

Salcon Berhad		Price:	RM0.52
		Market Capitalisation:	RM243.2m
		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)	27.6	11.9	9.5
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	

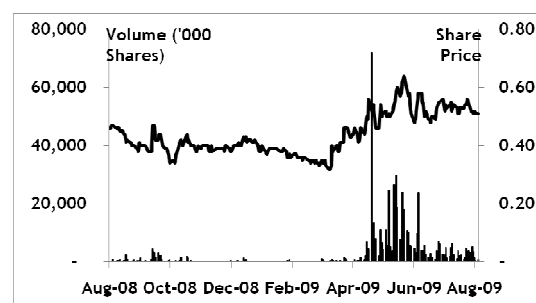
Major Shareholders:	%
Naga Muhibah Sdn Bhd	14.3%
Liew Siew Ping	4.8%
Teng Li Ling	4.2%
Leong Lai Shen	4.0%
Pheim Asset Management Sdn Bhd for EPF	3.2%
Chai Moy Fong	3.2%

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)	(28.2)	27.6	11.9	9.5
P/Cash Flow (x)	(26.6)	44.2	10.8	6.9
P/Book Value (x)	1.0	0.8	0.8	0.7
Dividend Yield (%)	-	1.8	1.8	1.8
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)	(5.2)
Pre-tax profit	(5.1)	16.0	31.1	38.6
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. 2QFY09 Results Highlights

	2Q 2009 RMm	2Q 2008 RMm	Chg %
Revenue	111.6	61.9	80.3
Operating Profit	10.1	5.4	87.0
Net interest expense	(1.4)	(1.0)	n.m.
Associate & jointly controlled	0.9	0.5	69.0
Pre-tax Profit	9.6	4.9	94.9
Net Profit	6.4	3.7	74.2
Operating Margin (%)	9.1	8.7	
Pre-tax Margin (%)	8.6	8.0	
Net-Margin (%)	5.7	5.9	

- Salcon reported a strong 2QFY09 results with both revenue and net profit growing 80.3% and 74.2% yoy to RM111.6m and RM6.4m respectively.
- The strong growth in group turnover was attributed to progress billings of construction projects and concession income from China.
- Construction division more than doubled its revenue to RM89.7m in 2QFY09, while EBIT rose by 21.7% yoy to RM8.6m.
- EBIT from the concession business also more than doubled to RM4.7m in 2QFY09.

2. 1HFY09 Results Highlights

	1H 2009	1H 2008	Chg
	RMm	RMm	%
Revenue	191.4	107.2	78.5
Operating Profit	15.6	8.7	80.4
Net interest expense	(3.5)	(2.1)	n.m.
Associate & jointly controlled	2.0	1.2	64.4
Pre-tax Profit	14.1	7.7	82.8
Net Profit	9.7	5.5	76.5
Operating Margin (%)	8.2	8.1	
Pre-tax Margin (%)	7.4	7.2	
Net-Margin (%)	5.0	5.1	

- FY08 marked the turn-around of Salcon's financial performance driven by its strong orderbook and growing earnings stream of its concession business in China. This has continued on into FY09, as both turnover and net profit posted 78.5% and 76.5% increase to RM191.4m and RM9.7m respectively. Salcon is poised to record a more consistent profit performance going forward, as the concession investments have started to contribute meaningful earnings contribution to the group as compared with their initial start-up stages prior to FY08. In FY08, concession business contributed RM14.9m (or about 50%) to group segment profit of RM29.8m. 1HFY09's segment profit from concession business, which grew by 56.0% yoy, already accounted for 60% of FY08's.
- The EBIT of both construction and concession divisions grew by 66.4% and 56.0% to RM14.0m and RM9.0m each in 1HFY09.
- On an annualised basis, 1HFY09 net profit is within our earlier earnings forecast. However, we have increased our forecast by 10% and 14% for FY09 and FY10 to factor in the stronger contribution from construction division.
- Going forward, its future earnings performance will be underpinned by its strong orderbook of RM1.1bn, out of which RM750m is unbilled as at end FY08, which translates into 4.6x cover of the turnover of the construction division for FY08 of RM164.4m. It recently secured another contract for sewage treatment plant for Medini Development, Iskandar Malaysia worth RM94.3m.
- In addition, Salcon currently operates 6 water treatment concessions in China and one wastewater concession in Ho Chi Minh City, Vietnam. This would provide the company with a growing recurring earnings from long-term concession investment.
- Salcon also has a strong financials with net cash position of RM34.7m as at 2QFY09. As such, the company is in a better position to bid for more new projects.

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 11.9x and 9.5x for FY09 and 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.
- With its strong net cash position and recurring earnings stream, Salcon is well positioned to expand its water assets portfolio.

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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