

3Q FYE DEC 2011 RESULTS REPORT

Date: 24 November 2011

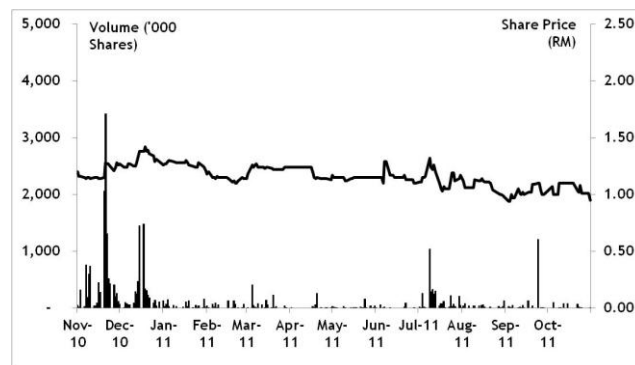
Name of PLC: Taliworks Corporation Berhad (Taliworks)		Target Price:	RM 1.35
Business Summary : Investment holding company involved in water treatment and supply, waste management via O&M contract and concession, construction and toll concession			
Major Shareholders :			
Dato' Lim Chee Meng (direct and indirect stakes)			55.5%
Kumpulan Perangas Selangor Berhad			16.9%
PLC Website : www.taliworks.com.my		Recommendation:	Buy
IR Contact : Mr. Ronnie Lim, Executive Director ronnie@taliworks.com.my Mr. Victor Wong, General Manager, Finance victorwong@taliworks.com.my		Market Capitalisation:	RM 414.7m
- FBM Small Cap - FBM Emas Shariah		Current Price :	RM 0.95
		Market / Sector:	Trading/Services
		Stock Code:	8524
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my			

Key Stock Statistics	2009	2010	2011F	2012F
EPS (sen)	10.2	6.8	9.1	10.1
EPS excl EI (sen)	10.2	8.9	11.1	11.3
P/E (x)	9.3	14.0	10.5	9.4
P/E excl EI (x)	9.3	10.7	8.6	8.4
Dividend/Share (sen)	4.5	1.1	1.1	1.1
NTA/Share (RM)	0.95	1.05	1.14	1.23
Book Value/Share (RM)	1.00	1.09	1.17	1.26
Issued Capital (mil shares)	376.7	436.5	436.5	436.5
52-weeks Share Price Range (RM)	0.91 - 1.44			

Per Share Data	2009	2010	2011F	2012F
Book Value (RM)	1.00	1.09	1.17	1.26
Operating Cash Flow (sen)	4.7	5.1	(3.4)	(20.6)
Earnings (sen)	10.2	6.8	9.1	10.1
Dividend (sen)	4.5	1.1	1.1	1.1
Payout Ratio (%)	44.0	16.6	12.4	11.1
PER (x)	9.3	14.0	10.5	9.4
P/Cash Flow (x)	20.2	18.6	(27.9)	(4.6)
P/Book Value (x)	1.0	0.9	0.8	0.8
Dividend Yield (%)	4.7	1.2	1.2	1.2
ROE (%)	10.6	6.9	8.0	8.3
Net Gearing (%)	n.c.	n.c.	n.c.	25.6

n.c. - net cash

P&L Analysis (RM mil)	2009	2010	2011F	2012F
Revenue	158.9	172.5	178.9	251.4
Operating Profit	59.6	55.1	54.9	60.8
Depreciation	(3.7)	(3.9)	(5.1)	(14.4)
Finance	(16.1)	(15.3)	(0.2)	(5.1)
Jointly-controlled & Asso	7.5	14.3	10.7	12.7
EI	-	(9.2)	(8.8)	(5.0)
Pre-tax Profit	51.0	44.3	56.6	63.3
Effective Tax Rate (%)	(23.6)	(26.9)	(25.0)	(25.0)
Net Profit	38.6	29.6	39.5	44.2
Net Profit (excl EI)	38.6	38.8	48.4	49.2
Operating Margin (%)	37.5	31.9	30.7	24.2
Pre-tax Margin (%)	32.1	25.7	31.6	25.2
Net-Margin (%)	24.3	17.1	22.1	17.6

Share Price Chart

1. 3QFY11 Results Highlight

	3Q 2011	3Q 2010	Chg
	RMm	RMm	%
Revenue	40.3	42.5	(5.2)
Operating Profit	16.0	16.4	(2.1)
Finance cost	(0.1)	(4.2)	(98.0)
EI	(7.2)	9.7	(173.9)
Jointly-controlled & associates	3.3	3.8	(12.0)
Pre-tax Profit	12.1	25.7	(52.8)
Net Profit	8.8	21.2	(58.2)
Operating Margin (%)	39.8	38.5	
Pre-tax Margin (%)	30.0	60.3	
Net-Margin (%)	21.9	49.8	

- Taliworks reported a headline net profit of RM8.8m in 3QFY11, a significant drop of 58.2% yoy. However, it was distorted by exceptional and non-recurring items.
- Operationally, Taliworks recorded flat operating profit of 16.0m in 3QFY11.

	3Q 2011	3Q 2010	Chg
	RMm	RMm	%
Operating Profit	16.0	16.4	(2.1)
Finance cost	(0.1)	(4.2)	
Jointly-controlled & associates	3.3	3.8	
EI			
Forex gain	5.0	-	
Provision for impairment from effects of discounting	(12.2)	-	
Derivative gain	-	9.7	
Pre-tax Profit	12.1	25.7	(52.8)
Pre-tax Profit excl EI	19.3	15.9	20.9
Net profit excl EI	16.0	11.5	39.9

- As shown in the table above, we have stripped out exceptional items to arrive at core PBT before exceptional for comparison purposes. Core PBT actually improved by 20.9% in 3QFY11 after accounting for the following items:
 - Significant drop in finance cost in 3QFY11 due to full redemption of RM125.7m convertible bonds;
 - Unrealised forex gains of RM5.0m recognized in 3QFY11;
 - Non cash-flow provision for impairment arising from delay in receipts of payments; and
 - Absence of derivative's gain of RM9.7m, as convertible bonds was fully redeemed.
- Core operating profit was flat at RM16.0m in 3QFY11 due to the following reasons:
 - Water division reported a steady EBIT performance, which came in flat at RM15.2m;
 - Construction division recorded a 45.5% increase in EBIT albeit with a small base of RM1.1m in 3QFY11. This was due to recognition of construction revenue from Linhe BOT project in China; and
 - Waste management swung into a small loss of RM0.3m (3QFY11) from an EBIT of RM1.0m (3QFY10) due to unrealised forex loss.
- Core net profit also grew by 39.9% to RM16.0m due mainly to substantial savings in finance cost due to early redemption of convertible bonds.

9MFY11 Results Highlight

	9M 2011	9M 2010	Chg
	RMm	RMm	%
Revenue	133.9	128.4	4.3
Operating Profit	41.9	40.7	3.0
Finance cost	(0.6)	(12.1)	(94.8)
Jointly-controlled & associates	8.5	10.7	(21.1)
EI	(3.8)	15.2	(125.2)
Pre-tax Profit	45.9	54.5	(15.9)
Net Profit	34.6	43.2	(20.0)
Operating Margin (%)	31.3	31.7	
Pre-tax Margin (%)	34.3	42.5	
Net-Margin (%)	25.8	33.6	

- For 9MFY11, headline net profit declined by 20.0%, but this was again distorted by exceptional items as explained in the case of 3QFY11.

	9M 2011	9M 2010	Chg
	RMm	RMm	%
Operating Profit	41.9	40.7	3.0
Finance cost	(0.6)	(12.1)	
Jointly-controlled & associates	8.5	10.7	
EI			
Derivative gain	-	15.8	
Forex gain	5.0	-	
Provision for impairment from effects of discounting	(14.8)	(0.6)	
Full settlement (Wijaya)	6.0	-	
Pre-tax Profit	45.9	54.5	(15.9)
Pre-tax Profit excl EI	49.7	39.3	26.4
Net profit excl EI	38.4	28.0	37.1

- Excluding exceptional as explained below, core PBT grew by 26.4% to RM49.7m.
 - Substantial reduction in finance cost due to full redemption of convertible bonds;
 - Absence of derivative's gain of RM15.8m, as convertible bonds were fully redeemed;
 - Non cash-flow provision for impairment arising from delay in receipts of payments; and
 - Exceptional gain of RM6.0m was recognized in 2QFY11 arising from a settlement agreement with Wijaya in respect of the construction of Subang South Pond
- Operationally, Taliworks recorded a marginal increase of 3.0% in operating profit to RM41.9m in 9MFY11. Water division recorded a marginal decline in EBIT due to lower metered sales experienced by Taliworks Langkawi during 1HFY11. However, this was offset by higher profit performance of Construction and Waste Management divisions.

2. Earnings Outlook

- Earnings contribution from Water Division will remain stable due to steady consumption demand.
- The recently secured Mengkuang Dam expansion project should contribute more meaningfully from FY12 onwards
- Earnings prospects for its Waste Management Division will not be significant yet in FY11 as only the Panlou and Guanhan Projects are currently operational. The Linhe, Yinchuan and Meihua projects will only contribute more significantly in FY12 and FY13 onwards.
- Absence of finance costs associated with its convertible bonds issue, which has since been fully redeemed.

3. Valuation and Recommendation

- Excluding EI, annualized 9MFY11 earnings is within our earnings forecast. Hence, we are maintaining our earnings forecast and Buy recommendation on Taliworks.
- We like Taliworks for its steady and recurring earnings stream from its Water Division while the Waste Management Division offers promising long-term growth prospects once its current projects that are in various stages of implementation, commences commercial operations.
- Excluding EI, the stock is trading at a P/E of 8.4x for FY12. We have arrived at a target price of RM1.35, based on a target P/E of 12x for FY11.

Disclosures/Disclaimer

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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