

23 November 2023

Utilities | Utilities

Taliworks Corporation (TWK MK)

Buy (Maintained)

Continues To Chart Steady Growth; Stay BUY

Target Price (Return): MYR1.01 (19%)
Price (Market Cap): MYR0.86 (USD369m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (MYR/USD) 0.63m/0.13m

- **Keep BUY, new SOP-derived MYR1.01 TP from MYR1.05, 19% upside, c.8% FY24F yield.** 9M23 core profit of MYR35.4m (+5% YoY) trailed our and Street's estimates, at only 63% and 67% of full-year projections. The negative deviation was due to our initial water metered sales assumption being too optimistic. A third interim dividend of 1.65 sen/share was declared in 3Q23 (YTD FY23: 4.95 sen/share). We favour the stock for its defensive earnings base, attractive c.8% FY24F yield, and valuation of 10.9x FY24F EV/EBITDA (-2SD below the 5-year mean).
- **Results review.** The water segment recorded MYR46m EBIT in 9M23 (9M22: MYR48m) amid lower metered sales of 265.6 cu m in 3Q23 (3Q22: 272.3 cu m) despite the increase in the Bulk Water Supply Rate from 1 Jan for the Sungai Selangor Water Treatment Plant Phase 1 (SSP 1) operations. Nevertheless, the construction arm posted a higher EBIT of MYR3.1m in 9M23 (9M22: MYR1.4m) due to the upward revision of margins in 3Q23 based on actual prices awarded to certain suppliers for Package 2 of Phase 1 of the Sungai Rasau project. As of end 3Q23, we estimate progress of the project is at 7-8%, on track to hit the 10% completion target by end-FY23 as guided by management, before our expected completion of 30-40% in FY24.
- **9M23 average daily traffic (ADT) for the Grand Saga Highway (51% owned) was higher by 8.4% YoY.** This was due to the opening of the Sungai Besi Ulu-Kelang Elevated Expressway (SUKE). However, earnings growth was dragged by higher amortisation costs and repair and maintenance expenses, leading to lower EBIT of MYR26.3m in 9M23 (9M22: MYR30.8m). The Grand Sepadu highway (37.5% owned) saw 2.6% YoY ADT growth, coupled with toll compensation of MYR13.8m. We initially expected the toll compensation to be received in 4Q23. Separately, the renewable energy segment's total energy output rose 28% YoY to 16.4k MWh in 9M23, leading to a 60% YoY jump in EBIT for the period.
- **We adjust FY23-25F earnings by -14%, -4%, and -3% after:** i) Dialling down our water metered sales assumption for SSP 1, and ii) imputing a higher loss estimate for its waste management associate (amid the absence of a tariff revision and higher operating expenditure). As a result, we arrive at our new MYR1.01 TP (SOP), inclusive of a 0% ESG premium/discount, based on TWK's ESG score, which is in line with the country median.
- **A catalyst for the stock** is the MYR1.1bn allocated under Budget 2024 to implement solutions for water supply issues especially in Kelantan, Sabah, and Labuan. Such solutions may relate to infrastructure like water treatment plants which TWK is currently constructing.
- **Key risks** include slower-than-expected economic recovery and changes in government policies.

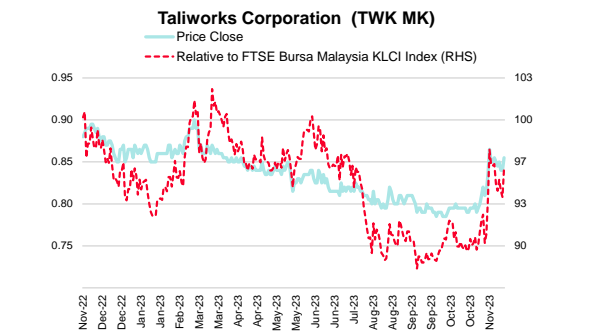
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.2)	8.2	6.9	3.0	(2.9)
Relative	1.5	7.2	6.6	0.4	(3.9)
52-wk Price low/high (MYR)				0.79	0.90



Source: Bloomberg

Overall ESG Score: 3.0 (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	412	606	651
Recurring net profit (MYRm)	79	54	48	76	89
Recurring net profit growth (%)	35.5	(31.7)	(10.2)	58.1	16.7
Recurring P/E (x)	21.96	32.13	35.77	22.63	19.39
P/B (x)	1.9	2.2	2.5	2.4	2.6
P/CF (x)	13.07	19.90	12.06	12.72	10.89
Dividend Yield (%)	7.7	7.7	7.7	7.7	7.7
EV/EBITDA (x)	10.88	12.60	11.82	10.88	9.03
Return on average equity (%)	8.4	6.5	6.5	10.7	12.8
Net debt to equity (%)	net cash	15.1	10.1	12.8	15.5

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	0.02	0.04	0.04
Utilities	DPS	0.07	0.07	0.07	0.07	0.07
Taliworks Corporation	BVPS	0.45	0.39	0.35	0.36	0.33
TWK MK	Return on average equity (%)	8.4	6.5	6.5	10.7	12.8
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	21.96	32.13	35.77	22.63	19.39
SOP Valuation	P/B (x)	1.9	2.2	2.5	2.4	2.6
	FCF Yield (%)	7.6	4.8	8.0	7.5	8.9
Key drivers	Dividend Yield (%)	7.7	7.7	7.7	7.7	7.7
i. Stable operations;	EV/EBITDA (x)	10.88	12.60	11.82	10.88	9.03
ii. Favourable outcome on tariff hikes;	EV/EBIT (x)	13.94	16.22	15.95	14.32	11.23
iii. Lower losses at associate companies.						
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	303	338	412	606	651
Key risks include:	Gross profit	140	137	116	131	169
i. Slower-than-expected economic recovery;	EBITDA	152	150	157	173	211
ii. Changes in government policies.	Depreciation and amortisation	(33)	(33)	(41)	(42)	(41)
	Operating profit	119	117	116	131	169
Company Profile	Net interest	(19)	(18)	(16)	(14)	(17)
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	Pre-tax profit	114	82	86	124	160
	Taxation	(12)	(15)	(21)	(30)	(38)
	Reported net profit	79	55	48	76	89
	Recurring net profit	79	54	48	76	89
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	10	(15)	7	(8)	(14)
	Cash flow from operations	132	87	143	135	158
	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	130	88
	Net change in cash	(2)	(13)	81	(42)	(42)
	Ending balance cash	84	49	130	88	46
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	409	170	201	173	145
	Tangible fixed assets	6	132	132	132	132
	Total investments	270	251	230	230	227
	Total assets	1,943	1,854	1,871	1,799	1,749
	Short-term debt	30	30	29	30	30
	Total long-term debt	329	299	269	269	260
	Total liabilities	786	806	908	821	815
	Total equity	1,157	1,048	963	978	933
	Total liabilities & equity	1,943	1,854	1,871	1,799	1,749
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	(4.8)	11.6	21.9	47.2	7.5
	Recurrent EPS growth (%)	35.5	(31.7)	(10.2)	58.1	16.7
	Gross margin (%)	46.2	40.5	28.2	21.7	26.0
	Operating EBITDA margin (%)	50.3	44.4	38.0	28.5	32.3
	Net profit margin (%)	25.9	16.3	11.7	12.6	13.6
	Dividend payout ratio (%)	169.5	241.3	276.1	174.7	149.7
	Capex/sales (%)	0.4	1.1	1.3	0.9	0.8
	Interest cover (x)	6.22	6.49	7.37	9.21	9.96

Source: Company data, RHB

Results at a glance

Figure 1: TWK's results

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	91.3	89.0	90.7	1.9%	-0.6%	251.9	273.3	8.5%	Increase in the Bulk Water Supply Rate effective from 1 Jan and higher electricity rebates
EBIT	31.2	27.3	23.7	-13.1%	-23.9%	80.4	75.3	-6.3%	
<i>EBIT margin (%)</i>	34%	31%	26%			32%	28%		
Finance cost	(4.5)	(4.3)	(4.4)	-1.0%	3.9%	(13.5)	(13.1)	3.1%	
Share of JV	0.7	0.2	4.3	1670.8%	555.9%	1.7	5.0	193.1%	
Share of associate	(5.3)	(4.6)	(5.5)	-20.5%	-4.7%	(11.8)	(14.8)	-25.9%	
Pre-tax profit	22.0	18.6	18.1	-2.6%	-17.6%	56.8	52.4	-7.7%	
<i>Pre-tax margin (%)</i>	24%	21%	20%			23%	19%		
Tax	(6.6)	(5.2)	(3.1)	40.1%	53.0%	(17.6)	(12.3)	30.1%	
Effective tax rate (%)	30%	28%	17%			31%	23%		
Minority interest	(2.9)	(1.6)	(1.5)	9.0%	48.4%	(5.1)	(4.7)	7.3%	
Net profit	12.3	11.8	13.5	14.8%	10.1%	34.1	35.4	3.7%	
Core profit	12.3	11.8	13.5	14.8%	10.1%	33.7	35.4	5.2%	Below expectations.
<i>Core net margin (%)</i>	13%	13%	15%			13%	13%		

Source: Company data, RHB

Figure 2: TWK's segmental results

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue									
Water treatment, supply and distribution	46.8	52.1	46.1	-11.6	-1.5	138.2	150.2	8.7	Increase in the Bulk Water Supply Rate effective from 1 Jan and higher electricity rebates
Construction	15.2	7.2	14.2	98.6	-6.4	34.5	33.3	-3.3	
Toll highway	21.9	21.9	23.3	6.5	6.4	63.8	67.0	5.0	
Others	1.3	1.1	0.9	-11.6	-25.0	3.8	3.2	-13.4	
Renewables	5.4	6.8	0.0	-8.9	13.8	5.4	13.2	>100	
EBIT									
Water treatment, supply and distribution	16.6	16.9	14.0	-17.5	-15.6	48.2	46.0	-4.5	
Construction	0.6	0.1	2.8	>100	>100	1.4	3.1	>100	
Toll highway	12.8	9.1	8.0	-12.7	-37.5	30.8	26.3	-14.6	Higher amortisation costs
Others	(2.2)	(2.7)	(3.2)	-18.4	-46.9	(5.4)	(8.7)	-62.8	
Renewables	2.0	3.9	2.2	-43.1	7.8	5.4	8.7	59.7	

Source: Company data, RHB

Figure 3: Taliworks' SOP valuation

Highway assets	Stake	FY24F FCFE	Per share	Remark
Grand Saga	51%	694.4	0.34	WACC 6%, concession up to 2045 with four toll rate hikes assumed.
Grand Sepadu (45% economic benefit)	45%	119.4	0.06	WACC 6%, concession up to 2032 with two toll rate hikes assumed.
Water assets	100%	454.9	0.23	WACC 6%, concession up to 2036 with contracted base supply rate assumed. No extension to Langkawi water asset.
Waste management asset	35%	312.8	0.16	WACC 6%, concession up to 2033.
		P/E		
Construction	100%	12.0	0.06	We think that 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)		141.8	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		2,045.4	1.01	
0% ESG discount/premium			0.00	
TP			1.01	

Source: Company data, RHB

Emissions And ESG

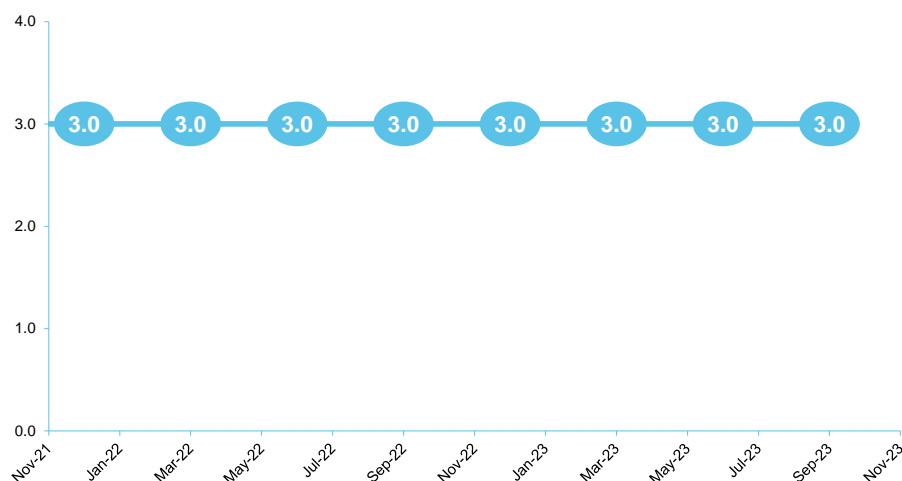
Trend analysis	Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
N/A	Scope 1	na	-	-
	Scope 2	na	-	-
	Scope 3	na	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Taliworks aligned its strategies and the metrics within the group's Task Force on Climate-Related Financial Disclosure plans to the 12th Malaysia Plan.
- As part of the group's efforts to contribute to a circular economy, it started to track greenhouse gas emissions and commenced a recycling initiative in its corporate office, successfully recycling 1.5 tonnes of materials in 2022.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-23	Buy	1.05	0.81
2023-05-23	Buy	1.01	0.82
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

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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