

Taliworks Corporation Berhad	Price:	RM2.54	
	Market Capitalisation:	RM949.7m	
	Board:	Main Board	
	Sector:	Trading/Services	
Stock Code:	8524	Recommendation:	HOLD

Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	9.0	12.9	12.0
PER (x)	28.1	19.7	21.1
Dividend/Share (sen)	9.5	9.5	9.5
NTA/Share (RM)	0.83	0.90	0.95
Book Value/Share (RM)	0.88	0.94	0.99
Issued Capital (m sh)	375.4	375.4	375.4
52-weeks Share Price Range (RM)	1.60-2.60		

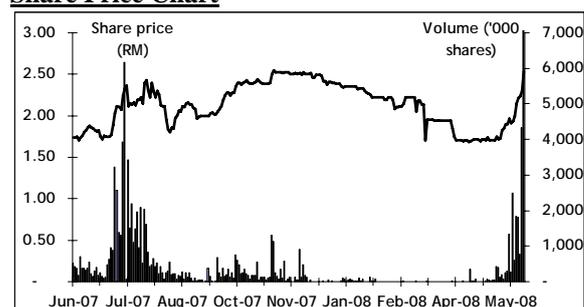
Major Shareholders:	%
LGB	52.7%
Kumpulan Perangsang Selangor Berhad	19.1%

Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.84	0.88	0.94	0.99
Cash Flow (sen)	8.3	10.8	(1.3)	38.5
Earnings (sen)	9.5	9.0	12.9	12.0
Dividend (sen)	10.0	9.5	9.5	9.5
Payout Ratio (%)	76.0	76.8	53.9	57.6
PER (x)	26.6	28.1	19.7	21.1
P/Cash Flow (x)	30.8	23.6	(196.5)	6.6
P/Book Value (x)	3.0	2.9	2.7	2.6
Dividend Yield (%)	3.9	3.7	3.7	3.7
ROE (%)	12.1	10.5	14.1	12.5
Net Gearing (%) *	nc	nc	nc	nc

* n.c.: net cash

P&L Analysis (RMm) FY06	FY07	FY08F	FY09F	
Year-end 31 Dec				
Revenue	142.9	191.0	264.4	150.6
Operating Profit	50.0	47.3	50.7	45.7
Depreciation	(1.3)	(1.9)	(3.0)	(4.1)
Net Interest	2.0	0.7	(2.4)	(5.2)
Pre-tax profit	50.3	46.7	65.9	61.6
Effective Tax Rate (%)	29.2	29.0	27.0	27.0
Net Profit	35.7	33.7	48.1	45.0
Operating Margin (%)	35.0	24.8	19.2	30.3
Pre-tax margin	35.2	24.4	24.9	40.9
Net margin	25.0	17.7	18.2	29.9

Share Price Chart



1. 1QFY08 Results Highlights:

Year-ended 31 Dec	1Q08 RMm	1Q07 RMm	Chg %
Revenue	65.4	39.3	66.2
Operating Profit	18.3	12.9	41.5
Finance costs	(3.6)	(0.1)	>100
Jointly controlled entity	1.8	-	nm
Associate	0.1	0.2	(39.1)
Pre-tax Profit	16.7	13.1	28.1
Net Profit	11.9	9.5	25.7
Operating Margin (%)	28.0	32.9	
Pre-tax Margin (%)	25.6	33.2	
Net-Margin (%)	18.2	24.1	

- Taliworks's 1Q08 results were very much in line with our expectations. Turnover increased by 66% yoy, boosted by higher revenues at the construction division, where the Padang Terap and Klang Valley Flood Mitigation projects recognised higher percentages of completion.
- The main water business recorded a 5% yoy increase in revenue largely contributed by Taliworks Langkawi, which enjoyed a 9% yoy growth in sales and 13% hike in Bulk Sales Rate (BSR) from 1 Jan 2008.
- Operating margins fell to 28.0% in 1Q08 due to lower margins at the waste management division and higher investment holding losses.
- We maintain our **HOLD** recommendation. Uncertainties over regulatory issues surrounding the two core operations in water and toll concession are likely to affect investor sentiment in the near term.

2. Earnings Outlook:

- On 16 May 2008, Taliworks made an announcement of litigation involving Grand Saga Sdn Bhd (GS), a wholly-owned subsidiary of Cerah Sama Sdn Bhd (CSSB), which is in turn 55% owned by Taliworks.
- The litigation centres on the yet-to-be-resolved dispute between GS, the residents of Bandar Mahkota Cheras and Majlis Perbandaran Kajang., over the usage of a toll-free access road linking Bandar Mahkota Cheras to the Bandar Hussein Onn interchange at the Cheras-Kajang Highway, of which GS is the concessionaire.
- After several confrontations between Bandar Mahkota residents and GS in recent weeks over the rebuilding of a barricade by GS to block usage of the toll-free access road, the government had via a Cabinet meeting today decided the Bandar Mahkota Cheras access road will remain open for now, pending the court decision on a lawsuit filed by Bandar Mahkota Cheras developer, Narajaya Sdn Bhd against GS and the Malaysian Highway Authority (LLM) in 2007.
- The opening of the toll-free access road will result in some revenue leakages at GS but Works Minister, Datuk Mohd Zin Mohamad was quoted as saying that pending a decision by the court on the matter, GS, as provided by the concession agreement, could claim for compensation from the Federal government of up to RM9,000 daily if necessary. We understand however that GS has agreed not to claim any compensation from the Federal government pending a resolution to the dispute between the parties.
- At the main water business, the company is also facing some uncertainties due to the enforcement of the Water Services Industry Act 2006, the Selangor state government's intention to consolidate water concessionaires in the state, and its plans to offer the first 20 cubic meter of water free to households in Selangor. Taliworks' subsidiary, Sungai Harmoni Sdn Bhd holds the operation and maintenance (O&M) contract for water treatment facilities under Sungai Selangor Phase 1 (SSP1). The potential restructuring of water assets in Selangor and rationalisation of water tariffs may have an impact on Taliworks' O&M contract for SSP1.
- Outside of the uncertainties highlighted above, revenue and earnings in the near term should be relatively stable:
 - At Taliworks' core water operations, we expect demand for water supply at SSP1 to stabilise at around 780MLD in 2008, as the production of other water treatment plants in Selangor are nearing their optimum design capacities.
 - At Taliworks Langkawi, we expect average metered sales to increase marginally by 3% per annum with an added boost from the increase in BSR by 13% from RM1.70 per m³ to RM1.92 per m³ effective 1 Jan 2008.
 - The acquisition of CSSB in Nov 2007 has added another stable income stream to the group, with its 55% stake in GS' toll concession for the Cheras-Kajang Highway. 2008 will be the first full year of contributions from CSSB.
 - At the construction division, the group is expected to book in the remaining two thirds of the project cost in 2008, for both the Padang Terap and Klang Valley Flood Mitigation projects.
 - The newer waste management division is not expected to contribute significantly at this point. This division comprise mainly the San Xin Dui wastewater treatment plant and the production and marketing of CK21 bacteria strains for water and wastewater sludge treatment in the PRC.
 - The recent completion of its RM225m convertible bonds issue in Dec 2007 has strengthened Taliworks' balance sheet to capitalise on future growth opportunities from new projects and acquisition prospects.
- Longer term prospects remain intact, with:
 - Potential future involvement in the development and operation of toll roads in Malaysia and the ASEAN region via CSSB. CSSB's other shareholders include the South East Asia Strategic Asset Fund or SEASAF, which has a 35% stake in CSSB.
 - Potential increase in presence in China's water business after the Apr 2008 signing of a cooperation agreement with Shenzhen Hanyang for the exclusive cooperation and collaboration, within a period of two years, in projects related to clinical waste, water supply, treatment of waste

water and/or municipal solid waste in China. The collaboration may pave the way for Taliworks to increase its presence in China within the water business, and further diversify its geographical earnings base from one that is largely domestically-generated at the moment.

3. Recommendation

- We maintain our **HOLD** recommendation on Taliworks. Uncertainties over regulatory issues surrounding the two core operations in water and toll concession are likely to affect investor sentiment in the near term.

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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