

HLIB Research

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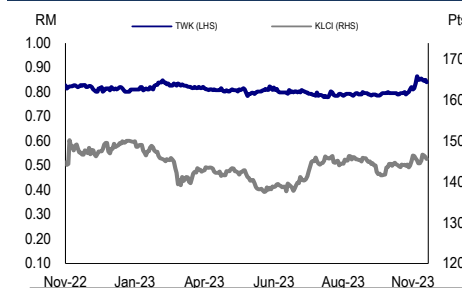
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HOLD (Maintain)**Target Price:** RM0.82**Previously:** RM0.82**Current Price:** RM0.855

Capital upside	-4.1%
Dividend yield	7.7%
Expected total return	3.6%

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

	1M	3M	12M
Historical return (%)	6.3	5.0	-6.1
Absolute	6.3	5.0	-6.1
Relative	5.3	4.3	-6.6

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1724
3-mth average volume ('000)	810
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)	31.3	32.8	22.9

Taliworks Corporation

Steady going

Taliworks reported 9MFY23 core PATAMI of RM35.4m (3.7% YoY) meeting both our/consensus expectations at 67% of forecasts. DPS of 1.65 sen was inline. Construction segment is seeing signs of ramp up and could drive a stronger 4Q. Its schedule tariff hike should lift its water division going into FY24 and should anchor its annual 6.6 sen DPS going forward. Contribution from solar and tolls segments should remain steady. No change to forecasts. Maintain HOLD with unchanged TP of RM0.82. Taliworks continues to offer attractive dividend yield of 7.7%.

Within expectations. Taliworks reported 3QFY23 results with revenue of RM90.7m (1.9% QoQ, -0.6% YoY) and core PATAMI of RM13.5m (14.8% QoQ, 8.3% YoY). This brings 9MFY23 core PATAMI to RM35.4m, increasing by 3.7% vs SPLY. Results came in within our/consensus expectations at 67% of full year forecasts. We reckon Taliworks could start seeing stronger sequential progress from its Rasau jobs.

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

QoQ. Core PATAMI increased by 14.8% mainly driven by lower effective tax rates (2QFY23: 22.6%; 3QFY23: 16.1%) boosting bottom-line despite EBIT declining by -13.1%. Operating QoQ dips was seen in water (-17%), tolls (-13%) and RE (-43%) whereas construction sprung back to life reporting EBIT of RM2.8m after marginal contribution in 2QFY23. This was slightly dragged by higher maintenance and rehab costs for Grand Saga.

YoY. Core PATAMI increased by 8.3% despite rather flattish revenue at -0.6% as a combination of lower effective tax rates and lower MI contribution lifted bottom-line. For comparison, the tax rate in 3QFY22 was 24.9%. This negated an improvement in contribution from Grand Sepadu which saw toll compensation recognised in 3QFY23.

YTD. Core PATAMI was higher at 3.7% while revenue grew by 8.5%. The mildly better performance similar to the above can be attributed to lower tax rates. Margins were generally affected by higher repair & maintenance costs as well as higher share of losses from associate of -RM14.8m (vs -RM11.8m).

Water. Revenue climbed higher by 8.7% driven by the increase in chemical and electricity rebates. There was also a 2.4% in BWSR rates in FY23. Average MLDs came in lower by -2.5% which is within our range of expectations (973 MLD). At the operating profit level, there was a decline of -5% mainly due higher rehab & maintenance expenses incurred in 9MFY23. Profitability for the segment is expected to improve with a 14.3% tariff hike due in 2024.

Tolls. ADT at the Grand Saga Highway and Grand Sepadu showed encouraging YoY growth at +8% and +2% respectively, benefitting from increased car usage vs 9MFY22 which encompassed periods of pre-endemic conditions. Additionally, Grand Saga was aided by the opening of SUKE highway. Despite the ADT growth in the period, profitability was lower on the back of higher amortisation charges and higher rehab and maintenance charges.

Construction. Revenue came in at -3.3% mainly due to weak 1HFY23. Nevertheless, construction revenue has doubled QoQ due to progress from its Rasau packages. We expect to see stronger performance from this division with projects showing signs of ramping up.

Forecast. No change to forecasts.

Maintain HOLD, TP: RM0.82. Maintain HOLD with unchanged SOP-driven TP of RM0.82 post-earnings adjustments. Taliworks's defensive source of earnings should anchor its dividend yield of 7.7%.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	91.3	89.0	90.7	1.9	(0.6)	251.9	273.3	8.5
EBITDA	42.6	39.4	36.1	(8.4)	(15.3)	110.6	111.7	1.0
Finance cost	(4.5)	(4.3)	(4.4)	1.0	(3.9)	(13.5)	(13.1)	(3.1)
Share of results of JV	0.7	0.2	4.3	1,670.8	555.9	1.7	5.0	193.1
Share of results of associate	(5.3)	(4.6)	(5.5)	20.5	4.7	(11.8)	(14.8)	25.9
PBT	22.0	18.6	18.1	(2.6)	(17.6)	56.8	52.4	(7.7)
PAT	15.4	13.4	15.0	11.9	(2.4)	39.3	40.1	2.3
Core PATMI	12.5	11.8	13.5	14.8	8.3	34.1	35.4	3.7
Reported PATMI	12.5	11.8	13.5	14.8	8.3	34.1	35.4	3.7
Core EPS (sen)	0.6	0.6	0.7	14.8	8.3	1.7	1.8	3.7
EBITDA margin (%)	46.6%	44.2%	39.8%			43.9%	40.9%	
PBT margin (%)	24.1%	20.9%	20.0%			22.6%	19.2%	
PATMI margin (%)	13.7%	13.3%	14.9%			13.6%	13.0%	

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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)	22.0	31.3	32.8	22.9	22.7
EV/EBITDA (x)	10.4	11.5	14.9	12.5	10.9
DPS (sen)	6.6	6.6	6.6	6.6	6.6
Dividend yield	7.7	7.7	7.7	7.7	7.7
BVPS (RM)	0.6	0.5	0.5	0.5	0.4
P/B (x)	1.5	1.6	1.8	1.9	2.0
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

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Stock rating guide

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.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.