

<b>Taliworks Corporation Berhad</b>		<b>Price:</b>	RM2.22
		<b>Market Capitalisation:</b>	RM830.05m
		<b>Board:</b>	Main Board
		<b>Sector:</b>	Trading/Services
<b>Stock Code:</b>	8524	<b>Recommendation:</b>	HOLD

Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	9.0	12.9	12.0
PER (x)	24.6	17.3	18.4
Dividend/Share (sen)	9.5	9.5	9.5
NTA/Share (RM)	0.83	0.90	0.95
Book Value/Share (RM)	0.88	0.94	0.99
Issued Capital (m sh)	375.4	375.4	375.4
52-weeks Share Price Range (RM)	1.58-2.55		

Major Shareholders:	%
LGB	52.7%
Kumpulan Perangsang Selangor Berhad	19.1%

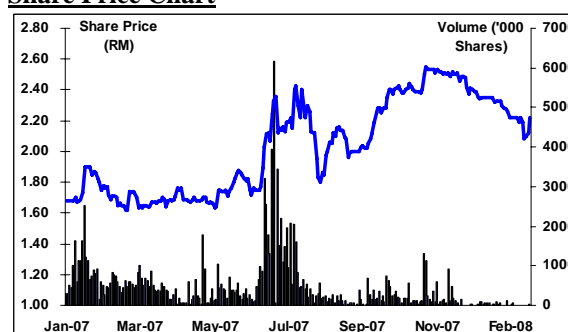
Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.84	0.88	0.94	0.99
Cash Flow (sen)	8.3	10.8	(1.3)	38.5
Earnings (sen)	9.5	9.0	12.9	12.0
Dividend (sen)	10.0	9.5	9.5	9.5
Payout Ratio (%)	76.0	76.8	53.9	57.6
PER (x)	23.2	24.6	17.3	18.4
P/Cash Flow (x)	26.9	20.6	(171.7)	5.8
P/Book Value (x)	2.6	2.5	2.4	2.2
Dividend Yield (%)	4.5	4.3	4.3	4.3
ROE (%)	12.1	10.5	14.1	12.5
Net Gearing (%) *	nc	nc	nc	nc

\* n.c.: net cash

P&L Analysis (RMm)	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Revenue	142.9	191.0	264.4	150.6
Operating Profit	50.0	47.3	50.7	45.7
Depreciation	(1.3)	(1.9)	(3.0)	(4.1)
Net Interest	2.0	0.7	(2.4)	(5.2)
Pre-tax profit	50.3	46.7	65.9	61.6
Effective Tax Rate (%)	29.2	29.0	27.0	27.0
Net Profit	35.7	33.7	48.1	45.0
Operating Margin (%)	35.0	24.8	19.2	30.3
Pre-tax margin	35.2	24.4	24.9	40.9
Net margin	25.0	17.7	18.2	29.9

n.m. - not meaningful

### Share Price Chart



### 1. 4QFY07 Results Highlights:

	4Q07 RMm	4Q06 RMm	Chg %
Revenue	51.1	35.4	44.3
Operating Profit	9.8	10.7	(8.3)
Finance costs	(1.2)	(0.1)	n.m.
Associate	0.1	0.4	(61.2)
Pre-tax Profit	9.1	11.0	(17.5)
Net Profit	6.3	7.5	(16.1)
Operating Margin (%)	19.2	30.3	
Pre-tax Margin (%)	17.7	31.0	
Net-Margin (%)	12.3	21.1	

- 4Q07 revenues were 44% higher yoy due to higher construction activities with the commencement of works at the Bekalan Air Padang Terap Project. Water revenues declined by 5% due to a fall in production at SSP1, from 71.10m<sup>3</sup> (781 MLD) in 4Q06 to 64.95m<sup>3</sup> (714 MLD). Taliworks Langkawi however enjoyed a 9% yoy growth in production from 3.42m<sup>3</sup> (37.3 MLD) to 3.74m<sup>3</sup> (40.7 MLD).
- At the pre-tax profit level, the group registered a 17.5% yoy decline due to some one-off charges (RM2.9m charge for FRS2 and RM3.3m charge in relation to CB issue). These charges were however largely offset by higher contributions from construction activities and higher profitability recorded at the water division.
- Our **HOLD** recommendation is unchanged. Although we believe prospects are bright at the group, the stock is already trading at a premium to the market.

## 2. FY07 Results Highlights:

	2007 RMm	2006 RMm	Chg %
Revenue	191.0	142.9	33.6
Operating Profit	47.3	50.0	(5.4)
Finance costs	(1.6)	(0.6)	n.m.
Associate	0.6	0.9	(26.5)
Pre-tax Profit	46.4	50.3	(7.7)
Net Profit	33.7	35.7	(5.4)
Operating Margin (%)	24.8	35.0	
Pre-tax Margin (%)	24.3	35.2	
Net-Margin (%)	17.7	25.0	

- Taliwork's final results for FY07 were in line with our expectations. Turnover for the year was up 33.6% yoy largely reflecting stronger construction revenues from the commencement of works at the Bekalan Air Padang Terap Project. Construction revenues increased from RM4.6m in 2006 to RM56.6m in 2007.
- The slight yoy declines at the pre-tax and net profit levels reflected some one-off charges for FRS2 and expenses incurred in relation the convertible bond (CB) issue although these were largely offset by better operational performances at the construction and water businesses.
- During the year, Taliworks expanded its business to include toll highway operations via the acquisition of a 55% stake in Cerah Sama Sdn Bhd (CSSB), the holding company of Grand Saga, which is the concessionaire for the Cheras-Kajang highway. The group also issued RM225m convertible bonds for business expansion purposes.
- The group declared a second interim gross dividend of 4.0 sen/share during the year and in announcing the final results, had recommended a final gross dividend of 2.5 sen/share, bringing the total gross dividend for 2007 to 9.5 sen/share. The total dividend payout translates to a yield of 4.3%.

### **Earnings Outlook**

- We believe the recent completion of Taliworks' acquisition of a 55% stake in 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 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.
- At Taliworks' core water operations, we expect demand for water supply at Sungei Harmoni (SSP1) to stabilise at around 780MLD in 2008, 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 m<sup>3</sup> to RM1.92 per m<sup>3</sup> starting 1 Jan 2008 is expected to give an added boost.
- For the construction division, the group is expected to book in the remaining two thirds of the project cost in 2008. Its newly secured RM22m flood mitigation project will also contribute in 2008.
- 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.

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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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