

<h1>Taliworks Corporation Berhad</h1>		<b>Price:</b>	RM1.70
		<b>Market Capitalisation:</b>	RM635.62m
		<b>Board:</b>	Main Board
		<b>Sector:</b>	Trading/Services
		<b>Index Component:</b>	FBMEMAS/FBMSCAP
<b>Stock Code:</b>	8524	<b>Recommendation:</b>	HOLD

Key Stock Statistics	FY08	FY09F	FY10F
EPS (sen)	12.2	9.0	8.4
PER (x)	14.0	19.0	20.3
Dividend/Share (sen)	6.3	5.0	5.0
NTA/Share (RM)	0.89	0.94	0.99
Book Value/Share (RM)	0.93	0.99	1.04
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%

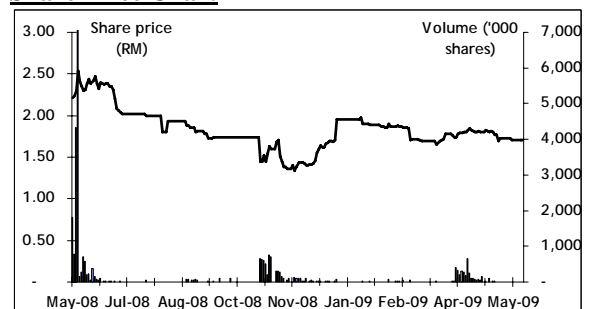
\* Direct and indirect interests

Per Share Data	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Book Value (RM)	0.88	0.93	0.99	1.04
Cash Flow (sen)	10.8	8.8	26.3	(7.0)
Earnings (sen)	9.0	12.2	9.0	8.4
Dividend (sen)	9.5	6.3	5.0	5.0
Payout Ratio (%)	76.8	37.5	40.7	43.6
PER (x)	18.8	14.0	19.0	20.3
P/Cash Flow (x)	15.8	19.4	6.5	(24.3)
P/Book Value (x)	1.9	1.8	1.7	1.6
Dividend Yield (%)	5.6	3.7	2.9	2.9
ROE (%)	10.5	13.4	9.3	8.3
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	161.6	137.2
Operating Profit	47.3	67.6	47.3	44.4
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	44.9	42.0
Effective Tax Rate (%)	29.0	22.0	25.0	25.0
Net Profit	33.7	45.8	33.7	31.5
Operating Margin (%)	24.8	29.9	29.2	32.3
Pre-tax margin	24.4	26.2	27.8	30.6
Net margin	17.7	20.2	20.8	23.0

### Share Price Chart



### 1. 1QFY09 Results Highlights:

Year-ended 31 Dec	1Q09 RMm	1Q08 RMm	Chg %
Revenue	36.8	65.4	(43.8)
Operating Profit	13.5	18.3	(26.2)
Finance costs	(3.6)	(3.6)	1.6
Jointly controlled entity	1.1	1.8	(38.2)
Associate	0.3	0.1	81.1
Pre-tax Profit	11.3	16.7	(32.5)
Net Profit	8.4	11.9	(29.3)
Operating Margin (%)	36.8	28.0	
Pre-tax Margin (%)	30.7	25.6	
Net-Margin (%)	22.9	18.2	

- Taliworks' 1Q09 results were within our expectations. The lower revenue and earnings yoy reflected a drop in construction activities, lower contributions from jointly-controlled toll highway owner and operator, Cerah Sama Sdn Bhd (CSSB) as a result of lower average daily traffic (ADT) from the Cheras-Kajang highway (from 201,654 vehicles/day to 191,595 vehicles/day), and additional impairment made on quoted investments at CSSB.
- Margins improved yoy as the core water treatment business, which recorded a flat performance yoy, was more profitable than the construction and waste management units.
- 2009 revenue and profits are expected to decline due largely to the absence of new construction projects being secured.
- 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. Earnings Outlook:**

- 2009 revenue and earnings are expected to be unexciting, due to the absence of new construction projects, and a largely flat performance at the core water treatment operations. We are also projecting lower traffic volumes at CSSB, as seen in 1Q09.
- Excluding the construction division, Taliworks' revenue and earnings are expected to be relatively stable given the nature of the concession-based water treatment and toll highway operations.
- 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 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 group.
- 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.

## **Balance Sheet**

- Taliworks ended Mar 2009 with an estimated net cash position of RM31.3m. Despite the strong balance sheet position, the group had announced earlier 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**

- No dividends were declared for 1Q09.

## **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. We like the group's strong balance sheet position but prospective PE ratings and earnings growth rates are not compelling at this stage, whilst there is a likelihood that dividend payout may decline as indicated by the group.

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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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