

| | | | |
|----------------------|------|-------------------------------|------------------|
| Salcon Berhad | | Price: | RM0.46 |
| | | Market Capitalisation: | RM212.8m |
| | | Board: | Main Board |
| | | Sector: | Trading/Services |
| Stock Code: | 8567 | Recommendation: | BUY |

| Key Stock Statistics | FY07 | FY08F | FY09F |
|---------------------------------|--------------|-------|-------|
| EPS (sen) | (1.8) | 3.0 | 4.5 |
| P/E (x) | (24.7) | 15.0 | 10.1 |
| 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 - 1.49 | | |

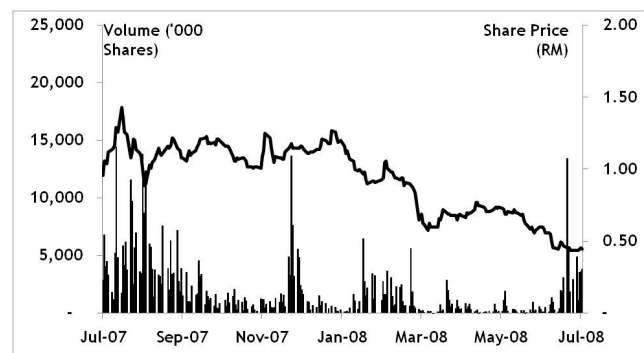
| Major Shareholders: | % |
|--|-------|
| Naga Muhibah Sdn Bhd | 14.3% |
| Leong Lai Shen | 4.1% |
| The Hong Kong and Shanghai Banking Corporation Limited | 5.8% |
| Teng Li Ling | 3.6% |
| Pheim Asset Management Sdn Bhd for EPF | 3.2% |

as at 30 April 08

| 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) | 7.1 | 2.4 |
| Earnings (sen) | 1.5 | (1.8) | 3.0 | 4.5 |
| Dividend (sen) | - | - | - | - |
| Payout Ratio (%) | - | - | - | - |
| PER (x) | 31.0 | (24.7) | 15.0 | 10.1 |
| P/Cash Flow (x) | (12.4) | (23.3) | 6.4 | 19.4 |
| P/Book Value (x) | 1.2 | 0.9 | 0.7 | 0.7 |
| Dividend Yield (%) | - | - | - | - |
| ROE (%) | 3.9 | (4.7) | 5.6 | 7.1 |
| Net Gearing (%) | 74.7 | 12.6 | (3.9) | 5.9 |

| 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. Recent Developments:

- Salcon announced that its wholly-owned Salcon Engineering Berhad has entered into contract agreement with Dong Tam Water B.O.O. Corporation, Vietnam for the implementation of a new water project known as Package No. 1 - Design, Building and Commissioning of Intake, Raw Water Pumping Station, Dong Tam Water Treatment Plant and Booster Pumping Station, Phase 1. The contract value is approximately RM64.86m.
- This new project will take Salcon's outstanding orderbook (as at Dec 07) to close to RM1.0bn.
- Salcon has been involved in the water projects in Vietnam for many years. Its associated company, Binh Ah Water Corporation Ltd is currently supplying 100,000 m³/day of treated water to the people of Ho Chi Minh city. In Sep 07, Salcon secured a 2-year contract for the construction and commissioning of raw and treated water transmission pipelines in Nhon Trach.

- Salcon also announced that its wholly-owned Salcon Shandong (HK) Limited has entered into a MOU with the People's Government of Changle County, Shandong Province for the proposed construction of a new 100 MLD wastewater treatment plant (WWTP) adjacent to the present 40 MLD WWTP. Under the MOU, Salcon will carry out feasibility studies and submit an investment proposal for the 100 MLD WWTP, which will be built in 2 phases, that is 40 MLD in phase I and 60 MLD in phase II.

2. Earning Outlook:

- After a few years of erratic earnings performance due to provision for doubtful debts and the slowdown in the government expenditure in domestic water infrastructure, Salcon is poised to record a more consistent profit performance going forward.
- In FY07, Salcon recorded a net loss of RM7.8m on a turnover of RM134.6m. However, this does not reflect the improved operating profit performance of its core water and wastewater operations. Had not for the loss on disposal of associate and allowance of doubtful debts totalled RM13.2m, Salcon would have reported a strong 80% growth in PBT ex-EI to RM9.1m in FY07.
- Going forward, its future earnings performance will be underpinned by the recurring earnings stream from long-term concessions investments and its strong orderbook of close to RM1.0bn. While the concession investments have started contributed profitably to the group, Salcon is expected to see stronger contribution once the upgrade and construction of larger capacity water treatment plant come on stream in the next 2-3 years.
- Due to the completion of a rights issue (completed in FY07) and a private placement exercises (Feb 08), Salcon has strengthened its balance sheet. As at end-Mar 08, the company is in a net cash position of RM22.9m.

3. Recommendation

- Despite the improving earnings performance and balance sheet strength, Salcon's share price has declined by 63% since the beginning of 08.
- We are recommending a Buy recommendation on the stock. Its current share price of RM0.45, which is below its NTA of RM0.56 per share, does not reflect its growing water and wastewater concession assets.

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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