

HLIB Research

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BUY (Maintain)**Target Price:** **RM0.99****Previously:** **RM0.99****Current Price:** **RM0.84**

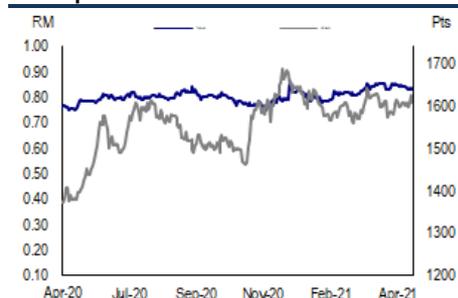
Capital upside 17.9%

Dividend yield 7.9%

Expected total return 25.8%

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 (%)	1.8	1.4	0.0
Absolute	-4.5	5.3	1.9
Relative			

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1693
3-mth average volume ('000)	694
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)	FY20	FY21f	FY22f
PATMI - core (RM m)	59.5	51.5	55.7
EPS - core (sen)	3.0	2.6	2.8
P/E (x)	28.5	32.9	30.4

Taliworks Corporation**Meeting expectations**

Taliworks's 1QFY21 core PATAMI of RM12m (-21% QoQ, -22% YoY) was within ours but below consensus expectations. Performance was dragged by cessation of Taliworks Langkawi and lower ADT. We view Taliworks as a natural candidate to secure work from various WTP contracts in the pipeline. Tweak FY22 earnings upwards by 2%. Maintain BUY with same SOP-driven TP of RM0.99. Stock presents an attractive dividend yield of 7.9% for FY21-22.

Meeting expectations. Taliworks reported 1QFY21 results with revenue of RM65.6m (-12% QoQ, -22% YoY) and core earnings of RM12.4m (-21% QoQ, -22% YoY). The core earnings accounted for 24% and 20% of our and consensus full year numbers respectively. Performance was within our but fell below consensus expectations.

Dividends. DPS of 1.65 sen was declared for the quarter (going ex on 3 June 2021). Dividend payment is inline with our expectations of 1.65 sen per quarter.

QoQ. Core PATAMI declined by -21% on the back of lower share of JV contribution in relation to Grand Sepadu which received a RM17m toll compensation in the previous quarter. However, at the EBIT level, Taliworks grew by 4% offsetting lower revenue (-12%) in part due to restoration costs recognised for Taliworks Langkawi as well as losses on fair value changes recognised in the previous quarter.

YoY. Core PATAMI fell by -22% dragged by lower revenue (-22%) mainly driven by poorer topline performance from the water (-15%) and toll (-5%) segments.

Water segment. Revenue declined by -15% (ex. impact of MFRS15) largely driven by expiration of Taliworks Langkawi (31-Oct-20) compounded by lower metered sales and electricity rebates for its SSP1 operations. Stripping away Langkawi, metered sales at SSP1 declined by -2.3% as average MLD was marginally lower by -1.3% during the quarter.

Tolls. Revenue declined by -5% as the company's Cheras-Kajang highway ADT contracted by roughly 8-9% YoY following the imposition of MCO2.0 on 13 Jan-21. We noticed that the strict lockdown which were imposed on 18 March-20 and its impact on 1QFY20's ADT was less severe than MCO2.0 as it only captured 2 weeks of lockdown. Imposition of MCO2.0 early in 1QFY21 coupled with proliferation of WFH practices this time around could have also contributed to the ADT decline.

Construction. Progress billings picked up YoY with revenue more than doubling as construction work is allowed during MCO2.0 as opposed to MCO1.0 when there was a complete cessation. Nonetheless, the segment registered wider losses (4x) having written off retention sum and downward margin revision. We view Taliworks as a natural candidate to secure work from various WTP contracts in the pipeline.

Forecast. Tweak FY22 earnings higher by 2.3% after adjusting minority interests and introduce FY23 earnings of RM62m.

Maintain BUY, TP: RM0.99. Maintain BUY with same SOP-driven TP of RM0.99. Taliworks's defensive source of earnings supports the stock's healthy sustainable yields of 7.9% for FY21-22.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	3MFY20	3MFY21	YoY (%)
Revenue	84.3	74.9	65.6	(12.4)	(22.1)	84.3	65.6	(22.1)
EBITDA	37.8	28.2	25.9	(8.2)	(31.6)	37.8	25.9	(31.6)
Finance cost	(5.6)	(5.2)	(4.7)	(11.0)	(16.7)	(5.6)	(4.7)	(16.7)
Share of results of JV	0.2	4.0	0.4	(89.9)	157.1	0.2	0.4	157.1
Share of results of associate	(3.4)	2.4	2.3	(1.3)	(169.0)	(3.4)	2.3	(169.0)
PBT	21.2	19.1	16.7	(12.2)	(20.9)	21.2	16.7	(20.9)
PAT	17.5	15.3	13.8	(10.1)	(21.2)	17.5	13.8	(21.2)
Core PATMI	15.9	15.7	12.4	(21.1)	(22.1)	15.9	12.4	(22.1)
Reported PATMI	15.9	15.7	12.4	(21.1)	(22.1)	15.9	12.4	(22.1)
Core EPS (sen)	0.8	0.8	0.6	(21.1)	(22.1)	0.8	0.6	(22.1)
EBITDA margin (%)	44.9%	37.6%	39.4%			41.8%	40.6%	
PBT margin (%)	25.1%	25.5%	25.5%			23.1%	24.7%	
PATMI margin (%)	20.7%	20.4%	21.0%			17.3%	20.0%	

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Figure #2 SOP valuation for Taliworks

	(x)	(%)	(RM m)	(%)	(RM m)	(RM)
Highway Assets						
Cheras- Kajang Highway		7	685	51	349	0.17
NNKSB		7	286	45	129	0.06
Water Operations						
SHSB & Taliworks Langkawi		8	524	100	524	0.26
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	6		15	100	15	0.01
Receivables owed by SPLASH					714	0.35
Net Cash and financial assets					20	0.01
SOP Valuation					1,997	0.99

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	716.0	708.1	717.9	708.2	655.3
Receivables	148.1	26.0	16.0	27.0	27.0
Inventories	1.2	1.2	1.2	1.2	1.2
PPE	12.2	7.3	4.0	1.2	(2.4)
Others	1,476.1	1,261.9	1,240.1	1,219.0	1,194.3
Assets	2,353.5	2,004.4	1,979.1	1,956.6	1,875.3
Payables	211.0	294.5	364.1	434.6	443.0
Debt	467.6	437.6	407.6	377.6	347.6
Others	382.0	382.0	382.0	382.0	382.0
Liabilities	1,060.6	1,114.1	1,153.7	1,194.2	1,172.6
Shareholder's equity	1,032.9	959.3	877.8	800.4	729.3
Minority interest	260.0	264.1	278.1	289.2	300.7
Equity	1,292.9	1,223.4	1,156.0	1,089.6	1,030.0
	-	(333.1)	(330.5)	(327.2)	(327.2)

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	87.9	78.5	86.4	88.0	96.9
D&A	35.8	32.0	31.4	31.8	32.7
Working capital	(214.1)	179.5	79.5	59.6	8.4
Taxation	(23.1)	(15.0)	(20.8)	(21.2)	(23.4)
Others	34.8	(235.9)	20.0	18.5	18.8
CFO	(78.7)	39.1	196.5	176.6	133.3
Others	714.0	233.1	-	-	-
CFI	711.0	230.1	(4.0)	(5.0)	(5.0)
Changes in debt	-	(30.0)	(30.0)	(30.0)	(30.0)
Shares issued	-	-	-	-	-
Dividends	(96.8)	(133.0)	(133.0)	(133.1)	(133.1)
Others	(25.0)	(114.0)	(19.7)	(18.2)	(18.2)
CFF	(121.7)	(277.1)	(182.7)	(181.3)	(181.3)
Net cash flow	510.6	(7.9)	9.8	(9.7)	(53.0)
Forex	-	-	-	-	-
Others	643.5	643.5	643.5	643.5	643.5
Beginning cash	89.8	72.5	64.6	74.4	64.7
Ending cash	72.5	64.6	74.4	64.7	11.8

Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	377.1	317.9	314.2	318.2	332.0
EBITDA	158.5	128.9	135.8	136.2	146.4
EBIT	122.7	96.9	106.4	106.4	115.7
Finance cost	(25.0)	(21.2)	(19.7)	(18.2)	(18.2)
Associates & JV	(9.8)	2.8	(0.3)	(0.3)	(0.6)
Profit before tax	87.9	78.5	86.4	88.0	96.9
Tax	(23.1)	(15.0)	(20.8)	(21.2)	(23.4)
Net profit	64.8	63.5	65.6	66.8	73.5
Minority interest	10.0	4.0	14.1	11.1	11.5
Core PATAMI	54.8	59.5	51.5	55.7	62.0
Exceptionals	(21.6)	-	-	-	-
Reported PATAMI	76.5	59.5	51.5	55.7	62.0

Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	2.7	3.0	2.6	2.8	3.1
P/E (x)	30.9	28.5	32.9	30.4	27.3
EV/EBITDA (x)	9.1	11.0	10.2	10.0	9.5
DPS (sen)	4.8	6.6	6.6	6.6	6.6
Dividend yield	5.7	7.9	7.9	7.9	7.9
BVPS (RM)	0.6	0.6	0.6	0.5	0.5
P/B (x)	1.3	1.4	1.5	1.6	1.6
EBITDA margin	42.0	40.6	43.2	42.8	44.1
EBIT margin	77.4	75.2	78.4	78.1	79.1
PBT margin	23.3	24.7	27.5	27.6	29.2
Core PATAMI margin	14.5	18.7	16.4	17.5	18.7
ROE	5.3	6.2	5.9	7.0	8.5
ROA	2.8	3.2	3.3	3.4	3.9
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec	FY19	FY20	FY21f	FY22f	FY22f
Water Output (m m³)					
- SHSB	373.2	384.4	395.9	405.5	413.6
- Taliworks Langkawi	20.9	21.6	0.0	0.0	0.0
Traffic Volume (m)					
- Cheras-Kajang Highway	48.8	32.7	45.8	46.3	46.7
- NNKSB	33.7	33.7	34.6	35.6	36.5

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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.