

<b>Salcon Berhad</b>		<b>Price:</b>	RM0.68
		<b>Market Capitalisation:</b>	RM315.7m
		<b>Board:</b>	Main
		<b>Sector:</b>	Trading/Services
		<b>Index Component:</b>	FBM EMAS/FBM Emas Shariah
<b>Stock Code:</b>	8567	<b>Recommendation:</b>	BUY

Key Stock Statistics	FY08	FY09	FY10F
EPS (sen)	1.9	4.7	5.7
P/E (x)	35.8	14.3	11.8
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)		0.32 - 0.81	

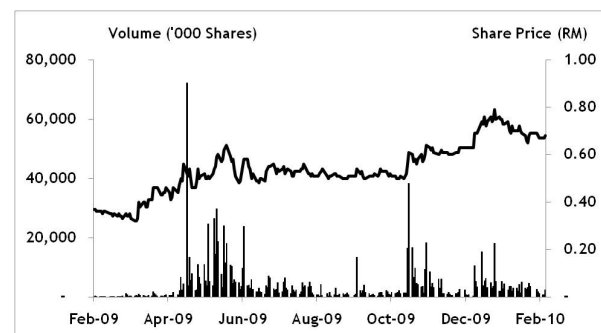
Major Shareholders:	%
Naga Muhibah Sdn Bhd	14.3%
Liew Siew Ping	4.8%
Teng Li Ling	4.2%
Leong Lai Shen	4.0%
Pheim Asset Management Sdn Bhd for EPF	3.2%
Chai Moy Fong	3.2%

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)	(36.6)	35.8	14.3	11.8
P/Cash Flow (x)	(34.5)	57.4	6.5	9.8
P/Book Value (x)	1.3	1.1	1.0	1.0
Dividend Yield (%)	-	1.4	2.2	2.2
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)	(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. 4QFY09 Results Highlights

	4Q 2009	4Q 2008	Chg
	RMm	RMm	%
Revenue	68.9	80.7	(14.7)
Operating Profit	7.1	5.2	37.2
Net interest expense	0.3	(1.4)	n.m.
Associate	0.8	0.9	(5.4)
Pre-tax Profit	8.2	4.7	75.5
Net Profit	5.3	1.5	251.0
Operating Margin (%)	10.3	6.4	
Pre-tax Margin (%)	11.9	5.8	
Net-Margin (%)	7.6	1.9	

- In 4QFY09, although turnover declined by 14.7% yoy to RM68.9m, both PBT and net profit grew sharply by 75.5% and 251% to RM8.2m and RM5.3m respectively.
- The lower turnover was due to lower billing of contract works. The better profits were attributed to higher concession income, lower interest expense and absence of impairment loss.

## **2. FY09 Results Highlights**

	<b>2009</b>	<b>2008</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	369.8	252.5	46.5
Operating Profit	33.5	18.3	82.8
Net interest expense	(4.0)	(5.1)	n.m.
Associate	3.8	2.8	37.6
Pre-tax Profit	33.3	16.0	108.0
Net Profit	22.1	8.8	149.9
Operating Margin (%)	9.1	7.3	
Pre-tax Margin (%)	9.0	6.3	
Net-Margin (%)	6.0	3.5	

- For the full year FY09, both turnover and net profit increased by 46.5% and 149.9% to RM369.8m and RM22.1m each. This was mainly due to the construction revenue which jumped by 66.7% to RM274.0m. Concession revenue rose by a steady 6.7% to RM88.9m.
- In terms of segmental breakdown, operating profit contribution from concession income in China, now the larger profit contributor, nearly doubled to RM29.7m in FY09. Its construction division saw its operating profit growing by 28.4% to RM22.0m.
- The reported FY09 net profit is within our earnings forecast. Its net cash position continues to improve to RM36.4m as at 4QFY09 thanks to its strong operating cash flow generation especially the recurring concession income.
- Salcon currently operates 6 water treatment concessions in China and one wastewater concession in Ho Chi Minh City, Vietnam, which are at different stages of operations. In addition, Salcon recently secured another 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.
- Its construction division will be underpinned by its strong orderbook of RM1.2bn, out of which around RM700m is unbilled.

## **3. 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 a P/E of 11.8x for FY10.

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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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