

Taliworks Corporation Berhad		Price:	RM1.44
		Market Capitalisation:	RM538.4m
		Board:	Main Board
		Sector:	Trading/Services
		Index Component:	FBMEMAS/FBMSCAP
Stock Code:	8524	Recommendation:	HOLD

Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	9.0	10.8	9.7
PER (x)	16.0	13.3	14.8
Dividend/Share (sen)	9.5	9.5	9.5
NTA/Share (RM)	0.83	0.87	0.90
Book Value/Share (RM)	0.88	0.92	0.95
Issued Capital (m sh)	375.4	375.4	375.4
52-weeks Share Price Range (RM)	1.22-2.60		

Major Shareholders:	%
Dato' Lim Chee Meng (ED)*	52.4%
Kumpulan Perangsang Selangor Berhad	19.7%

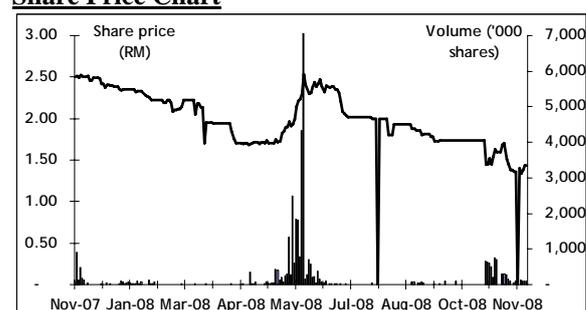
* Direct and indirect interests

Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.84	0.88	0.92	0.95
Cash Flow (sen)	8.3	10.8	(4.9)	41.0
Earnings (sen)	9.5	9.0	10.8	9.7
Dividend (sen)	10.0	9.5	9.5	9.5
Payout Ratio (%)	76.0	76.8	64.1	71.4
PER (x)	15.1	16.0	13.3	14.8
P/Cash Flow (x)	17.5	13.4	(29.5)	3.5
P/Book Value (x)	1.7	1.6	1.6	1.5
Dividend Yield (%)	6.9	6.6	6.6	6.6
ROE (%)	12.1	10.5	12.0	10.4
Net Gearing (%) *	nc	nc	nc	nc

* nc: net cash

P&L Analysis (RMm) FY06	FY07	FY08F	FY09F
Year-end 31 Dec			
Revenue	142.9	191.0	289.0
Operating Profit	50.0	47.3	44.5
Depreciation	(1.3)	(1.9)	(3.0)
Net Interest	2.0	0.7	(2.3)
Pre-tax profit	50.3	46.7	55.4
Effective Tax Rate (%)	29.2	29.0	27.0
Net Profit	35.7	33.7	40.4
Operating Margin (%)	35.0	24.8	15.4
Pre-tax margin	35.2	24.4	19.2
Net margin	25.0	17.7	14.0

Share Price Chart



1. 3QFY08 Results Highlights:

Year-ended 31 Dec	3Q08 RMm	3Q07 RMm	Chg %
Revenue	69.3	59.8	15.8
Operating Profit	17.6	11.7	50.3
Finance costs	(3.7)	(0.1)	>100
Jointly controlled entity	2.1	-	nm
Associate	0.1	0.1	12.1
Pre-tax Profit	16.2	11.7	38.1
Net Profit	11.9	8.7	36.4
Operating Margin (%)	25.4	19.6	
Pre-tax Margin (%)	23.4	19.6	
Net-Margin (%)	17.1	14.6	

- Taliworks' 3Q08 results were within our expectations. Revenue at the group's water business was up 15% yoy, reflecting higher production at SSP1 and an increase in Bulk Sales Rate (BSR) at Taliworks Langkawi. The construction operations also posted stronger revenues, which increased by 13% yoy on higher percentage of revenue recognition in 3Q08.
- At the profit level, the yoy improvement of over 35% was inflated by a low base in 3Q07, which included exceptional charges for FRS2 and expenses for corporate proposals.
- 2009 revenue and profits are expected to decline due to the absence of any new construction projects whilst the water business is expected to be largely flat yoy.
- We maintain our **HOLD** recommendation on the stock with a price target of RM1.42/share, which is based on our break-up value estimate.

2. 9MFY08 Results Review:

Year-ended 31 Dec	9M08 RMm	9M07 RMm	Chg %
Revenue	204.2	139.9	46.0
Operating Profit	49.4	37.5	31.9
Finance costs	(10.8)	(0.3)	>100
Jointly controlled entity	6.0	-	nm
Associate	0.4	0.5	(10.9)
Pre-tax Profit	45.0	37.6	19.5
Net Profit	32.4	27.5	17.7
Operating Margin (%)	24.2	26.8	
Pre-tax Margin (%)	22.0	26.9	
Net-Margin (%)	15.8	19.6	

Revenue & Earnings

- 9M08 revenues posted a 46% yoy increase as a result of higher water and construction revenues. The water business registered higher production at Sungai Selangor Water Treatment Works Phase 1 (SSP1) and an increase in Bulk Sales Rate (BSR) at Taliworks Langkawi effective 1 Jan 2008. Construction revenue was boosted by higher percentage of revenue recognition relative to 9M07, for the two projects namely the Padang Terap and Klang Valley Flood Mitigation projects.
- Relative to revenue, profit at the pre-tax and net levels increased by relatively lower percentages yoy, due to higher financing costs and the accretion of bond redemption premium.

Balance Sheet

- Taliworks' balance sheet remained strong as at the end of Sep 2008 with an estimated net cash position of RM40.4m, down slightly from a net cash position of RM53.4m as at the end of Jun 2008.

Dividends

- The Board did not recommend any dividends for 3Q08 but indicated that in line with the group's general dividend policy, which is effective until the end of 2008, dividend payments for each financial year will be paid in three tranches comprising two interim dividends (in 2Q and 4Q) and a final dividend by the end of the financial year.
- In 2Q08, Taliworks declared a first interim gross dividend of 3.0 sen per share on 376.6m ordinary shares of RM0.50 each less income tax of 26%, which was paid on 29 Sep 2008.

Earnings Outlook

- Management has indicated in the past that it is their intention to underpin longer-term prospects with regional expansion via its core water and toll highway businesses:
 - 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.
 - Potential involvement in the development and operation of toll roads in Malaysia and the ASEAN region via jointly-controlled entity, CSSB. CSSB's other shareholders include the South East Asia Strategic Asset Fund or SEASAF, which has a 35% stake in CSSB.
- We believe plans to have overseas' contributions make up 50% of total revenue in five years versus less than 5% currently is a positive move, as it would provide market diversification and reduce exposure to ongoing regulatory uncertainties surrounding the local water and toll highway businesses.
- In the near term, revenue and earnings should be relatively stable:
 - At the core water operations, we expect demand for water supply at SSP1 to stabilise at around 770MLD in 2008 and remain largely at the same level in 2009;
 - At Taliworks Langkawi, we expect average metered sales of around 79.5MLD, largely unchanged from 2007. For 2009, we expect average metered sales to remain largely unchanged. Taliworks Langkawi enjoyed a BSR increase 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 indicated that it has applied for an extension of time to complete both the Padang Terap and Klang Valley Flood Mitigation projects, with revised estimated completion dates of Dec 2009 and May 2009 respectively. However, in the absence of new project awards, contributions from the construction division are expected to drop sharply in 2009.
- The newer waste management division is not expected to contribute significantly in the near term.
- Investment risks for the stock include regulatory changes at both the water and toll highway operations, which may lead to lower water tariffs and toll rates. The construction division is also facing volatile and inflated materials cost. The possibility of a general and prolonged slowdown in the economy may also affect revenues at the water and toll highway operations.
- Corporate governance – the Board indicated in its 2007 annual report that it places importance in adopting the Principles of the Malaysian Code of Corporate Governance (the Code), and is committed to ensuring that good corporate governance is observed and practiced throughout the company and its subsidiaries.
- Corporate social responsibility (CSR) – Taliworks indicated in its 2007 annual report that it does not have a formal CSR framework but has, over the years, contributed its share of CSR in the manner it deemed suitable in its operations. The group indicated that it intends to promote CSR in the areas of employees' welfare, engagement with related stakeholders, contribution to the community and protection and conservation of the environment.

3. Recommendation

- We maintain our **HOLD** recommendation on the stock with a price target of RM1.42/share, which is based on our break-up value estimate.
- Prospective PE multiples are not compelling at between 13-15x, although dividend yield is relatively attractive at an estimated 6.6% per annum based in the current share price.

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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