

Recommendation: **BUY**

Stock Code: 8524

Bloomberg: CI MK

Price: MYR1.40

12-Month Target Price: MYR1.90

Date: February 25, 2010

**Board:** Main

**Sector:** Trading/Services

**GICS:** Utilities/Water Utilities

**Market Value - Total:** MYR527.4 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 & Earnings Outlook

- Taliworks posted net profit of MYR38.9 mln (-14.9% YoY) in 2009. The earnings were 12.9% higher than our expectations, mainly due to higher-than-expected contribution from the construction division.
- The group's water business remained resilient, contributing pretax profit of MYR54.1 mln in 2009 (+6.3% YoY). Meanwhile, its waste management division in China reported a pretax profit of MYR2.7 mln (-33.3% YoY). Stripping out the one-off revenue recognition of MYR1.7 mln in 4Q08, profit contribution from the waste management segment was flat YoY.
- Furthermore, Taliworks' 55%-owned jointly-controlled entity, Cerah Sama Sdn. Bhd. registered a higher net profit of MYR6.9 mln in 2009 (+21.5% YoY), on the back of higher traffic volume.
- Taliworks has early redeemed MYR112 mln nominal value of its convertible bonds (CBs) (about 50% of total CBs issued) in December 2009. Conversely, we understand that it is planning to issue MYR395 mln of secured bonds (>10 years maturity) for the group's long term financing needs (compared to the CBs issued that mature in 2012).
- Our net profit forecast for 2010 is largely unchanged. We also introduce our 2011 earnings estimate of MYR 39.4 mln.

## Recommendation & Investment Risks

- We maintain our Buy 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 implied 2010 PER is 18.7x, 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 9.8% in 2009). 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.
- Taliworks has proposed to acquire a 70% stake in Eco3 Technology and Engineering Pte. Ltd. (Eco3) for SGD70,000. Eco3 owns a built-operate-transfer project to construct and manage a 50 mln litres/day wastewater and recycled water treatment plant in Yinchuan, China (expected to start operations in 2011). Our forecasts do not as yet factor in contributions from this deal, pending its completion.
- Risks to our recommendation and target price include regulatory issues related to its concessions, which could lead to lower water tariffs or toll rates. The stock's thin traded volume is also a risk, in our opinion.

### Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	10.3	10.2
PER (x)	13.6	13.8
Dividend/Share (sen)	6.0	6.0
NTA/Share (MYR)	0.95	1.01
Book Value/Share (MYR)	1.00	1.05
No. of Outstanding Shares (mln)	376.7	
52-week Share Price Range (MYR)	1.35 - 1.86	
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.	2007	2008	2009	2010E
Book Value (MYR)	0.88	0.93	1.00	1.05
Cash Flow (sen)	11.9	14.2	11.6	11.4
Reported Earnings (sen)	9.0	12.2	10.3	10.2
Dividend (sen)	9.5	6.3	6.0	6.0
Payout Ratio (%)	63.5	35.6	43.6	44.3
PER (x)	15.6	11.5	13.6	13.8
P/Cash Flow (x)	11.7	9.9	12.1	12.2
P/Book Value (x)	1.6	1.5	1.4	1.3
Dividend Yield (%)	6.8	4.5	4.3	4.3
ROE (%)	12.8	14.4	10.7	9.9
Net Gearing (%)	55.2	50.3	24.8	13.8

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## Quarterly Performance

FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	44.7	22.2	>100
Reported Operating Profit	19.5	18.2	7.5
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-5.1	-3.7	39.7
Reported Pre-tax Profit	14.6	14.4	1.7
Reported Net Profit	12.3	13.4	-8.1
Reported Operating Margin (%)	43.7	81.9	-
Reported Pre-tax Margin (%)	32.7	64.9	-
Reported Net Margin (%)	27.5	60.4	-

Source: Company data

## Profit &amp; Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	226.4	158.9	160.9	156.3
Reported Operating Profit	69.5	58.7	48.1	50.4
Depreciation & Amortization	-4.5	-4.7	-4.8	-5.0
Net Interest Income / (Expense)	-13.2	-14.9	-7.6	-7.9
Reported Pre-tax Profit	59.4	51.4	49.2	51.6
Effective Tax Rate (%)	22.0	23.4	21.7	23.0
Reported Net Profit	45.8	38.9	38.2	39.4
Reported Operating Margin (%)	30.7	37.0	29.9	32.2
Reported Pre-tax Margin (%)	26.2	32.3	30.6	33.0
Reported Net Margin (%)	20.2	24.5	23.8	25.2

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

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**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
1-Dec-09	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

