

Recommendation: **HOLD**Stock Code: **8524**Bloomberg: **CI MK**Price: **MYR1.70**12-Month Target Price: **MYR1.90**Date: **August 19, 2009****Board:** Main**Sector:** Trading/Services**GICS:** Utilities/Water Utilities**Market Value - Total:** MYR640.2 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 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 1H09 revenue and net profit of MYR75.0 mln (-44.4% YoY) and MYR16.5 mln (-19.5% YoY), respectively. The earnings were broadly in line with our expectations.
- The lower revenue and net profit were mainly due to weaker contribution from the construction division. While Taliworks completed 93% of the Klang Valley Flood Mitigation project in 2Q09 (from 80% in 1Q09), the Padang Terap project is still on hold, due to delay in land acquisition by the government. Management expects the projects to be completed by end-2009.
- Taliworks' water business continues to provide stable income to the company, contributing pretax profit of MYR26.8 mln in 1H09 (-1.3% YoY). Meanwhile, its waste management division in China reported a pretax profit of MYR1.8 mln (+81.1% YoY), driven mainly by a tariff hike and higher production growth.
- Taliworks' 55%-owned jointly-controlled entity, Cerah Sama Sdn. Bhd. registered a lower net profit of MYR2.5 mln in 1H09 (-34.2% YoY) due to higher amortization charges. Nonetheless, we expect the results to improve in 2H09 on better traffic volume and gains from disposal of the stake in SILK Holdings (SIB MK, MYR0.21, Not Ranked).
- We increase our net profit forecasts for 2009 and 2010 by 1.3% and 6.9% respectively, taking into account the better contribution from the waste management division.

Recommendation & Investment Risks

- We maintain our Hold recommendation with an unchanged 12-month target price of MYR1.90.
- Our target price is based on discounted cash flow (DCF) analysis (WACC: 11.2%-12.4%, terminal growth: 3%). At our target price, Taliworks would trade at 21.2x 2010 EPS, comfortably within the midpoint of its five-year trading range.
- Taliworks targets increasing its revenue contribution from overseas ventures to 50% (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 domestic regulatory risks.
- We believe 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 company 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	9.2
PER (x)	14.0	18.5
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 - 1.98	
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	11.9	14.2	10.4
Reported Earnings (sen)	9.8	9.0	12.2	9.2
Dividend (sen)	10.0	9.5	6.3	5.0
Payout Ratio (%)	77.3	63.5	35.6	40.9
PER (x)	17.4	18.9	14.0	18.5
P/Cash Flow (x)	16.8	14.2	12.0	16.3
P/Book Value (x)	2.0	1.9	1.8	1.7
Dividend Yield (%)	5.9	5.6	3.7	2.9
ROE (%)	11.8	12.8	14.4	9.6
Net Gearing (%)	0.0	55.2	50.3	37.2

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Taliworks Corporation

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FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	38.3	69.6	-45.0
Reported Operating Profit	13.4	13.5	-0.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.7	-3.6	3.3
Reported Pre-tax Profit	11.3	12.0	-5.7
Reported Net Profit	8.1	8.6	-6.0
Reported Operating Margin (%)	35.0	19.4	-
Reported Pre-tax Margin (%)	29.6	17.3	-
Reported Net Margin (%)	21.1	12.3	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	191.0	226.4	166.1	151.7
Reported Operating Profit	52.4	69.5	50.0	49.8
Depreciation & Amortization	-3.8	-4.5	-4.7	-4.8
Net Interest Income / (Expense)	0.6	-13.2	-9.2	-11.6
Reported Pre-tax Profit	46.7	59.4	47.0	45.4
Effective Tax Rate (%)	29.0	22.0	25.3	24.6
Reported Net Profit	33.7	45.8	34.6	33.8
Reported Operating Margin (%)	27.4	30.7	30.1	32.8
Reported Pre-tax Margin (%)	24.4	26.2	28.3	29.9
Reported Net Margin (%)	17.7	20.2	20.8	22.3

Source: Company data, S&P Equity Research

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
25-Feb-09	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

