

Recommendation: **BUY**

Stock Code: 8524

Bloomberg: CI MK

Price: MYR1.88

12-Month Target Price: MYR2.30

Date: August 29, 2008

Board: Main

Sector: Trading/Services

GICS: Utilities/Water Utilities

Market Value - Total: MYR706.4 mln

Summary: Taliworks operates and maintains water treatment plants in Selangor and Langkawi, Kedah. In addition, it undertakes water related facility construction projects in Malaysia and waste management projects in China. The group has expanded its business into highway management (Cheras - Kajang Highway concession) in 2007.

Analyst: Chok Wai Lee, CFA



Results Review & Earnings Outlook

- Taliworks posted 1H08 net profit of MYR20.5 mln (+9.1% YoY). The earnings accounted for 45.8% of our full-year forecasts and were slightly below our expectations. The variance was mainly due to an unexpected loss of MYR624,000 registered by the construction division in 2Q08 as a result of surging construction material costs.
- 1H08 group revenue rose 68.5% YoY to MYR134.9 mln on the back of higher construction activities at the Padang Terap project and the Klang Valley Flood Mitigation project. The group's water business remains the main driver, contributing 49.9% of the group's turnover. 1H08's revenue from the water business was up 6.0% YoY, due to higher metered sales from the Langkawi concession (+3.8% YoY) and a hike in bulk sales rate to MYR1.92/m3 from MYR1.70/m3 (effective on Jan. 1, 2008). Water production for the Sungai Harmoni concession also registered higher water production (+2.9% YoY) in 1H08.
- Furthermore, the group's newly-acquired Cerah Sama Sdn. Bhd. (55% owned) and the waste management operation in China registered net profit of MYR3.8 mln and MYR305,000 in 1H08, respectively.
- After fine-tuning our earnings model, our 2008 and 2009 earnings forecasts are lowered by 6.5% and 0.2%, respectively, taking into account the lower margins from its construction business.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	9.0	11.1
PER (x)	20.9	16.9
Dividend/Share (sen)	9.5	10.0
NTA/Share (MYR)	0.83	0.87
Book Value/Share (MYR)	0.88	0.91
No. of Outstanding Shares (mln)	375.7	
52-week Share Price Range (MYR)	1.60 - 2.55	
Major Shareholders:	%	
Lim Chee Meng and family	52.4	
Kumpulan Perangsang Selangor	19.7	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We upgrade our recommendation to Buy from Hold with an unchanged 12-month target price of MYR2.30 due to increased upside following the recent drop in share prices.
- Our target price is based on discounted cash flow (DCF) analysis (WACC: 9.4%-10.6%, terminal growth: 3%). Our target price also includes a projected net DPS of 7.4 sen for the next 12 months.
- We like Taliworks for its healthy balance sheet, stable positive cash flow and decent dividend yield of 5.3%. Taliworks targets to increase its revenue contribution from overseas ventures to 50% in three years' time (5% in 2007). In our view, this is a strategic move as it would reduce Taliworks' dependence on earnings from local water concessions and mitigate risks of lower water tariffs. The stock should receive a boost when it secures new projects that we have yet to reflect in our forecasts. We are positive on its recent expansion into highway management as this will provide another new steady and recurring earnings stream to Taliworks.
- Risks to our recommendation and target price include regulatory issues related to its concessions, which could lead to lower water tariffs or toll rates. Higher costs have been built into the concessions' pricing mechanism but there is no guarantee that Taliworks will be able to attain stated price increases and/or avert collection difficulties.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	0.78	0.84	0.88	0.91
Cash Flow (sen)	10.7	10.1	11.3	11.5
Reported Earnings (sen)	12.5	9.8	9.0	11.1
Dividend (sen)	8.0	10.0	9.5	10.0
Payout Ratio (%)	57.5	77.3	63.5	66.5
PER (x)	15.0	19.3	20.9	16.9
P/Cash Flow (x)	17.6	18.6	16.6	16.3
P/Book Value (x)	2.4	2.2	2.1	2.1
Dividend Yield (%)	4.3	5.3	5.1	5.3
ROE (%)	13.8	11.8	12.8	12.4
Net Gearing (%)	0.0	0.0	55.2	44.4

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Taliworks Corporation

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Quarterly Performance

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	69.6	40.7	70.8
Reported Operating Profit	13.5	12.8	5.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.6	-0.1	>100
Reported Pre-tax Profit	12.0	12.8	-6.2
Reported Net Profit	8.6	9.3	-8.2
Reported Operating Margin (%)	19.4	31.4	-
Reported Pre-tax Margin (%)	17.3	31.5	-
Reported Net Margin (%)	12.3	22.9	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	142.9	191.0	246.7	155.9
Reported Operating Profit	47.4	52.4	64.1	57.2
Depreciation & Amortization	-2.2	-1.5	-1.5	-1.6
Net Interest Income / (Expense)	2.0	0.6	-5.9	-8.4
Reported Pre-tax Profit	50.3	46.7	58.8	49.4
Effective Tax Rate (%)	29.2	29.0	28.6	27.7
Reported Net Profit	35.7	33.7	41.8	35.4
Reported Operating Margin (%)	33.1	27.4	26.0	36.7
Reported Pre-tax Margin (%)	35.2	24.4	23.8	31.7
Reported Net Margin (%)	25.0	17.7	16.9	22.7

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	2.30
30-May-08	Hold	2.30
10-Apr-08	Buy	2.30
10-Sep-07	Hold	2.10
1-Mar-07	Hold	1.80
1-Sep-06	Hold	1.75
1-Jun-06	Buy	1.56
16-May-06	Hold	1.56
23-Nov-05	Hold	1.45
15-Sep-05	Hold	1.32

