

HLIB Research

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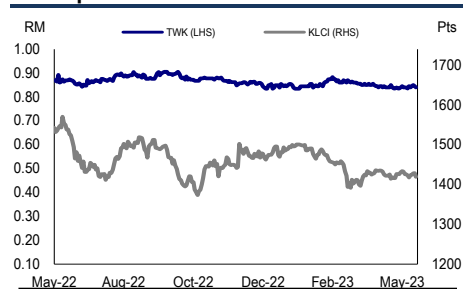
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HOLD (Maintain)**Target Price: RM0.82****Previously: RM0.85****Current Price: RM0.80**

Capital upside	2.5%
Dividend yield	8.3%
Expected total return	10.8%

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	-1.2	-3.6	-14.9
Relative	-3.9	-5.9	-12.5

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1613
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	52.6	75.2
EPS - core (sen)	2.7	2.6	3.7
P/E (x)	29.3	30.7	21.5

Taliworks Corporation

Construction missing in action

Taliworks reported 1HFY23 core PATAMI of RM21.9m (1.1% YoY) missing both our/consensus expectations at 36%/35% of forecasts. DPS of 1.65 sen was inline. Contribution from water and solar segments should remain steady, with slight dip for its highways. Construction contribution could remain sluggish for the remainder of FY23. Cut FY23-24 earnings by -14.4% and -3.5%. Maintain HOLD with lower TP of RM0.82. Taliworks's dividend yield of 8.3% remains its key focal point.

Missed expectations. Taliworks reported 2QFY23 results with revenue of RM89.0m (-4.8% QoQ, 3.8% YoY) and core PATAMI of RM11.8m (17.3% QoQ, 6.8% YoY). This brings 1HFY23 core PATAMI to RM21.9m, increasing by 1.1%. Results missed our/consensus expectations at 36%/35% of full year forecasts. The miss was due to still sluggish construction burn as segmental revenue only made up 6% of forecasts. Recall that there were delays in procuring regulatory approvals for the Rasau project.

Dividends. DPS of 1.65 sen was declared for the quarter (ex-date: 7 Sept-23).

QoQ. Core PATAMI increased by 17.3% offsetting a -4.8% fall in revenue. This was brought about by minor one-offs such as: (i) gain on disposal of IP – RM1.84m (ii) higher sundry income – RM0.91m and (iii) net gain on forex – RM0.46m. Stripping these off, we estimate a flatter QoQ performance at the PBT level. Though construction revenue fell ~-40%, profit impact is negligible due to low profit base.

YoY. Core PATAMI increased by 6.8% which was mainly due to minor items described above. Profitability trajectory would have charted a flatter course after removing these items.

YTD. Core PATAMI was flat at +1.1% even as revenue grew by 13.7% which was driven by water (+14%) and renewable (+143%). The big jump in renewable's contribution was due to completion of asset acquisition in Apr-22. Nevertheless, impact from stronger revenue was diluted by higher share of losses from associates (1HFY23: -RM9.3; 1HFY22: -RM6.5m). Recall that contribution from its associate, SWMEH has been plagued by step up in preference share distribution rate from 6% to 10% and implementation of minimum wage hikes (effective 1 May-22).

Water. Revenue climbed higher by 14.0% driven by the increase in BWSR (+2.4%), and electricity and chemical rebates (pass-through mechanism). Average MLDS came in lower by -2.1% which is within our range of expectations. Though at the operating profit level, numbers were aided by gain on disposal of investment property, we note that there is a similar offsetting effect of higher rehab & maintenance expenses incurred in 1HFY23.

Tolls. ADT at the Grand Saga Highway and Grand Sepadu showed encouraging YoY growth at +8.4% and +2.9% respectively, benefitting from increased car usage vs 1HFY22 which still reflected some pre-endemic conditions. Despite the ADT growth in the period, profitability was flat on the back of higher amortisation charges. While ADTs could well remain healthy, contribution from this division could be weaker in FY23 due to expected lower compensation.

Construction. Revenue came in flat possibly due to over recognition in 1HFY22 which was subsequently reversed in 4QFY22. Due to its initial stages, profit contribution is largely negligible so far. Its Rasau projects currently face delays in securing the requisite approvals from the authorities, hampering commencement of

physical works. Package 3 has been granted EOT recently whereby bulk of recognition for will now be pushed to FY24 & FY25.

Forecast. We cut FY23f-24f earnings forecasts by -14.4% and -3.5% after cutting assumed construction progress.

Maintain HOLD, TP: RM0.82. Maintain HOLD with slightly lower SOP-driven TP of RM0.82 (from RM0.85) post-earnings adjustments. Taliworks's defensive source of earnings could anchor its dividend yield of 8.3%.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	85.7	93.5	89.0	(4.8)	3.8	160.6	182.6	13.7
EBITDA	36.7	36.3	39.4	8.6	7.4	68.0	75.6	11.2
Finance cost	(4.5)	(4.4)	(4.3)	(1.8)	(3.3)	(9.0)	(8.7)	(2.7)
Share of results of JV	0.5	0.5	0.2	(51.0)	(53.0)	1.1	0.7	(30.5)
Share of results of associate	(4.1)	(4.8)	(4.6)	(3.7)	11.3	(6.5)	(9.3)	43.0
PBT	17.8	15.7	18.6	19.0	4.9	34.8	34.3	(1.5)
PAT	12.4	11.7	13.4	15.1	8.7	23.9	25.1	5.2
Core PATMI	11.0	10.1	11.8	17.3	6.8	21.6	21.9	1.1
Reported PATMI	11.0	10.1	11.8	17.3	6.8	21.6	21.9	1.1
Core EPS (sen)	0.5	0.5	0.6	17.3	6.8	1.1	1.1	1.1
EBITDA margin (%)	42.8%	38.8%	44.2%			42.4%	41.4%	
PBT margin (%)	20.7%	16.7%	20.9%			21.7%	18.8%	
PATMI margin (%)	12.9%	10.8%	13.3%			13.5%	12.0%	

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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)
Highway Assets						
Cheras- Kajang Highway		7	575		51	293.3
NNKSB		7	269		45	111
Water Operations						
SHSB		7	627		100	627
Solid Waste Management						
SWME based on acquisition price			700		35	245
Construction	8		200		100	200
Solar						157
SOP Valuation						1,634
						0.82

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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	224.0	228.8	229.6
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	1,792.5	1,758.2	1,719.5
Payables	72.7	98.2	140.9	188.2	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	819.1	836.4	843.8
Shareholder's equity	904.8	787.4	706.9	649.0	591.9
Minority interest	252.6	260.5	266.5	272.8	283.8
Equity	1,157.5	1,047.9	973.3	921.8	875.7

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	114.0	81.9	76.7	107.0	114.2
D&A	37.1	42.9	42.5	42.8	43.5
Working capital	42.8	(57.4)	72.7	47.3	47.3
Taxation	(11.6)	(15.4)	(18.1)	(25.4)	(27.1)
Others	(50.5)	34.8	16.8	16.8	16.8
CFO	131.8	86.7	190.6	188.5	194.6
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)	6.2	4.8	0.8
Forex	-	-	-	-	-
Others	(44.9)	(226.6)	-	-	-
Beginning cash	504.4	457.1	217.1	223.3	228.1
Ending cash	457.1	217.1	223.3	228.1	229.0

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	302.6	337.7	449.8	608.3	521.7
EBITDA	155.9	159.5	120.5	141.5	158.6
EBIT	118.8	116.6	93.5	123.8	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	76.7	107.0	114.2
Tax	(11.6)	(15.4)	(18.1)	(25.4)	(27.1)
Net profit	102.4	66.4	58.6	81.6	87.0
Minority interest	23.9	11.3	6.0	6.4	11.0
Core PATAMI	78.5	55.1	52.6	75.2	76.1
Exceptionals	-	-	-	-	-
Reported PATAMI	78.5	55.1	52.6	75.2	76.1

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	3.9	2.7	2.6	3.7	3.8
P/E (x)	20.5	29.3	30.7	21.5	21.2
EV/EBITDA (x)	9.7	10.8	14.0	11.7	10.2
DPS (sen)	6.6	6.6	6.6	6.6	6.6
Dividend yield	8.3	8.3	8.3	8.3	8.3
BVPS (RM)	0.6	0.5	0.5	0.5	0.4
P/B (x)	1.4	1.5	1.7	1.8	1.8
EBITDA margin	51.5	47.2	26.8	23.3	30.4
EBIT margin	39.3	34.5	20.8	20.3	25.1
PBT margin	37.7	24.2	17.1	17.6	21.9
Core PATAMI margin	25.9	16.3	11.7	12.4	14.6
ROE	8.7	7.0	7.4	11.6	12.9
ROA	5.3	3.6	3.3	4.6	5.1
Net gearing	CASH	0.1	0.1	0.0	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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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.
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