

Company Update

Lim Boon Ngee
13 November 2009

Salcon Berhad		Price:	RM0.57
		Market Capitalisation:	RM264.3m
		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	4.4	5.5
P/E (x)	30.0	12.9	10.3
Dividend/Share (sen)	0.9	0.9	0.9
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 - 0.66	

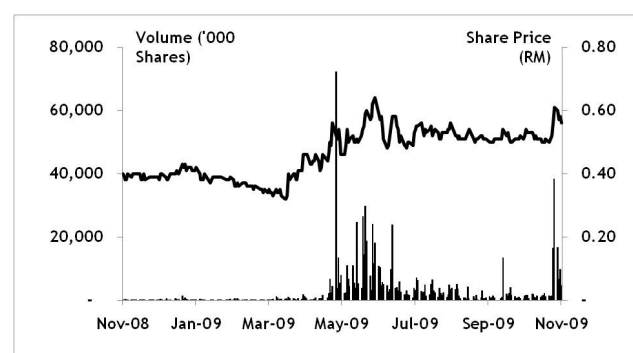
Major Shareholders:	%
Naga Muhibah Sdn Bhd	14.3%
Liew Siew Ping	4.8%
Teng Li Ling	4.2%
Leong Lai Shen	4.0%
Pheim Asset Management Sdn Bhd for EPF	3.2%
Chai Moy Fong	3.2%

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	0.70
Cash Flow (sen)	(2.0)	1.2	4.8	7.6
Earnings (sen)	(1.8)	1.9	4.4	5.5
Dividend (sen)	-	0.9	0.9	0.9
Payout Ratio (%)	-	0.5	0.2	0.2
PER (x)	(30.6)	30.0	12.9	10.3
P/Cash Flow (x)	(28.9)	48.0	11.7	7.5
P/Book Value (x)	1.1	0.9	0.9	0.8
Dividend Yield (%)	-	1.6	1.6	1.6
ROE (%)	(4.7)	3.4	6.8	8.1
Net Gearing (%)	12.6	(8.1)	(5.1)	(5.1)

P&L Analysis (RMm)	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Revenue	134.6	252.5	391.0	456.0
Operating Profit	(4.8)	22.8	36.8	44.3
Depreciation & amortization	(7.4)	(12.6)	(13.8)	(15.4)
Net Interest Expense	(3.1)	(5.1)	(5.2)	(5.3)
Pre-tax profit	(5.1)	16.0	31.1	38.5
Effective Tax Rate (%)	26.0	(25.8)	(20.0)	(20.0)
Net Profit	(7.8)	8.8	20.4	25.7
Operating Margin (%)	(3.5)	9.0	9.4	9.7
Pre-tax margin (%)	(3.8)	6.3	7.9	8.5
Net margin (%)	(5.8)	3.5	5.2	5.6

Share Price Chart



1. Recent Developments:

- Salcon Berhad (Salcon) announced that its indirect 60%-owned subsidiary, Envitech Sdn Bhd (Envitech), has been awarded with a contract for the proposed remedial works for vacuum sewerage system, at Pantai Sepang Putra, Selangor from Vintage Heights Sdn Bhd.
- The project which involves design, construction and completion, is worth a contract value of RM35.8m.
- Upon completion, the vacuum sewerage system will service approximately 2,000 existing households in Pantai Sepang Putra.

2. Earning Outlook:

- This new project will increase its current orderbook, which is already sizeable at RM1.1bn as at end FY08. This is the second contract win for Salcon in FY09 after the RM94.3m sewage treatment plant for Medini Development, Iskandar Malaysia.
- Going forward, its future earnings performance will be underpinned by its strong orderbook and growing earnings stream of its concession business in China. Salcon currently operates 6 water treatment concessions in China and one wastewater concession in Ho Chi Minh City, Vietnam.

3. Recommendation

- We are maintaining our Buy recommendation on the stock for its growing contribution from water and wastewater concessions in China and strong orderbook. The stock is currently trading at a P/E of 10.3x for FY10. It's also trading at a discount to its NTA of RM0.62, which does not reflect its earnings-generative water and wastewater concession assets and its net cash position of RM34.7m.

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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