)	0.53	0.62	0.66	0.70
Cash Flow (sen)	(2.0)	1.2	10.4	6.9
Earnings (sen)	(1.8)	1.9	4.7	5.7
Dividend (sen)	-	0.9	1.5	1.5
Payout Ratio (%)	-	0.5	0.3	0.3
PER (x)	(35.8)	35.0	14.0	11.5
P/Cash Flow (x)	(33.7)	56.1	6.3	9.5
P/Book Value (x)	1.3	1.1	1.0	0.9
Dividend Yield (%)	-	1.4	2.3	2.3
ROE (%)	(4.7)	3.4	7.4	8.4
Net Gearing (%)	12.6	(8.1)	(11.8)	(8.8)

P&L Analysis (RMm)	FY07	FY08	FY09	FY10F
Year-end 31 Dec				
Revenue	134.6	252.5	369.8	446.0
Operating Profit	(4.8)	22.8	36.2	42.2
Depreciation & amortization	(7.4)	(12.6)	(14.3)	(16.7)
Net Interest Expense	(3.1)	(5.1)	(4.0)	(3.1)
Pre-tax profit	(5.1)	16.0	33.3	39.6
Effective Tax Rate (%)	26.0	(25.8)	(21.8)	(22.0)
Net Profit	(7.8)	8.8	22.1	26.8
Operating Margin (%)	(3.5)	9.0	9.8	9.5
Pre-tax margin (%)	(3.8)	6.3	9.0	8.9
Net margin (%)	(5.8)	3.5	6.0	6.0

Share Price Chart



1. Recent Developments

- Salcon Berhad (Salcon) announced that its wholly-owned Salcon Engineering Berhad has been awarded with a contract by Pengurusan Aset Air Berhad (PAAB) for the design and build of a water treatment plant (105 MLD) and associated works at Sg. Labu, Selangor.
- This is part of the Kuala Lumpur International Airport (KLIA)'s alternative water supply scheme. This contract, with a value of RM84.2m, is expected to be completed in 18 months in 2 stages from the date of site possession.

2. Earning Outlook

- This new project will take Salcon's outstanding orderbook to RM1.3bn. While local construction contracts account for approximately 80% of the outstanding orderbook, the remaining 20% is made up of overseas contracts.
- Salcon currently operates 7 water concessions and 1 wastewater concession in China and Vietnam. Its recent new award was a 30-year water concession project in Yizheng City of Jiangsu Province, China for the implementation of water transfer project in the central region of the Yizheng City on BOT basis. This would provide the company with growing recurring earnings from long-term concession investment.
- Salcon is currently in various stages to upgrade its existing water treatment plants and also to construct new water treatment plants with larger capacity. In FY09, earnings contribution from these concessions doubled to RM29.7m and already accounted for 57% of group EBIT.

3. 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 11.5x for FY10.

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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