

28 February 2024

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Taliworks Corporation (TWK MK)

Buy (Maintained)

Construction To Fire On All Cylinders In FY24; BUY

Target Price (Return): MYR1.01 (16%)
 Price (Market Cap): MYR0.87 (USD368m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.90m/0.19m

- **Keep BUY and MYR1.01 TP, 16% upside with c.7% yield.** FY23 core earnings of MYR42m (-22% YoY) missed estimates, at 88% and 84% of our and Street's full-year projections. The negative deviation was mainly due to the absence of toll compensation for the Grand Saga highway. A fourth interim dividend of 1 sen/share was declared in 4Q23, bringing FY23 dividends to 5.95 sen/share. We favour Taliworks for its undemanding valuation (-2SD below the 5-year EV/EBITDA mean) and attractive c.7% FY24F yield.
- **4Q23 core earnings** stood at MYR6.6m (-21.8% YoY), with toll highways accounting for the bulk of the shortfall, amidst the recognition of toll compensation in 4Q22 for the Grand Saga highway. This offset the impact from the 4% YoY and 3.5% YoY growth in average daily traffic in 4Q23 for the Grand Saga and Grand Sepadu highways. Likewise, the water treatment and supply division saw its revenue and EBIT fall 2% YoY and 3% YoY in 4Q23 due to lower metered sales of MYR37m (4Q22: MYR37.5m) after reaching 88.1m cu m in 4Q23 (4Q22: 91.5m cu m) for the Sungai Selangor Water Treatment Plant Phase 1 operations.
- **The construction segment** saw >100% YoY EBIT jump in 4Q23 amid better progress of the two Sungai Rasau Water Treatment Plant packages. As at end 4Q23, Package 2 and 3 had completion rates of c.10% and c.4% vs the c.2% average completion rate at end 4Q22. The renewable energy segment's 4Q23 EBIT decline of 53% YoY - despite the 3% YoY energy output growth - came from one of its solar plants being billed at a rate lower than the feed-in tariff rate, after it exceeded the declared annual availability (DAA). Moving forward, solar panel replacements will be done for another two solar plants by Jul 2024, bringing energy efficiency levels close to 100% of DAA.
- **No changes to FY24-25 earnings forecasts** as our estimates have taken into account the progress billings of the Sungai Rasau projects, which are expected to hit cumulative completion rates of c.50% by end FY24, and c.80% by end FY25. We expect the Sungai Rasau project to be completed in FY26. Therefore, we introduce our FY26 earnings estimates, which take into account the balance works of the Sungai Rasau packages. All in, our SOP-derived TP remains at MYR1.01 after factoring in a 0% ESG premium/discount based on TWK's ESG score of 3.0.
- **Under Budget 2024**, MYR1.1bn was allocated for supply issues, especially in Kelantan, Sabah, and Labuan. This may include infrastructure like water treatment plants which Taliworks is currently constructing. Another rerating catalyst would be quicker-than-expected approvals for the tariff hike for its waste management associate.
- **Key risks** include slower-than-expected economic recovery and changes in government policies.

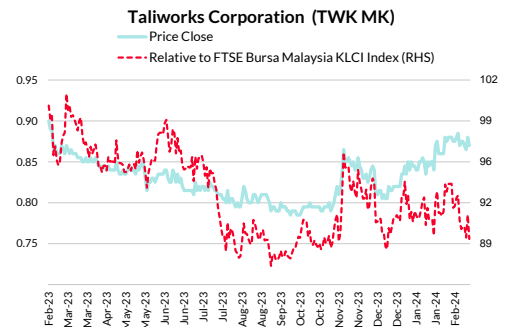
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.2	3.6	4.8	8.1	(3.3)
Relative	(3.0)	0.1	(2.8)	0.2	(10.4)
52-wk Price low/high (MYR)				0.79	-0.89



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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	338	375	606	651	659
Recurring net profit (MYRm)	54	42	76	89	93
Recurring net profit growth (%)	(31.7)	(21.8)	81.5	16.7	5.0
Recurring P/E (x)	32.70	41.79	23.03	19.73	18.80
P/B (x)	2.2	2.5	2.4	2.5	2.6
P/CF (x)	20.25	13.48	11.61	11.08	10.25
Dividend Yield (%)	7.6	6.8	6.8	6.8	6.8
EV/EBITDA (x)	12.80	13.41	11.21	9.24	8.78
Return on average equity (%)	6.5	5.7	10.7	12.6	13.7
Net debt to equity (%)	15.1	17.7	14.1	15.2	9.8

Source: Company data, RHB

See important disclosures at the end of this report

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

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.03	0.02	0.04	0.04	0.05
Utilities	DPS	0.07	0.06	0.06	0.06	0.06
Taliworks Corporation	BVPS	0.39	0.35	0.36	0.34	0.33
TWK MK	Return on average equity (%)	6.5	5.7	10.7	12.6	13.7
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	32.70	41.79	23.03	19.73	18.80
SOP Valuation	P/B (x)	2.2	2.5	2.4	2.5	2.6
	FCF Yield (%)	4.7	7.3	8.3	8.7	9.4
Key drivers	Dividend Yield (%)	7.6	6.8	6.8	6.8	6.8
i. Stable operations;	EV/EBITDA (x)	12.80	13.41	11.21	9.24	8.78
ii. Favourable outcome on tariff hikes for associate companies;	EV/EBIT (x)	16.48	19.70	14.75	11.49	10.98
iii. Lower losses at associate companies						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	338	375	606	651	659
i. Slower-than-expected economic recovery;	Gross profit	137	125	131	169	169
ii. Changes in government policies.	EBITDA	150	147	173	211	211
	Depreciation and amortisation	(33)	(47)	(42)	(41)	(42)
	Operating profit	117	100	131	169	169
Company Profile	Net interest	(18)	(17)	(14)	(17)	(11)
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	82	67	124	160	168
	Taxation	(15)	(18)	(30)	(38)	(40)
	Reported net profit	55	42	76	89	93
	Recurring net profit	54	42	76	89	93
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(15)	24	8	(14)	(0)
	Cash flow from operations	87	130	151	158	171
	Capex	(4)	(2)	(5)	(5)	(6)
	Cash flow from investing activities	226	81	(13)	(9)	(8)
	Dividends paid	(133)	(133)	(90)	(120)	(120)
	Cash flow from financing activities	(326)	(179)	(127)	(179)	(160)
	Cash at beginning of period	62	49	82	94	65
	Net change in cash	(13)	32	11	(29)	4
	Ending balance cash	49	83	94	65	69
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	170	133	159	144	162
	Tangible fixed assets	132	121	121	121	121
	Total investments	251	225	225	222	219
	Total assets	1,854	1,759	1,755	1,717	1,699
	Short-term debt	30	35	30	30	30
	Total long-term debt	299	269	269	260	220
	Total liabilities	806	795	763	757	799
	Total equity	1,048	964	992	961	900
	Total liabilities & equity	1,854	1,759	1,755	1,717	1,699
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	11.6	11.0	61.7	7.5	1.2
	Recurrent EPS growth (%)	(31.7)	(21.8)	81.5	16.7	4.9
	Gross margin (%)	40.5	33.2	21.7	26.0	25.7
	Operating EBITDA margin (%)	44.4	39.2	28.5	32.3	32.1
	Net profit margin (%)	16.3	11.2	12.6	13.6	14.2
	Dividend payout ratio (%)	241.3	285.8	157.5	134.9	128.6
	Capex/sales (%)	1.1	0.6	0.9	0.8	0.8
	Interest cover (x)	6.49	5.71	9.21	9.96	16.11

Source: Company data, RHB

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Figure 1: TWK's results

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	85.9	90.7	101.4	11.8	18.1	337.7	374.7	11.0	
EBIT	36.2	23.7	0.0	-100	-100	116.6	99.9	-14.4	
<i>EBIT margin (%)</i>	<i>42%</i>	<i>26%</i>	<i>0%</i>			<i>35%</i>	<i>27%</i>		
Finance cost	(4.5)	(4.4)	(4.4)	-0.6	1.4	(18.0)	(17.5)	2.7	
Share of JV	4.5	4.3	0.5	-89.3	-89.7	6.2	5.5	-11.0	
Share of Associate	(11.2)	(5.5)	(6.0)	-8.2	46.6	(23.0)	(20.8)	9.4	
Pretax profit	25.0	18.1	14.6	-19.4	-41.6	81.9	67.1	-18.1	
<i>Pretax margin (%)</i>	<i>29%</i>	<i>20%</i>	<i>14%</i>			<i>24%</i>	<i>18%</i>		
Tax	2.1	(3.1)	(5.3)	-71.2	-350.7	(15.4)	(17.6)	-14.0	
Effective tax rate (%)	-8%	17%	36%			19%	26%		Over-provision of net deferred tax assets in the year before
Minority interest	(6.2)	(1.5)	(2.7)	-84.4	55.5	(11.3)	(7.5)	33.6	
Net Profit	20.0	13.5	6.6	-51.6	-67.2	55.1	42.0	-23.9	
Core Profit	20.0	13.5	6.6	-51.6	-67.2	53.7	42.0	-21.8	Below expectations.
<i>Core net margin (%)</i>	<i>23%</i>	<i>15%</i>	<i>6%</i>			<i>16%</i>	<i>11%</i>		

Source: Company data, RHB

Figure 2: TWK's segmental results

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue									
Water treatment, supply and distribution	46.8	46.1	45.8	-0.7	-2.1	184.9	196.0	6.0	Higher construction revenue
Construction	(1.5)	14.2	26.4	86.0	nm	33.0	59.8	81.2	
Toll highway	33.7	23.3	22.7	-2.7	-32.9	97.6	89.7	-8.1	Absence of toll compensation for Grand Saga
Others	1.3	0.9	1.1	15.5	-13.4	5.0	4.3	-13.4	
Renewables	5.6	6.2	5.5	-12.0	-2.2	17.2	24.9	44.6	
EBIT									
Water treatment, supply and distribution	12.7	14.0	12.3	-11.8	-3.0	60.9	58.4	-4.2	
Construction	(0.6)	2.8	1.5	-46.6	>100	0.7	4.6	nm	Higher progress billings for Sungai Rasau project
Toll highway	20.4	8.0	11.8	47.8	-42.1	51.1	38.1	-25.6	
Others	1.1	(3.2)	(2.3)	27.4	>-100	(4.3)	(11.0)	>-100	
Renewables	2.7	2.2	1.3	-42.8	-53.0	8.1	9.9	22%	

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 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%, 10 years remaining for concession.
Net cash/(debt)		128.0	0.06	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		2,031.6	1.01	
0% ESG discount/premium			0.00	
TP			1.01	

Source: Company data, RHB

Emissions And ESG

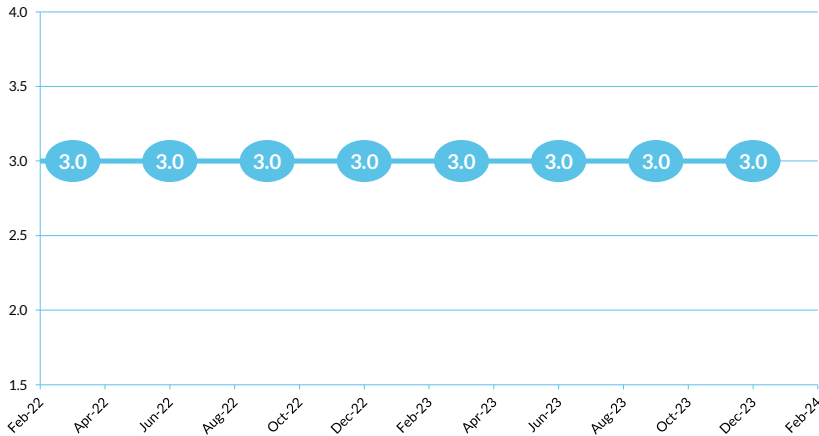
Trend analysis	Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
N/A	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

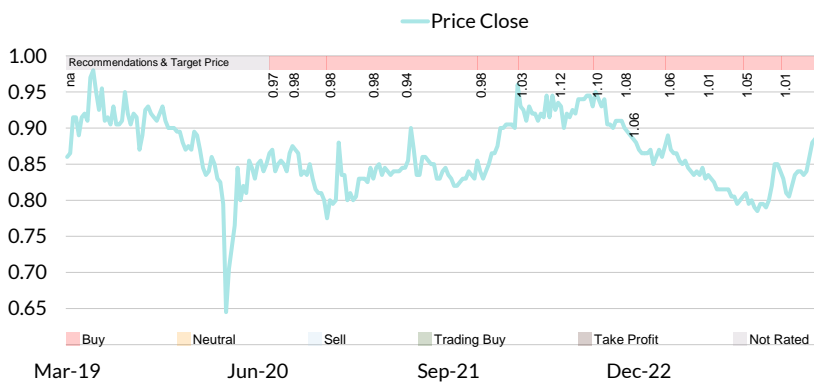
- Taliworks aligned its strategies and the metrics within the group's Task Force on Climate-Related Financial Disclosure plans to the 12th Malaysia Plan.
- As part of the group's efforts to contribute to a circular economy, we have started to track our greenhouse gas emissions, as well as initiated a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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-23	Buy	1.01	0.85
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

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 15% 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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