

<b>Salcon Berhad</b>		<b>Price:</b>	RM0.47
		<b>Market Capitalisation:</b>	RM217.5m
		<b>Board:</b>	Main Board
		<b>Sector:</b>	Trading/Services
<b>Stock Code:</b>	8567	<b>Recommendation:</b>	BUY

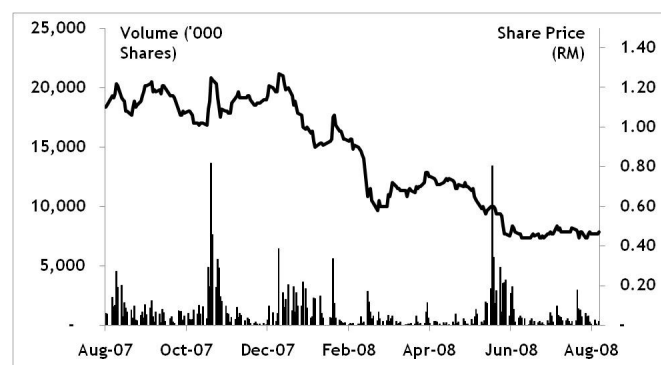
Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	(1.8)	3.0	4.5
P/E (x)	(25.2)	15.4	10.3
Dividend/Share (sen)	-	-	-
NTA/Share (RM)	0.50	0.58	0.63
Book Value/Share (RM)	0.53	0.61	0.65
Issued Capital (m shares)	425.2	467.7	467.7
52-weeks Share Price Range (RM)	0.43 - 1.30		

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	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.38	0.53	0.61	0.65
Cash Flow (sen)	(3.7)	(2.0)	5.1	3.5
Earnings (sen)	1.5	(1.8)	3.0	4.5
Dividend (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
PER (x)	31.7	(25.2)	15.4	10.3
P/Cash Flow (x)	(12.7)	(23.8)	9.2	13.2
P/Book Value (x)	1.2	0.9	0.8	0.7
Dividend Yield (%)	-	-	-	-
ROE (%)	3.9	(4.7)	5.6	7.1
Net Gearing (%)	74.7	12.6	(0.6)	7.2

P&L Analysis (RMm)	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Revenue	121.3	134.6	286.0	406.0
Operating Profit	3.4	(4.8)	26.8	36.6
Depreciation & amortization	(5.8)	(7.4)	(9.7)	(11.1)
Net Interest Expense	(4.2)	(3.1)	(4.9)	(5.2)
Pre-tax profit	0.5	(5.1)	22.6	32.8
Effective Tax Rate (%)	814.0	26.0	(20.0)	(20.0)
Net Profit	4.3	(7.8)	14.2	21.0
Operating Margin (%)	2.8	(3.5)	9.4	9.0
Pre-tax margin (%)	0.5	(3.8)	7.9	8.1
Net margin (%)	3.6	(5.8)	4.9	5.2

## Share Price Chart



## 1. 2QFY08 Results Highlights

	2Q 2008 RMm	2Q 2007 RMm	Chg %
Revenue	61.9	28.3	>100
Operating Profit	5.4	0.1	>100
Net interest expense	(1.0)	(1.2)	n.m.
Associate	0.5	2.1	(74.0)
Pre-tax Profit	4.9	0.9	>100
Net Profit	3.7	0.03	>100
Operating Margin (%)	8.7	0.3	
Pre-tax Margin (%)	8.0	3.3	
Net-Margin (%)	5.9	0.1	

- Salcon Berhad (Salcon) reported a much improved 2QFY08 results with turnover more than doubling to RM61.9m. Net profit surged to RM3.7m in 2QFY08 from a mere RM0.03m in 2QFY07.
- As the company has reclassified its segmental breakdown to construction and concessions, segmental comparison against previous financial year is not available.
- As compared with 1QFY08, while turnover increased by 37% qoq, PBT and net profit jumped by 77% and 105% qoq.

- This was mainly driven by contribution from new projects, as operating profit of its construction division rose to RM7.1m (2QFY08) from RM1.3m (1QFY08), while contribution from concessions declined slightly to RM2.1m (2QFY08) from RM3.7m (1QFY08).

## **2. 1HFY08 Results Highlights**

	<b>1H 2008</b>	<b>1H 2007</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	107.2	55.7	92.5
Operating Profit	8.7	1.0	>100
Net interest expense	(2.1)	(2.4)	n.m.
Associate	1.2	3.1	(61.0)
Pre-tax Profit	7.7	1.7	>100
Net Profit	5.5	0.2	>100
Operating Margin (%)	8.1	1.8	
Pre-tax Margin (%)	7.2	3.1	
Net-Margin (%)	5.1	0.3	

- For 1HFY08, while turnover nearly doubled to RM107.2m, net profit jumped to RM5.5m (1HFY08) from RM0.2m (1HFY07). This was mainly due to contribution from new projects.
- 1HFY08 net profit, if annualised, is 23% below our earnings forecast. However, we expect the company to record higher earnings in 2HFY08 due to higher recognition of construction income.
- Going forward, its future earnings performance will be underpinned by the recurring earnings stream from long-term concessions investments and its strong orderbook of RM1.1bn.
- Salcon is currently in various stages to upgrade its existing water treatment plants and also to construct new water treatment plants with larger capacity. Earnings contribution from these concessions will grow exponentially when the water treatment plants come on stream in the next 2-3 years.

## **3. Recommendation**

- Its current share price of RM0.47, which is below its NTA of RM0.57 per share, does not fully reflect its growing water and wastewater concession assets.
- 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 FY09.

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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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