

1QFY09 Result Update

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<b>Salcon Berhad</b>		<b>Price:</b>	RM0.51
		<b>Market Capitalisation:</b>	RM236.2m
		<b>Board:</b>	Main
		<b>Sector:</b>	Trading/Services
		<b>Index Component:</b>	FBMEMAS/FBM Emas Shariah
<b>Stock Code:</b>	8567	<b>Recommendation:</b>	BUY

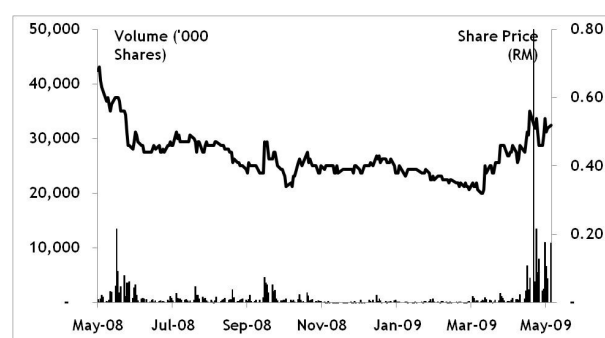
Key Stock Statistics	FY08	FY09F	FY10F
EPS (sen)	1.9	4.0	4.8
P/E (x)	26.9	12.8	10.5
Dividend/Share (sen)	0.9	0.9	0.9
NTA/Share (RM)	0.59	0.62	0.66
Book Value/Share (RM)	0.62	0.65	0.69
Issued Capital (m shares)	467.7	467.7	467.7
52-weeks Share Price Range (RM)	0.32 - 0.70		

Major Shareholders:	%
Naga Muhibah Sdn Bhd	14.3%
Leong Lai Shen	4.1%
The Hong Kong and Shanghai Banking Corporation Limited	5.8%
Teng Li Ling	3.6%
Pheim Asset Management Sdn Bhd for EPF as at 30 April 08	3.2%

Per Share Data	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Book Value (RM)	0.53	0.62	0.65	0.69
Cash Flow (sen)	(2.0)	(2.7)	7.7	2.8
Earnings (sen)	(1.8)	1.9	4.0	4.8
Dividend (sen)	-	0.9	0.9	0.9
Payout Ratio (%)	-	0.5	0.2	0.2
PER (x)	(27.4)	26.9	12.8	10.5
P/Cash Flow (x)	(25.8)	(19.0)	6.5	17.9
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	6.2	7.2
Net Gearing (%)	12.6	(8.1)	(9.6)	(2.5)

P&L Analysis (RMm) FY07	FY08	FY09F	FY10F	
Year-end 31 Dec				
Revenue	134.6	252.8	326.0	376.0
Operating Profit	(4.8)	22.8	33.3	39.2
Depreciation & amortization	(7.4)	(9.7)	(11.0)	(12.1)
Net Interest Expense	(3.1)	(5.1)	(5.0)	(5.2)
Pre-tax profit	(5.1)	16.0	27.6	33.4
Effective Tax Rate (%)	26.0	(25.9)	(20.0)	(20.0)
Net Profit	(7.8)	8.8	18.5	22.6
Operating Margin (%)	(3.5)	9.0	10.2	10.4
Pre-tax margin (%)	(3.8)	6.3	8.5	8.9
Net margin (%)	(5.8)	3.5	5.7	6.0

### Share Price Chart



### 1. 1QFY09 Results Highlights

	1Q 2009 RMm	1Q 2008 RMm	Chg %
Revenue	79.8	45.3	76.1
Operating Profit	5.5	3.2	69.4
Net interest expense	(2.1)	(1.1)	n.m.
Associate & jointly controlled	1.1	0.7	60.8
Pre-tax Profit	4.5	2.8	61.5
Net Profit	3.2	1.8	81.1
Operating Margin (%)	6.9	7.2	
Pre-tax Margin (%)	5.7	6.2	
Net-Margin (%)	4.1	4.0	

- Salcon reported a strong 1QFY09 results with both revenue and net profit growing 76.1% and 81.1% yoy to RM79.8m and RM3.2m respectively.
- The strong growth in group turnover was attributed to contributions from new construction projects and concession income from China.
- The result was even more commendable considering the higher net finance charge and lower profit from associates.

- The growth driver came from its construction division which more than doubled its turnover to RM57.0m in 1QFY09 from RM26.3m in 1QFY08. The operating profit surged to RM5.4m in 1QFY09 from RM1.3m in 1QFY08.
- Salcon has started to benefit from the growing and recurring earnings stream of its concession business in China. The operating profit grew by 19.3% yoy to RM4.4m in 1QFY09 from RM3.7m in 1QFY08.
- On an annualised basis, 1QFY09 net profit is 31% below our earlier earnings forecast. However, we are maintaining our earnings forecast for FY09, as we expect profit to be higher in the subsequent quarters.
- Going forward, its future earnings performance will be underpinned by its strong orderbook of RM1.1bn, out of which RM750m is unbilled as at FY08, as well as its growing recurring earnings from long-term concession investment. It recently secured another contract for sewage treatment plant for Medini Development, Iskandar Malaysia worth RM94.3m.
- Salcon also has a strong financials with cash and net cash position of RM211.0m and RM45.8m as at 1QFY09. As such, the company is in a better position to bid for more new projects.

## **2. 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 12.8x and 10.5x for FY09 and FY10. It's also trading at a discount to its NTA of RM0.62.
- With its strong net cash position and recurring earnings stream, Salcon is well positioned to expand its water assets portfolio.

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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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