

Taliworks Corporation Berhad		Price:	RM1.86
		Market Capitalisation:	RM695.4m
		Board:	Main Board
		Sector:	Trading/Services
Stock Code:	8524	Recommendation:	HOLD

Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	9.0	11.0	9.4
PER (x)	20.6	16.9	19.7
Dividend/Share (sen)	9.5	9.5	9.5
NTA/Share (RM)	0.83	0.88	0.90
Book Value/Share (RM)	0.88	0.92	0.95
Issued Capital (m sh)	375.4	375.4	375.4
52-weeks Share Price Range (RM)	1.65-2.60		

Major Shareholders:	%
Dato' Lim Chee Meng (ED)*	52.4%
Kumpulan Perangsang Selangor Berhad	19.7%

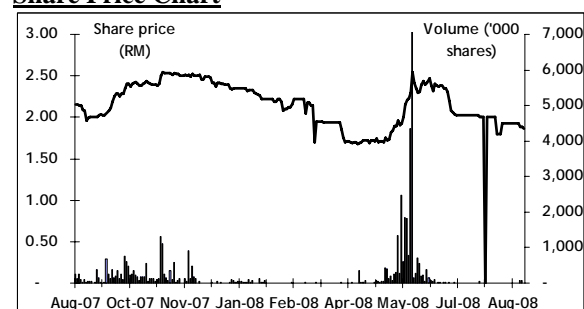
* Direct and indirect interests

Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.84	0.88	0.92	0.95
Cash Flow (sen)	8.3	10.8	(0.7)	36.9
Earnings (sen)	9.5	9.0	11.0	9.4
Dividend (sen)	10.0	9.5	9.5	9.5
Payout Ratio (%)	76.0	76.8	63.2	73.6
PER (x)	19.5	20.6	16.9	19.7
P/Cash Flow (x)	22.5	17.3	(274.9)	5.0
P/Book Value (x)	2.2	2.1	2.0	2.0
Dividend Yield (%)	5.4	5.1	5.1	5.1
ROE (%)	12.1	10.5	12.2	10.1
Net Gearing (%) *	nc	nc	nc	nc

* nc: net cash

P&L Analysis (RMm)	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Revenue	142.9	191.0	260.6	142.0
Operating Profit	50.0	47.3	45.4	36.5
Depreciation	(1.3)	(1.9)	(3.0)	(4.1)
Net Interest	2.0	0.7	(2.3)	(2.1)
Pre-tax profit	50.3	46.7	56.2	48.3
Effective Tax Rate (%)	29.2	29.0	27.0	27.0
Net Profit	35.7	33.7	41.1	35.2
Operating Margin (%)	35.0	24.8	17.4	25.7
Pre-tax margin	35.2	24.4	21.6	34.0
Net margin	25.0	17.7	15.8	24.8

Share Price Chart



1. 2QFY08 Results Highlights:

Year-ended 31 Dec	2Q08 RMm	2Q07 RMm	Chg %
Revenue	69.6	40.7	70.8
Operating Profit	13.5	12.8	5.4
Finance costs	(3.6)	(0.1)	>100
Jointly controlled entity	2.0	-	nm
Associate	0.2	0.1	18.2
Pre-tax Profit	12.0	12.8	(6.2)
Net Profit	8.6	9.3	(7.9)
Operating Margin (%)	19.4	31.4	
Pre-tax Margin (%)	17.3	31.5	
Net-Margin (%)	12.3	22.8	

- Taliworks' 2Q08 results were within our expectations. Performance at the main water operations was largely maintained yoy and qoq but the construction operations suffered losses as a result of higher construction material costs.
- The enforcement of Water Services Industry Act 2006 may result in changes to water concession agreements and terms, as the government attempts to reorganise water concession assets.
- At jointly-controlled entity, Cerah Sama Sdn Bhd (CSSB) which owns toll concessionaire, Grand Saga Sdn Bhd (GS), the recent opening of a toll-free access road to Bandar Mahkota Cheras has resulted in some revenue leakage. The dispute is pending court hearing.
- We maintain our **HOLD** recommendation on the stock as uncertainties over regulatory issues surrounding the water and toll highway operations remain.

2. 1HFY08 Results Review:

Year-ended 31 Dec	1H08 RMm	1H07 RMm	Chg %
Revenue	134.9	80.1	68.5
Operating Profit	31.8	25.7	23.5
Finance costs	(7.2)	(0.2)	>100
Jointly controlled entity	3.8	-	nm
Associate	0.3	0.4	(18.0)
Pre-tax Profit	28.7	25.9	11.1
Net Profit	20.5	18.8	9.1
Operating Margin (%)	23.6	32.1	
Pre-tax Margin (%)	21.3	32.3	
Net-Margin (%)	15.2	23.5	

Revenue & Earnings

- 1H08 revenue posted a strong 68.5% yoy increase largely as a result of sharply higher construction revenue, on the back of two new construction projects namely the Padang Terap and the Klang Valley flood mitigation projects.
- The main water operations registered a 6% yoy increase in revenue in 1H08, reflecting higher metered sales at Taliworks Langkawi.
- Relative to revenue, profit at the pre-tax and net levels increased by a relatively slower 11.1% and 9.1% respectively, due to higher financing costs and the accretion of bond redemption premium.

Balance Sheet

- Taliworks ended Jun 2008 with an estimated net cash position of RM53.4m, up from a net cash position of RM38.3m as at the end of 2007.

Dividends

- Together with the 2Q08 results, the Board declared a first interim dividend of 3.0 per share less income tax of 26%, to be paid on 29 Sep 2008.

Earnings Outlook

- Management has indicated in the past that it is their intention to underpin longer-term prospects with regional expansion via its core water and toll highway businesses:
 - Potential increase in presence in China's water business after the Apr 2008 signing of a cooperation agreement with Shenzhen Hanyang for the exclusive cooperation and collaboration, within a period of two years, in projects related to clinical waste, water supply, treatment of waste water and/or municipal solid waste in China.
 - Potential involvement in the development and operation of toll roads in Malaysia and the ASEAN region via jointly-controlled entity, CSSB. CSSB's other shareholders include the South East Asia Strategic Asset Fund or SEASAF, which has a 35% stake in CSSB.
- We believe plans to have overseas' contributions make up 50% of total revenue in five years versus 5% currently is a positive move, as it would provide market diversification and reduce exposure to ongoing uncertainties surrounding the local water and toll highway businesses.
- In the near term, revenue and earnings should be relatively stable:
 - At the core water operations, we expect demand for water supply at SSP1 to stabilise at around 750MLD 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% per annum with an added boost from the increase in BSR by 13% from RM1.70 per m³ to RM1.92 per m³ effective 1 Jan 2008.
 - The acquisition of CSSB in Nov 2007 has added another stable income stream to the group, with its 55% stake in GS' toll concession for the Cheras-Kajang Highway. 2008 will be the first full year of contributions from CSSB.

- At the construction division, the group is expected to book in the remaining two thirds of the project cost in 2008, for both the Padang Terap and Klang Valley Flood Mitigation projects.
- 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.
- The RM225m convertible bonds issue in Dec 2007 has strengthened Taliworks' balance sheet to capitalise on future growth opportunities from new projects and acquisition prospects, both locally and around the region.

3. Recommendation

- We are maintaining our **HOLD** recommendation on the stock as uncertainties over regulatory issues surrounding the main water and toll highway operations remain.
- Prospective PE multiples are also not compelling at these levels although dividend yield is relatively attractive at an estimated 5.1% per annum.

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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