

Taliworks Corporation

Recommendation: **HOLD**

Stock Code: 8524

Bloomberg: CI MK

Price: MYR1.87

12-Month Target Price: MYR1.90

Date: February 25, 2009

Board: Main

Sector: Trading/Services

GICS: Utilities/Water Utilities

Market Value - Total: MYR704.2 mln

Summary: Taliworks operates and maintains water treatment plants in Selangor and Langkawi, Kedah. In addition, it undertakes water related and waste management projects in China and Malaysia. The group has expanded its business into highway management in 2007. The stock is a component of the FBMEMAS.

Analyst: Chok Wai Lee, CFA



Results Review & Earnings Outlook

- Taliworks posted 2008 net profit of MYR45.8 mln (+35.6% YoY) that was 9.5% above our full-year estimate of MYR41.8 mln. The main variances were the lower-than-expected tax expense and unexpected capital gains of MYR3.2 mln from the redemption of money market unit trust funds.
- 4Q08 group revenue fell 68.0% QoQ to MYR22.2 mln due to over estimation of construction revenue in 3Q08. However, the construction division was not materially impacted and registered a pretax profit of MYR3.4 mln on the back of lower construction costs. The group remains confident that the Padang Terap and the Klang Valley Flood Mitigation projects will be completed in 2009. The group's water business remains the main driver, contributing 60% of the group's turnover. In 2008, water production for the Sungai Harmoni concession was relatively flat while the Langkawi concession registered a modest growth of 1.7% YoY.
- Meanwhile, Taliworks' waste management operation in China received a tariff hike in 1Q09 to CNY1.15 per cubic meter from CNY0.80 per cubic meter. This should contribute positively to the group.
- Our 2009 net profit forecast is broadly unchanged while we introduce our 2010 earnings forecast of MYR32.1 mln. In our opinion, Taliworks' concession based business should provide stable income to the group despite the slowing domestic economic growth.

Recommendation & Investment Risks

- We downgrade our recommendation to Hold (from Buy) with an unchanged 12-month target price of MYR1.90 following the recent run-up of Taliworks' share price.
- Our target price is based on discounted cash flow (DCF) analysis (WACC: 11.2%-12.4%, terminal growth: 3%).
- Taliworks targets to increase its revenue contribution from overseas ventures to 50% going forward (from 6% in 2008). 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.
- We believe that Taliworks is well prepared for local and overseas business expansion given that it has MYR180.1 mln of unutilized proceeds raised from the issuance of convertible bonds. The group will focus on investments related to concession-based businesses with attractive valuations.
- 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.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	12.2	9.3
PER (x)	15.4	20.2
Dividend/Share (sen)	6.3	5.0
NTA/Share (MYR)	0.89	0.94
Book Value/Share (MYR)	0.93	0.99
No. of Outstanding Shares (mln)	376.6	
52-week Share Price Range (MYR)	1.34 - 2.54	
Major Shareholders:	%	
Lim Chee Meng and family	52.4	
Kumpulan Perangsang Selangor	19.7	

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.84	0.88	0.93	0.99
Cash Flow (sen)	10.1	11.5	13.6	9.9
Reported Earnings (sen)	9.8	9.0	12.2	9.3
Dividend (sen)	10.0	9.5	6.3	5.0
Payout Ratio (%)	77.3	63.5	35.6	40.4
PER (x)	19.1	20.8	15.4	20.2
P/Cash Flow (x)	18.5	16.2	13.7	18.9
P/Book Value (x)	2.2	2.1	2.0	1.9
Dividend Yield (%)	5.3	5.1	3.3	2.7
ROE (%)	11.8	12.8	14.4	9.6
Net Gearing (%)	0.0	55.2	50.3	37.5

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Quarterly Performance

FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	22.2	51.1	-56.6
Reported Operating Profit	18.2	8.7	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.7	-0.1	>100
Reported Pre-tax Profit	14.4	9.1	59.0
Reported Net Profit	13.4	6.3	>100
Reported Operating Margin (%)	81.9	17.1	-
Reported Pre-tax Margin (%)	64.9	17.7	-
Reported Net Margin (%)	60.4	12.3	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	191.0	226.4	166.3	149.2
Reported Operating Profit	51.6	68.7	48.4	45.9
Depreciation & Amortization	-1.5	-1.5	-1.6	-1.6
Net Interest Income / (Expense)	0.6	-13.2	-9.3	-12.4
Reported Pre-tax Profit	46.7	59.4	48.8	44.5
Effective Tax Rate (%)	29.0	22.0	27.8	27.5
Reported Net Profit	33.7	45.8	34.9	32.1
Reported Operating Margin (%)	27.0	30.4	29.1	30.8
Reported Pre-tax Margin (%)	24.4	26.2	29.4	29.9
Reported Net Margin (%)	17.7	20.2	21.0	21.6

Source: Company data, S&P Equity Research

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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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	1.90
26-Nov-08	Buy	1.90
29-Aug-08	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

