

Taliworks Corporation Berhad		Price:	RM1.86
		Market Capitalisation:	RM695.45m
		Board:	Main Board
		Sector:	Trading/Services
		Index Component:	FBMEMAS/FBMSCAP
Stock Code:	8524	Recommendation:	HOLD

Key Stock Statistics	FY08	FY09F	FY10F
EPS (sen)	12.2	9.8	9.4
PER (x)	15.3	19.0	19.9
Dividend/Share (sen)	6.3	5.0	5.0
NTA/Share (RM)	0.89	0.95	1.01
Book Value/Share (RM)	0.93	1.00	1.05
Issued Capital (m sh)	376.6	376.6	376.6
52-weeks Share Price Range (RM)	1.22-2.60		

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

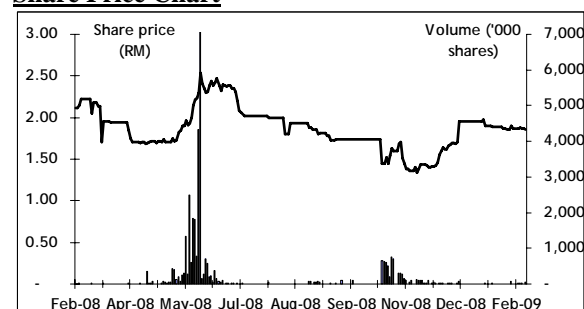
* Direct and indirect interests

Per Share Data	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Book Value (RM)	0.88	0.93	1.00	1.05
Cash Flow (sen)	10.8	8.8	25.5	(5.7)
Earnings (sen)	9.0	12.2	9.8	9.4
Dividend (sen)	9.5	6.3	5.0	5.0
Payout Ratio (%)	76.8	37.5	37.3	39.0
PER (x)	20.6	15.3	19.0	19.9
P/Cash Flow (x)	17.3	21.2	7.3	(32.4)
P/Book Value (x)	2.1	2.0	1.9	1.8
Dividend Yield (%)	5.1	3.4	2.7	2.7
ROE (%)	10.5	13.4	10.1	9.1
Net Gearing (%) *	nc	nc	nc	nc

* nc: net cash

P&L Analysis (RMm)	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Revenue	191.0	226.4	167.1	142.7
Operating Profit	47.3	67.6	49.2	46.3
Depreciation	(1.9)	(2.5)	(2.7)	(2.8)
Net Interest	0.5	(13.0)	(14.1)	(14.1)
Pre-tax profit	46.7	59.4	49.1	47.0
Effective Tax Rate (%)	29.0	22.0	25.0	25.0
Net Profit	33.7	45.8	36.8	35.2
Operating Margin (%)	24.8	29.9	29.4	32.4
Pre-tax margin	24.4	26.2	29.4	32.9
Net margin	17.7	20.2	22.1	24.7

Share Price Chart



1. 4QFY08 Results Highlights:

Year-ended 31 Dec	4Q08 RMm	4Q07 RMm	Chg %
Revenue	22.2	51.1	(56.6)
Operating Profit	18.2	9.8	85.2
Finance costs	(3.7)	(1.2)	>100
Jointly controlled entity	(261.0)	0.3	nm
Associate	0.1	0.1	(10.1)
Pre-tax Profit	14.4	9.0	59.2
Net Profit	13.4	6.3	>100
Operating Margin (%)	81.9	19.2	
Pre-tax Margin (%)	64.9	17.7	
Net-Margin (%)	60.4	12.2	

- Taliworks' 4Q08 revenue was below our expectations due to negative construction contributions as a result of over estimation of the percentage of completion of projects in 3Q08 and variation orders recognised earlier which are being disputed. At the pre-tax and net levels, the results came in slightly ahead of our projections due largely to the inclusion of RM3.2m worth of capital gains from the redemption of money market unit trust funds.
- 4Q08 revenue was down 56.6% yoy due largely to the over estimation of construction revenue in 3Q08, but profits for the quarter were sharply higher yoy, reflecting stronger earnings at the construction and waste management divisions.
- 2009 revenue and profits are expected to decline due to the absence of new construction projects whilst the water and waste management businesses are expected to be largely flat yoy.
- We maintain our **HOLD** recommendation on the stock with a price target of RM1.56/share, which is based on our break-up value estimate.

2. FY08 Results Review:

Year-ended 31 Dec	2008 RMm	2007 RMm	Chg %
Revenue	226.4	191.0	18.6
Operating Profit	67.6	47.3	43.0
Finance costs	(14.5)	(1.6)	>100
Jointly controlled entity	5.7	0.3	>100
Associate	0.6	0.6	(10.7)
Pre-tax Profit	59.4	46.7	27.2
Net Profit	45.8	33.7	35.6
Operating Margin (%)	29.9	24.8	
Pre-tax Margin (%)	26.2	24.4	
Net-Margin (%)	20.2	17.7	

Revenue & Earnings

- 2008 revenues were up 18.6% yoy, reflecting stronger contributions from the three core operations in water, construction and waste management. Relative to revenues, profits at the pre-tax and net levels increased by a larger quantum due to the inclusion of RM3.2m worth of capital gains from the redemption of money market unit trust funds, and a lower effective tax rate respectively.
- The largest, water business posted a 7.6% yoy increase in revenue for the year, reflecting stronger sales at Taliworks Langkawi, which enjoyed a 13% yoy increase in its bulk sales rate (BSR) from RM1.70/m³ to RM1.92/m³ effective 1 Jan 2008. In terms of production, SHSB's average output of 730 MLD was largely unchanged from 2007 although 4Q08 production dropped 20.8% to 57.8m m³ from 73.0 m m³ in 3Q08. At TLSB, the average output for the year posted a slight growth of 1.7% yoy.
- The construction division recognised the bulk of work completed at the Padang Terap and Klang Valley Flood Mitigation projects, which were assessed to be 86% completed and 90% completed as at the end of 2008. Completion for both projects is expected by 2Q09. Although margins have improved due to relatively lower prices of construction materials, the group is not optimistic about securing projects locally to replenish the depleting order book given the economic slowdown.
- At the waste management division, Puresino (Guanghan) Water Co Ltd, which is involved in the management, operation and maintenance of a wastewater treatment plant in China, adjusted for a tariff hike in 4Q08.
- At the associate level, the highway toll division recorded a drop in contributions due to higher amortisation of concession assets and goodwill as a result of lower projected traffic and impairment of quoted investments.

Balance Sheet

- Taliworks ended 2008 with an estimated net cash position of RM42.9m, up slightly from RM38.3m as at the end of 2007.
- Despite the strong balance sheet position, the group announced that in view of the current economic scenario, Taliworks will be placing importance on conserving cash and has decided from FY2009 that unless a decision is made to the contrary, dividends will only be declared based on the affordability of the group. The group's dividend policy up to 2008, was to distribute not less than 50% of its net earnings as gross dividends.

Dividends

- The Board had declared and paid a first interim dividend of 3.0 sen per share in Sep 2008.
- Together with the 4Q08 results, the Board declared a second interim gross dividend of 2.0 sen per share, payable on 30 Mar 2009, and recommended a final gross dividend of 1.25 sen per share.

Earnings Outlook

- 2009 revenue and profits are expected to decline due to the absence of new construction projects whilst the water and waste management businesses are expected to be largely flat yoy.

- 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 6% as at the end of 2008 is a positive move, as it would provide market diversification and reduce exposure to ongoing regulatory 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 770MLD in 2009;
 - At Taliworks Langkawi, we expect average metered sales of around 80MLD in 2009, largely unchanged from 2008. Taliworks Langkawi enjoyed a BSR increase 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 was the first full year of contributions from CSSB.
- Investment risks for the stock include regulatory changes at both the water and toll highway operations, which may lead to lower water tariffs and toll rates. The possibility of a general and prolonged slowdown in the economy may also affect revenues at the core water and toll highway operations.
- Corporate governance – the Board indicated in its 2007 annual report that it places importance in adopting the Principles of the Malaysian Code of Corporate Governance (the Code), and is committed to ensuring that good corporate governance is observed and practiced throughout the company and its subsidiaries.
- Corporate social responsibility (CSR) – Taliworks indicated in its 2007 annual report that it does not have a formal CSR framework but has, over the years, contributed its share of CSR in the manner it deemed suitable in its operations. The group indicated that it intends to promote CSR in the areas of employees' welfare, engagement with related stakeholders, contribution to the community and protection and conservation of the environment.

3. Recommendation

- We maintain our **HOLD** recommendation on the stock with a price target of RM1.56/share, which is based on our break-up value estimate. Prospective PE multiples are not compelling at between 19-20x, whilst there is a likelihood that dividend payout may decline as indicated by the group.

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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