

**1Q FYE DEC 2011 RESULTS REPORT**

Date: 24-May 2011

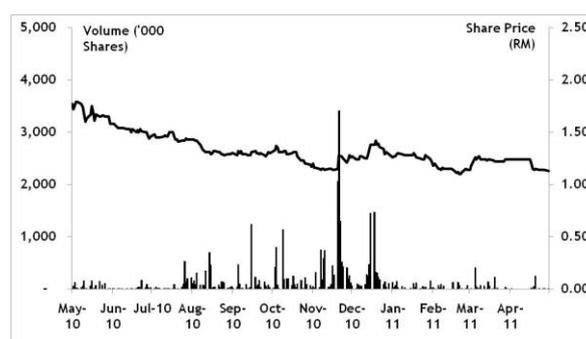
<b>Name of PLC:</b> Taliworks Corporation Berhad (Taliworks)		<b>Target Price:</b>	RM 1.30
<b>Business Summary :</b> Investment holding company involved in water treatment and supply, waste management via O&M contract and concession, construction and toll concession			
<b>Major Shareholders :</b>			
Dato' Lim Chee Meng (direct and indirect stakes)			55.5%
Kumpulan Perangas Selangor Berhad			16.9%
<b>PLC Website :</b> www.taliworks.com.my		<b>Recommendation:</b>	Buy
<b>IR Contact :</b> Mr. Ronnie Lim, Executive Director <a href="mailto:ronnie@taliworks.com.my">ronnie@taliworks.com.my</a> Mr. Victor Wong, General Manager, Finance <a href="mailto:victorwong@taliworks.com.my">victorwong@taliworks.com.my</a>		<b>Market Capitalisation:</b>	RM 493.2m
- FBM Small Cap - FBM Emas Shariah		<b>Current Price :</b>	RM 1.13
		<b>Market / Sector:</b>	Trading/Services
		<b>Stock Code:</b>	8524
<b>Analyst : Lim Boon Ngee</b> Tel : +603 2163 3200; Email : bnlim@nra.com.my			

Key Stock Statistics	2009	2010	2011F	2012F
EPS (sen)	10.2	6.6	9.8	9.9
P/E (x)	11.0	17.2	11.6	11.4
Dividend/Share (sen)	4.5	1.1	1.1	1.1
NTA/Share (RM)	0.99	1.09	1.17	1.26
Book Value/Share (RM)	0.95	1.05	1.14	1.23
Issued Capital (mil shares)	376.7	436.5	436.5	436.5
52-weeks Share Price Range (RM)	1.10 - 1.79			

Per Share Data	2009	2010	2011F	2012F
Book Value (RM)	0.95	1.05	1.14	1.23
Operating Cash Flow (sen)	4.7	5.1	18.3	(4.4)
Earnings (sen)	10.2	6.6	9.8	9.9
Dividend (sen)	4.5	1.1	1.1	1.1
Payout Ratio (%)	44.0	17.1	11.5	11.4
PER (x)	11.0	17.2	11.6	11.4
P/Cash Flow (x)	24.0	22.1	6.2	(25.7)
P/Book Value (x)	1.2	1.1	1.0	0.9
Dividend Yield (%)	4.0	1.0	1.0	1.0
ROE (%)	10.6	6.7	8.6	8.1
Net Gearing (%)	n.c.	n.c.	n.c.	19.1

n.c. - net cash

P&L Analysis (RM mil)	2009	2010	2011F	2012F
Revenue	158.9	173.1	178.9	197.2
Operating Profit	59.6	54.5	55.7	61.8
Depreciation	(3.7)	(3.9)	(11.1)	(26.5)
Finance	(16.1)	(15.3)	(1.9)	(6.4)
Jointly-controlled & Associates	7.5	13.3	6.7	7.7
EI	-	(9.2)	(5.0)	(5.0)
Pre-tax Profit	51.0	43.3	55.5	58.1
Effective Tax Rate (%)	(23.6)	(33.3)	(22.0)	(22.0)
Net Profit	38.6	28.6	42.6	43.3
Operating Margin (%)	37.5	31.5	31.2	31.3
Pre-tax Margin (%)	32.1	25.0	31.0	29.5
Net-Margin (%)	24.3	16.5	23.8	21.9

**Share Price Chart**

**1. 1QFY11 Results Highlight**

	1Q 2011 RMm	1Q 2010 RMm	Chg %
Revenue	40.6	44.4	(8.5)
Operating Profit	10.6	11.8	(9.6)
Finance cost	(0.5)	(3.9)	(86.0)
Jointly-controlled & associates	1.8	3.6	(50.0)
EI	-	11.7	n.m.
Pre-tax Profit	11.9	23.2	(48.7)
Net Profit	8.5	19.9	(57.2)
Operating Margin (%)	26.2	26.5	
Pre-tax Margin (%)	29.3	52.3	
Net-Margin (%)	20.9	44.8	

- Taliworks reported an 8.5% decrease in turnover to RM40.6m in 1QFY11. However, headline net profit plunged 57.2% to RM8.5m.

- The sharper drop in net profit was due to the following reasons:
  - 1QFY10 included a derivative gain of RM11.7m;
  - A non cash-flow provision for impairment of RM1.3m arising from delay in receipts of payments; and
  - Decline in net profit contribution from jointly-controlled Cerah Sama Sdn Bhd (CSSB), which is the holding company of Grand Saga Sdn Bhd that owns and operates the Cheras-Kajang Expressway. The decline was due to change in accounting treatment for provision for heavy repairs.
- At the core operating level, if the provision for impairment of RM1.3m were to be added back, its revised operating profit of RM12.0m in 1QFY11 was comparable to RM11.8m in 1QFY10.
- The flattish revised operating profit performance for 1QFY11 was due to the following reasons:
  - Flat EBIT contribution from Water Division. This was attributed to flat production output of SSP1 and a surprise 5.8% decline in metered sales of Taliworks Langkawi Sdn Bhd (TLSB) despite a scheduled BSR hike to RM2.11/m<sup>3</sup> from RM1.92/m<sup>3</sup>;
  - Meanwhile, its Construction Division suffered a small loss in 1QFY11, as the sole construction project is almost at the tail-end with completion slated for 2QFY11;
  - However, this was offset by a strong turn-around of its Waste Management Division.

## 2. Earnings Outlook

- Due to steady consumption demand, the earnings contribution from SSP1 and TLSB should remain stable. The drop in metered sales for TLSB is likely to be temporary.
- Earnings prospects for its Waste Management Division will not be significant yet in 1QFY11 as only the Panlou and Guanhan Projects are currently operational. While Linhe will start its commercial operation towards 2HFY11, the bigger Yinchuan Project and Meihua will only contribute more significantly in FY12 and FY13 onwards.
- The early redemption of convertible bonds (CBs) amounting to RM125.7m is expected to result in some savings in finance costs.

## 3. Valuation and Recommendation

- We have reduced our earnings forecast marginally by 4% to factor in the flat production output of SSP1, lower metered sales of TLSB and lower contribution from CSSB due to change in accounting treatment for provision for heavy repairs. However, we are maintaining our Buy recommendation on Taliworks.
- 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.
- Stripping out the estimated provision for impairment of RM5.0m for FY11, the revised net profit is expected at RM47.6m. The stock is currently trading at a P/E of 10.4x for FY11 based on our EPS forecast of 10.9 sen (excluding non cash-flow provision for impairment). We have arrived at a target price of RM1.30, based on a target P/E of 12x for FY11.
- The stock is currently trading at its NTA of RM1.10/share. The balance sheet remains strong with a net cash position of RM0.39/share as at 1QFY11. While we acknowledge the uncertainty surrounding the consolidation of water concessionaires in Selangor, we believe much of this has been priced into its share price.

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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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