

23 May 2023

Utilities | Utilities

# Taliworks Corporation (TWK MK)

**Buy** (Maintained)

**Fret Not, Construction Is Making Its Way; Keep BUY**

Target Price (Return): MYR1.01 (+22%)  
 Price (Market Cap): MYR0.83 (USD368m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.52m/0.12m

- **Keep BUY, SOP-derived TP drops to MYR1.01 from MYR1.06, 22% upside with 8% FY24F yield.** Taliworks Corporation's 1Q23 core profit is below estimates, at just 14% of our and Street full-year projections. The negative deviation was partly due to higher-than-expected costs and the slow progress of its Sungai Rasau projects. A first interim dividend of 1.65 sen per share was declared in 1Q23. We still favour this company, due to its defensive earnings base, attractive c.8% FY24F yield and cheap market valuation of 10.3x FY24 EV/EBITDA (-2SD below the 5-year mean).
- **1Q23 core earnings totalled MYR10m (-2% YoY).** This was due to the lower volume of metered sales for TWK's water division, at 88.1m cu m (1Q22: 89.9m cu m) for Sungai Selangor Water Treatment Plant Phase 1 operations. Meanwhile, its construction arm saw a >100% YoY jump in EBIT, backed by better YoY progress for the Sungai Rasau projects. Nevertheless, management highlighted that the Sungai Rasau projects are in the midst of securing requisite approvals from the authorities, which explains its sluggish progress at present. We estimate progress to be 4-6% as at end-1Q23 (end-FY22: 2%) vs an initial 17% targeted completion in FY22.
- **1Q23 average daily traffic (ADT) for the Grand Saga (51%-owned) and Grand Sepadu (37.5%-owned) highways grew by 11% YoY and 6% YoY.** ADT growth in the Grand Saga highway was due to the opening of Sungai Besi Ulu-Kelang Elevated Expressway (SUKE), which led to a 3% YoY EBIT growth for the toll business in 1Q23. The renewable energy (RE) segment, meanwhile, registered sales of MYR6.4m in 1Q23 (4Q22: MYR5.6m) – reflecting stronger numbers post-solar panel replacement at the SaTerm solar facility.
- **We cut FY23-25F earnings by 13%, 8% and 1% after:** i) Factoring in a more conservative timeline for the completion of the Sungai Rasau projects; and ii) higher loss estimates for its waste management associate (amid continuing deduction of dividends on preference shares in the absence of a tariff revision). After adjusting our projections and rolling over the valuation base year to FY24 from FY23, our SOP-based TP drops to MYR1.01. Our TP also includes a 0% ESG premium, in line with our in-house proprietary methodology. Our ESG score of 3.0 remains put despite the weightage change of the E, S and G pillars (see last paragraph for more details). Long-term catalysts include a potential involvement in phase 2 of the Sungai Rasau Water Supply Scheme - expected in 2025-2026, in our view.
- **Key risks** include a slower-than-expected economic recovery and negative effects of any changes in government policies.
- **ESG framework update.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. Henceforth, we assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note titled [Envisioning a Better Future](#).

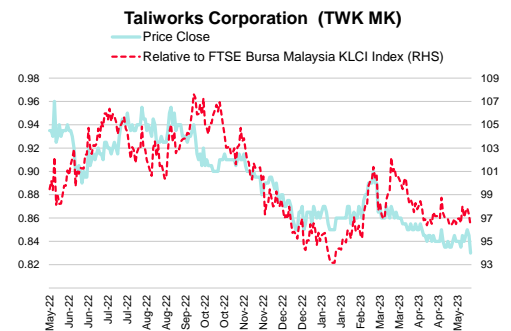
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.1)	(1.2)	(6.8)	(5.7)	(12.2)
Relative	1.0	(1.0)	(3.7)	(4.1)	(3.8)
52-wk Price low/high (MYR)	0.83 – 0.96				



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 a better integration of life and career. Employee training and development costs increased by >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 its annual report, overall, it is not an integrated report based on the parameters set by the International Integrated Reporting Council. Women make up only 16% of the Board, and the remuneration committee does not provide oversight on remuneration for senior management. TWK engages a third-party investor relations outfit to facilitate its communications with the investment community, and holds periodic meetings with the latter.

#### Note:

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

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	303	338	465	606	584
Recurring net profit (MYRm)	79	54	64	77	88
Recurring net profit growth (%)	35.5	(31.7)	18.5	20.7	15.2
Recurring P/E (x)	21.31	31.19	26.32	21.80	18.92
P/B (x)	1.8	2.1	2.3	2.3	2.4
P/CF (x)	12.69	19.32	12.05	12.08	10.47
Dividend Yield (%)	8.0	8.0	8.0	8.0	8.0
EV/EBITDA (x)	10.54	12.27	11.25	10.33	8.74
Return on average equity (%)	8.4	6.5	8.4	10.6	12.4
Net debt to equity (%)	net cash	15.1	10.3	12.7	15.2

Source: Company data, RHB

See important disclosures at the end of this report

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

23 May 2023

Utilities | Utilities

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.04	0.03	0.03	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	0.36	0.34
TWK MK	Return on average equity (%)	8.4	6.5	8.4	10.6	12.4
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)	21.31	31.19	26.32	21.80	18.92
SOP	P/B (x)	1.8	2.1	2.3	2.3	2.4
	FCF Yield (%)	7.8	5.0	8.0	8.0	9.2
<b>Key drivers</b>	Dividend Yield (%)	8.0	8.0	8.0	8.0	8.0
i. Stable operations;	EV/EBITDA (x)	10.54	12.27	11.25	10.33	8.74
ii. Favourable outcome on tariff hikes;	EV/EBIT (x)	13.52	15.79	15.10	13.53	10.87
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	465	606	584
Key downside risks include a slower-than-expected economic recovery and negative effects of any changes in government policies.	Gross profit	140	137	118	134	169
	EBITDA	152	150	159	176	210
	Depreciation and amortisation	(33)	(33)	(41)	(42)	(41)
	Operating profit	119	117	118	134	169
	Net interest	(19)	(18)	(16)	(14)	(17)
	Pre-tax profit	114	82	106	125	160
	Taxation	(12)	(15)	(25)	(30)	(38)
	Reported net profit	79	55	64	77	88
	Recurring net profit	79	54	64	77	88
	<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)	5	(7)	(12)
	Cash flow from operations	132	87	139	139	160
	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	87
	Net change in cash	(2)	(13)	77	(39)	(41)
	Ending balance cash	84	49	126	87	46
	<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	172	146
	Tangible fixed assets	6	132	132	132	132
	Total investments	270	251	248	246	243
	Total assets	1,943	1,854	1,905	1,814	1,740
	Short-term debt	30	30	29	30	30
	Total long-term debt	329	299	269	269	260
	Total liabilities	786	806	927	821	791
	Total equity	1,157	1,048	978	994	949
	Total liabilities & equity	1,943	1,854	1,905	1,814	1,740
	<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	37.6	30.4	(3.6)
	Recurrent EPS growth (%)	35.5	(31.7)	18.5	20.7	15.2
	Gross margin (%)	46.2	40.5	25.5	22.1	28.9
	Operating EBITDA margin (%)	50.3	44.4	34.2	29.0	35.9
	Net profit margin (%)	25.9	16.3	13.7	12.7	15.1
	Dividend payout ratio (%)	169.5	241.3	209.3	173.4	150.4
	Capex/sales (%)	0.4	1.1	1.1	0.9	0.9
	Interest cover (x)	6.22	6.49	7.51	9.41	9.93

Source: Company data, RHB

23 May 2023

Utilities | Utilities

Figure 1: TWK's results

FYE Dec (MYRm)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>74.8</b>	<b>85.9</b>	<b>93.5</b>	<b>8.9</b>	<b>25.0</b>	Higher revenue from the RE segment, as well as its toll highways and construction businesses.
EBIT	23.4	36.2	24.3	-32.8	3.9	
EBIT margin (%)	31%	42%	26%			
Finance cost	(4.5)	(4.5)	(4.4)	1.2	2.1	
Share of JV	0.5	4.5	0.5	-88.9	-9.3	
Share of associate	(2.4)	(11.2)	(4.8)	57.4	-97.1	
<b>Pre-tax profit</b>	<b>17.0</b>	<b>25.0</b>	<b>15.7</b>	<b>-37.5</b>	<b>-8.1</b>	
Pre-tax margin (%)	23%	29%	17%			
Tax	(5.5)	2.1	(4.0)	>-100	28.1	
Effective tax rate (%)	33%	-8%	25%			
Minority interest	(0.9)	(6.2)	(1.6)	73.8%	-76.8	
<b>Net profit</b>	<b>10.3</b>	<b>21.0</b>	<b>10.1</b>	<b>-52.1</b>	<b>-2.4</b>	
<b>Core profit</b>	<b>10.3</b>	<b>20.0</b>	<b>10.1</b>	<b>-49.7</b>	<b>-2.4</b>	Below expectations.
Core net margin (%)	14%	23%	11%			

Source: Company data, RHB

Figure 2: TWK's segmental results

FYE Dec (MYRm)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>						
Water treatment, supply and distribution	45.2	46.8	52.0	11.3	15.0	Total sales were affected by the electricity rebate, which was then passed on to Pengurusan Air Selangor.
Construction	7.8	(1.5)	12.0	>100	53.8	
Toll highway	20.6	33.7	21.9	-35.1	6.3	Opening of SUKE highway in Sep 2022.
Others	1.3	1.3	1.3	0.0	0.0	
Renewables	0.0	5.6	6.4	14.6	na	
<b>EBIT</b>						
Water treatment, supply and distribution	15.7	12.7	15.1	18.7	-3.6	Lower metered sales due to the lower number of billing days.
Construction	0.0	(0.6)	0.2	>100	>100	
Toll highway	8.9	20.4	9.2	-55.0	3.0	
Others	(1.2)	1.1	(2.8)	>-100	>-100	
Renewables		2.7	2.6	-1.7%	nm	

Source: Company data, RHB

Figure 3: Taliworks' SOP valuation

Highway assets	Stake	FY24F FCFE	Per share	Comment
Grand Saga	51%	694.4	0.34	WACC of 6%, concession up to 2045 with four toll rate hikes assumed.
Grand Sepadu (45% economic benefit)	45%	119.4	0.06	WACC of 6%, concession up to 2032 with two toll rate hikes assumed.
Water assets	100%	459.4	0.23	WACC of 6%, concession up to 2036 with a contracted base supply rate assumed. No extension to the Langkawi water asset.
Waste management asset	35%	312.8	0.16	WACC of 6%, concession up to 2033.
		<b>P/E</b>		
Construction	100%	12.0	0.06	We think that this target P/E is fair, as it is within the range ascribed to the construction peers under our coverage.
Solar assets	100%	204.5	0.10	WACC of 7.0%, 13 years remaining for concession.
Net cash/(debt)		140.8	0.07	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		2,054.0	1.01	
0% ESG discount/premium			0.00	
<b>Target price</b>			<b>1.01</b>	

Source: Company data, RHB

## Recommendation Chart

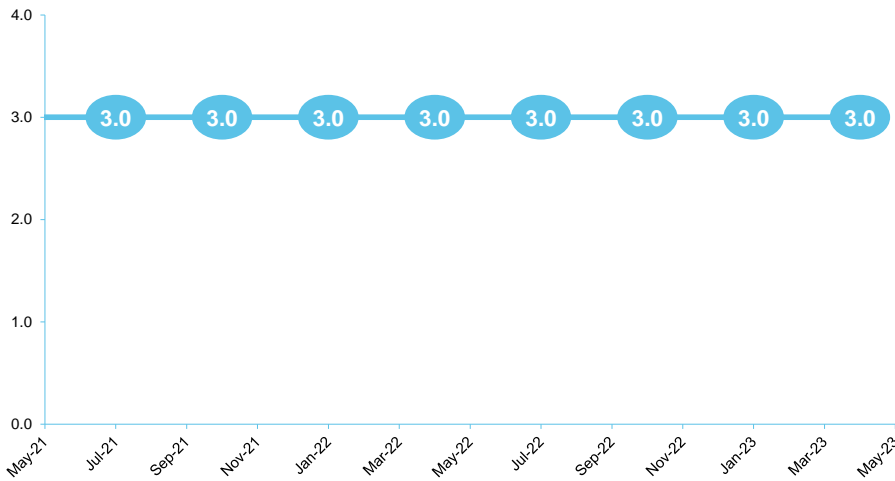


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-02-17	Buy	1.06	0.88
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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