

Salcon Berhad		Price:	RM0.63
		Market Capitalisation:	RM292.3m
		Board:	Main
		Sector:	Trading/Services
		Index Component:	FBM EMAS/FBM Emas Shariah
Stock Code:	8567	Recommendation:	BUY

Key Stock Statistics	FY08	FY09F	FY10F
EPS (sen)	1.9	4.6	5.8
P/E (x)	33.1	13.5	10.9
Dividend/Share (sen)	0.9	0.9	0.9
NTA/Share (RM)	0.59	0.63	0.68
Book Value/Share (RM)	0.62	0.66	0.71
Issued Capital (m shares)	467.7	467.7	467.7
52-weeks Share Price Range (RM)		0.32 - 0.66	

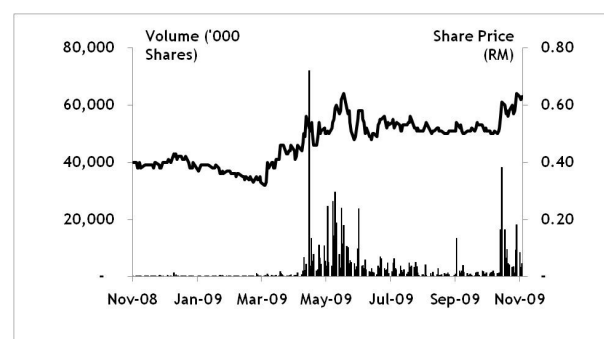
Major Shareholders:	%
Naga Muhibah Sdn Bhd	14.3%
Liew Siew Ping	4.8%
Teng Li Ling	4.2%
Leong Lai Shen	4.0%
Pheim Asset Management Sdn Bhd for EPF	3.2%
Chai Moy Fong	3.2%

as at 27 April 09

Per Share Data	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Book Value (RM)	0.53	0.62	0.66	0.71
Cash Flow (sen)	(2.0)	1.2	4.2	9.3
Earnings (sen)	(1.8)	1.9	4.6	5.8
Dividend (sen)	-	0.9	0.9	0.9
Payout Ratio (%)	-	0.5	0.2	0.2
PER (x)	(33.9)	33.1	13.5	10.9
P/Cash Flow (x)	(32.0)	53.1	14.8	6.7
P/Book Value (x)	1.2	1.0	1.0	0.9
Dividend Yield (%)	-	1.5	1.5	1.5
ROE (%)	(4.7)	3.4	7.2	8.4
Net Gearing (%)	12.6	(8.1)	(1.0)	(0.7)

P&L Analysis (RMm)	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Revenue	134.6	252.5	406.0	466.0
Operating Profit	(4.8)	22.8	38.6	46.1
Depreciation & amortization	(7.4)	(12.6)	(14.1)	(16.2)
Net Interest Expense	(3.1)	(5.1)	(5.3)	(5.6)
Pre-tax profit	(5.1)	16.0	32.9	40.4
Effective Tax Rate (%)	26.0	(25.8)	(20.0)	(20.0)
Net Profit	(7.8)	8.8	21.7	26.9
Operating Margin (%)	(3.5)	9.0	9.5	9.9
Pre-tax margin (%)	(3.8)	6.3	8.1	8.7
Net margin (%)	(5.8)	3.5	5.3	5.8

Share Price Chart



1. 3QFY09 Results Highlights

	3Q 2009 RMm	3Q 2008 RMm	Chg %
Revenue	109.5	64.5	69.7
Operating Profit	10.8	4.5	139.8
Net interest expense	(0.8)	(1.6)	n.m.
Associate	1.0	0.7	46.4
Pre-tax Profit	11.0	3.6	203.9
Net Profit	7.1	1.9	285.3
Operating Margin (%)	9.9	7.0	
Pre-tax Margin (%)	10.0	5.6	
Net-Margin (%)	6.5	2.9	

- Salcon reported a strong 3QFY09 results. Turnover rose by 69.7% to RM109.5m in 3QFY09. Net profit more than tripled to RM7.1m.
- This was attributed to increase in progress billings of construction projects and higher concession income from China.

2. 9MFY09 Results Highlights

	9M 2009 RMm	9M 2008 RMm	Chg %
Revenue	301.0	171.8	75.2
Operating Profit	26.4	13.2	100.7
Net interest expense	(4.3)	(3.7)	n.m.
Associate	3.0	1.9	58.1
Pre-tax Profit	25.1	11.3	121.4
Net Profit	16.8	7.3	129.3
Operating Margin (%)	8.8	7.7	
Pre-tax Margin (%)	8.3	6.6	
Net-Margin (%)	5.6	4.3	

- For the 9MFY09, turnover rose by 75.2% to RM301.0m. This was mainly driven by the construction revenue which doubled to RM229.1m as well as a more steady increase in revenue of its concession division.
- In terms of segmental breakdown, both construction and concession divisions saw 97.5% and 64.1% jump in operating profit to RM20.5m and RM16.4m respectively. While Salcon's sizeable orderbook underpins the growth of construction division, the growing earnings stream of its concession business in China provides a more consistent profit performance, as compared with the initial start-up stages prior to 3QFY08
- On an annualised basis, 9MFY09 net profit is slightly ahead of earlier earnings forecast. We have increased our forecast by 5-6% to factor in the stronger contribution from construction division.
- Salcon currently operates 6 water treatment concessions in China and one wastewater concession in Ho Chi Minh City, Vietnam with total combined capacity of 865 MLD, which are at different stages of operations. This would provide the company with growing recurring earnings from long-term concession investment. For 9MFY09, revenue and operating profit at its concession division grew by 12.5% and 64.1% to RM65.7m and RM16.4m each.
- Its construction division will be underpinned by its strong orderbook of RM1.2bn, which will last for another 1-2 years.
- Salcon continues to have strong financials with net cash position of RM19.2m as at 3QFY09. As such, the company is in a better position to bid for more new projects.

3. Recommendation

- We like Salcon for its growing recurring earnings stream from concession business and strong orderbook. We are maintaining our Buy recommendation on the stock. The stock is currently trading at a P/E of 10.9x 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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