

**HLIB Research**

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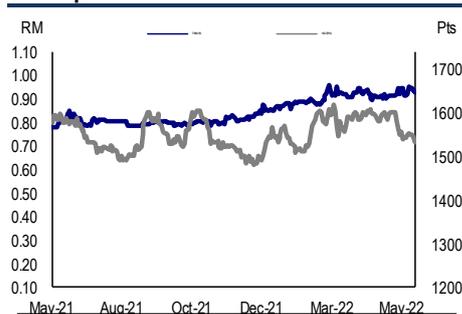
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**BUY** (Maintain)**Target Price:** RM1.00**Previously:** RM0.98**Current Price:** RM0.96

Capital upside	4.2%
Dividend yield	6.9%
Expected total return	11.1%

**Sector coverage:** Water

**Company description:** Taliworks is involved in water and waste-related businesses. It has expanded its core expertise to include highway management and construction & engineering.

**Share price**

Historical return (%)	1M	3M	12M
Absolute	2.8	-3.1	10.1
Relative	6.3	0.3	13.0

**Stock information**

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1935
3-mth average volume ('000)	799
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

**Major shareholders**

Tali Eaux Sdn Bhd	19.0%
Water Clinic Sdn Bhd	13.4%
Sethu Vijay Vijendra	9.0%

**Earnings summary**

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	78.5	62.3	86.2
EPS - core (sen)	3.9	3.1	4.3
P/E (x)	24.7	31.1	22.4

**Taliworks Corporation****Stuttering start**

Taliworks's 1QFY22 core PATAMI of RM10.6m missed our and consensus expectations at 15%/12% of forecasts. DPS of 1.65 sen was in-line with expectations. The water segment should continue to churn steady numbers while we expect stronger toll traffic in subsequent quarters. Newly secured RM896m of construction work could start contributing meaningfully in 2HFY22. Cut FY22 earnings by -9% but increase FY23 earnings by 5%. Maintain our BUY rating with marginally higher SOP-driven TP of RM1.00. Taliworks continues to deliver attractive dividend yield of 6.9%. Downside risks include lower yield spread and construction project execution.

**Missed expectations.** Taliworks reported 1QFY22 results with revenue of RM74.8m (3.3% QoQ, 14.1% YoY) and core PATAMI of RM10.6m (-13.1% QoQ, -14.6% YoY). Results missed both our and consensus expectations at 15% and 12% of full year forecasts respectively. No EIs were adjusted in our results review.

**Deviations.** Results missed due to higher than expected tax rate and slow ramp up in recently secured construction projects.

**Dividends.** DPS of 1.65 sen was declared for the quarter, in-line with expectations (going ex. on 14 June-22).

**QoQ.** Core PATAMI declined sequentially by -13.1% despite revenue increase of 3.3%, mainly due to higher taxes during the quarter with the lapsing of tax waiver period enjoyed by Grand Saga (effective tax rate went up by 15ppts). Partly compounding this is weaker contribution from associates resulting from higher dividends on preference shares held by other parties (1QFY22: -RM2.4m; 4QFY21: RM0.9m).

**YoY.** Core PATAMI declined by -14.6% even with higher revenue (+14.1%) due to reasons spelled out above.

**Water.** Revenue increased by 6.8% YoY aided by a 3.0% increase in metered sales further boosted by higher electricity and chemical rebates (+32.2%) as inflationary pressure for these costs are passed through. We continue to expect metered sales to remain stable given the relatively inelastic nature of demand. However, we do anticipate slightly higher top-line as costs rebates continues.

**Tolls.** ADT at the Grand Saga highway and Grand Sepadu increased by 18.7% and 3.6% respectively, benefitting from increased car usage in 1QFY22. Management guided that April-2022 traffic is close to pre-pandemic levels (93-99%). We do not discount the possibility of ADT exceeding pre-pandemic levels considering the levels of congestion of late.

**Construction.** Revenue came in double from last year as the company kick started its recently secured Rasau packages (RM896m). Nonetheless, recognition is sluggish vs. our expectations as billings are typically slow at the start of projects. Management is guiding for stronger recognition in 2023-24. Guided margins are in the "high single digit" range while materials cost risks are mitigated by VOP clause. Taliworks is also working on other water-related construction proposals.

**Forecast.** Cut FY22 earnings by -9.2% but increase FY23 earnings by 5.2%. Introduce FY24 earnings of RM95.7m.

**Maintain BUY, TP: RM1.00.** Maintain BUY with slightly higher SOP-driven TP of RM1.00 (from RM0.98). Taliworks's defensive source of earnings should anchor its healthy sustainable yields of 6.9% for FY22-23. We continue to like Taliworks for its solid dividend return profile and earnings trajectory. Key downside risks include lower yield spread and construction project execution.

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	65.6	72.4	74.8	3.3	14.1
EBITDA	25.9	29.7	31.4	5.5	21.1
Finance cost	(4.7)	(4.8)	(4.5)	(6.4)	(3.6)
Share of results of JV	0.4	0.4	0.5	54.5	36.4
Share of results of associate	2.3	0.9	(2.4)	(358.5)	(203.3)
PBT	16.7	13.8	17.0	23.2	1.9
PAT	13.8	12.0	11.5	(4.0)	(16.4)
Core PATMI	12.4	12.2	10.6	(13.1)	(14.6)
Reported PATMI	12.4	12.2	10.6	(13.1)	(14.6)
Core EPS (sen)	0.6	0.6	0.5	(13.1)	(14.6)
EBITDA margin (%)	39.4%	41.1%	41.9%		
PBT margin (%)	25.5%	19.1%	22.8%		
PATMI margin (%)	18.9%	16.8%	14.1%		

**Figure #2** SOP valuation for Taliworks

Sum of parts	Multiplier	Cost of Equity	Value	Stake	Value	Per Share
	(x)	(%)	(RM m)	(%)	(RM m)	(RM)
Highway Assets						
Cheras- Kajang Highway		7	577	51	294.39	0.15
NNKSB		7	269	45	111	0.06
Water Operations						
SHSB & Taliworks Langkawi		8	537	100	537	0.27
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	7		76	100	76	0.04
Receivables owed by SPLASH					714	0.35
Net Cash and financial assets					20	0.01
<b>SOP Valuation</b>					<b>1,998</b>	<b>1.00</b>

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## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	504.4	457.8	513.4	630.3	478.4
Receivables	125.5	80.2	58.4	46.8	45.3
Inventories	2.9	2.3	2.3	2.3	2.3
PPE	8.9	6.1	6.9	7.4	7.7
Others	1,433.3	1,396.6	1,374.7	1,357.9	1,346.0
<b>Assets</b>	<b>2,075.0</b>	<b>1,943.1</b>	<b>1,955.8</b>	<b>2,044.6</b>	<b>1,879.7</b>
Payables	94.9	72.7	180.5	340.1	236.2
Debt	403.5	358.5	328.5	298.5	268.5
Others	368.9	354.5	354.5	354.5	354.5
<b>Liabilities</b>	<b>867.3</b>	<b>785.7</b>	<b>863.5</b>	<b>993.1</b>	<b>859.2</b>
Shareholder's equity	959.3	904.8	834.0	787.1	749.7
Minority interest	248.4	252.6	258.3	264.4	270.8
<b>Equity</b>	<b>1,207.7</b>	<b>1,157.5</b>	<b>1,092.3</b>	<b>1,051.5</b>	<b>1,020.4</b>

### Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY23f
Profit before taxation	78.5	114.0	87.5	118.0	129.2
D&A	32.0	37.1	31.1	31.3	31.6
Working capital	(71.8)	42.8	127.8	169.7	(103.9)
Taxation	(15.0)	(11.6)	(19.6)	(25.7)	(27.2)
Others	15.3	(50.5)	11.5	6.5	1.5
<b>CFO</b>	<b>39.1</b>	<b>131.8</b>	<b>238.3</b>	<b>299.8</b>	<b>31.2</b>
Capex & Others	230.1	69.6	(2.2)	(2.3)	(2.5)
<b>CFI</b>	<b>230.1</b>	<b>69.6</b>	<b>(2.2)</b>	<b>(2.3)</b>	<b>(2.5)</b>
Changes in debt	(64.1)	(44.9)	(30.0)	(30.0)	(30.0)
Shares issued	-	-	-	-	-
Dividends	(133.0)	(133.0)	(133.1)	(133.1)	(133.1)
Others	(79.9)	(25.8)	(17.4)	(17.5)	(17.5)
<b>CFF</b>	<b>(277.1)</b>	<b>(203.8)</b>	<b>(180.6)</b>	<b>(180.6)</b>	<b>(180.6)</b>
<b>Net cash flow</b>	<b>(7.9)</b>	<b>(2.4)</b>	<b>55.6</b>	<b>116.8</b>	<b>(151.9)</b>
Forex	-	-	-	-	-
Others	(203.7)	(44.9)	0.0	-	-
Beginning cash	716.0	504.4	457.1	512.7	629.6
Ending cash	504.4	457.1	512.7	629.6	477.7

### Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	317.9	302.6	442.3	718.3	562.9
EBITDA	128.9	155.9	115.8	119.9	140.8
EBIT	96.9	118.8	99.0	124.5	130.7
Finance cost	(21.2)	(19.1)	(17.5)	(17.5)	(17.5)
Associates & JV	2.8	14.3	6.0	11.0	16.0
Profit before tax	78.5	114.0	87.5	118.0	129.2
Tax	(15.0)	(11.6)	(19.6)	(25.7)	(27.2)
Net profit	63.5	102.4	68.0	92.3	102.1
Minority interest	4.0	23.9	5.7	6.0	6.4
<b>Core PATAMI</b>	<b>59.5</b>	<b>78.5</b>	<b>62.3</b>	<b>86.2</b>	<b>95.7</b>
Exceptionals	-	-	-	-	-
Reported PATAMI	59.5	78.5	62.3	86.2	95.7

### Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY23f
Core EPS (sen)	3.0	3.9	3.1	4.3	4.7
P/E (x)	32.5	24.7	31.1	22.4	20.2
EV/EBITDA (x)	14.2	11.8	15.1	13.4	12.3
DPS (sen)	6.6	6.6	6.6	6.6	6.6
Dividend yield	6.9	6.9	6.9	6.9	6.9
BVPS (RM)	0.6	0.6	0.5	0.5	0.5
P/B (x)	1.6	1.7	1.8	1.8	1.9
EBITDA margin	40.6	51.5	26.2	16.7	25.0
EBIT margin	75.2	76.2	85.6	103.8	92.9
PBT margin	24.7	37.7	19.8	16.4	23.0
Core PATAMI margin	18.7	25.9	14.1	12.0	17.0
ROE	6.2	8.7	7.5	11.0	12.8
ROA	3.1	5.3	3.5	4.5	5.4
Net gearing	CASH	CASH	CASH	CASH	CASH

### Assumptions

FYE Dec	FY20	FY21	FY22f	FY22f	FY22f
<b>Water Output (m m<sup>3</sup>)</b>					
- SHSB	347.6	348.7	357.1	364.2	367.8
<b>Traffic Volume (m)</b>					
- Cheras-Kajang Highway	43.4	33.5	41.9	42.3	42.7
- NNKSB	27.7	30.1	31.0	31.9	32.8

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.

**UNDERWEIGHT**

Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.