

**1Q FYE DEC 2012 RESULTS REPORT**

23 May 2012

<b>Name of PLC:</b> Taliworks Corporation Berhad (Taliworks)	<b>Target Price:</b>	RM 1.15
<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> <a href="http://www.taliworks.com.my">www.taliworks.com.my</a>	<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 360.1m
- FBM Small Cap - FBM Emas Shariah	<b>Current Price :</b>	RM 0.825
	<b>Market / Sector:</b>	Trading/Services
	<b>Stock Code:</b>	8524
<b>Analyst :</b> Lim Boon Ngee Tel : +603 2163 3200; Email : <a href="mailto:bnlim@nra.com.my">bnlim@nra.com.my</a>		

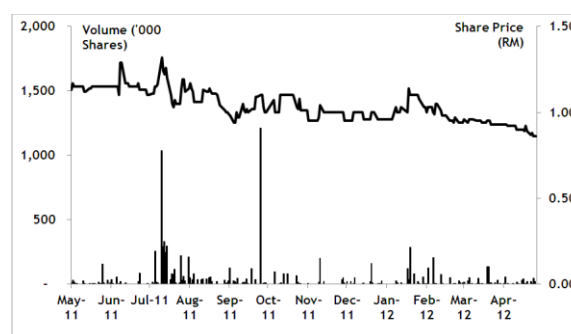
Key Stock Statistics	2010	2011	2012F	2013F
EPS (sen)	6.7	7.5	9.6	9.5
EPS excl EI (sen)	9.7	11.8	9.6	9.5
P/E (x)	12.3	11.1	8.6	8.7
P/E excl EI (x)	8.5	7.0	8.6	8.7
Dividend/Share (sen)	1.1	0.4	0.4	0.4
NTA/Share (RM)	1.08	1.15	1.24	1.33
Book Value/Share (RM)	1.09	1.16	1.25	1.34
Issued Capital (mil shares)	436.5	436.5	436.5	436.5
52-weeks Share Price Range (RM)	0.81 - 1.32			

Per Share Data	2010	2011	2012F	2013F
Book Value (RM)	1.09	1.16	1.25	1.34
Operating Cash Flow (sen)	11.4	(2.0)	10.7	10.9
Earnings (sen)	6.7	7.5	9.6	9.5
Dividend (sen)	1.1	0.4	0.4	0.4
Payout Ratio (%)	16.8	5.0	3.9	4.0
PER (x)	12.3	11.1	8.6	8.7
P/Cash Flow (x)	7.3	(42.2)	7.7	7.6
P/Book Value (x)	0.8	0.7	0.7	0.6
Dividend Yield (%)	1.4	0.5	0.5	0.5
ROE (%)	6.9	6.6	7.9	7.3
Net Gearing (%)	n.c.	26.6	40.1	30.4

n.c. - net cash

P&L Analysis (RM mil)	2010	2011	2012F	2013F
Revenue	169.3	168.1	247.8	265.6
Operating Profit	58.4	50.5	55.1	57.6
Depreciation	(4.2)	(4.2)	(16.0)	(16.5)
Finance	(15.2)	(2.4)	(14.4)	(17.4)
Jointly-controlled & Asso	14.0	15.9	12.7	12.7
EI	(13.1)	(18.9)	-	-
Pre-tax Profit	44.1	45.1	53.4	52.8
Effective Tax Rate (%)	(25.5)	(18.7)	(20.0)	(20.0)
Net Profit	29.2	32.6	41.7	41.3
Net Profit (excl EI)	42.3	51.5	41.7	41.3
Operating Margin (%)	34.5	30.0	22.3	21.7
Pre-tax Margin (%)	26.0	26.8	21.6	19.9
Net-Margin (%)	17.2	19.4	16.8	15.5

**Share Price Chart**



**1. 1QFY12 Results Highlight**

	1Q 2012	1Q 2011	Chg
	RMm	RMm	%
Revenue	47.6	40.6	17.3
Operating Profit	11.4	12.0	(5.1)
Finance cost	(3.9)	(0.5)	624.4
EI	(7.7)	(1.3)	470.7
Jointly-controlled & associates	4.8	1.8	167.3
Pre-tax Profit	4.6	11.9	(61.2)
Net Profit	0.6	8.5	(92.4)
Operating Margin (%)	23.9	29.5	
Pre-tax Margin (%)	9.7	29.3	
Net-Margin (%)	1.4	20.9	

- Taliworks' net profit dropped significantly to RM0.6m (1QFY12) from RM8.5m (1QFY11), while turnover only declined by 23.4% to RM33.3m.
- Again, it was distorted by non-cash flow provisioning.

- Stripping out the non-cash flow provision for impairment arising from delay in receipts of payments, which amounted to RM7.7m in 1QFY12 as compared with RM1.3m in 1QFY11, core operating profit was actually flat at RM11.4m in 1QFY12.
- Stripping out the non-cash flow item as mentioned above, Taliworks' core PBT (ex-EI) and net profit (ex-EI) only declined marginally by 7.3% and 15.5% to RM12.3m and RM8.3m respectively in 1QFY12.
  - EBIT of water division grew by 9.0% to RM15.5m. This was driven mainly by a 12% increase in production output of Sungai Selangor Water Treatment Works Phase 1 (SSP1) to 74m m3 and a smaller 4.7% increase in demand of treated water for its Langkawi operation.
  - However, waste management operation incurred a loss of RM1.5m (1QFY12) as compared with EBIT of RM0.6m (1QFY11). This was due mainly to amortisation charges of its Yinchuan wastewater TOT project, which completed the take-over of 4 municipal wastewater treatment plants with recycled water facilities in end-FY11.
  - Finance cost increased substantially due to the drawdown of bank borrowings to fund the take-over of Yinchuan TOT project

## 2. Earnings Outlook

- Core operating profit is largely driven by water division. Earnings contribution from this division will remain stable due to steady consumption demand.
- The Mengkuang Dam expansion project (RM339m) in Pulau Pinang should contribute more meaningfully from FY12 onwards after the initial mobilisation. This project is expected to be 18-20% completed by end-FY12.
- The loss at Yinchuan TOT project will continue into FY12 and FY13 due to the amortisation charges and current tariff rate of 70 cts/m3 before it is scheduled to raise to 75 cts/m3 starting FY14. The contribution from existing Panlou and Guanghan concessions is insufficient to offset the loss at Yinchuan TOT project.
- Upon the completion of Linhe project which is expected to come on stream in 3QFY12, Taliworks will have a sizeable design capacity of 370 MLD.

<u>Projects</u>	<u>Design Capacity (tonne/day)</u>
Panlou	1,000
	(MLD)
Guanghan	50
Linhe	20
Yinchuan	300
<b>Total</b>	<b>370</b>

## 3. Valuation and Recommendation

- Excluding non-cash flow item, annualised reported 1QFY12 net profit (ex-EI) came in at RM33.3m which is below our earnings forecast of RM44.6m for full year FY12. We are downgrading our earnings forecast for FY12 by 8% to factor in the loss of waste management operation.
- 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 non-cash flow item, the stock is trading at a P/E of 8.6x for FY12. Its share price is currently trading at a discount to its book value of RM1.15/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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