

HLIB Research

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Edwin Woo, CFA

ckwoo@hlib.hongleong.com.my

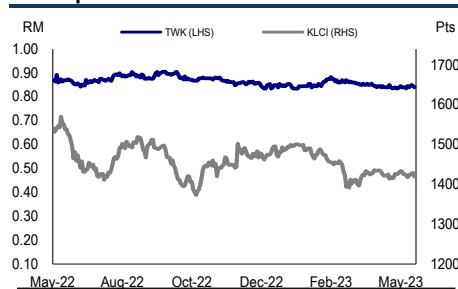
(603) 2083 1718

HOLD (Maintain)**Target Price:** RM0.85**Previously:** RM0.86**Current Price:** RM0.83

Capital upside	2.4%
Dividend yield	8.0%
Expected total return	10.4%

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	0.0	-5.6	-11.1
Relative	0.2	-2.7	-3.0

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1673
3-mth average volume ('000)	626
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	61.4	77.9
EPS - core (sen)	2.7	3.0	3.9
P/E (x)	30.4	27.2	21.5

Taliworks Corporation**Construction still sluggish**

Taliworks reported 1QFY23 core PATAMI of RM10.1m (-5.0% YoY) missing both our/consensus expectations at 15%/14% of forecasts. DPS of 1.65 sen was in-line. Contribution from water and solar segments should remain steady, with slight dip for its highways. Construction recognition is likely back loaded in FY23. Cut FY23-24 earnings by -11.2% and -9.5%. Maintain HOLD with lower TP of RM0.85. Taliworks's dividend yield of 8.0% remains its key focal point.

Missed expectations. Taliworks reported 1QFY23 results with revenue of RM93.5m (8.9% QoQ, 25.0% YoY) and core PATAMI of RM10.1m (-52.1% QoQ, -5.0% YoY). Results missed our/consensus expectations at 15%/14% of full year forecasts. The miss was top-line driven as revenue only made up 16% of our forecasts which we attribute to sluggish construction division as there were delays in procuring regulatory approvals for the Rasau project.

Dividends. DPS of 1.65 sen was declared for the quarter (ex-date: 9 June-23).

QoQ. Core PATAMI contracted by -52.1% mainly driven by lower contribution from its toll division (PBT: -55% QoQ), offsetting generally stronger sequential contributions from other segments. 4QFY22 was boosted by the recognition of toll compensation amounting to RM11.3m and RM21.9m for Grand Saga and Grand Sepadu respectively. This aside, ADT conditions for both highways exhibited satisfactory trends as both grew QoQ by +0.4% (Grand Saga) and +2.3% (Grand Sepadu).

YoY. Core PATAMI was rather flattish at -5.0% YoY even as revenue expanded by 25.0%. We attribute this to lower margin for its water segment (PBT margin declined by -5.6ppts) as well as higher share of associate losses (1QFY23: -RM4.8m; 1QFY22: -RM2.4m). The lower margin on the water side was due to doubling of maintenance and rehab expenses incurred while higher share of losses at SWM was driven by: (i) upward adjustment to its preference share distribution rates and (ii) costs inflation – increase in minimum wages effective 1 May-22.

Water. Revenue climbed higher by 15.0% driven by the increase in electricity and chemical rebates (pass-through mechanism). Adjusting for this, revenue was flat where rate hike under the BWSA (+c.2%) was offset by lower metered sales (-2.0%). Though average MLDs were lower by -2.0% on a YoY basis, we continue to expect stable performance from the division.

Tolls. ADT at the Grand Saga highway and Grand Sepadu showed encouraging YoY growth at +11.2% and +6.4% respectively, benefitting from increased car usage vs 1QFY22 which was still hampered by certain restrictions. While ADTs could well remain healthy, contribution from this division could be weaker in FY23 due to expected lower compensation.

Construction. Revenue increased by 53.8% YoY as contribution from Rasau projects kicked in. Nevertheless, 1QFY23 continues to see below guidance run-rate due to slow approvals process. We expect pick-up in future quarters having baked in a 35% progress rate for FY23.

Forecast. We cut FY23-24 earnings forecasts by -11.2% and -9.5% after delaying recognition to FY25. Introduce FY25 earnings forecasts of RM76.1m.

Maintain HOLD, TP: RM0.85. Maintain HOLD with slightly lower SOP-driven TP of RM0.85 (from RM0.86) post-earnings adjustments and AR updates. Taliworks's defensive source of earnings could anchor its dividend yield of 8.0%.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)
Revenue	74.8	85.9	93.5	8.9	25.0
EBITDA	31.4	48.3	36.3	(25.0)	15.6
Finance cost	(4.5)	(4.5)	(4.4)	(1.2)	(2.1)
Share of results of JV	0.5	4.5	0.5	(88.9)	(9.3)
Share of results of associate	(2.4)	(11.2)	(4.8)	(57.4)	97.1
PBT	17.0	25.0	15.7	(37.5)	(8.1)
PAT	11.5	27.2	11.7	(57.0)	1.5
Core PATMI	10.6	21.0	10.1	(52.1)	(5.0)
Reported PATMI	10.6	21.0	10.1	(52.1)	(5.0)
Core EPS (sen)	0.5	1.0	0.5	(52.1)	(5.0)
EBITDA margin (%)	41.9%	56.3%	38.8%		
PBT margin (%)	22.8%	29.2%	16.7%		
PATMI margin (%)	14.1%	24.5%	10.8%		

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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	575	51	293.3	0.15
NNKSB		7	269	45	111	0.06
Water Operations						
SHSB		7	627	100	627	0.31
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	10		273	100	273	0.14
Solar					157	0.08
SOP Valuation					1,707	0.85

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	457.8	217.8	387.2	375.3	241.2
Receivables	80.2	108.2	76.7	75.3	74.0
Inventories	2.3	20.9	20.9	20.9	20.9
PPE	6.1	132.0	122.4	112.4	101.8
Others	1,396.6	1,375.3	1,348.4	1,320.8	1,293.1
Assets	1,943.1	1,854.3	1,955.6	1,904.7	1,731.1
Payables	72.7	98.2	295.2	323.1	235.5
Debt	358.5	328.9	298.9	268.9	228.9
Others	354.5	379.3	379.3	379.3	379.3
Liabilities	785.7	806.5	973.4	971.3	843.8
Shareholder's equity	904.8	787.4	715.7	660.5	603.5
Minority interest	252.6	260.5	266.5	272.8	283.8
Equity	1,157.5	1,047.9	982.2	933.4	887.3

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	114.0	81.9	88.4	110.5	114.2
D&A	37.1	42.9	42.5	42.8	43.5
Working capital	42.8	(57.4)	226.9	27.9	(87.6)
Taxation	(11.6)	(15.4)	(20.9)	(26.2)	(27.1)
Others	(50.5)	34.8	16.8	16.8	16.8
CFO	131.8	86.7	353.7	171.9	59.7
Capex & Others	69.6	225.7	(2.4)	(2.6)	(2.7)
CFI	69.6	225.7	(2.4)	(2.6)	(2.7)
Changes in debt	(44.9)	(29.6)	(30.0)	(30.0)	(40.0)
Shares issued	-	-	-	-	-
Dividends	(133.0)	(133.1)	(133.1)	(133.1)	(133.1)
Others	(25.8)	(163.0)	(18.8)	(18.0)	(18.0)
CFF	(203.8)	(325.7)	(181.9)	(181.1)	(191.1)
Net cash flow	(2.4)	(13.4)	169.3	(11.8)	(134.1)
Forex	-	-	-	-	-
Others	(44.9)	(226.6)	-	(0.0)	-
Beginning cash	504.4	457.1	217.1	386.5	374.6
Ending cash	457.1	217.1	386.5	374.6	240.5

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	302.6	337.7	584.3	653.1	521.7
EBITDA	155.9	159.5	120.5	141.5	158.6
EBIT	118.8	116.6	105.2	127.3	131.0
Finance cost	(19.1)	(18.0)	(18.0)	(18.0)	(18.0)
Associates & JV	14.3	(16.8)	1.2	1.2	1.2
Profit before tax	114.0	81.9	88.4	110.5	114.2
Tax	(11.6)	(15.4)	(20.9)	(26.2)	(27.1)
Net profit	102.4	66.4	67.5	84.3	87.0
Minority interest	23.9	11.3	6.0	6.4	11.0
Core PATAMI	78.5	55.1	61.4	77.9	76.1
Exceptionals	-	-	-	-	-
Reported PATAMI	78.5	55.1	61.4	77.9	76.1

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	3.9	2.7	3.0	3.9	3.8
P/E (x)	21.3	30.4	27.2	21.5	22.0
EV/EBITDA (x)	10.1	11.2	13.2	11.1	10.5
DPS (sen)	6.6	6.6	6.6	6.6	6.6
Dividend yield	8.0	8.0	8.0	8.0	8.0
BVPS (RM)	0.6	0.5	0.5	0.5	0.4
P/B (x)	1.4	1.6	1.7	1.8	1.9
EBITDA margin	51.5	47.2	20.6	21.7	30.4
EBIT margin	76.2	73.1	87.3	90.0	82.6
PBT margin	37.7	24.2	15.1	16.9	21.9
Core PATAMI margin	25.9	16.3	10.5	11.9	14.6
ROE	8.7	7.0	8.6	11.8	12.6
ROA	5.3	3.6	3.4	4.4	5.0
Net gearing	CASH	0.1	CASH	CASH	CASH

Assumptions

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Water Output (m³)					
- SHSB	348.7	363.8	365.6	369.3	373.0
Traffic Volume (m)					
- Cheras-Kajang Highway	33.5	41.9	42.3	42.7	43.1
- NNKSB	30.1	31.0	31.9	32.8	33.8

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damansara,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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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.

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.

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