

HLIB Research

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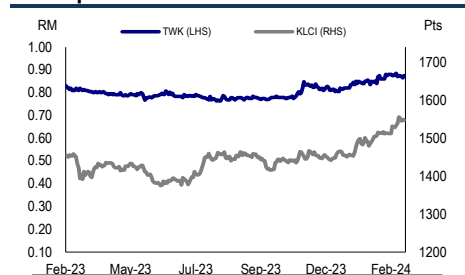
HOLD (Maintain)

Target Price: RM0.81
Previously: RM0.82
Current Price: RM0.87

Capital upside	-6.9%
Dividend yield	6.3%
Expected total return	-0.6%

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


Historical return (%)	1M	3M	12M
Absolute	4.2	4.2	-1.7
Relative	1.4	-2.1	-7.4

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1754
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)	FY23	FY24f	FY25f
PATMI - core (RM m)	42.0	75.2	76.1
EPS - core (sen)	2.1	3.7	3.8
P/E (x)	41.8	23.3	23.1

Taliworks Corporation

When it rains it pours

Taliworks reported FY23 core PATAMI of RM42.0m (-24% YoY) missing our/consensus expectations at 80%/83% of forecasts. 4QFY23 DPS of 1.0 sen was below expectations. Going forward, dividends will be deliberated on a quarterly basis. Construction segment continues to improve sequentially and water project opportunities could improve. Contribution from solar and tolls segments should remain steady. No change to forecasts. Maintain HOLD with lower TP of RM0.81. Uncertainty over its new level of dividends could weigh on share price in the near term.

Below expectations. Taliworks reported 4QFY23 results with revenue of RM101.4m (11.8% QoQ, 18.1% YoY) and core PATAMI of RM6.6m (-51.6% QoQ, -68.8% YoY). This brings FY23 core PATAMI to RM42.0m, decreasing by -23.9% YoY. Results came in below our/consensus expectations at 80%/83% of full year forecasts. Negative deviation came from lower than expected construction segment contribution.

Dividends. DPS of 1.0 sen was declared for the quarter (ex-date: 14 Mar-24). This brings FY23 DPS to 5.95 sen (FY22: 6.6 sen). Management has decided to review its dividend policy, reducing quarterly dividend pay-out from 1.65 sen to 1.0 sen in 4QFY23. Going forward, dividends will be deliberated on a quarterly basis depending on business prospects. We understand that management decided to take the conservative route taking into account: (i) potential business expansions – within core areas (ii) trend of highway restructurings and (iii) gradual pace of SWM tariff review.

QoQ. Core PATAMI decreased by -51.6% even as revenue rose by 11.8% mainly due to higher repair & maintenance costs (water) and lower solar energy output (-8.4%). Compounding this was a higher effective tax rate in the quarter (3QFY23: 16.1%; 4QFY23: 26.4%) while MI rose (+84.4%) in-line with stronger operating profit (+48%) from toll highway.

YoY. Core PATAMI fell by -68.8% arising from the absence of toll compensation in 4QFY23 whereas 4QFY22 saw compensation of RM11.3m and RM21.9m recognised at Grand Saga and Grand Sepadu respectively.

YTD. Core PATAMI declined by -23.9% resulting from lower toll compensation and higher repair & maintenance expenses (+36%) – mainly incurred by water segment.

Water. Revenue climbed higher by 6.0% driven by the increase in chemical and electricity rebates. There was a 2.4% hike in BWSR rates in FY23. Average MLDs came in lower by -2.8% which is within our range of expectations. At the operating profit level, there was a decline of -4.2% mainly due higher rehab & maintenance expenses. Profitability for the segment is expected to improve with a 14.3% tariff hike (effective 1-Jan-24).

Tolls. ADT at the Grand Saga Highway and Grand Sepadu showed encouraging YoY growth at +7.3% and +2.8% respectively, benefitting from increased car usage vs FY22 which encompassed periods of pre-endemic conditions. Additionally, Grand Saga traffic was aided by the opening of SUKE highway. Despite the ADT growth in the period, profitability was lower on the back of higher rehab and maintenance charges.

Construction. Revenue nearly doubled in FY23 due to the progress of the Package 2 and 3 of Rasau water scheme. We expect to see stronger performance from this

division with projects showing signs of ramping up. There are also two water opportunities in the pipeline in Selangor which Taliworks could participate in.

Forecast. Despite the results shortfall, we make no changes to forecasts as the construction segment is positively ramping up.

Maintain HOLD, TP: RM0.81. Maintain HOLD with marginally lower SOP-driven TP of RM0.81 (from RM0.82) after rolling over valuation for its concession businesses. Uncertainty over its new level of dividends could weigh on share price in the near term. Nevertheless, we acknowledge the company's highly cash generative business exposure. Upside risk: water project wins; Downside risk: lower dividends from current levels.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	85.9	90.7	101.4	11.8	18.1	337.7	374.7	11.0
EBITDA	48.3	36.1	33.7	(6.5)	(30.2)	158.9	145.4	(8.5)
Finance cost	(4.5)	(4.4)	(4.4)	0.6	(1.4)	(18.0)	(17.5)	(2.7)
Share of results of JV	4.5	4.3	0.5	(89.3)	(89.7)	6.2	5.5	(11.0)
Share of results of associate	(11.2)	(5.5)	(6.0)	8.2	(46.6)	(23.0)	(20.8)	(9.4)
PBT	25.0	18.1	14.6	(19.4)	(41.6)	81.9	67.1	(18.1)
PAT	27.2	15.0	9.3	(38.1)	(65.8)	66.4	49.5	(25.6)
Core PATMI	21.0	13.5	6.6	(51.6)	(68.8)	55.1	42.0	(23.9)
Reported PATMI	21.0	13.5	6.6	(51.6)	(68.8)	55.1	42.0	(23.9)
Core EPS (sen)	1.0	0.7	0.3	(51.6)	(68.8)	2.7	2.1	(23.9)
EBITDA margin (%)	56.3%	39.8%	33.2%			47.1%	38.8%	
PBT margin (%)	29.2%	20.0%	14.4%			24.2%	17.9%	
PATMI margin (%)	24.5%	14.9%	6.5%			16.3%	11.2%	

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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	620	51	316.2	0.16
NNKSB		7	316	45	111	0.06
Water Operations						
SHSB		7	595	100	595	0.30
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	8		200	100	200	0.10
Solar					157	0.08
SOP Valuation					1,625	0.81

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Figure #3 Financial forecast

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	302.6	337.7	374.7	608.3	521.7
EBITDA	155.9	159.5	145.4	141.5	158.6
EBIT	118.8	116.6	99.9	123.8	131.0
PBT	114.0	81.9	67.1	107.0	114.2
PAT	102.4	66.4	49.5	81.6	87.0
PATMI – Core	78.5	55.1	42.0	75.2	76.1
PATMI – Reported	78.5	55.1	42.0	75.2	76.1
Core EPS (sen)	3.9	2.7	2.1	3.7	3.8
P/E (x)	22.3	31.8	41.8	23.3	23.1
EV/EBITDA (x)	10.6	11.7	12.8	12.4	10.7
DPS (sen)	6.6	6.6	6.0	5.5	5.5
Yield (%)	7.6	7.6	6.8	6.3	6.3
BVPS (RM/share)	0.6	0.5	0.5	0.6	0.6
P/B (x)	1.5	1.7	1.7	1.5	1.5
ROE (%)	8.7%	7.0%	6.0%	11.0%	11.7%
Net Gearing (%)	CASH	10.6%	13.0%	15.0%	15.0%

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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.