

17 February 2023

Utilities | Utilities

## Taliworks Corporation (TWK MK)

**Buy** (Maintained)

Expecting a Brighter Year Ahead; Keep BUY

Target Price (Return): MYR1.06 (23%)  
 Price (Market Cap): MYR0.86 (USD394m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.44m/0.10m

- **Keep BUY and SOP-derived MYR1.06 TP, 23% upside, c.8% FY22F yield.** Taliworks' FY22 core earnings of MYR53.7m (-32% YoY) met our estimates but missed Street's, at 95% and 93% of full-year projections. A fourth interim dividend of 1.65 sen per share was declared in 4Q22, bringing the FY22 dividend to 6.6 sen per share. We favour the stock for its defensive earnings base, stable growth outlook, and attractive yield.
- **Results review.** 4Q22 core earnings stood at MYR20m (+52% YoY) with the bulk of revenue and operating profit backed by the water treatment, supply, and distribution business which saw its revenue rise 8.3% YoY. The growth came from higher metered sales of RM37.5m (4Q21: RM36.6m) after reaching 91.5m cu m in 4Q22 (4Q21: 89.3m cu m) for the Sungai Selangor Water Treatment Plant Phase 1 operations. This partly helped mitigate losses from its waste management associate due to higher deduction of dividends on cumulative preference shares.
- **4Q22 average daily traffic (ADT)** for the Grand Saga (51% owned) and Grand Sepadu highways (37.5% owned) were 9% and 4% higher YoY. Grand Saga highway received a toll compensation of MYR11.3m from the Government (lower than the MYR43.5m received in 3Q21), in relation to the non-increase in scheduled toll hikes for FY20. The construction segment saw an over-recognition of revenue from the Sungai Rasau projects during earlier reporting periods, in addition to lower contribution from a project in the Cyberjaya Flagship Zone. The renewable energy segment registered 4Q22 revenue of MYR5.6m, reflecting full-year recognition of MYR17.2m.
- **No changes to earnings forecasts** as results were within expectations. As such, our SOP-derived TP remains at MYR1.06 after factoring in a 0% ESG premium/discount based on our proprietary ESG methodology. We may upgrade the ESG score once Taliworks successfully constructs the dewatering plant (estimated by CY24) to ensure proper treatment and disposal of by-products from the water treatment process.
- **We introduce our FY25 earnings estimates**, which take into account a toll rate hike for the Grand Sepadu highway, but assumes no new construction job replenishments. However, we do not rule out the possibility of Taliworks securing construction jobs related to phase 2 of the Sungai Rasau Water Supply Scheme, likely in CY25. Its solar assets may see stronger contribution after the panel replacement for the SaTerm solar asset in early Nov 2022, increasing the performance ratio to c.90% from 70% previously. Based on our estimates, yearly revenue from its solar assets could reach >MYR20m from FY23.
- **Key risks** include slower-than-expected economic recovery and changes in government policies.

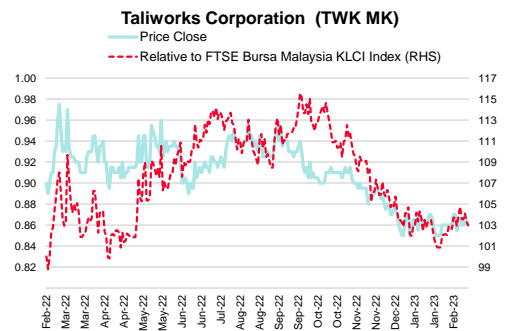
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.6)	(1.2)	(3.9)	(8.5)	(4.5)
Relative	0.2	(0.6)	(6.4)	(6.2)	2.9
52-wk Price low/high (MYR)	0.85 – 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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	303	338	599	669	593
Recurring net profit (MYRm)	79	54	73	84	89
Recurring net profit growth (%)	35.5	(31.7)	36.5	14.3	6.1
Recurring P/E (x)	22.08	32.32	23.67	20.71	19.53
P/B (x)	1.9	2.2	2.4	2.3	2.5
P/CF (x)	13.15	20.02	12.51	12.25	10.72
Dividend Yield (%)	7.7	7.7	7.7	7.7	7.7
EV/EBITDA (x)	10.94	12.67	11.12	10.41	8.93
Return on average equity (%)	8.4	6.5	9.7	11.3	12.2
Net debt to equity (%)	net cash	15.1	10.3	12.2	14.4

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-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.04	0.03	0.04	0.04	0.04
Utilities	DPS	0.07	0.07	0.07	0.07	0.07
<b>Taliworks Corporation</b>	BVPS	0.45	0.39	0.36	0.37	0.35
TWK MK	Return on average equity (%)	8.4	6.5	9.7	11.3	12.2
Buy						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	22.08	32.32	23.67	20.71	19.53
SOP Valuation	P/B (x)	1.9	2.2	2.4	2.3	2.5
	FCF Yield (%)	7.5	4.8	7.7	7.9	9.0
<b>Key drivers</b>	Dividend Yield (%)	7.7	7.7	7.7	7.7	7.7
i. Stable operations;	EV/EBITDA (x)	10.94	12.67	11.12	10.41	8.93
ii. Favourable outcome on tariff hikes;	EV/EBIT (x)	14.03	16.31	14.73	13.55	11.10
iii. Lower losses at associate companies						
	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
<b>Key risks</b>	Total turnover	303	338	599	669	593
i. Slower-than-expected economic recovery;	Gross profit	140	137	125	137	169
ii. Changes in government policies.	EBITDA	152	150	166	179	210
	Depreciation and amortisation	(33)	(33)	(41)	(42)	(41)
<b>Company Profile</b>	Operating profit	119	117	125	137	169
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	Net interest	(19)	(18)	(16)	(14)	(17)
	Pre-tax profit	114	82	119	134	160
	Taxation	(12)	(15)	(29)	(32)	(38)
	Reported net profit	79	55	73	84	89
	Recurring net profit	79	54	73	84	89
	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	10	(15)	2	(5)	(10)
	Cash flow from operations	132	87	139	142	162
	Capex	(1)	(4)	(5)	(5)	(5)
	Cash flow from investing activities	70	226	101	(13)	(9)
	Dividends paid	(133)	(133)	(100)	(133)	(133)
	Cash flow from financing activities	(204)	(326)	(163)	(165)	(192)
	Cash at beginning of period	87	62	49	126	90
	Net change in cash	(2)	(13)	77	(36)	(39)
	Ending balance cash	84	49	126	90	51
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	409	170	197	175	150
	Tangible fixed assets	6	132	132	132	132
	Total investments	270	251	254	258	255
	Total assets	1,943	1,854	1,962	1,853	1,760
	Short-term debt	30	30	29	30	30
	Total long-term debt	329	299	269	269	260
	Total liabilities	786	806	974	842	794
	Total equity	1,157	1,048	988	1,010	966
	Total liabilities & equity	1,943	1,854	1,962	1,853	1,760
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	(4.8)	11.6	77.4	11.6	(11.3)
	Recurrent EPS growth (%)	35.5	(31.7)	36.5	14.3	6.1
	Gross margin (%)	46.2	40.5	20.9	20.5	28.5
	Operating EBITDA margin (%)	50.3	44.4	27.6	26.7	35.5
	Net profit margin (%)	25.9	16.3	12.2	12.5	15.0
	Dividend payout ratio (%)	169.5	241.3	181.7	159.0	149.8
	Capex/sales (%)	0.4	1.1	0.9	0.8	0.9
	Interest cover (x)	6.22	6.49	7.94	9.63	9.95

Source: Company data, RHB

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Figure 1: Taliworks' results

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
<b>Revenue</b>	72.7	91.3	85.9	-5.9%	18.0%	302.6	337.7	11.6%	
<b>EBIT</b>	17.4	31.2	36.2	16.2%	108.6%	118.8	116.6	-1.8%	
<i>EBIT margin (%)</i>	24%	34%	42%			39%	35%		
Finance cost	(4.8)	(4.5)	(4.5)	2.0%	7.4%	(19.1)	(18.0)	5.9%	
Share of JV	0.4	0.7	4.5	nm	nm	6.0	6.2	3.1%	
Share of associate	0.9	(5.3)	(11.2)	-112.1%	nm	8.3	(23.0)	nm	
<b>Pre-tax profit</b>	13.8	22.0	25.0	13.8%	81.1%	114.0	81.9	-28.2%	
<i>Pre-tax margin (%)</i>	19%	24%	29%			38%	24%		
Tax	(1.9)	(6.6)	2.1	132.1%	nm	(11.6)	(15.4)	-33.0%	
Effective tax rate (%)	13%	30%	-8%			10%	19%		Expiry of tax waiver for Grand Saga
Minority interest	0.2	(2.9)	(6.2)	-113.7%	nm	(23.9)	(11.3)	52.7%	
<b>Net profit</b>	13.2	12.5	21.0	67.9%	59.6%	78.5	55.1	-29.8%	
<b>Core profit</b>	13.2	12.3	20.0	62.6%	52.0%	78.5	53.7	-31.6%	Within expectations.
<i>Core net margin (%)</i>	18%	13%	23%			23%	16%		

Source: Company data, RHB

Figure 2: Taliworks' segmental results

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
<b>Revenue</b>									
Water treatment, supply and distribution	43.2	46.8	46.8	0.0%	8.3%	169.1	184.9	9.4%	Higher metered sales
Construction	6.8	15.2	(1.5)	-109.8%	-121.7%	14.8	33.0	122.2%	
Toll highway	21.5	21.9	33.7	54.2%	57.1%	113.7	97.6	-14.2%	
Others	1.3	1.3	1.3	-0.1%	0.0%	5.0	5.0	0.0%	
Renewables	0.0	6.2	5.6			0.0	17.2	nm	
<b>EBIT</b>									
Water treatment, supply and distribution	11.5	16.6	12.7	-23.2%	10.6%	58.6	60.9	3.9%	
Construction	0.8	0.6	(0.6)	-195.9%	-176.3%	(1.0)	0.7	175.6%	
Toll highway	5.1	12.8	20.4	59.6%	nm	70.0	51.1	-26.9%	Higher amortisation of intangible assets for Grand Sepadu highway
Others	(0.0)	(2.2)	1.1	149.3%	nm	(8.8)	(4.3)	51.6%	
Renewables		3.4	2.7	-21.5%	nm	0.0	8.1	nm	

Source: Company data, RHB

Figure 3: Taliworks' SOP valuation

Highway assets	Stake	FY23F FCFE	Per share	Remark
Grand Saga	51%	685.9	0.34	WACC 6%, concession up to 2045 with four toll rate hikes assumed.
Grand Sepadu (45% economic benefit)	45%	119.9	0.06	WACC 6%, concession up to 2032 with two toll rate hikes assumed.
Water assets	100%	454.1	0.23	WACC 6%, concession up to 2036 with contracted base supply rate assumed. No extension to Langkawi water asset.
Waste management asset	35%	346.9	0.17	WACC 6%, concession up to 2033.
		<b>P/E</b>		
Construction	100%	12.0	0.06	We think this target P/E is fair, as it is within the range ascribed to construction peers under our coverage.
Solar assets	100%	204.5	0.10	WACC 7.0%, 13 years remaining for concession.
Net cash/(debt)		193.3	0.10	Adjusted to exclude net debts included in FCFE calculation for Grand Saga, water and solar assets.
No. of shares (m)		2,015.8		
Intrinsic value per share		2,127.1	1.06	
0% ESG discount/premium			0.00	
<b>Target price</b>			<b>1.06</b>	

Source: Company data, RHB

## Recommendation Chart

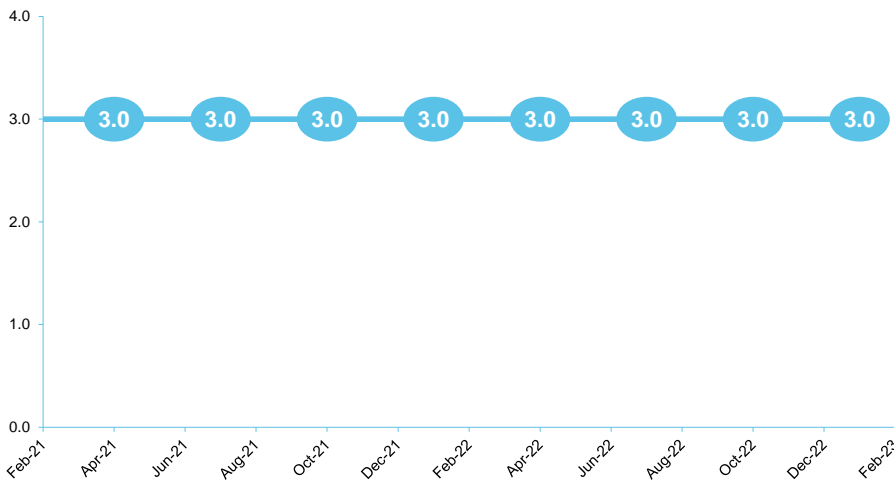


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-22	Buy	1.06	0.88
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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<b>Not Rated:</b>	Stock is not within regular research coverage

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