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|-------------------------------------|------|-------------------------------|------------------|
| Taliworks Corporation Berhad | | Price: | RM2.33 |
| | | Market Capitalisation: | RM871.2m |
| | | Board: | Main Board |
| | | Sector: | Trading/Services |
| Stock Code: | 8524 | Recommendation: | HOLD |

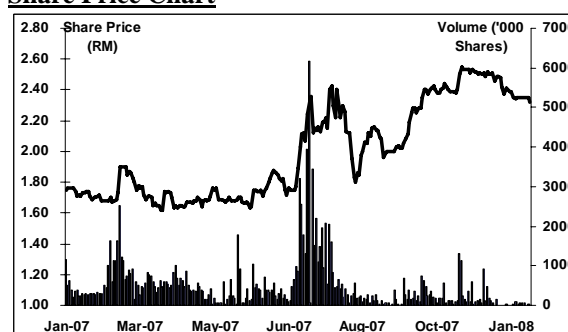
| Key Stock Statistics | FY06 | FY07F | FY08F |
|---------------------------------|-----------|-------|-------|
| EPS (sen) | 9.5 | 9.3 | 12.9 |
| PER (x) | 24.4 | 25.1 | 18.1 |
| Dividend/Share (sen) | 10.0 | 9.0 | 9.0 |
| NTA/Share (RM) | 0.80 | 0.85 | 0.93 |
| Book Value/Share (RM) | 0.84 | 0.89 | 0.97 |
| Issued Capital (m sh) | 373.4 | 373.4 | 373.4 |
| 52-weeks Share Price Range (RM) | 1.58-2.55 | | |

| Major Shareholders: | % |
|-------------------------------------|------|
| LGB | 52.7 |
| Kumpulan Perangsang Selangor Berhad | 19.1 |
| Goldman Sachs International | 4.6 |
| Morgan Stanley & Co. Incorporated | 3.1 |
| Exempt an for CIMB Bank Berhad | 2.9 |

| Per Share Data | FY05 | FY06 | FY07F | FY08F |
|-----------------------|------|------|-------|-------|
| Year-end 31 Dec | | | | |
| Book Value (RM) | 0.78 | 0.84 | 0.89 | 0.97 |
| Cash Flow (sen) | 18.0 | 8.3 | 4.9 | 2.0 |
| Earnings (sen) | 12.5 | 9.5 | 9.3 | 12.9 |
| Dividend (sen) | 8.0 | 10.0 | 9.0 | 9.0 |
| Payout Ratio (%) | 46.0 | 76.0 | 47.1 | 34.1 |
| PER (x) | 18.6 | 24.4 | 25.1 | 18.1 |
| P/Cash Flow (x) | 13.0 | 28.2 | 47.6 | 116.7 |
| P/Book Value (x) | 3.0 | 2.8 | 2.6 | 2.4 |
| Dividend Yield (%) | 3.4 | 4.3 | 3.9 | 3.9 |
| ROE (%) | 17.2 | 12.1 | 10.8 | 13.8 |
| Net Gearing (%) * | nc | nc | nc | nc |
| <i>n.c.: net cash</i> | | | | |

| P&L Analysis (RMm) | FY05 | FY06 | FY07F | FY08F |
|------------------------|-------|-------|-------|-------|
| Year-end 31 Dec | | | | |
| Revenue | 196.1 | 142.9 | 187.9 | 264.4 |
| Operating Profit | 52.1 | 50.0 | 46.1 | 50.7 |
| Depreciation | (1.4) | (1.3) | (1.4) | (1.6) |
| Net Interest | 1.4 | 2.0 | 1.5 | (0.0) |
| Pre-tax profit | 57.4 | 50.3 | 47.6 | 65.9 |
| Effective Tax Rate (%) | 23.3 | 29.2 | 27.0 | 27.0 |
| Net Profit | 44.1 | 35.7 | 34.7 | 48.1 |
| Operating Margin (%) | 26.6 | 35.0 | 24.6 | 19.2 |
| Pre-tax margin | 29.3 | 35.2 | 25.3 | 24.9 |
| Net margin | 22.5 | 25.0 | 18.5 | 18.2 |

Share Price Chart



1. Recent Developments:

- We have revised our forecasts to include the acquisition of a 55% stake in Cerah Sama Sdn Bhd (CSSB) and the RM225m convertible bond issue, which were completed on 22 Nov 2007 and on 6 Dec 2007, respectively.
- CSSB owns a 100% stake in highway operator, Grand Saga, which is the toll road concessionaire for the 11.5km Cheras-Kajang highway. The concession was awarded on 19 Sep 1995 and will expire on 18 Sep 2027.
- The CSSB acquisition was for a total cash consideration of RM107.8m (including a RM52m commitment to reduce borrowings at CSSB). CSSB's earnings will be equity accounted due to an agreement with other CSSB shareholder on joint control.
- The RM225m convertible bond issue is to fund future local and overseas acquisitions and expansion.
- Taliworks is currently involved in water treatment, supply and distribution, waste management and construction. The inclusion of CSSB and its tolled highway operations has further enhanced Taliworks' earnings with recurring income. More excitingly, CSSB is expected to pave the way for Taliworks to be involved in the development and operation of toll roads in Malaysia and the ASEAN region.

2. Earnings Outlook:

- We believe the recent completion of Taliworks' acquisition of a 55% stake in Cerah Sama Sdn Bhd (CSSB) on 22 Nov 2007 is a net positive for the group, in particular the prospects of future involvement in the development and operation of toll roads in Malaysia and the ASEAN region via CSSB. CSSB's other shareholders include the South East Asia Strategic Asset Fund or SEASAF, which has a 35% stake in CSSB.
- The acquisition for RM55.5m cash was internally funded. Together with a RM52m commitment to reduce borrowings at CSSB, Taliworks' total consideration for the 55% stake in CSSB was RM107.8m.
- CSSB is an investment holding company with a 100% effective interest in Grand Saga Sdn Bhd (Grand Saga) and Trupadu Sdn Bhd (Trupadu). The main earnings contributor, Grand Saga, is the toll road concessionaire for the Cheras-Kajang highway and Trupadu is the O&M sub-contractor for Grand Saga.
- Background information on Grand Saga:
 - Toll road concessionaire for the 11.5km Cheras-Kajang highway.
 - Concession awarded on 19 September 1995. Construction was completed in 2 ½ years and tolling commenced on 15 January 1999. Initial concession period of 30 years was extended by 2 years to expire on 18 September 2027.
 - Operation and maintenance have been outsourced to Trupadu.
 - Present traffic flow stems from already-developed townships and populated areas.
- Taliworks also completed the issuance of a RM225m convertible bond on 6 Dec 2007, to fund future local and overseas business expansion. The proceeds have yet to be earmarked for specific acquisitions or expansions.
- Details on the convertible bond issue:
 - RM225m nominal value
 - Tenure 5 years from the date of issue
 - Subscription price at 97% of nominal value
 - Coupon 2.25% per annum payable semi-annually in arrears
 - Convertible into new ordinary shares at RM0.50 each in Taliworks
 - Conversion Price RM2.50 subject to a Reset Mechanism
 - Redemption Price 119.95% of nominal value of the Convertible Bonds
 - Issuer Call Option Non-callable for 3 years, thereafter subject to 130% trigger over the Early Redemption Amount divided by the Conversion Ratio
 - Investor Put Option: At the end of year 3, at the Put Price of 111.28% of the nominal value
 - of the Convertible Bonds
 - The Convertible Bonds will not be listed on any stock exchange
 - The Convertible Bonds will be tradeable and transferable
- The acquisition of CSSB is consistent with Taliworks' aim to grow via mergers & acquisitions to enhance its earnings and allow greater efficient utilisation of its surplus cash. The convertible bonds issue has further strengthened Taliworks' balance sheet to capitalise on future growth opportunities from new projects and acquisition prospects.
- Earnings impact from CSSB acquisition and convertible bond issue:
 - Grand Saga is already fully operational and profitable with proven traffic volumes, benefiting from a Jan 2007 toll-rate increase, providing a steady and recurring earnings stream;
 - The convertible bond issue has however increased financing costs although earnings contributions from CSSB (mainly Grand Saga) and higher construction contributions are expected to more than offset higher financing costs in 2008, based on our estimates;
 - We have also included an annual accretion of the convertible bond redemption premium as well as the amortisation of goodwill at CSSB for the Grand Saga acquisition.
- Risk factors:
 - Lower toll rates and delays in toll rate revisions. Grand Saga implemented a 43% toll rate increase in Jan 2007 and expects to revise toll rates again in 2013.
 - Traffic volume risk due to change in economic conditions, fuel price hikes and affordability of road users.
 - Dependency on third party proprietary technology such as SmartTag and Touch n' Go payments systems for the collection of toll payments.

- At Taliworks' core water operations, although production output at the water treatment facilities under Sungai Selangor Phase 1 (SSP1) was affected by SYABAS' rationalization of water supply in the Klang Valley since 2QFY06, it appears to have stabilised based on the recent quarterly output trend. Output increased slightly from 66.71m³ in 2QFY07 to 67.27m³ in 3QFY07. In FY08, we expect the demand for water supply at Sungei Harmoni to stabilise at around 780MLD, as the production of other water treatment plants in Selangor are nearing their optimum design capacities.
- At Taliworks Langkawi, we expect average metered sales to increase marginally by 3% but the scheduled increase of BSR by 13% from RM1.70 per m³ to RM1.92 per m³ starting 1 Jan 2008 is expected to give an added boost.
- For the construction division, the group is expected to book in a third of the RM149m Padang Terap project in 2007 and the remaining two thirds of the project in 2008. Its newly secured RM22m flood mitigation project will contribute from 4QFY07.
- The newer waste management division is not expected to contribute significantly at this point. This division comprise mainly the San Xin Dui wastewater treatment plant and the production and marketing of CK21 bacteria strains for water and wastewater sludge treatment in the PRC.

3. Recommendation

- Our **HOLD** recommendation is unchanged. Although we believe prospects are bright at the group particularly given the recent acquisition of CSSB and award of water construction contracts, the stock is already trading at a premium to the market.

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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