

HLIB Research

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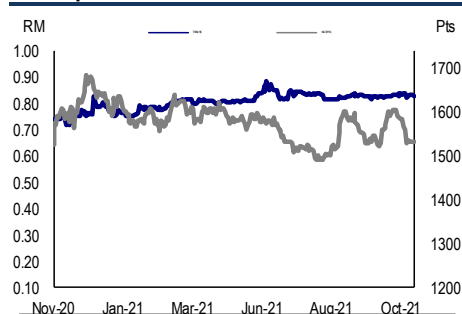
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BUY (Maintain)
Target Price: RM0.96**Previously:** RM0.96**Current Price:** RM0.825

Capital upside	16.4%
Dividend yield	8.0%
Expected total return	24.4%

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)	1663
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	58.2
EPS - core (sen)	3.0	4.0	2.9
P/E (x)	28.0	20.6	28.6

Taliworks Corporation

Steady yields

Taliworks's 9MFY21 core PATAMI of RM66m beat our and consensus expectations at 126%/113% of forecasts due to lumpy deferred income recognition. DPS of 1.65 sen was in-line with expectations. The water segment should continue to churn steady numbers while we expect toll traffic recovery along with the NRP. Possible upside to forecasts could come from new water construction work. Raise FY21-23 forecasts by 7-54%. Maintain BUY rating with unchanged SOP-driven TP of RM0.96. Taliworks continues to deliver attractive dividend yield of 8.0%. Downside risks include higher risk free rates and return of restrictions.

Beat expectations. Taliworks reported 3QFY21 results with revenue of RM102.3m (65.2% QoQ, 23.8% YoY) and core PATAMI of RM41.4m (229.1% QoQ, 155.6% YoY). This brings 9MFY21 core PATAMI to RM66.3m, increasing by 51.4%. Results beat both our and consensus expectations at 126% and 113% of full year forecasts.

Deviations. Results beat due to lumpy recognition of deferred income attributable to toll compensation amounting to RM43.5m for Grand Saga.

Dividends. DPS of 1.65 sen was declared for the quarter (going ex. on 30 Nov-21).

QoQ. Core PATAMI more than tripled lifted by deferred income recognition for Grand Saga and Grand Sepadu highways. The compensation masked underlying QoQ ADT weakness at both highways contracting by -13% and -6% at Grand Saga and Grand Sepadu. Sequential weakness was brought about by imposition of Phase 1 NRP in June.

YoY. Core PATAMI more than doubled, due to reasons outlined above, more than offsetting the fall in earnings from its water segment as its Langkawi contract expired. Traffic at Grand Saga and Grand Sepadu fell by -40% and -28% respectively.

YTD. 9MFY21 core PATAMI increased by 51% riding on the toll compensation. This alone was able to negate the downward impact of Taliworks Langkawi expiry and ADT drop ranging between -6% to -15% for its highways YTD.

Water. Revenue declined by -28% resulting from: (1) expiration of Taliworks Langkawi-90% of decline and (2) lower electricity & chemical rebates for its SSP1 operations. Metered sales at SSP1 remained steady, a mild decline of -0.8%. We expect metered sales at SSP1 to edge higher with increased usage alongside higher economic activities.

Tolls. ADT at the Cheras-Kajang highway fell by -15% while Grand Sepadu saw a -6% drop due to various restrictions imposed this year. We anticipate further rebound in ADT in in-line with loosening restrictions. Nonetheless, due to high base from sizable lumpy recognition of deferred income in 3QFY21, earnings performance could come in sequentially weaker moving forward.

Forecast. Raise FY21/22/23 forecasts by 54.1%/7.7%/7.6% accounting for lumpy deferred income and higher associate contribution.

Maintain BUY, TP: RM0.96. Maintain BUY with unchanged SOP-driven TP of RM0.96. Taliworks's defensive source of earnings should anchor its healthy sustainable yields of 8.0% for FY21-22. We continue to like Taliworks for its consistent earnings delivery amidst pandemic uncertainties bolstered by an attractive dividend profile. Key downside risks include higher risk free rates and return of restrictions.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	82.6	61.9	102.3	65.2	23.8	243.0	229.8	(5.4)
EBITDA	35.7	24.7	71.9	190.9	101.5	100.7	122.5	21.6
Finance cost	(5.2)	(4.8)	(4.9)	2.1	(6.4)	(16.0)	(14.3)	(10.5)
Share of results of JV	0.5	0.2	5.0	2,333.3	895.5	0.7	5.6	703.0
Share of results of associate	0.1	2.3	2.8	21.8	2,310.4	(4.2)	7.4	(274.5)
PBT	22.6	16.2	67.2	315.8	197.6	59.5	100.1	68.4
PAT	18.7	13.3	63.4	377.7	238.4	48.2	90.4	87.4
Core PATMI	16.2	12.6	41.4	229.1	155.6	43.8	66.3	51.4
Reported PATMI	16.2	12.6	41.4	229.1	155.6	43.8	66.3	51.4
Core EPS (sen)	0.8	0.6	2.1	229.1	155.6	2.2	3.3	51.4
EBITDA margin (%)	43.2%	39.9%	70.3%			41.5%	53.3%	
PBT margin (%)	27.3%	26.1%	65.7%			24.5%	43.6%	
PATMI margin (%)	19.6%	20.3%	40.4%			18.0%	28.9%	

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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	538	51	274	0.14
NNKSB		7	269	45	111	0.06
Water Operations						
SHSB & Taliworks Langkawi		8	578	100	578	0.29
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	6		8	100	8	0.00
Receivables owed by SPLASH					714	0.35
Net Cash and financial assets					20	0.01
SOP Valuation					1,951	0.96

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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	390.8	315.8
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	1,895.4	1,784.8
Payables	211.0	94.9	76.1	97.1	98.5
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	809.5	780.8
Shareholder's equity	1,032.9	959.3	907.2	832.3	759.9
Minority interest	260.0	248.4	274.6	279.8	285.4
Equity	1,292.9	1,207.7	1,181.8	1,112.1	1,045.4

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	87.9	78.5	136.2	78.6	82.6
D&A	35.8	32.0	29.8	30.1	30.3
Working capital	(214.1)	(71.8)	1.2	21.0	11.4
Taxation	(23.1)	(15.0)	(29.1)	(15.3)	(16.2)
Others	34.8	15.3	4.6	3.1	3.1
CFO	(78.7)	39.1	142.8	117.5	111.2
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)
CFF	(101.2)	(277.1)	(182.7)	(181.2)	(181.2)
Net cash flow	534.1	(7.9)	(44.9)	(68.7)	(75.0)
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	89.8	716.0	504.4	459.5	390.8
Ending cash	716.0	504.4	459.5	390.8	315.8

Income Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	377.1	317.9	289.6	267.4	274.7
EBITDA	158.5	128.9	169.9	111.3	115.5
EBIT	122.7	96.9	140.9	81.7	85.7
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	78.6	82.6
Tax	(23.1)	(15.0)	(29.1)	(15.3)	(16.2)
Net profit	64.8	63.5	107.1	63.4	66.4
Minority interest	10.0	4.0	26.3	5.2	5.6
Core PATAMI	54.8	59.5	80.9	58.2	60.8
Exceptionals	(21.6)	-	-	-	-
Reported PATAMI	76.5	59.5	80.9	58.2	60.8

Valuation & Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	2.7	3.0	4.0	2.9	3.0
P/E (x)	30.3	28.0	20.6	28.6	27.4
EV/EBITDA (x)	8.9	12.1	9.3	14.5	14.4
DPS (sen)	4.8	6.6	6.6	6.6	6.6
Dividend yield	5.8	8.0	8.0	8.0	8.0
BVPS (RM)	0.6	0.6	0.6	0.6	0.5
P/B (x)	1.3	1.4	1.4	1.5	1.6
EBITDA margin	42.0	40.6	58.7	41.6	42.1
EBIT margin	77.4	75.2	82.9	73.4	74.2
PBT margin	23.3	24.7	47.0	29.4	30.1
Core PATAMI margin	14.5	18.7	27.9	21.8	22.1
ROE	5.3	6.2	8.9	7.0	8.0
ROA	2.8	3.1	5.4	3.3	3.7
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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