

## 4Q FYE DEC 2011 RESULTS REPORT

Date: 28 February 2012

<b>Name of PLC:</b> Taliworks Corporation Berhad (Taliworks)		<b>Target Price:</b>	RM 1.25
<b>Business Summary :</b> Investment holding company involved in water treatment and supply, waste management via O&M contract and concession, construction and toll concession			
<b>Major Shareholders :</b>			
Dato' Lim Chee Meng (direct and indirect stakes)			55.5%
Kumpulan Perangas Selangor Berhad			16.9%
as at 6 May 2011			
<b>PLC Website :</b> www.taliworks.com.my		<b>Recommendation:</b>	Buy
<b>IR Contact :</b> Mr. Victor Wong, General Manager, Finance <a href="mailto:victorwong@taliworks.com.my">victorwong@taliworks.com.my</a>		<b>Market Capitalisation:</b>	RM 449.6m
<ul style="list-style-type: none"> <li>- FBM Small Cap</li> <li>- FBM Emas Shariah</li> </ul>		<b>Current Price :</b>	RM 1.03
		<b>Market / Sector:</b>	Trading/Services
		<b>Stock Code:</b>	8524
<b>Analyst :</b> Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my			

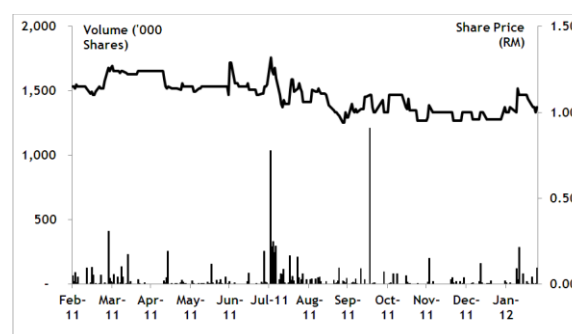
Key Stock Statistics	2009	2010	2011	2012F
EPS (sen)	10.2	6.7	7.7	10.5
EPS excl EI (sen)	10.2	8.8	12.0	10.5
P/E (x)	10.1	15.4	13.5	9.9
P/E excl EI (x)	10.1	11.7	8.6	9.9
Dividend/Share (sen)	4.5	1.1	0.4	0.4
NTA/Share (RM)	0.60	0.53	0.43	0.50
Book Value/Share (RM)	1.00	1.10	1.16	1.26
Issued Capital (mil shares)	376.7	436.5	436.5	436.5
52-weeks Share Price Range (RM)				0.91 - 1.32

Per Share Data	2009	2010	2011	2012F
Book Value (RM)	1.00	1.10	1.16	1.26
Operating Cash Flow (sen)	4.7	11.4	(2.0)	(3.6)
Earnings (sen)	10.2	6.7	7.7	10.5
Dividend (sen)	4.5	1.1	0.4	0.4
Payout Ratio (%)	44.0	16.8	4.9	3.6
PER (x)	10.1	15.4	13.5	9.9
P/Cash Flow (x)	21.9	9.1	(52.7)	(28.7)
P/Book Value (x)	1.0	0.9	0.9	0.8
Dividend Yield (%)	4.4	1.1	0.4	0.4
ROE (%)	10.6	6.8	6.8	8.6
Net Gearing (%)	n.c.	n.c.	26.5	31.2

n.c. - net cash

P&L Analysis (RM mil)	2009	2010	2011	2012F
Revenue	158.9	171.8	167.2	253.5
Operating Profit	59.6	54.5	54.0	55.1
Depreciation	(3.7)	(3.3)	(4.1)	(5.6)
Finance	(16.1)	(15.2)	(2.4)	(9.5)
Jointly-controlled & Asso	7.5	14.0	13.8	12.7
EI	-	(9.2)	(18.9)	-
Pre-tax Profit	51.0	44.1	46.6	58.3
Effective Tax Rate (%)	(23.6)	(27.3)	(19.3)	(20.0)
Net Profit	38.6	29.2	33.4	45.6
Net Profit (excl EI)	38.6	38.4	52.3	45.6
Operating Margin (%)	37.5	31.7	32.3	21.7
Pre-tax Margin (%)	32.1	25.6	27.9	23.0
Net-Margin (%)	24.3	17.0	20.0	18.0

### Share Price Chart



### 1. 4QFY11 Results Highlight

	4Q 2011	4Q 2010	Chg
	RMm	RMm	%
Revenue	33.3	43.4	(23.4)
Operating Profit	12.1	14.5	(16.0)
Finance cost	(1.8)	(3.1)	(43.9)
EI	(15.1)	(25.0)	(39.8)
Jointly-controlled & associates	5.4	3.2	65.7
Pre-tax Profit	0.7	(10.5)	(106.6)
Net Profit	(1.2)	(14.0)	(91.7)
Operating Margin (%)	36.5	33.3	
Pre-tax Margin (%)	2.1	(24.1)	
Net-Margin (%)	(3.5)	(32.2)	

- Net loss of Taliworks reduced to RM1.2m in 4QFY11 from RM14.0m in 4QFY10, while turnover declined by 23.4% to RM33.3m. Again, it was distorted by exceptional and non-recurring items.
- Operationally, operating profit declined by 16% to RM12.1m in 4QFY11.

	4Q 2011	4Q 2010	Chg
	RMm	RMm	%
<b>Operating Profit</b>	<b>12.1</b>	<b>14.5</b>	<b>(16.0)</b>
Finance cost	(1.8)	(3.1)	
Jointly-controlled & associates	5.4	3.2	
EI			
Provision for impairment from effects of discounting & BSR reduction	(15.1)	-	
Derivative loss	-	(25.0)	
Pre-tax Profit	0.7	(10.5)	(106.6)
<b>Pre-tax Profit excl EI</b>	<b>15.8</b>	<b>14.6</b>	<b>8.2</b>
<b>Net profit excl EI</b>	<b>13.9</b>	<b>11.0</b>	<b>26.2</b>

- Stripping out exceptional items, core PBT (ex-EI) and net profit (ex-EI) rose by 8.2% and 26.2% to RM15.8m and RM13.9m respectively.
  - Non cash-flow provision for impairment arising from delay in receipts of payments;
  - An agreement with Syarikat Air Darul Aman Sdn Bhd (SADA) to maintain bulk sale rate (BSR) at RM1.92/m<sup>3</sup> against contractual rate of RM2.21/m<sup>3</sup> for FY11-13 and rebate; and
  - Absence of derivative's loss of RM25m due to de-recognition of convertible bonds which were fully redeemed in FY10.
- Core operating profit declined by 16% to RM12.1m in 4QFY11 due to the following reasons:
  - Water division reported a 20.7% increase in EBIT to RM14.5m due to a 9.7% increase in water production of Sungai Selangor Water Treatment Works Phase 1 (SSP1);
  - However, its waste management division recorded a small loss of RM1.3m (4QFY11) as compared with an EBIT of RM2.6m (4QFY10) due to start-up expenses of Yinchuan TOT project and impairment of trade receivables.

### FY11 Results Highlight

	2011	2010	Chg
	RMm	RMm	%
<b>Operating Profit</b>	<b>54.0</b>	<b>54.5</b>	<b>(1.0)</b>
Finance cost	(2.4)	(15.2)	
Jointly-controlled & associates	13.8	14.0	
EI			
Provision for impairment from effects of discounting & BSR reduction	(29.9)	-	
Full settlement (Wijaya)	6.0	-	
Derivative loss	-	(9.2)	
Forex gain	5.0	-	
Pre-tax Profit	46.6	44.1	5.7
<b>Pre-tax Profit excl EI</b>	<b>65.5</b>	<b>53.3</b>	<b>22.8</b>
<b>Net profit excl EI</b>	<b>52.3</b>	<b>38.4</b>	<b>36.0</b>

- Excluding exceptional as explained below, core PBT (ex-EI) grew by 22.8% to RM65.5m.
  - Substantial reduction in finance cost due to full redemption of convertible bonds;
  - Non cash-flow provision for impairment arising from delay in receipts of payments;
  - BSR reduction and rebate;
  - 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;
  - Absence of derivative loss, as convertible bonds were fully redeemed; and
  - Unrealised forex gains of RM5.0m recognized in 3QFY11.
- Operating profit came in flat at RM54.0m in FY11. The slight increase in EBIT contribution from water division was offset by a loss recorded by the waste management division.

## 2. Earnings Outlook

- Excluding EI, reported net profit (ex-EI) was slightly better than our expectations for FY11 due to better contribution from water division.
- Core operating profit is largely driven by water division. Earnings contribution from this division will remain stable due to steady consumption demand. However, we have reverted back to previous BSR of RM1.92/m<sup>3</sup> for FY12-13 in our assumption for contribution from Taliworks Langkawi Sdn Bhd following an agreement with SADA to maintain bulk sale rate (BSR) at RM1.92/m<sup>3</sup> for FY11-13.
- The recently secured Mengkuang Dam expansion project should contribute more meaningfully from FY12 onwards.

## 3. Valuation and Recommendation

- 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.
- We have reduced our earnings forecast by 7% for FY12. Consequently, we have lowered our target price to RM1.25 from RM1.35 previously, based on an unchanged target P/E of 12x for FY11. However, we are still maintaining our Buy recommendation on the stock. Excluding EI, the stock is trading at a P/E of 9.9x for FY12.
- Its share price is currently trading at a discount to its book value of RM1.16/share.

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### 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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