

HLIB Research

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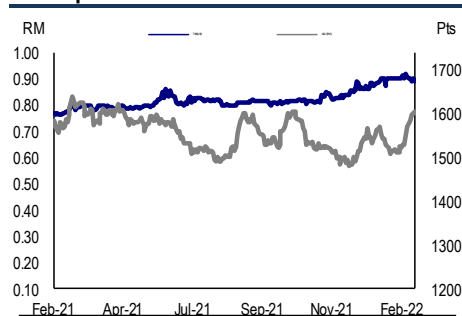
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BUY (Maintain)**Target Price: RM0.98****Previously: RM0.98****Current Price: RM0.91**

Capital upside	7.7%
Dividend yield	7.3%
Expected total return	15.0%

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	-1.1	4.7	6.6
Relative	-4.3	0.1	5.3

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1834
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)	FY21	FY22f	FY23f
PATMI - core (RM m)	78.5	68.6	82.0
EPS - core (sen)	3.9	3.4	4.1
P/E (x)	23.4	26.8	22.4

Taliworks Corporation**Meets expectations**

Taliworks's FY21 core PATAMI of RM79m met our and consensus expectations at 97%/101% of forecasts. 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 in FY22. Newly secured RM896m of construction work should augment its bottom-line starting this year. Maintain forecasts and BUY rating with unchanged SOP-driven TP of RM0.98. Taliworks continues to deliver attractive dividend yield of 7.3%. Downside risks include lower yield spread and return of restrictions.

Meets expectations. Taliworks reported 4QFY21 results with revenue of RM72.4m (-29.2% QoQ, -3.3% YoY) and core PATAMI of RM12.2m (-70.5% QoQ, -22.4% YoY). This brings FY21 core PATAMI to RM78.5m, increasing by 32.0% YoY. Results met both our and consensus expectations at 97% and 101% of full year forecasts.

Dividends. DPS of 1.65 sen was declared for the quarter (going ex. on 9 Mar-22). This brings total FY21 DPS declared to 6.6 sen, within our expectations.

QoQ. Core PATAMI declined sequentially by -70.5% as the previous quarter was lifted by deferred income recognition for its highways. Water metered sales improved by 3.0% sequentially while construction segment turned to marginal profit on the back of upward adjustment in contract sum for some of its existing projects. ADT for both Grand Saga and Grand Sepadu saw a 67% and 30% rebound respectively in line with the reopening.

YoY. Core PATAMI fell by -22.4% mainly due to expiration of Taliworks Langkawi (reflected in approximately 1/3 of 4QFY20), receipt of toll compensation for Grand Sepadu in 4QFY20 as well as lower construction margins due to various work suspensions in 2021.

YTD. Core PATAMI increased by 32.0% riding on the bumper toll compensation received in FY21. This alone was able to negate the downward impact of Taliworks Langkawi expiry, ADT drop of -7% and -3% for Grand Saga and Grand Sepadu highways and lower investment income.

Water. Revenue declined by -25% resulting from: (1) expiration of Taliworks Langkawi-93% of decline and (2) lower electricity & chemical rebates for its SSP1 operations. Metered sales at SSP1 remained steady, a mild increase of 0.3% in FY21. The recovery in economic activities has helped push up metered sales in 4QFY21 by 3% QoQ. We continue to expect metered sales to grind higher with increased usage alongside a normalising economy.

Tolls. ADT at the Grand Saga highway fell by -7% while Grand Sepadu saw a -3% drop due to various restrictions imposed in FY21. ADT has continued to rebound with volumes close to pre-pandemic levels in Jan-22.

Construction. This segment should augment earnings performance in FY22 having secured RM896m worth of contracts from the Rasau water scheme. Guided margins are in the "high single digit" range while materials cost risks are mitigated by VOP clause. Taliworks is in the running for the last Rasau package, estimated at RM2bn and is working on other water-related construction proposals.

Forecast. Maintained.

Maintain BUY, TP: RM0.98. Maintain BUY with unchanged SOP-driven TP of RM0.98. Taliworks's defensive source of earnings should anchor its healthy sustainable yields of 7.3% for FY22-23. We continue to like Taliworks for its consistent earnings delivery throughout the pandemic bolstered by an attractive dividend profile. Key downside risks include lower yield spread and return of restrictions.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Revenue	74.9	102.3	72.4	(29.2)	(3.3)	317.9	302.3	(4.9)
EBITDA	28.2	71.9	29.7	(58.6)	5.5	128.9	152.2	18.1
Finance cost	(5.2)	(4.9)	(4.8)	nm	nm	(21.2)	(19.1)	nm
Share of results of JV	4.0	5.0	0.4	(93.0)	(91.1)	4.7	6.0	27.8
Share of results of associate	2.4	2.8	0.9	(66.3)	(60.6)	(1.9)	8.3	nm
PBT	19.1	67.2	13.8	(79.4)	(27.4)	78.5	114.0	45.2
PAT	15.3	63.4	12.0	(81.1)	(21.8)	63.5	102.4	61.1
Core PATMI	15.7	41.4	12.2	(70.5)	(22.4)	59.5	78.5	32.0
Reported PATMI	15.7	41.4	12.2	(70.5)	(22.4)	59.5	78.5	32.0
Core EPS (sen)	0.8	2.1	0.6	(70.5)	(22.4)	3.0	3.9	32.0
EBITDA margin (%)	37.6%	70.3%	41.1%			40.6%	50.4%	
PBT margin (%)	25.5%	65.7%	19.1%			24.7%	37.7%	
PATMI margin (%)	21.0%	40.4%	16.8%			18.7%	26.0%	

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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	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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Figure #3 Financial forecast summary

FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	377.1	317.9	302.3	481.5	712.9
EBITDA	158.5	128.9	152.2	111.3	115.5
EBIT	122.7	96.9	118.8	95.4	113.6
PBT	87.9	78.5	114.0	92.3	110.5
PAT	64.8	63.5	102.4	73.8	87.6
PATMI – Core	54.6	59.5	78.5	68.6	82.0
PATMI – Reported	76.2	59.5	78.5	68.6	82.0
Core EPS (sen)	2.7	3.0	3.9	3.4	4.1
P/E (x)	33.6	30.8	23.4	26.8	22.4
EV/EBITDA (x)	10.0	13.4	11.5	14.8	13.4
DPS (sen)	5.3	6.6	6.6	6.6	6.6
Yield (%)	5.3	7.3	7.3	7.3	7.3
BVPS (RM/share)	0.6	0.6	0.6	0.6	0.5
P/B (x)	1.4	1.5	1.6	1.6	1.7
ROE (%)	5.3%	6.2%	8.9%	8.1%	10.4%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

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Stock rating guide

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.