

HLIB Research

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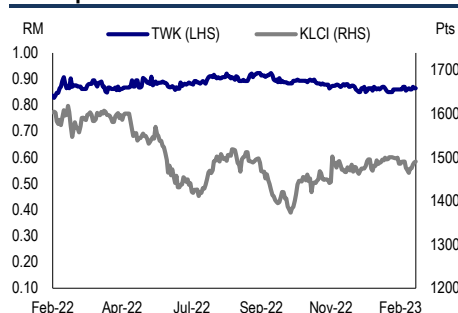
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HOLD (maintain)**Target Price:** RM0.86**Previously:** RM0.91**Current Price:** RM0.86

Capital upside	0.0%
Dividend yield	7.7%
Expected total return	7.7%

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	-0.6	-3.4	-3.9
Relative	-0.4	-6.1	3.4

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1734
3-mth average volume ('000)	564
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)	FY22	FY23f	FY24f
PATMI - core (RM m)	55.1	69.2	86.1
EPS - core (sen)	2.7	3.4	4.3
P/E (x)	31.4	25.1	20.1

Taliworks Corporation**Boosted by toll compensation**

Taliworks finished FY22 with core PATAMI of RM55.1m (-29.8% YoY) meeting our but missed consensus expectations at 95%/93% of forecasts. DPS of 1.65 sen was in-line with expectations. Steady contribution from water, highway and solar segments should anchor performance going forward. Meanwhile, construction recognition is likely back loaded in FY23. Slash FY23-24 earnings by -19.8% and -13.9%. Maintain HOLD with lower TP of RM0.86. Taliworks's dividend yield of 7.7% remains its key selling point.

Meets expectations. Taliworks reported 4QFY22 results with revenue of RM85.9m (-5.9% QoQ, 18.5% YoY) and core PATAMI of RM21.0m (67.9% QoQ, 72.4% YoY). This brings FY22 core PATAMI to RM55.1m, falling by -29.8% YoY. Results met our but missed consensus expectations at 95%/93% of full year forecasts.

Dividends. DPS of 1.65 sen was declared for the quarter (ex-date: 2 Mar-23).

QoQ. Core PATAMI increased by 67.9% mainly due to higher contribution from its highways division as compensation was finally received in 4QFY22. This coupled with tax credit of RM2.1m (vs tax expense of -RM6.6m in 3QFY22) more than offset sequential declines seen at its water (higher maintenance & rehab costs), construction (reversal of Rasau project recognition) and solar (lower insolation) divisions.

YoY. Core PATAMI increased by 72.4% resulting from stronger performance from water, highways and solar divisions. We attribute this to the aforementioned highway compensation, contribution from solar assets and higher water metered sales & electricity rebates seen in 4QFY22.

YTD. Core PATAMI declined by -29.8% despite an increase in revenue (+11.7%) resulting from significantly higher share of losses from associate amounting to -RM23.0m (vs FY21 share of profit: RM8.3m) as well as lower toll compensation recognised in FY22 amounting to RM11.3m compared with RM43.7m in FY21. The big swing in its associate's contribution is due to higher preference share distribution rates effective in 2022.

Water. Revenue came in higher by 9.4% helped by a 4.3% increase in metered sales from normalised economic activities as well as a 37.0% increase in electricity and chemical rebates. We continue to expect stable metered sales and higher electricity rebates to anchor the division's performance going forward.

Tolls. ADT at the Grand Saga highway and Grand Sepadu increased by 33% and 17% respectively, benefitting from increased car usage in FY22. We believe highways saw traffic above pre-pandemic levels in 2HFY22.

Construction. Revenue contribution doubled in FY22 driven by recognition from its Rasau projects. Due to delay in approvals from relevant authorities for physical work commencement, recognition is only at 2-3%. As such, there was also a revenue reversal of -RM1.5m in 4QFY22 from previous over recognition. Seeing as approvals have not been granted, contribution is likely still sluggish in 1QFY23.

Forecast. Despite meeting our forecasts, we slash FY23-24 earnings forecasts by -19.8% and -13.9% in light of slow construction progress.

Maintain HOLD, TP: RM0.86. Maintain HOLD with lower SOP-driven TP of RM0.86 (from RM0.91) post updating balance sheet items in our SOP calculation. Taliworks's defensive source of earnings could anchor its dividend yield of 7.7%.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	72.4	91.3	85.9	(5.9)	18.5	302.3	337.7	11.7
EBITDA	29.7	42.6	48.3	13.5	62.5	152.2	158.9	4.4
Finance cost	(4.8)	(4.5)	(4.5)	(2.0)	(7.4)	(19.1)	(18.0)	(5.9)
Share of results of JV	0.4	0.7	4.5	580.2	1,160.5	6.0	6.2	3.1
Share of results of associate	0.9	(5.3)	(11.2)	112.1	(1,297.2)	8.3	(23.0)	(376.1)
PBT	13.8	22.0	25.0	13.8	81.1	114.0	81.9	(28.2)
PAT	12.0	15.4	27.2	76.5	126.8	102.4	66.4	(35.1)
Core PATMI	12.2	12.5	21.0	67.9	72.4	78.5	55.1	(29.8)
Reported PATMI	12.2	12.5	21.0	67.9	72.4	78.5	55.1	(29.8)
Core EPS (sen)	0.6	0.6	1.0	67.9	72.4	3.9	2.7	(29.8)
EBITDA margin (%)	41.1%	46.6%	56.3%			50.4%	47.1%	
PBT margin (%)	19.1%	24.1%	29.2%			37.7%	24.2%	
PATMI margin (%)	16.8%	13.7%	24.5%			26.0%	16.3%	

Figure #2 SOP valuation for Taliworks

	(x)	(%)	(RM m)	(%)	(RM m)	(RM)
Highway Assets						
Cheras- Kajang Highway		7	577	51	294.4	0.15
NNKSB		7	269	45	111	0.06
Water Operations						
SHSB		7	619	100	619	0.31
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	10		273	100	273	0.14
Solar					179	0.09
SOP Valuation					1,722	0.86

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Figure #3 Financial forecast

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	317.9	302.6	337.7	601.7	652.5
EBITDA	128.9	155.9	158.9	119.9	140.8
EBIT	96.9	118.8	116.6	115.1	137.9
PBT	78.5	114.0	81.9	98.6	121.4
PAT	63.5	102.4	66.4	75.2	92.5
PATMI – Core	59.5	78.5	55.1	69.2	86.1
PATMI – Reported	59.5	78.5	55.1	69.2	86.1
Core EPS (sen)	3.0	3.9	2.7	3.4	4.3
P/E (x)	29.1	22.1	31.4	25.1	20.1
EV/EBITDA (x)	12.7	10.5	10.3	12.4	10.5
DPS (sen)	6.6	6.6	6.6	6.6	6.6
Yield (%)	7.7	7.7	7.7	7.7	7.7
BVPS (RM/share)	0.6	0.6	0.6	0.6	0.6
P/B (x)	1.4	1.5	1.5	1.5	1.5
ROE (%)	6.2%	8.7%	4.8%	9.1%	12.1%
Net Gearing (%)	CASH	CASH	14.2%	15.0%	15.0%

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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.

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