

22 November 2022

Utilities | Utilities

Taliworks Corporation (TWK MK)

Buy (Maintained)

Getting More Sunshine In The Coming Quarters; Keep BUY

Target Price (Return): MYR1.06 (18%)
Price (Market Cap): MYR0.90 (USD394m)
ESG score: 3.00 (out of 4)
Avg Daily Turnover (MYR/USD) 0.26m/0.06m

- **Keep BUY, new SOP-derived MYR1.06 TP from MYR1.08, 18% upside and c.7% yield.** Taliworks' 9M22 core earnings of MYR33.7m (-41% YoY) missed our and Street's estimates, contributing only 56% and 55% of full-year projections. The deviation was mainly due to the absence of a toll compensation payment. A third interim dividend of 1.65 sen/share was declared in 3Q22, bringing YTD dividends to 4.95 sen/share. We favour the stock for its defensive earnings base, attractive yields, and new income stream from solar assets.
- **Results review.** 3Q22 core earnings stood at MYR12.3m (-65.7% YoY, +11.3% QoQ). The bulk of revenue and operating profit was backed by the water treatment, supply, and distribution business, which saw its revenue rise 12% YoY. The growth came from higher metered sales of MYR37.7m (3Q21: MYR35.1m) after reaching 91.9m cu m in 3Q22 (3Q21: 86.7m cu m) for Sungai Selangor Water Treatment Plant Phase 1 operations.
- **3Q22 average daily traffic or ADT** for Grand Saga Expressway and Grand Sepadu Highway was higher by 73% and 37% YoY amid the absence of movement restrictions. However, the growth in operating profits for both toll roads during the quarter was capped by a higher amortisation of intangible assets in addition to the absence of toll compensation payments for the non-increase in scheduled toll hikes in respect of FY21. The construction segment also exhibited some growth, recording a revenue of MYR15.2m (3Q21: MYR1.4m) during the quarter – contributed mainly by the Sungai Rasau project. The renewable energy segment registered revenue worth MYR6.2m in 3Q22, reflecting a full quarter's recognition vs MYR5.4m for a 2.5-month period in 2Q22.
- **Post results,** we are revising our FY22F-24F earnings by -6%, -4%, and -2% to reflect a lower share of associate's performance from SWM Environment (its waste management arm) that will persist due to a higher dividend paid on preference shares. Although 9M22 earnings of MYR33.7m are 59% of our latest FY22 earnings estimates of MYR57m, we understand that TWK is awaiting the toll compensation payment by the end of 4Q22 worth c.MYR12m (pre-tax basis). Its solar assets should see stronger contributions following the panel replacements for the SaTerm solar asset in early November, increasing the performance ratio to c.90% from 70%.
- **Valuations.** Post the earnings adjustment, our TP is revised to MYR1.06 after factoring in a 0% ESG premium based on our in-house proprietary ESG methodology. TWK currently trades at 11x FY23F EV/EBITDA, about -0.5SD from its 5-year average rolling forward mean. We think this is attractive, considering the dividend yield of 7%.
- **Key risks** include slower-than-expected economic recovery and changes in government policies.

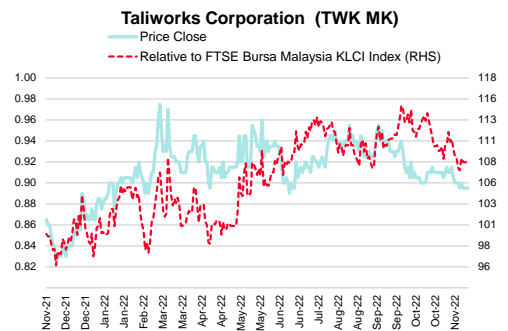
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.5	(1.7)	(5.3)	(5.3)	4.7
Relative	11.1	(1.8)	(1.5)	1.2	9.8
52-wk Price low/high (MYR)	0.83 – 0.98				



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

TWK integrates environmental management throughout the life cycle of each project. Some practices include tracking, managing and minimising air pollution and greenhouse gas emissions, and waste and effluents generated from across all areas of operations.

S: GOOD

TWK prioritises work-life balance, and as such, provides for employees' welfare and well-being towards better integration of life and career. Employee training and development costs were up >100% to MYR1.1m in 2019, and up-to-date health & safety policies are in place.

G: GOOD

While some elements of integrated reporting have been embodied in the Annual Report, overall, it is not an integrated report based on the parameters set by the International Integrated Reporting Council. Only 16% of board is represented by women, and the Remuneration Committee does not provide oversight on remuneration for senior management. TWK engages a third party investor relations outfit to facilitate communications with the investment community, with periodic meetings held.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	318	303	361	599	669
Recurring net profit (MYRm)	58	70	57	73	84
Recurring net profit growth (%)	28.0	21.5	(19.7)	29.5	14.3
Recurring P/E (x)	31.14	25.63	31.90	24.63	21.56
P/B (x)	1.9	2.0	2.2	2.3	2.3
P/CF (x)	30.43	12.20	21.02	13.88	12.75
Dividend Yield (%)	7.4	7.4	7.4	7.4	7.4
EV/EBITDA (x)	13.10	11.33	11.67	10.63	9.94
Return on average equity (%)	6.0	8.4	6.5	9.2	10.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	0.2

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.03	0.03	0.03	0.04	0.04
Utilities	DPS	0.07	0.07	0.07	0.07	0.07
Taliworks Corporation	BVPS	0.48	0.45	0.41	0.38	0.39
TWK MK	Return on average equity (%)	6.0	8.4	6.5	9.2	10.7
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	31.14	25.63	31.90	24.63	21.56
SOP Valuation	P/B (x)	1.9	2.0	2.2	2.3	2.3
	FCF Yield (%)	3.3	8.1	4.5	6.9	7.5
Key drivers	Dividend Yield (%)	7.4	7.4	7.4	7.4	7.4
i. Stable operations;	EV/EBITDA (x)	13.10	11.33	11.67	10.63	9.94
ii. Favourable outcome on tariff hikes;	EV/EBIT (x)	17.45	14.53	15.75	14.07	12.95
iii. Lower losses at associate companies.						
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	318	303	361	599	669
Risks to our call include:	Gross profit	124	140	113	125	137
i. Slower-than-expected economic recovery;	EBITDA	129	152	152	166	179
ii. Changes in government policies.	Depreciation and amortisation	(32)	(33)	(40)	(41)	(42)
	Operating profit	97	119	113	125	137
	Net interest	(21)	(19)	(17)	(16)	(14)
	Pre-tax profit	79	114	107	119	134
	Taxation	(15)	(12)	(34)	(29)	(32)
	Reported net profit	59	79	57	73	84
	Recurring net profit	58	70	57	73	84
Company Profile						
Taliworks Corp is a pure-play infrastructure company primarily engaged in water treatment, supply and distribution – which involves management, operations & maintenance (O&M) of water treatment plants and water distribution systems. It is also engaged in highway toll concessionaires (O&M), engineering & construction, and waste management	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(52)	10	(32)	(7)	(5)
	Cash flow from operations	59	148	86	130	142
	Capex	(0)	(1)	(5)	(5)	(5)
	Cash flow from investing activities	230	70	51	101	(13)
	Dividends paid	(157)	(133)	(100)	(133)	(133)
	Cash flow from financing activities	(277)	(204)	(130)	(170)	(165)
	Cash at beginning of period	73	87	73	69	131
	Net change in cash	12	14	7	61	(36)
	Ending balance cash	85	100	80	131	95
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	473	420	366	378	356
	Tangible fixed assets	9	6	6	6	6
	Total investments	277	270	275	278	282
	Total assets	2,075	1,943	1,943	2,012	1,909
	Short-term debt	30	30	33	29	30
	Total long-term debt	358	329	329	329	329
	Total liabilities	867	786	862	990	865
	Total equity	1,208	1,157	1,081	1,021	1,043
	Total liabilities & equity	2,075	1,943	1,943	2,012	1,908
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(15.7)	(4.8)	19.4	65.8	11.6
	Recurrent EPS growth (%)	28.0	21.5	(19.7)	29.5	14.3
	Gross margin (%)	38.9	46.2	31.2	20.9	20.5
	Operating EBITDA margin (%)	40.6	50.3	42.2	27.6	26.7
	Net profit margin (%)	18.7	25.9	15.6	12.2	12.5
	Dividend payout ratio (%)	223.7	169.5	235.2	181.7	159.0
	Capex/sales (%)	0.1	0.4	1.4	0.9	0.8
	Interest cover (x)	4.57	6.22	6.54	7.94	9.63

Source: Company data, RHB

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Figure 1: TWK's results

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	102.3	85.7	91.3	6.5%	-10.8%	229.8	251.9	9.6%	
EBIT	64.3	25.8	31.2	20.7%	-51.5%	101.4	80.4	-20.7%	
<i>EBIT margin (%)</i>	63%	30%	34%			44%	32%		
Finance cost	(4.9)	(4.5)	(4.5)	-1.7%	6.5%	(14.3)	(13.5)	5.4%	
Share of JV	5.0	0.5	0.7	26.9%	-87.0%	5.6	1.7	-69.5%	
Share of associate	2.8	(4.1)	(5.3)	-28.1%	nm	7.4	(11.8)	nm	
Pre-tax profit	67.2	17.8	22.0	23.9%	-67.3%	100.1	56.8	-43.3%	
<i>Pre-tax margin (%)</i>	66%	21%	24%			44%	23%		
Tax	(3.9)	(5.4)	(6.6)	-22.6%	-70.4%	(9.8)	(17.6)	-80.0%	
Effective tax rate (%)	6%	30%	30%			10%	31%		Expiry of tax waiver for Grand Saga.
Minority interest	(22.0)	(1.3)	(2.9)	nm	86.9%	(24.1)	(5.1)	78.7%	
Net profit	35.9	11.0	12.5	13.2%	-65.1%	66.3	34.1	-48.5%	
Core profit	35.9	11.0	12.3	11.3%	-65.7%	57.2	33.7	-41.2%	Below expectations.
<i>Core net margin (%)</i>	35%	13%	13%			25%	13%		

Source: Company data, RHB

Figure 2: TWK's segmental results

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue									
Water treatment, supply and distribution	41.7	46.2	46.8	1.3%	12.2%	125.9	138.2	9.8%	Higher metered sales.
Construction	1.4	11.5	15.2	32.0%	nm	8.0	34.5	nm	
Toll highway	58.0	21.3	21.9	2.5%	-62.3%	92.2	63.8	-30.8%	
Others	1.3	1.3	1.3	0.1%	0.0%	3.8	3.8	0%	
Renewables	0.0	5.4	6.2	15%	nm	0.0			
EBIT									
Water treatment, supply, and distribution	17.6	16.0	16.6	3.9%	-6.1%	47.1	48.2	2.3%	
Construction	(0.5)	0.7	0.6	-6.3%	nm	(1.8)	1.4	nm	
Toll highway	50.8	9.1	12.8	39.8%	-74.9%	64.9	30.8	-53.0%	Absence of toll compensation.
Others	(3.6)	(2.0)	(2.2)	-11.0%	40.2%	(8.8)	(5.4)	39.0%	
Renewables	0.0	2.0	3.4	66%	nm	0.0	5.4	nm	

Source: Company data, RHB

Figure 3: Taliworks' SOP valuation

Highway assets	Stake	FY23F FCFE	Per share	Remark
Grand Saga	51%	627.8	0.31	WACC 6.3%, concession up to 2045 with four toll rate hikes assumed.
Grand Sepadu (45% economic benefit)	45%	114.1	0.06	WACC 6.3%, concession up to 2032 with two toll rate hikes assumed.
Water assets	100%	433.8	0.22	WACC 6.3%, concession up to 2036 with contracted base supply rate assumed. No extension to Langkawi water asset.
Waste management asset	35%	295.7	0.15	WACC 6.3%, concession up to 2033.
		P/E		
Construction	100%	12.0	0.06	We think that this target P/E is fair as it is within the range ascribed to construction peers under our coverage.
Solar Assets	100%	200.2	0.10	WACC 7.0%, 13 years remaining for concession.
Net Cash/ (Debt)		334.5	0.17	
Number of shares (m)		2,015.8		
Intrinsic value per share		2,128.8	1.06	
0% ESG discount/premium			0.00	
TP			1.06	

Source: Company data, RHB

Recommendation Chart

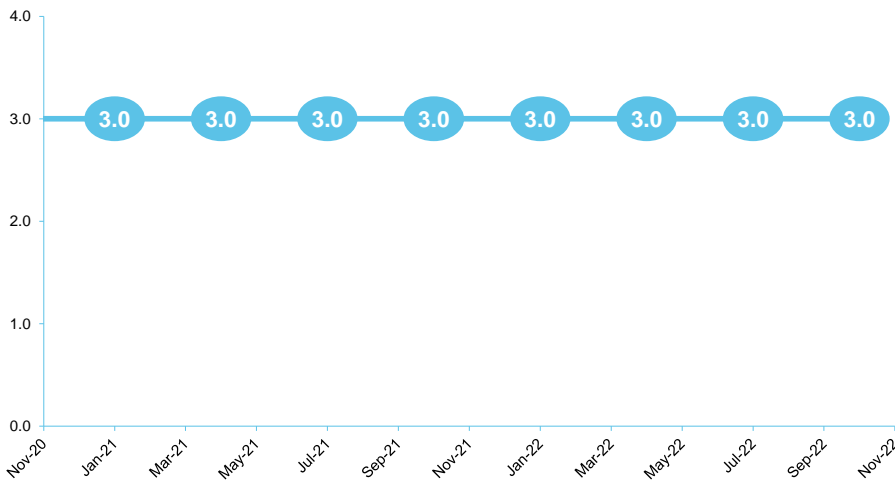


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-02	Buy	1.08	0.92
2022-08-24	Buy	1.10	0.93
2022-05-27	Buy	1.12	0.93
2022-02-23	Buy	1.03	0.93
2021-11-16	Buy	0.98	0.86
2021-08-24	Buy	0.94	0.85
2021-05-20	Buy	0.94	0.85
2021-03-01	Buy	0.98	0.83
2020-11-17	Buy	0.98	0.82
2020-08-21	Buy	0.98	0.87
2020-07-02	Buy	0.97	0.86

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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