

HLIB Research

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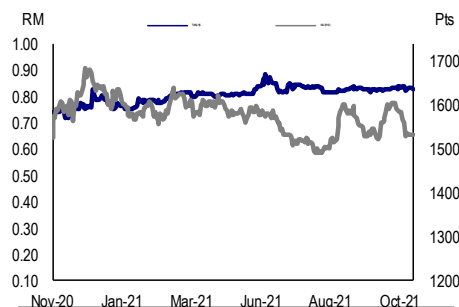
BUY (Maintain)

Target Price: RM0.98
Previously: RM0.97
Current Price: RM0.855

Capital upside	14.6%
Dividend yield	7.7%
Expected total return	22.3%

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	0.6	-2.4	2.5
Relative	2.6	-5.1	1.5

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1724
3-mth average volume ('000)	964
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	80.9	68.6
EPS - core (sen)	3.0	4.0	3.4
P/E (x)	29.0	21.3	25.1

Taliworks Corporation

Second Rasau win

Taliworks announced another contract win from the phase 1 Rasau water scheme bringing total wins from the project to RM896m. Taliworks has so far secured 2/3 packages on offer. Construction will start by end Dec-21 completing in Dec-24. We are positively surprised by the job win as we had not anticipated repeat wins from the same project. We expect PBT margins in the range of 6-8%. Raise FY22 & 23 forecasts by 11-20%. Maintain BUY rating with higher SOP-driven TP of RM0.98. Taliworks continues to deliver attractive dividend yield of 7.7%. Downside risks include execution, higher risk free rates and return of restrictions.

NEWSBREAK

Taliworks announced its second contract win from the Rasau water scheme (Phase 1) worth RM602.4m. This is package 2 of the Rasau water scheme (Phase 1) where a total of three packages are up for grabs. Taliworks's scope of works would include design and build of the proposed Rasau treated water pumping station, to existing Bukit Lipat Kajang Reservoirs. Site possession will be by end Dec-21 and construction will span three years ending in Dec-24.

HLIB's VIEW

Surprising second win. While we previously highlighted Taliworks as a strong contender for Rasau water scheme contracts considering its previous water E&C engagements like Langat 2 reservoir project and Mengkuang Dam expansion project just to name a few, we were positively surprised by its second successive contract win from the project. This brings Taliworks job wins in FY21 to RM896.3m providing earnings visibility for the next three years. We reckon PBT margin for the project would fall in the range of 6-8%. We are not expecting more E&C contract wins from the Rasau scheme considering that 2/3 packages on offer has been nabbed. Nonetheless, we gather that Taliworks did bid for the remaining package.

Rasau water scheme background. The Rasau water scheme project is divided into two phases totalling RM6bn. Air Selangor has previously guided that phase 1 would cost around RM4bn. Phase 1 carries three packages, slated for completion by 2024 while phase 2 completion is targeted for 2028, tenders likely in 2025. By our estimates, roughly RM3bn of contract value is pending award (package 1), likely within the next two months. For background knowledge, the project was mooted to reduce concentration risk of Sungai Selangor as single source of raw water supply while Langat 2 WTP is unable to supply the Klang region due to uneconomically long distribution and transmission pipeline.

Forecast. Raise FY22 & 23 forecasts by 11.1% & 20.1% post-factoring in contract win.

Maintain BUY, TP: RM0.98. Maintain BUY with slightly higher SOP-driven TP of RM0.98 (from RM0.97) post-earnings adjustments and rolling over valuation to FY22. Taliworks's defensive source of earnings should anchor its healthy sustainable yields of 7.7%. We continue to favour Taliworks for its consistent earnings delivery amidst pandemic uncertainties bolstered by an attractive dividend profile. Key downside risks include execution, higher risk free rates and return of restrictions.

Figure #1 SOP valuation for Taliworks

Sum of parts	Multiplier (x)	Cost of Equity (%)	Value (RM m)	Stake (%)	Value (RM m)	Per Share (RM)
Highway Assets						
Cheras- Kajang Highway		7	568	51	289.66	0.14
NNKSB		7	269	45	111	0.06
Water Operations						
SHSB & Taliworks Langkawi		8	510	100	510	0.25
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	7		75	100	75	0.04
Receivables owed by SPLASH					714	0.35
Net Cash and financial assets					20	0.01
SOP Valuation					1,965	0.98

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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	504.4	459.5	527.2	605.1
Receivables	148.1	125.5	105.5	105.5	95.5
Inventories	1.2	2.9	2.9	2.9	2.9
PPE	12.2	8.9	10.2	11.1	11.8
Others	1,476.1	1,433.3	1,409.9	1,385.2	1,358.9
Assets	2,353.5	2,075.0	1,987.9	2,031.8	2,074.1
Payables	211.0	94.9	76.1	223.1	356.3
Debt	467.6	403.5	373.5	343.5	313.5
Others	382.0	368.9	368.9	368.9	368.9
Liabilities	1,060.6	867.3	818.5	935.4	1,038.6
Shareholder's equity	1,032.9	959.3	907.2	842.6	791.5
Minority interest	260.0	248.4	274.6	279.8	285.4
Equity	1,292.9	1,207.7	1,181.8	1,122.5	1,077.0

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	87.9	78.5	136.2	92.3	110.5
D&A	35.8	32.0	29.8	30.1	30.3
Working capital	(214.1)	(71.8)	1.2	146.9	143.2
Taxation	(23.1)	(15.0)	(29.1)	(18.6)	(22.9)
Others	34.8	15.3	4.6	3.1	3.1
CFO	(78.7)	39.1	142.8	253.8	264.2
Others	714.0	230.1	-	-	-
CFI	714.0	230.1	(5.0)	(5.0)	(5.0)
Changes in debt	20.5	(64.1)	(30.0)	(30.0)	(30.0)
Shares issued	-	-	-	-	-
Dividends	(96.8)	(133.0)	(133.0)	(133.1)	(133.1)
Others	(25.0)	(79.9)	(19.6)	(18.1)	(18.1)
CFE	(101.2)	(277.1)	(182.7)	(181.2)	(181.2)
Net cash flow	534.1	(7.9)	(44.9)	67.7	78.0
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	89.8	716.0	504.4	459.5	527.2
Ending cash	716.0	504.4	459.5	527.2	605.1

Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	377.1	317.9	289.6	481.5	712.9
EBITDA	158.5	128.9	169.9	111.3	115.5
EBIT	122.7	96.9	140.9	95.4	113.6
Finance cost	(25.0)	(21.2)	(19.6)	(18.1)	(18.1)
Associates & JV	(9.8)	2.8	15.0	15.0	15.0
Profit before tax	87.9	78.5	136.2	92.3	110.5
Tax	(23.1)	(15.0)	(29.1)	(18.6)	(22.9)
Net profit	64.8	63.5	107.1	73.8	87.6
Minority interest	10.0	4.0	26.3	5.2	5.6
Core PATAMI	54.8	59.5	80.9	68.6	82.0
Exceptionals	(21.6)	-	-	-	-
Reported PATAMI	76.5	59.5	80.9	68.6	82.0

Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	2.7	3.0	4.0	3.4	4.1
P/E (x)	31.4	29.0	21.3	25.1	21.0
EV/EBITDA (x)	9.3	12.6	9.6	13.8	12.4
DPS (sen)	4.8	6.6	6.6	6.6	6.6
Dividend yield	5.6	7.7	7.7	7.7	7.7
BVPS (RM)	0.6	0.6	0.6	0.6	0.5
P/B (x)	1.3	1.4	1.5	1.5	1.6
EBITDA margin	42.0	40.6	58.7	23.1	16.2
EBIT margin	77.4	75.2	82.9	85.7	98.3
PBT margin	23.3	24.7	47.0	19.2	15.5
Core PATAMI margin	14.5	18.7	27.9	14.2	11.5
ROE	5.3	6.2	8.9	8.1	10.4
ROA	2.8	3.1	5.4	3.6	4.2
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec	FY19	FY20	FY21f	FY22f	FY22f
Water Output (m³)					
- SHSB	361.0	349.2	344.0	352.2	359.3
- Taliworks Langkawi	20.4	16.9	0.0	0.0	0.0
Traffic Volume (m)					
- Cheras-Kajang Highway	54.1	43.4	33.5	41.9	42.3
- NNKSB	34.1	27.7	30.1	31.0	31.9

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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.

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