

Taliworks Corporation

Recommendation: **BUY**Stock Code: **8524**Bloomberg: **CI MK**Price: **MYR1.38**12-Month Target Price: **MYR1.90**Date: **November 26, 2008****Board:** Main**Sector:** Trading/Services**GICS:** Utilities/Water Utilities**Market Value - Total:** MYR519.7 mln

Summary: Taliworks operates and maintains water treatment plants in Selangor and Langkawi, Kedah. In addition, it undertakes water-related facility construction projects in Malaysia and waste management projects in China. The group has expanded its business into highway management (Cheras-Kajang Highway concession) in 2007.

Analyst: Chok Wai Lee, CFA

Results Review & Earnings Outlook

- Taliworks posted 9M08 revenue and net profit of MYR204.2 mln (+46.0% YoY) and MYR32.4 mln (+17.7% YoY), respectively. The earnings accounted for 77.5% of our full-year forecast and were in line with our expectations. The strong earnings growth was mainly contributed by the group's newly-acquired Cerah Sama Sdn Bhd (CS, 55%-owned), higher water production and construction activities, and better performance from the waste management operations in China.
- 3Q08 group revenue rose 9.3% YoY to MYR65.4 mln on the back of higher construction activities at the Padang Terap project and the Klang Valley Flood Mitigation project. The group's water business remains the main driver, contributing 53% of the group's turnover. 3Q08 revenue from the water business was up 15% YoY, due to higher water production for the Sungai Harmoni concession (+8.0% YoY) and a hike in the bulk sales rate for the Langkawi concession to MYR1.92 per cubic meter from MYR1.70 per cubic meter (effective Jan. 1, 2008). Nonetheless, metered sales from the Langkawi concession registered lower water production (-3.2% YoY) in 3Q08.
- Furthermore, CS and the waste management operations contributed net profit of MYR6.0 mln and MYR435,000 in 9M08, respectively. We maintain our 2008 earnings forecast but reduce our 2009 net profit forecast marginally by 1.6% to take into account the slower water production going forward due to lower domestic economic growth.

Recommendation & Investment Risks

- We maintain our Buy recommendation with a lower 12-month target price of MYR1.90 (from MYR2.30) after fine-tuning our valuation parameters.
- Our target price is based on discounted cash flow (DCF) analysis (WACC: 11.2%-12.4%, terminal growth: 3%). We have increased our WACC (9.4%-10.6% previously) to factor in a higher risk premium going forward.
- We like Taliworks for its healthy balance sheet, stable positive cash flow and decent dividend yield of 7.2%. Taliworks targets to increase its revenue contribution from overseas ventures to 50% in three years' time (from 5% in 2007). In our view, this is a strategic move as it would reduce Taliworks' dependence on earnings from local water concessions and mitigate risks of lower water tariffs. We are positive on its recent expansion into highway management too as this will provide another new steady and recurring earnings stream.
- 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.	2007	2008E
Reported EPS (sen)	9.0	11.1
PER (x)	15.4	12.4
Dividend/Share (sen)	9.5	10.0
NTA/Share (MYR)	0.83	0.87
Book Value/Share (MYR)	0.88	0.91
No. of Outstanding Shares (mln)	376.6	
52-week Share Price Range (MYR)	1.34 - 2.54	
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.	2005	2006	2007	2008E
Book Value (MYR)	0.78	0.84	0.88	0.91
Cash Flow (sen)	10.7	10.1	11.3	11.5
Reported Earnings (sen)	12.5	9.8	9.0	11.1
Dividend (sen)	8.0	10.0	9.5	10.0
Payout Ratio (%)	57.5	77.3	63.5	66.5
PER (x)	11.0	14.1	15.4	12.4
P/Cash Flow (x)	12.9	13.6	12.2	12.0
P/Book Value (x)	1.8	1.6	1.6	1.5
Dividend Yield (%)	5.8	7.2	6.9	7.2
ROE (%)	13.8	11.8	12.8	12.4
Net Gearing (%)	0.0	0.0	55.2	44.4

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FY Dec. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	65.4	59.8	9.3
Reported Operating Profit	18.3	11.9	54.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.6	-0.2	>100
Reported Pre-tax Profit	16.7	11.7	42.4
Reported Net Profit	11.9	8.7	36.9
Reported Operating Margin (%)	28.0	19.8	-
Reported Pre-tax Margin (%)	25.6	19.6	-
Reported Net Margin (%)	18.2	14.6	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	142.9	191.0	246.7	154.3
Reported Operating Profit	47.4	52.4	64.1	56.4
Depreciation & Amortization	-2.2	-1.5	-1.5	-1.6
Net Interest Income / (Expense)	2.0	0.6	-5.9	-8.4
Reported Pre-tax Profit	50.3	46.7	58.8	48.6
Effective Tax Rate (%)	29.2	29.0	28.6	27.8
Reported Net Profit	35.7	33.7	41.8	34.8
Reported Operating Margin (%)	33.1	27.4	26.0	36.6
Reported Pre-tax Margin (%)	35.2	24.4	23.8	31.5
Reported Net Margin (%)	25.0	17.7	16.9	22.6

Source: Company data, S&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.

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Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
New	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
1-Sep-06	Hold	1.75
1-Jun-06	Buy	1.56
16-May-06	Hold	1.56

