

**2Q FYE DEC 2013 RESULTS REPORT**

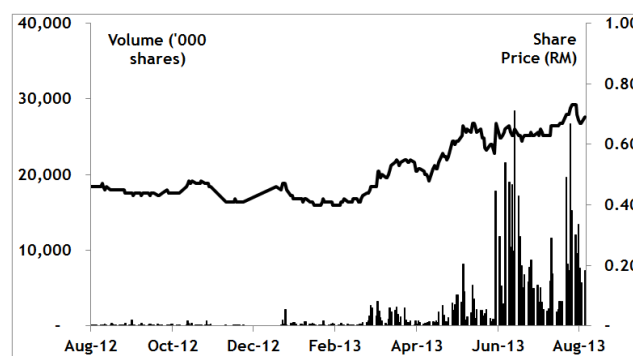
2 September 2013

<b>Name of PLC:</b> Salcon Berhad (Salcon)	<b>Target Price:</b>	RM 0.78
<b>Business Summary :</b> Investment holding company involved in water and wastewater treatment, raw water transfer via concession and O&M contract, as well as water construction		
<b>Major Shareholders :</b>	Dato' Seri (Dr.) Goh Eng Toon	12.8%
	Tan Sri Dato' Tee Tiam Lee	10.8%
as at 30 April 2013		
<b>PLC Website :</b> <a href="http://www.salcon.com.my">www.salcon.com.my</a>	<b>Recommendation:</b>	BUY
<b>IR Contact :</b> Ms Chern Meng Gaik <a href="mailto:mgchern@salcon.com.my">mgchern@salcon.com.my</a>	<b>Market Capitalisation:</b>	RM 368.5m
- FBM Small Cap - FBM Emas Shariah	<b>Current Price :</b>	RM 0.64
	<b>Market / Sector:</b>	Trading/Services
	<b>Stock Code:</b>	8567
<b>Analyst : Lim Boon Ngee</b>		
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Key Stock Statistics	2011	2012	2013F	2014F
EPS (sen)	3.1	2.2	2.2	2.6
P/E (x)	20.7	29.6	29.1	24.2
Dividend/Share (sen)	1.5	1.0	1.0	1.0
NTA/Share (RM)	0.82	0.80	0.74	0.75
Book Value/Share (RM)	0.82	0.80	0.74	0.75
Issued Capital (mil shares)	474.3	521.7	521.7	521.7
52-weeks Share Price Range (RM)			0.40	0.75

Per Share Data	2011	2012	2013F	2014F
Year-end 31 Dec				
Book Value (RM)	0.82	0.80	0.74	0.75
Operating Cash Flow (sen) (11.9)	(3.1)	27.9	6.6	
Earnings (sen)	3.1	2.2	2.2	2.6
Dividend (sen)	1.5	1.0	1.0	1.0
Payout Ratio (%)	53.4	46.2	45.5	37.9
PER (x)	20.7	29.6	29.1	24.2
P/Cash Flow (x)	(5.4)	(20.5)	2.3	9.7
P/Book Value (x)	0.8	0.8	0.9	0.9
Dividend Yield (%)	2.3	1.6	1.6	1.6
ROE (%)	4.1	2.8	3.0	3.6
Net Gearing (%)	22.8	54.8	21.4	18.8

P&L Analysis (RM mil)	2011	2012	2013F	2014F
Revenue	472.5	340.8	330.9	350.0
Operating Profit	38.8	65.0	57.4	61.0
Finance, net	(12.6)	(16.1)	(17.0)	(16.0)
Associate	2.9	3.5	4.0	4.0
Pre-tax Profit	29.1	38.9	44.4	49.0
Effective Tax Rate (%)	(12.7)	(19.1)	(20.0)	(20.0)
Net Profit	14.6	11.3	12.7	15.2
Operating Margin (%)	8.2	19.1	17.3	17.4
Pre-tax Margin (%)	6.1	11.4	13.4	14.0
Net-Margin (%)	3.1	3.3	3.8	4.3

**Share Price Chart**

**1. 2QFY13 Results Highlight**

	2QFY13	2QFY12	Chg
	RMm	RMm	%
Revenue	67.58	69.72	(3.1)
Operating Profit	10.71	7.15	49.7
Net interest expense	(0.64)	(1.55)	(59.0)
Associates	0.74	0.79	(7.1)
Pre-tax Profit	10.81	6.39	69.1
Net Profit	1.32	0.25	423.9
Operating Margin (%)	15.8	10.3	
Pre-tax Margin (%)	16.0	9.2	
Net-Margin (%)	1.9	0.4	

- In 2QFY13, Salcon's turnover declined by 3.1% to RM67.58m due to lower contribution from construction division.
- PBT increased by 69.1% to RM10.81m due to higher gross margin enjoyed by its concession division and reduced losses from its construction division.

## **6M FY13 Results Highlight**

	<b>1H FY13</b>	<b>1H FY12</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	138.36	148.67	(6.9)
Operating Profit	21.18	14.48	46.3
Net interest expense	(1.77)	(2.86)	(38.2)
Associates	1.48	1.61	(7.6)
Pre-tax Profit	20.90	13.22	58.1
Net Profit	3.74	2.76	35.5
Operating Margin (%)	31.3	20.8	
Pre-tax Margin (%)	30.9	19.0	
Net-Margin (%)	5.5	4.0	

- For 1HFY13, turnover declined by 6.9% to RM138.36m. However, PBT and net profit grew by 58.1% and 35.5% to RM20.90m and RM3.74m respectively.
- The PBT growth was attributed to higher profitability enjoyed by its concession division and cost savings from projects in its construction division.

## **2. Earnings Outlook**

- Overall, the group earnings will be underpinned by its concession business. The commissioning of Nan An Raw Water (175 MLD) and completion of the acquisition of Wukang and Qian Yua WTPs in 4QFY12 will continue to drive earnings in FY13 and beyond.
- After a slow progress in FY12, Salcon has been able to secure new projects beginning FY13. Year-to-date, it has secured 7 new projects worth a total RM210m to replenish its depleting orderbook. This should help to reduce the losses of its construction division in FY13.
- As part of its business diversification plan, Salcon has ventured into property development. Its first property development project in Selayang has received encouraging response since its soft launch in Apr-2013, while the second property development in Johor is expected to be launched in 1HFY14.

## **3. Valuation and Recommendation**

- We are maintaining our Buy recommendation on the stock. We like Salcon for its growing earnings contribution from its concession assets in China. Although its share price has appreciated by 56% since the beginning of 2013, the stock is still currently trading at a 17% discount to its book value of RM0.77/share.

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## Disclosures/Disclaimer

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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