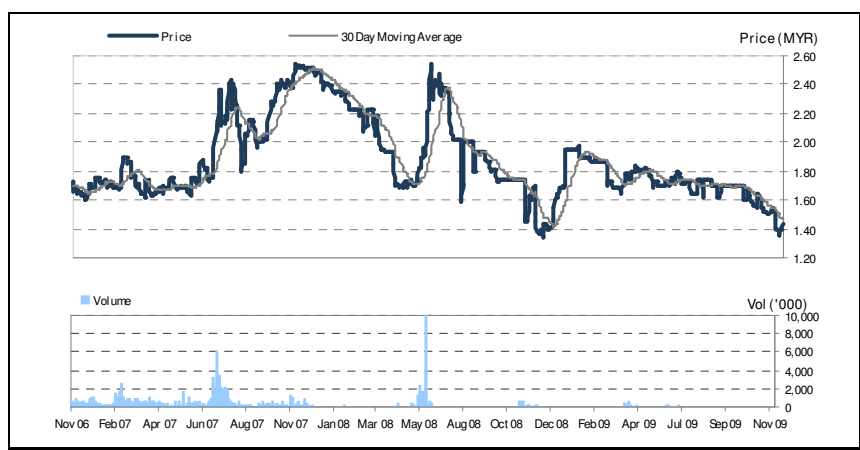


## Taliworks Corporation

Recommendation: **BUY**Stock Code: **8524**Bloomberg: **CI MK**Price: **MYR1.44**12-Month Target Price: **MYR1.90**Date: **December 1, 2009****Board:** Main**Sector:** Trading/Services**GICS:** Utilities/Water Utilities**Market Value - Total:** MYR542.3 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 FBM EMAS.

**Analyst:** Chok Wai Lee, CFA

## Results Review &amp; Earnings Outlook

- Taliworks reported 9M09 revenue and net profit of MYR114.2 mln (-44.1% YoY) and MYR26.6 mln (-17.8% YoY), respectively. The earnings were largely in line with our expectations.
- The lower revenue and net profit were mainly due to the absence of contribution from the construction division. The Padang Terap project is still on hold, mainly due to delay in land acquisition by the authorities. Management expects the project to be completed by 2010.
- Meanwhile, Taliworks' water business remained resilient, contributing pretax profit of MYR40.2 mln in 9M09 (-0.6% YoY). Furthermore, its waste management division in China reported a pretax profit of MYR2.7 mln (+21.7% YoY), attributed mainly to a tariff hike and higher production growth.
- Taliworks' 55%-owned jointly-controlled entity, Cerah Sama Sdn. Bhd. registered a higher net profit of MYR6.7 mln in 9M09 (+12.4% YoY), driven by improved traffic volume and write back of impairment upon its disposal of investments in SILK Holdings (SIB MK, MYR0.35, Not Ranked).
- Our net profit forecast for 2009 is largely unchanged. We increase our earnings forecast for 2010 by 15.2%, taking into account the delayed contribution from the Padang Terap project.

## Recommendation &amp; Investment Risks

- We upgrade our recommendation to Buy (from Hold) with an unchanged 12-month target price of MYR1.90 due to increased upside following the recent share price weakness.
- 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.
- We like Taliworks for its healthy balance sheet and recurring income derived from its concession businesses. In addition, Taliworks targets to increase its overseas revenue contribution 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 any expansion opportunities, given that it has MYR180.0 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	9.1
PER (x)	11.9	15.7
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)	1.35 - 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	9.1
Dividend (sen)	10.0	9.5	6.3	5.0
Payout Ratio (%)	77.3	63.5	35.6	41.0
PER (x)	14.7	16.0	11.9	15.7
P/Cash Flow (x)	14.2	12.1	10.1	13.9
P/Book Value (x)	1.7	1.6	1.5	1.5
Dividend Yield (%)	6.9	6.6	4.3	3.5
ROE (%)	11.8	12.8	14.4	9.5
Net Gearing (%)	0.0	55.2	50.3	34.5

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## Taliworks Corporation

Recommendation: **BUY**Stock Code: **8524**Bloomberg: **CI MK**Price: **MYR1.44**12-Month Target Price: **MYR1.90**Date: **December 1, 2009****Quarterly Performance**

FY Dec. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	39.2	69.3	-43.5
Reported Operating Profit	13.5	17.6	-23.3
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.7	-3.7	0.0
Reported Pre-tax Profit	14.1	16.2	-12.8
Reported Net Profit	10.1	11.9	-14.7
Reported Operating Margin (%)	34.5	25.4	-
Reported Pre-tax Margin (%)	36.1	23.4	-
Reported Net Margin (%)	25.9	17.1	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	191.0	226.4	146.8	185.6
Reported Operating Profit	52.4	69.5	47.5	53.6
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	46.3	51.4
Effective Tax Rate (%)	29.0	22.0	24.4	23.4
Reported Net Profit	33.7	45.8	34.5	39.0
Reported Operating Margin (%)	27.4	30.7	32.3	28.9
Reported Pre-tax Margin (%)	24.4	26.2	31.6	27.7
Reported Net Margin (%)	17.7	20.2	23.5	21.0

Source: Company data, S&amp;P Equity Research

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**Glossary**

**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	Buy	1.90
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

