

<b>Salcon Berhad</b>		<b>Price:</b>	RM0.47
		<b>Market Capitalisation:</b>	RM219.8m
		<b>Board:</b>	Main Board
		<b>Sector:</b>	Trading/Services
<b>Stock Code:</b>	8567	<b>Recommendation:</b>	BUY

<b>Key Stock Statistics</b>	<b>FY07</b>	<b>FY08F</b>	<b>FY09F</b>
EPS (sen)	(1.8)	3.0	4.5
P/E (x)	(25.5)	15.5	10.4
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)	0.425 - 1.30		

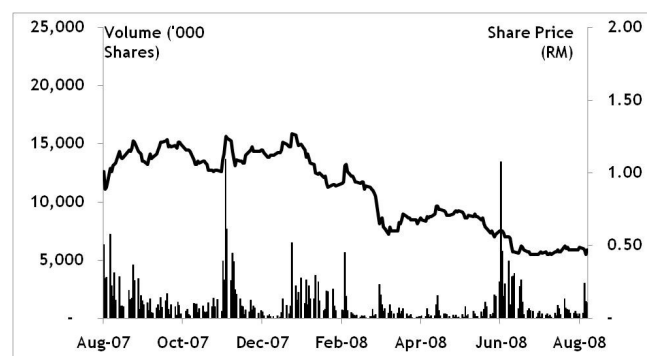
<b>Major Shareholders:</b>	<b>%</b>
Naga Muhibah Sdn Bhd	14.3%
Leong Lai Shen	4.1%
The Hong Kong and Shanghai Banking Corporation Limited	5.8%
Teng Li Ling	3.6%
Pheim Asset Management Sdn Bhd for EPF	3.2%

as at 30 April 08

<b>Per Share Data</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08F</b>	<b>FY09F</b>
Year-end 31 Dec				
Book Value (RM)	0.38	0.53	0.61	0.65
Cash Flow (sen)	(3.7)	(2.0)	7.1	2.4
Earnings (sen)	1.5	(1.8)	3.0	4.5
Dividend (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
PER (x)	32.0	(25.5)	15.5	10.4
P/Cash Flow (x)	(12.9)	(24.0)	6.6	20.0
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	(3.9)	5.9

<b>P&amp;L Analysis (RMm)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08F</b>	<b>FY09F</b>
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. Recent Developments:

- Salcon Berhad (Salcon) announced that the joint-venture company of its wholly-owned Salcon Engineering Berhad and Fallah Technology Sdn Bhd, has received a letter of award from Air Kelantan Sdn Bhd to conduct studies and implement non-revenue water (NRW) programme for the whole State of Kelantan. The contract, with a value worth RM129.88m, has a contract period of 3 years from the date of site possession.
- Salcon Engineering Berhad is the leading partner for the project with a 60% interest.
- This is Salcon's third NRW project after Sandakan NRW phase 1 and 2 and Seremban NRW project.

## **2. Earning Outlook:**

- This new project will take Salcon's outstanding orderbook to RM1.1bn as at Dec 07. Since the beginning of FY08, Salcon has managed to secure three projects with a combined contract value of RM283.1m.
- 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.
- All its water and wastewater concessions held by its subsidiaries, are located in China. Its associated company, Binh Ah Water Corporation Ltd, under a 20-year build-operate-transfer (BOT) contract, is currently supplying treated water to the Water Supply Company of Ho Chih Minh City, Vietnam.
- 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 RM0.56 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.

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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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