

Company Update

RM0.855 @ 16 December 2021

"Expands order book to new record high of RM0.9bn"

Share price performance



	1M	3M	12M
Absolute (%)	0.0	2.4	5.6
Rel KLCI (%)	2.6	7.3	19.5

	BUY	HOLD	SELL
Consensus	4	-	-

Stock Data

Sector	Construction
Issued shares (m)	2,015.8
Mkt cap (RMm)/(US\$m)	1,723.5/408.4
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	0.79-0.91
Est free float	21.6%
Stock Beta	0.71
Net cash/(debt) (RMm)	95.6
ROE (2021E)	8.6%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	
ESG Rank	No
ESG Risk Rating	37.2

Key Shareholders

Lim Chee Meng	54.1%
Vijay Vijendra Sethu	9.0%
Lembaga Tabung Haji	7.9%

Source: Bloomberg, Affin Hwang, ESG Risk Rating
Powered by Sustainalytics, Bursa Malaysia

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Taliworks (TWK MK)

BUY (upgrade)

Up/Downside: +10.9%

Price Target: RM0.95

Previous Target (Rating): RM0.86 (Hold)

Boosts construction order book

- Taliworks secured a second major contract for the Sg Rasau Water Supply Scheme (WSS) Phase 1 project worth RM602.4m, bringing new contract wins YTD to RM896.3m.
- We reduce our 2021E core EPS by 1% to reflect the impact of securing new contracts in late-2021 but raise core 2022-23E EPS by 18-29% to reflect higher construction earnings, partly offset by lower solar assets earnings contribution
- We upgrade our call on Taliworks to BUY from Hold with higher target price (TP) of RM0.95, based on 20% discount to lifted RNAV (reflecting higher construction segment valuation)

Record-high order book of RM0.9bn

Taliworks has secured 2 packages for the Sg Rasau WSS Phase 1 project, bringing the total new contract wins to RM896.3m YTD 2021. This exceeds our previous assumption of RM300m new contracts in 2021-23E. Taliworks' remaining order book increased to a new record high of about RM0.9bn, supporting construction earnings growth over the next 3 years. Assuming PBT margin of 10% for the new contracts, we lift core EPS by 18-29% in 2022-23E. The positive earnings impact from the new contracts is partly offset (reduced by 4-5 ppt) by the reduction in contribution from its proposed acquisition of solar assets. Taliworks announced that the agreement to acquire the balance 20% minority interest in the solar assets has lapsed. It will continue to pursue the acquisition of an 80% stake in the 4 solar assets from Terraform Global for RM144.1m.

Short-listed for RM2bn contract

We gather that Taliworks has also been short-listed for Package 1 of the project and the award decision is expected in 1-2 months. Package 1 involves the construction of a 700MLD water treatment plant (WTP) with indicative contract value of RM2bn. Hence, there is potential upside to our earnings forecasts if it also secures Package 1 of the project. Based on the same assumptions, we estimate the potential upside to core EPS is 44-61% if it secures the remaining package for the project. We have not assumed the potential contract to be secured in our forecasts, given the stiff competition for the tender.

Upgrade to BUY

We raise our RNAV/share by 10% to RM1.18 from RM1.08 to a higher valuation for its construction arm (same PER of 12 but raise sustainable earnings assumption to RM25m from RM4m previously). Based on the same 20% discount to RNAV, we lift our TP to RM0.95 from RM0.86. Given potential total return of close to 20%, we upgrade our call to BUY from Hold. Key upside/downside risks: changes in government policies and a faster/slower-than-expected economic recovery.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	377.1	317.9	328.0	555.7	668.0
EBITDA (RMm)	147.3	121.7	153.2	150.9	173.3
Pretax profit (RMm)	108.8	78.5	122.0	117.1	142.2
Net profit (RMm)	76.5	59.5	79.9	81.5	100.7
EPS (sen)	3.8	3.0	4.0	4.0	5.0
PER (x)	22.5	29.0	21.6	21.1	17.1
Core net profit (RMm)	49.7	66.2	81.6	83.5	100.7
Core EPS (sen)	2.5	3.3	4.0	4.1	5.0
Core EPS growth (%)	36.9	33.3	23.3	2.3	20.6
Core PER (x)	34.7	26.0	21.1	20.6	17.1
Net DPS (sen)	5.3	6.6	6.6	6.6	6.6
Dividend Yield (%)	6.1	7.7	7.7	7.7	7.7
EV/EBITDA	10.0	13.2	11.7	12.1	10.3

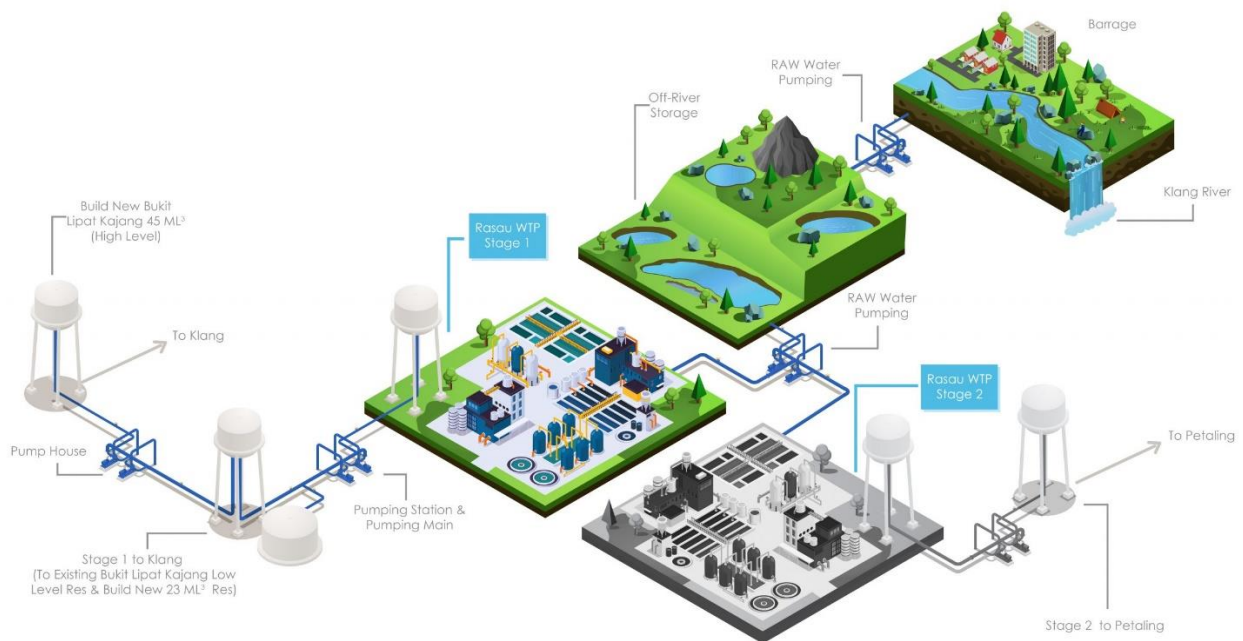
Chg in EPS (%)	-0.6	+18.0	+28.6
Affin/Consensus (x)	1.0	1.2	1.4

Source: Company, Affin Hwang forecasts

Secured 2 packages of Sg Rasau WSS Phase 1 project

Just to recap, Taliworks announced that it has been awarded a design and build contract for the Sg Rasau water treatment plant (WTP) and WSS Phase 1 Package 3 in Selangor by Pengurusan Air Selangor Sdn Bhd on 2 December 2021. The project involves the construction of the new Bukit Lipat Kajang booster station, reservoirs and associated works at a contract sum of RM293.9m. The contract period is from 15 December 2021 to 31 December 2024. Subsequently, Taliworks was also awarded Package 2 for this project involving the construction of a treated water pumping station and mains to the existing Bukit Lipat Kajang Reservoirs, distribution and associated works on 16 December 2021. The new contract value is RM602.4m with a 3-year construction period. Both packages are to complete by 31 December 2024. We assume new contract wins of RM896m in 2021E (actual) and RM300m p.a. in 2022-23E. The expected jump in construction earnings will also see this division increase its contribution to 15-23% of group EBIT in 2022-23E from potential breakeven or a small loss in 2021.

Fig 1: Sg Rasau Water Treatment Plant and Water Supply Scheme



Source: Affin Hwang, Company

Fig 2: RNAV and target price

Segments	Stake (%)	RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PER of 12x net profit of RM25m	100	300	48	525
Water @ DCF at WACC of 7%	100	539	539	0
Toll highway @ DCF at WACC of 7%	32.5-51.0	581	581	0
Waste management @ DCF at WACC of 7%	35	374	374	0
Solar power @ DCF at WACC of 7%	80	138	172	(20)
Co. net cash/(debt)		456	456	0
RNAV		2,388	2,171	10
No. of shares (m shrs)		2,016	2,016	0
RNAV/share (RM)		1.18	1.08	10
Target price at 20% discount to RNAV/share		0.95	0.86	10

Source: Affin Hwang estimates

Financial Summary – Taliworks Corporation

Profit & Loss Statement

FYE 31 Dec (RMm)	2019	2020	2021E	2022E	2023E
Revenue	377.1	317.9	328.0	555.7	668.0
Operating expenses	(229.9)	(196.2)	(174.8)	(404.8)	(494.6)
EBITDA	147.3	121.7	153.2	150.9	173.3
Depreciation	(35.7)	(32.0)	(34.3)	(34.3)	(34.3)
EBIT	111.6	89.7	118.9	116.6	139.1
Net int income/(expense)	(19.8)	(7.3)	(10.9)	(13.7)	(13.6)
Associates' contribution	(9.8)	2.8	15.8	16.2	16.7
Forex gain/(loss)	(0.0)	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	26.8	(6.7)	(1.7)	(2.0)	0.0
Pretax profit	108.8	78.5	122.0	117.1	142.2
Tax	(22.1)	(15.0)	(24.8)	(23.8)	(28.4)
Minority interest	(10.3)	(4.0)	(17.4)	(11.7)	(13.1)
Net profit	76.5	59.5	79.9	81.5	100.7
Core net profit	49.7	66.2	81.6	83.5	100.7

Balance Sheet Statement

FYE 31 Dec (RMm)	2019	2020	2021E	2022E	2023E
Fixed assets	12.4	9.2	9.6	10.1	10.5
Other long term assets	1,533.2	1,485.2	1,606.8	1,584.7	1,563.0
Total non-current assets	1,545.7	1,494.3	1,616.4	1,594.8	1,573.5
Cash and equivalents	657.6	450.9	264.3	225.4	277.0
Stocks	1.2	2.9	7.1	9.9	10.6
Debtors	123.2	103.7	150.7	219.4	152.2
Other current assets	25.9	23.1	23.1	23.1	23.1
Total current assets	807.9	580.7	445.3	477.8	462.9
Creditors	87.9	42.4	64.0	116.2	100.4
Short term borrowings	42.6	32.7	30.0	30.0	30.0
Other current liabilities	87.6	44.1	17.7	17.7	17.7
Total current liabilities	218.0	119.2	111.7	163.9	148.1
Long term borrowings	442.9	370.8	370.8	370.8	370.8
Other long term liabilities	399.7	377.3	407.3	405.7	404.7
Total long term liabilities	842.6	748.1	778.1	776.5	775.5
Shareholders' Funds	1,032.9	959.3	906.2	854.7	822.4
Minority interests	260.0	248.4	265.8	277.5	290.6

Cash Flow Statement

FYE 31 Dec (RMm)	2019	2020	2021E	2022E	2023E
EBIT	111.6	89.7	118.9	116.6	139.1
Depreciation & amortisation	35.7	32.0	34.3	34.3	34.3
Working capital changes	(56.3)	(48.7)	(29.7)	(19.2)	50.6
Cash tax paid	(16.0)	(12.4)	(24.8)	(23.8)	(28.4)
Others	567.8	(17.5)	3.1	0.5	3.1
Cashflow from operation	642.8	43.1	101.9	108.4	198.6
Capex	(2.9)	(0.4)	(0.5)	(0.5)	(0.5)
Disposal/(purchases)	(538.1)	223.7	(144.1)	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(541.0)	223.3	(144.6)	(0.5)	(0.5)
Debt raised/(repaid)	20.8	(79.5)	0.0	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Net interest income/(exp)	(24.9)	(18.8)	(10.9)	(13.7)	(13.6)
Dividends paid	(112.4)	(172.9)	(133.0)	(133.0)	(133.0)
Others	613.9	(206.8)	0.0	0.0	0.0
Cash flow from financing	497.4	(478.0)	(144.0)	(146.8)	(146.6)
Free Cash Flow	639.9	42.7	101.4	107.9	198.2

Source: Company, Affin Hwang estimates

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2019	2020	2021E	2022E	2023E
Growth					
Revenue (%)	0.8	(15.7)	3.2	69.4	20.2
EBITDA (%)	0.7	(17.4)	25.9	(1.5)	14.9
Core net profit (%)	36.9	33.3	23.3	2.3	20.6
Profitability					
EBITDA margin (%)	39.0	38.3	46.7	27.1	26.0
PBT margin (%)	28.9	24.7	37.2	21.1	21.3
Net profit margin (%)	20.3	18.7	24.4	14.7	15.1
Effective tax rate (%)	20.3	19.1	20.3	20.3	20.0
ROA (%)	3.2	2.7	3.9	3.9	4.9
Core ROE (%)	4.8	6.6	8.8	9.5	12.0
ROCE (%)	10.2	10.8	12.9	11.9	14.9
Dividend payout ratio (%)	138.4	223.7	166.5	163.2	132.1
Liquidity					
Current ratio (x)	3.7	4.9	4.0	2.9	3.1
Op. cash flow (RMm)	642.8	43.1	101.9	108.4	198.6
Free cashflow (RMm)	639.9	42.7	101.4	107.9	198.2
FCF/share (sen)	31.7	2.1	5.0	5.4	9.8
Asset management					
Debtors turnover (days)	119.3	119.1	167.7	144.1	83.2
Stock turnover (days)	1.1	3.3	7.9	6.5	5.8
Creditors turnover (days)	85.0	48.7	71.2	76.3	54.8
Capital structure					
Net gearing (%)	NA	NA	9.2	14.3	8.6
Interest cover (x)	5.9	5.7	7.2	7.1	8.2

Quarterly Profit & Loss

FYE 31 Dec (RMm)	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	82.6	74.9	65.6	61.9	102.3
Operating expenses	(48.9)	(48.0)	(40.3)	(39.5)	(32.8)
EBITDA	33.7	26.9	25.3	22.5	69.5
Depreciation	(8.5)	(10.2)	(7.2)	(6.3)	(7.6)
EBIT	25.2	16.7	18.0	16.2	61.9
Net int income/(expense)	(2.3)	(2.5)	(2.5)	(2.5)	(2.8)
Associates' contribution	0.6	6.4	2.7	2.5	7.8
Forex gain/(loss)	(0.0)	0.0	0.0	(0.0)	0.0
Exceptional items	(0.9)	(1.5)	(1.6)	(0.0)	0.4
Pretax profit	22.6	19.1	16.7	16.2	67.2
Tax	(3.9)	(3.7)	(3.0)	(2.9)	(3.9)
Minority interest	(2.5)	0.4	(1.4)	(0.7)	(22.0)
Net profit	16.2	15.7	12.4	12.6	41.4
Core net profit	17.1	17.2	13.9	12.6	41.0
Margins (%)					
EBITDA	40.8	35.9	38.5	36.3	67.9
PBT	27.3	25.5	25.5	26.1	65.7
Net profit	19.6	21.0	18.9	20.3	40.4

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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