

HLIB Research

PP 9484/12/2012 (031413)

Edwin Woo, CFA

ckwoo@hlib.hongleong.com.my

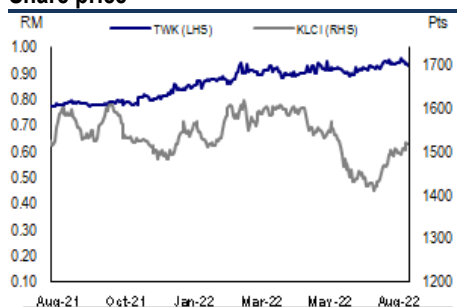
(603) 2083 1718

BUY (Maintain)**Target Price:** RM1.00**Previously:** RM1.00**Current Price:** RM0.925

Capital upside	8.1%
Dividend yield	7.1%
Expected total return	15.2%

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	0.5	-2.6	12.0
Relative	-5.3	-0.2	12.6

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1865
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	57.9	86.2
EPS - core (sen)	3.9	2.9	4.3
P/E (x)	23.8	32.2	21.6

Taliworks Corporation**Slow ramp up**

Taliworks's 1HFY22 core PATAMI of RM21.6m (-13.3%) missed our and consensus expectations at 35%/29% of forecasts. DPS of 1.65 sen was in-line with expectations. The water and toll divisions should continue to churn steady numbers while we expect stronger solar contribution in subsequent quarters. Newly secured RM896m of construction work may only start contributing meaningfully in FY23. Cut FY22 earnings by -7% but increase FY24 earnings by 5%. Maintain our BUY rating with unchanged SOP-driven TP of RM1.00. Taliworks continues to deliver an attractive dividend yield of 7.1%.

Missed expectations. Taliworks reported 2QFY22 results with revenue of RM85.7m (14.5% QoQ, 38.5% YoY) and core PATAMI of RM11.0m (4.4% QoQ, -12.1% YoY). This brings 1HFY22 core PATAMI to RM21.6m, falling by -13.3% YoY. Results missed our/consensus expectations at 35%/29% of full year forecasts. Earnings shortfall was mainly due to slow ramp up in its construction projects.

Dividends. DPS of 1.65 sen was declared for the quarter, in-line with expectations (going ex. on 8 Sept-22).

QoQ. Core PATAMI increased by 4.4% on the back of higher revenue (+14.5%) which saw higher construction billings and maiden contribution from its recently acquired solar assets. Nonetheless, the dilution to bottom-line came from wider losses from share of associates due to higher cost pressure at SWM (losses doubled this quarter).

YoY. Core PATAMI declined by -12.1% even as revenue fared much better at 38.5% higher, dragged by weakness at SWM which saw a ~RM6.4m swing, registering a share of loss of -RM4.5m this quarter compared with share of profit totalling RM1.9m in 2QFY21. The higher tax rate was also instrumental in dragging down numbers as tax waiver at Grand Saga expired starting this year.

YTD. Core PATAMI declined by -13.3% despite higher revenue due to reasons highlighted in the YoY para.

Water. Revenue came in higher by 8.5% aided by a 3.9% increase in metered sales and average MLD. The higher electricity and chemical rebates also boosted revenue beyond growth rates achieved by metered sales. We continue to expect stable metered sales to anchor the division's performance going forward.

Tolls. ADT at the Grand Saga highway and Grand Sepadu increased by 34% and 16% respectively, benefitting from increased car usage in 1HFY22. Essentially, traffic volumes are at pre-pandemic levels for 2QFY22.

Construction. Revenue contribution has been sluggish so far with 1HFY22 coming in at only 11% of our full year forecasts. The project is only currently at the design stage and should ramp up starting next year. 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 -7.0% but increase FY24 earnings by 4.6% after delaying construction billings. No change to FY23 earnings forecasts.

Maintain BUY, TP: RM1.00. Maintain BUY with unchanged SOP-driven TP of RM1.00. Taliworks's defensive source of earnings should anchor its healthy sustainable yields of 7.1% for FY22-23. We continue to like Taliworks for its solid dividend return profile.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	61.9	74.8	85.7	14.5	38.5	127.5	160.6	25.9
EBITDA	24.7	31.4	36.7	17.0	48.5	50.6	68.0	34.5
Finance cost	(4.8)	(4.5)	(4.5)	(0.7)	(6.2)	(9.4)	(9.0)	(4.9)
Share of results of JV	0.2	0.5	0.5	(5.5)	149.8	0.6	1.1	75.0
Share of results of associate	2.3	(2.4)	(4.1)	70.5	(280.8)	4.6	(6.5)	(241.5)
PBT	16.2	17.0	17.8	4.3	9.9	32.9	34.8	5.8
PAT	13.3	11.5	12.4	7.5	(6.8)	27.0	23.9	(11.7)
Core PATMI	12.6	10.6	11.0	4.4	(12.1)	25.0	21.6	(13.3)
Reported PATMI	12.6	10.6	11.0	4.4	(12.1)	25.0	21.6	(13.3)
Core EPS (sen)	0.6	0.5	0.5	4.4	(12.1)	1.2	1.1	(13.3)
EBITDA margin (%)	39.9%	41.9%	42.8%			39.7%	42.4%	
PBT margin (%)	26.1%	22.8%	20.7%			25.8%	21.7%	
PATMI margin (%)	20.3%	14.1%	12.9%			19.6%	13.5%	

Figure #2 SOP valuation for Taliworks

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

HLIB Research

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	504.4	457.8	466.9	625.9	520.6
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
Assets	2,075.0	1,943.1	1,909.2	2,040.3	1,921.9
Payables	94.9	72.7	138.3	340.1	278.4
Debt	403.5	358.5	328.5	298.5	268.5
Others	368.9	354.5	354.5	354.5	354.5
Liabilities	867.3	785.7	821.3	993.1	901.4
Shareholder's equity	959.3	904.8	829.6	782.8	749.7
Minority interest	248.4	252.6	258.3	264.4	270.8
Equity	1,207.7	1,157.5	1,088.0	1,047.1	1,020.4

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY23f
Profit before taxation	78.5	114.0	81.8	118.0	135.0
D&A	32.0	37.1	31.1	31.3	31.6
Working capital	(71.8)	42.8	85.6	211.9	(61.7)
Taxation	(15.0)	(11.6)	(18.2)	(25.7)	(28.6)
Others	15.3	(50.5)	11.5	6.5	1.5
CFO	39.1	131.8	191.8	342.0	77.8
Capex & Others	230.1	69.6	(2.2)	(2.3)	(2.5)
CFI	230.1	69.6	(2.2)	(2.3)	(2.5)
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)
CFF	(277.1)	(203.8)	(180.6)	(180.6)	(180.6)
Net cash flow	(7.9)	(2.4)	9.1	159.0	(105.3)
Forex	-	-	-	-	-
Others	(203.7)	(44.9)	(0.0)	-	-
Beginning cash	716.0	504.4	457.1	466.2	625.2
Ending cash	504.4	457.1	466.2	625.2	519.9

Income Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	317.9	302.6	370.6	718.3	634.6
EBITDA	128.9	155.9	115.8	119.9	140.8
EBIT	96.9	118.8	93.3	124.5	136.5
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	81.8	118.0	135.0
Tax	(15.0)	(11.6)	(18.2)	(25.7)	(28.6)
Net profit	63.5	102.4	63.6	92.3	106.4
Minority interest	4.0	23.9	5.7	6.0	6.4
Core PATAMI	59.5	78.5	57.9	86.2	100.0
Exceptionals	-	-	-	-	-
Reported PATAMI	59.5	78.5	57.9	86.2	100.0

Valuation & Ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY23f
Core EPS (sen)	3.0	3.9	2.9	4.3	5.0
P/E (x)	31.3	23.8	32.2	21.6	18.7
EV/EBITDA (x)	13.7	11.3	14.9	12.8	11.5
DPS (sen)	6.6	6.6	6.6	6.6	6.6
Dividend yield	7.1	7.1	7.1	7.1	7.1
BVPS (RM)	0.6	0.6	0.5	0.5	0.5
P/B (x)	1.5	1.6	1.7	1.8	1.8
EBITDA margin	40.6	51.5	31.2	16.7	22.2
EBIT margin	75.2	76.2	80.6	103.8	96.9
PBT margin	24.7	37.7	22.1	16.4	21.3
Core PATAMI margin	18.7	25.9	15.6	12.0	15.8
ROE	6.2	8.7	7.0	11.0	13.3
ROA	3.1	5.3	3.3	4.5	5.5
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec	FY20	FY21	FY22f	FY22f	FY22f
Water Output (m m³)					
- SHSB	347.6	348.7	357.1	364.2	367.8
Traffic Volume (m)					
- Cheras-Kajang Highway	43.4	33.5	41.9	42.3	42.7
- NNKSB	27.7	30.1	31.0	31.9	32.8

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 25 August 2022, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 25 August 2022, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:**Hong Leong Investment Bank Berhad (10209-W)**

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

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

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	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.