

Taliworks Corporation Berhad		Price:	RM1.70
		Market Capitalisation:	RM635.62m
		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	8.9	8.5
PER (x)	14.0	19.0	19.9
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)	1.22-1.98		

Major Shareholders:	%
Dato' Lim Chee Meng (ED)*	52.2%
Kumpulan Perangsang Selangor Berhad	19.6%

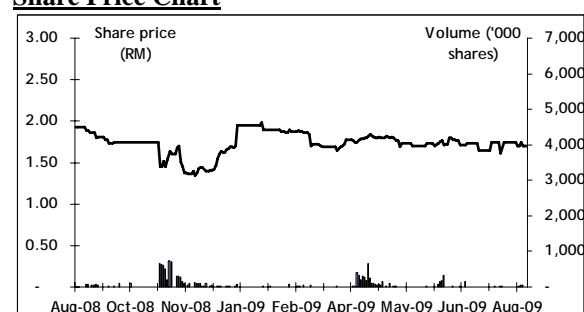
* Direct and indirect interests

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	8.9	8.5
Dividend (sen)	9.5	6.3	5.0	5.0
Payout Ratio (%)	76.8	37.5	40.8	42.7
PER (x)	18.8	14.0	19.0	19.9
P/Cash Flow (x)	15.8	19.4	6.5	(24.1)
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	8.4
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	42.8
Effective Tax Rate (%)	29.0	22.0	25.0	25.0
Net Profit	33.7	45.8	33.7	32.1
Operating Margin (%)	24.8	29.9	29.2	32.3
Pre-tax margin	24.4	26.2	27.8	31.2
Net margin	17.7	20.2	20.8	23.4

Share Price Chart



1. 2QFY09 Results Highlights:

Year-ended 31 Dec	2Q09 RMm	2Q08 RMm	Chg %
Revenue	38.3	69.6	(45.0)
Operating Profit	13.4	13.5	(0.6)
Finance costs	(3.7)	(3.6)	3.3
Jointly controlled entity	1.4	2.0	(30.5)
Associate	0.3	0.2	68.5
Pre-tax Profit	11.3	12.0	(5.7)
Net Profit	8.1	8.6	(6.0)
Operating Margin (%)	35.0	19.4	
Pre-tax Margin (%)	29.6	17.3	
Net-Margin (%)	21.1	12.3	

- Taliworks' 2Q09 results were within our expectations. Revenue declined by 45% yoy due to a lack of construction activities. Despite the sharp drop in revenue, earnings were only down 6% yoy, reflecting continued stable contributions from the core water business, and the fact that the construction division made largely the same magnitude of losses in 2Q08 and 2Q09.
- Margins improved yoy as the core water treatment business is more profitable than the construction and waste management divisions.
- 2009 revenue and profits are expected to decline yoy due largely to the absence of new construction projects, and flat performance at the water treatment division.
- We maintain our **HOLD** recommendation on the stock with a price target of RM1.55/share, which is based on our break-up value estimate.

2. 1HFY09 Results Review:

Year-ended 31 Dec	1H09 RMm	1H08 RMm	Chg %
Revenue	75.0	134.9	(44.4)
Operating Profit	26.9	31.8	(15.3)
Finance costs	(7.3)	(7.2)	2.4
Jointly controlled entity	2.5	3.8	(34.2)
Associate	0.5	0.3	74.4
Pre-tax Profit	22.6	28.7	(21.3)
Net Profit	16.5	20.5	(19.5)
Operating Margin (%)	35.9	23.6	
Pre-tax Margin (%)	30.2	21.3	
Net-Margin (%)	22.0	15.2	

Revenue & Earnings

- 1H09 revenue posted a 44% yoy decline due to the absence of new construction projects. The existing construction project at Klang Valley (flood mitigation) is at 93% completion whilst the Padang Terap project has been delayed as the authorities are unable to secure vacant possession of land on which the project is situated.
- The core water business was largely flat yoy. Sungai Selangor Water Treatment Works Phase I (SSPI) enjoyed a 5% qoq increase in production from 60.5 million m³ to 63.9 million m³ in 2Q09 but Taliworks Langkawi registered lower metered sales of 3.97 million m³ in 2Q09 compared to 4.13 million m³ in 1Q09.
- The smaller waste management division recorded an increase in tonnage of waste processed at Puresino (Guanghan) and Tianjin-SWM in China but contributions from this new division remains relatively small.
- Jointly-controlled entity, Ceraf Sama Sdn Bhd (CSSB) recorded a 34% yoy decline in contributions as a result of higher amortisation of concession assets and goodwill recognised, although this was partly offset by higher average daily traffic at the Cheras-Kajang highway.

Balance Sheet

- Taliworks ended Jun 2009 with an estimated net cash position of RM43m.

Dividends

- The Board declared an interim gross dividend of 2.0 sen per share less income tax at 25%, payable on 18 Sep 2009.

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.
- 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 2008 annual report that it is committed to ensuring good corporate governance is observed and practiced throughout the group. It also highlighted that based on the Corporate Governance Survey Report published by the Minority Shareholder Watchdog Group and the University of Nottingham Malaysia campus in Sep 2008, Taliworks was ranked 45 out of 960 publicly-listed companies in Malaysia in terms of compliance with corporate governance principles and best practices.
- Corporate social responsibility (CSR) – Taliworks indicated in its 2008 annual report that it is committed to promoting and undertaking good practices in CSR programmes that have a positive and enduring impact on all stakeholders. The CSR initiatives that the group has undertaken or intend to

promote further include employees' welfare, engagement with related stakeholders, contribution to the community and protection & conservation of the environment.

3. Recommendation

- We maintain our **HOLD** recommendation on the stock with a price target of RM1.55/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.

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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