

<h1>Taliworks Corporation Berhad</h1>		Price:	RM1.45
		Market Capitalisation:	RM542.15m
		Board:	Main Market
		Sector:	Trading/Services
		Index Component:	FBMEMAS/FBMSCAP
Stock Code:	8524	Recommendation:	HOLD

Key Stock Statistics	FY08	FY09F	FY10F
EPS (sen)	12.2	10.0	11.1
PER (x)	11.9	14.5	13.1
Dividend/Share (sen)	6.3	5.0	5.0
NTA/Share (RM)	0.89	0.95	1.03
Book Value/Share (RM)	0.93	1.00	1.07
Issued Capital (m sh)	376.6	376.6	376.6
52-weeks Share Price Range (RM)	1.33-1.98		

Major Shareholders:	%
Dato' Lim Chee Meng (ED)*	52.2%
Kumpulan Perangsang Selangor Berhad	19.6%

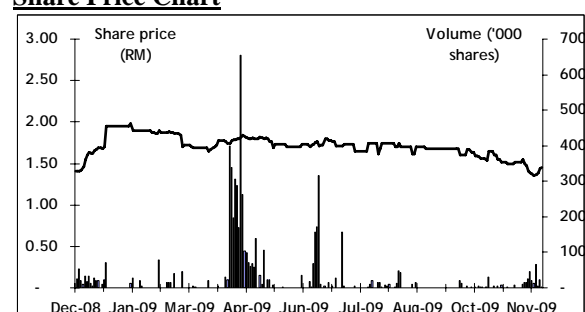
* Direct and indirect interests

Per Share Data	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Book Value (RM)	0.88	0.93	1.00	1.07
Cash Flow (sen)	10.8	8.8	27.4	(10.4)
Earnings (sen)	9.0	12.2	10.0	11.1
Dividend (sen)	9.5	6.3	5.0	5.0
Payout Ratio (%)	76.8	37.5	36.5	33.0
PER (x)	16.1	11.9	14.5	13.1
P/Cash Flow (x)	13.5	16.5	5.3	(14.0)
P/Book Value (x)	1.6	1.6	1.5	1.4
Dividend Yield (%)	6.6	4.3	3.4	3.4
ROE (%)	10.5	13.4	10.3	10.7
Net Gearing (%) *	nc	nc	nc	nc

* nc: net cash

P&L Analysis (RMm)	FY07	FY08	FY09F	FY10F
Year-end 31 Dec				
Revenue	191.0	226.4	150.4	161.7
Operating Profit	47.3	67.6	52.2	56.6
Depreciation	(1.9)	(2.5)	(2.7)	(2.8)
Net Interest	0.5	(13.0)	(14.1)	(14.1)
Pre-tax profit	46.7	59.4	50.2	55.5
Effective Tax Rate (%)	29.0	22.0	25.0	25.0
Net Profit	33.7	45.8	37.6	41.6
Operating Margin (%)	24.8	29.9	34.7	35.0
Pre-tax margin	24.4	26.2	33.4	34.3
Net margin	17.7	20.2	25.0	25.7

Share Price Chart



1. 3QFY09 Results Highlights:

Year-ended 31 Dec	3Q09 RMm	3Q08 RMm	Chg %
Revenue	39.2	69.3	(43.5)
Operating Profit	13.5	17.6	(23.4)
Finance costs	(3.7)	(3.7)	-
Jointly controlled entity	4.2	2.1	95.4
Associate	0.1	0.1	(13.8)
Pre-tax Profit	14.1	16.2	(12.8)
Net Profit	10.1	11.9	(14.7)
Operating Margin (%)	34.5	25.4	
Pre-tax Margin (%)	36.1	23.4	
Net-Margin (%)	25.9	17.1	

- Taliworks' 3Q09 results were within our expectations. Revenue declined by 43.5% yoy due to a lack of construction activities versus 3Q08. The water business remained stable, registering flat performances yoy and qoq.
- Compared to revenue, group profit at the pre-tax and net levels fell by a smaller 12.8% and 14.7% respectively, reflecting a doubling of contributions from jointly controlled entity, Cerah Sama Sdn Bhd (CSSB).
- On a qoq basis, the group's performance was largely flat at the revenue level but grew by 25% at the pre-tax profit level due to stronger CSSB contributions.
- 2009 revenue and profits are expected to decline yoy due largely to the absence of new construction projects, and flat performance at the water treatment division.
- We maintain our **HOLD** recommendation on the stock with a price target of RM1.60/share, which is based on our break-up value estimate.

2. 9MFY09 Results Review:

Year-ended 31 Dec	9M09 RMm	9M08 RMm	Chg %
Revenue	114.2	204.2	(44.1)
Operating Profit	40.4	49.4	(18.2)
Finance costs	(11.0)	(10.8)	1.6
Jointly controlled entity	6.7	6.0	12.4
Associate	0.6	0.4	48.0
Pre-tax Profit	36.8	45.0	(18.2)
Net Profit	26.6	32.4	(17.8)
Operating Margin (%)	35.4	24.2	
Pre-tax Margin (%)	32.2	22.0	
Net-Margin (%)	23.3	15.8	

Revenue & Earnings

- 9M09 revenue posted a 44% yoy decline due to an absence of new construction projects compared to 9M08. The group's contract for the design and construction of a RM149m water supply scheme in Padang Terap, Kedah has been delayed due to the inability of the authorities to secure vacant possession of land on which the project is located.
- At the core water business, the Sungai Selangor Water Treatment Works Phase 1 (SSP1) registered lower production but the decline was mitigated by higher metered sales at the Langkawi water operations as well as electricity rebates allowed under the contractual agreements. In terms of metered sales, SSP1 posted a 9% yoy decline in 9M09 whilst Taliworks Langkawi registered a 4% yoy increase in metered sales during the same period.
- The smaller waste management division posted a stronger performance, driven by increases in tariff rates and production volume at the Tiannjin and Guanghan operations in China.
- Jointly-controlled entity, Cerah Sama Sdn Bhd (CSSB) also performed better yoy, underpinned by higher average daily traffic (ADT) numbers, excess of tax credits over tax payable and a write-back of impairment on disposal of its investment in SILK Holdings Bhd.

Balance Sheet

- Taliworks ended Sep 2009 with an estimated net cash position of RM46m.
- As at 24 Nov 2009, RM180.1m from the group's RM218.2m convertible bonds proceeds were still unutilised, with RM170.9m earmarked for future local and overseas business expansion and the remaining RM9.2m for general working capital purposes.

Dividends

- No dividends were declared for 3Q09. A first interim gross dividend of 2.0 sen per share was paid on 18 Sep 2009.

Earnings Outlook

- 2009 revenue and profits are expected to decline yoy due largely to the absence of new construction projects, and flat performance at the water treatment division.
- Excluding the construction division, Taliworks' revenue and earnings are expected to be relatively stable given the nature of the concession-based water treatment and toll highway operations.
- 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 possibility of a slower than expected recovery in the economy may also affect revenues at the water and toll highway operations.
- Corporate governance – the Board indicated in its 2008 annual report that it is committed to ensuring good corporate governance is observed and practiced throughout the group. It also highlighted that based on the Corporate Governance Survey Report published by the Minority Shareholder Watchdog Group and the University of Nottingham Malaysia campus in Sep 2008, Taliworks was ranked 45 out of 960 publicly-listed companies in Malaysia in terms of compliance with corporate governance principles and best practices.

- Corporate social responsibility (CSR) – Taliworks indicated in its 2008 annual report that it is committed to promoting and undertaking good practices in CSR programmes that have a positive and enduring impact on all stakeholders. The CSR initiatives that the group has undertaken or intend to promote further include employees' welfare, engagement with related stakeholders, contribution to the community and protection & conservation of the environment.

3. Recommendation

- We maintain our **HOLD** recommendation on the stock with a price target of RM1.60/share, which is based on our break-up value estimate. We like the group's strong balance sheet position but prospective PE ratings and earnings growth rates are not compelling at this stage, in our view.

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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