

**4Q FYE DEC 2014 RESULTS REPORT**

26 February 2015

<b>Name of PLC:</b> <i>Salcon Berhad (Salcon)</i>		<b>Target Price:</b>	RM 0.90
<b>Business Summary :</b> <i>Investment holding company involved in water construction, water O&amp;M contract and property development</i>			
<b>Major Shareholders :</b>			
<i>Dato' Seri (Dr.) Goh Eng Toon</i>			11.1%
<i>Tan Sri Dato' Tee Tiam Lee</i>			9.1%
<i>Great Eastern Holdings Limited</i>			6.1%
<i>as at 30 April 2014</i>			
<b>PLC Website :</b> <a href="http://www.salcon.com.my">www.salcon.com.my</a>		<b>Recommendation:</b>	BUY
<b>IR Contact :</b> <i>Ms Chern Meng Gaik</i> <a href="mailto:mgchern@salcon.com.my">mgchern@salcon.com.my</a>		<b>Market Capitalisation:</b>	RM 528.1 m
<ul style="list-style-type: none"> <li>- <i>FBM Small Cap</i></li> <li>- <i>FBM Emas Shariah</i></li> </ul>		<b>Current Price :</b>	RM 0.80
		<b>Market / Sector:</b>	Trading/Services
		<b>Stock Code:</b>	8567
<b>Analyst :</b> <i>Lim Boon Ngee</i>			
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Key Stock Statistics	2012	2013	2014	2015F
EPS (sen)	2.2	4.2	0.7	3.4
P/E (x)	37.0	19.3	117.0	23.6
Dividend/Share (sen)	1.0	3.0	3.0	3.0
NTA/Share (RM)	0.80	0.85	0.79	0.80
Book Value/Share (RM)	0.80	0.85	0.84	0.85
Issued Capital (mil shares)	521.7	608.3	674.6	674.6
52-weeks Share Price Range (RM)	0.56 - 1.01			

Per Share Data	2012	2013	2014	2015F
Year-end 31 Dec				
Book Value (RM)	0.80	0.85	0.84	0.85
Operating Cash Flow (sen)	(3.1)	(0.9)	(17.8)	(1.5)
Earnings (sen)	2.2	4.2	0.7	3.4
Dividend (sen)	1.0	3.0	3.0	3.0
Payout Ratio (%)	46.2	81.4	438.7	88.3
PER (x)	37.0	19.3	117.0	23.6
P/Cash Flow (x)	(25.7)	(91.3)	(4.5)	(54.1)
P/Book Value (x)	1.0	0.9	1.0	0.9
Dividend Yield (%)	1.3	3.8	3.8	3.8
ROE (%)	2.8	5.4	0.8	4.0
Net Gearing (%)	54.8	n.c.	n.c.	n.c.

P&L Analysis (RM mil)	2012	2013	2014	2015F
Revenue	340.8	164.6	201.9	360.0
Operating Profit	65.0	(23.7)	(3.7)	20.0
Finance, net	(16.1)	(6.0)	7.2	6.6
Associate	3.5	3.2	3.4	4.0
Pre-tax Profit	38.9	(30.8)	1.6	30.6
Effective Tax Rate (%)	(19.1)	(3.5)	(239.7)	(25.0)
Net Profit	11.3	24.9	4.5	22.4
Operating Margin (%)	19.1	(14.4)	(1.8)	5.6
Pre-tax Margin (%)	11.4	(18.7)	0.8	8.5
Net-Margin (%)	3.3	15.2	2.2	6.2

**Share Price Chart**

**1. 4QFY14 Results Highlight**

	4Q FY14	4Q FY13	Chg
	RMm	RMm	%
Revenue	107.38	85.94	24.9
Operating Profit	2.34	(19.53)	n.m.
Net interest income	4.29	(1.94)	n.m.
Associates	0.86	0.86	(0.1)
Pre-tax Profit	7.49	(20.61)	n.m.
Profit from discontinued ops	7.23	50.73	(85.7)
Net Profit	(5.39)	20.62	n.m.
Operating Margin (%)	2.2	(22.7)	
Pre-tax Margin (%)	7.0	(24.0)	
Net-Margin (%)	(5.0)	24.0	

- In 4QFY14, turnover grew by 24.9% to RM107.38m due mainly to higher progress billings of its Construction division.

- Post-disposal of its water and wastewater concessions, Construction division accounted for 92% of group turnover in FY14.
- It recorded a PBT of RM7.49m in 4QFY14. This was contributed by a turn-around of its Construction division, which had been loss-making since FY13. It recorded a PBT of RM10.57m (4QFY14) against a pretax loss of RM14.05m (4QFY13) and RM2.99m (3QFY14). This was attributed to completions of various projects and unrealized forex gain.
- In Sep-2013, Salcon announced the disposal of all its entire interest in China's water and wastewater concessions to HKEx-listed Beijing Enterprises Water Group Limited (BEWGL) for RMB955m. The disposal of Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited was completed on 23-Dec-2013. The completion of the disposal of the remaining concession assets will be completed by 25-May-2015. Consequently, the contribution from its disposed concession business is now parked under discontinued operations.
- Pursuant to the disposal, its current operations consist of Construction and Property development, which is in the initial stage of projects implementation.
- In addition, it also incurred assets and stocks written off amounting to RM5.31m in 4QFY14 against a forex gain of RM7.97m in 4QFY14.

### **FY14 Results Highlight**

	<b>FY14</b>	<b>FY13</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	201.92	164.61	22.7
Operating Profit	(9.01)	(27.84)	(67.6)
Net interest income	7.20	(6.09)	n.m.
Associates	3.37	3.17	6.1
Pre-tax Profit	1.56	(30.76)	n.m.
Profit from discontinued ops	38.64	87.26	(55.7)
Net Profit	4.51	24.94	(81.9)
Operating Margin (%)	(8.4)	(32.4)	
Pre-tax Margin (%)	1.5	(35.8)	
Net-Margin (%)	4.2	29.0	

- In FY14, turnover grew by 22.7% to RM201.92m and recorded a small PBT of RM1.56m due mainly to higher contribution from Construction division and lower operating expenses.

## **2. Earnings Outlook**

- Salcon has continued to improve its balance sheet to a net cash position of RM203.70m as at end-FY14 after the disposal of its entire interest in China's water and wastewater concessions. Upon the fulfilment of final tranche of the transaction, its net cash position could improve by another RM70m. The net cash addition will be re-allocated for its expansion into its newly established property development and investment in new income stream.
- Salcon's first property project is located in Selayang (Selayang Res 280) with an estimated GDV of RM155m, which features a 21-storey commercial building comprising 12 units of 2-storey shop office and 280 units of SOHO. Since its official launch in Oct-2013, response has been encouraging with 60% of the total units sold. The construction of the project has started since 4QFY13.
- Salcon through its 50.01%-owned Nusantara Megajuta Sdn Bhd (NMSB), had signed a Letter of Intent with Eco World Development Sdn Bhd to jointly develop 2 pieces of land, measuring 51,476 sqm in Johor. This will be Salcon's second property venture with an estimated GDV of RM1.2b, which will comprise mixed residential and commercial development, strategically located within the Flagship Zone A of the Iskandar Malaysia and approximately 2 km north of the central business district of Johor Bahru.

- The performance of its Construction division will be underpinned by the secure of 2 main projects in FY14.
- Through the consortium Salcon- MMC-AZRB JV Sdn Bhd, it secured a RM994m Langat 2 water treatment plant project in Apr-2014. Salcon's portion of work is estimated at RM358m. Works on the project has commenced and the packages of site clearing and earthworks jobs have been awarded. As Salcon is involved in the M&E portion of the project, initial contribution will not be significant in FY14. Salcon's M&E works will come into full swing in FY15 onwards.
- In Dec-2014, it secured Langat centralised sewage treatment plant worth RM470m through JV with Loh & Loh Construction Sdn Bhd.
- In addition, its 40%-owned Emas Utilities Corporation Sdn Bhd owns 90% interest in Binh An Water Corporation Ltd. which is a concession holder to treat and supply 100 MLD of potable water to Ho Chi Minh City.

### 3. Valuation and Recommendation

- We are still maintaining our BUY recommendation on the stock. We expect it to report a better earnings performance in FY15 due to the higher progress billings of its construction projects and property projects. The stock is trading at a discount to its book value of RM0.90/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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