

24 August 2021

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Taliworks Corporation (TWK MK)

Buy (Maintained)

Expecting a Stronger 2H; Stay BUY

Target Price (Return): MYR0.94 (13.3%)
Price: MYR0.83
Market Cap: USD395m
Avg Daily Turnover (MYR/USD) 0.70m/0.16m

- **Keep BUY and MYR0.94 SOP TP, 13% upside with c.8% FY22F yield.** We deem 2Q21 results as broadly in line, as we expect a stronger 2H, supported by higher contribution from its highway assets. We still like the stock for its defensive earnings base, stable growth outlook, and attractive c.8% FY21F yield. A 1.65 sen second interim dividend was declared for the quarter, bringing 1H21's dividends to 3.3 sen, in line with expectations.
- **Broadly in line with expectations.** Taliworks recorded 2Q21 core earnings of MYR10.3m (-25% YoY, -6% QoQ), bringing 1H21 core earnings to MYR21.4m (-18% YoY) – at 39% and 35% of our and Street's estimates. We deem this set of results as broadly in line with expectations, as we anticipate a stronger 2H. In deriving our 2Q21 core net profit, we stripped out items related to investments designated at fair value through profit or loss or FVTPL, and fair value changes totalling MYR2.2m.
- **Results review.** The water treatment, supply and distribution segment posted consistent QoQ EBIT of MYR15m in 2Q21 (-17% YoY due to the Langkawi concession's termination), with a wider margin of 36% (+2ppts QoQ, +5ppts YoY). Its toll highway, however, saw average daily traffic (ADT) declining 17% and 15% QoQ for the Cheras-Kajang Highway and Grand Sepadu Highway, following the reimposition of MCO 3.0 in May, and full lockdown measures nationwide in June. Its waste management associate continues to record stable profits (MYR2.3m in 2Q21) after turning profitable in 3Q20.
- **Expecting a stronger 2H.** We note that TWK, in July, received a MYR43.5m cash compensation from the Government of Malaysia, for the non-increase in 2020's scheduled toll hikes for the Cheras-Kajang highway. We also expect the water treatment, supply and distribution segment, and its waste management associate to remain robust, while both its highways should see ADT recovery following the easing of the lockdown.
- **We keep our forecasts.** Note that potential contributions from the recently acquired solar assets are not yet reflected in our forecasts, pending the deal's completion. TWK is trading at 10.6x FY22F EV/EBITDA – about -1.3SD from its 5-year average rolling forward mean – which we think is attractive, considering the high dividend yield of 8%. Downside risks include unfavourable tariff revision outcomes, a broad-based economic slowdown, deteriorating asset quality that gives rise to higher operating costs, and escalating waste management costs that drag TWK into losses.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.6)	(2.9)	(1.8)	(0.6)	(4.1)
Relative	5.8	(2.8)	0.8	2.1	(0.6)
52-wk Price low/high (MYR)	0.78 – 0.90				

Taliworks Corporation (TWK MK)



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: Good

TWK integrates environmental management throughout the life cycle of each project. Some practices include tracking, managing and minimising air pollution and greenhouse gas emissions, and waste and effluents generated from across all areas of operations.

S: Good

TWK prioritises work-life balance, and as such, provides for employees' welfare and well-being towards better integration of life and career. Employee training and development costs were up >100% to MYR1.1m in 2019, and up-to-date health & safety policies are in place.

G: Good

While some elements of integrated reporting have been embodied in the Annual Report, overall, it is not an integrated report based on the parameters set by the International Integrated Reporting Council. Only 16% of board is represented by women, and the Remuneration Committee does not provide oversight on remuneration for senior management. TWK engages a third party investor relations outfit to facilitate communications with the investment community, with periodic meetings held.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	377	318	297	306	314
Recurring net profit (MYRm)	45	58	55	65	56
Recurring net profit growth (%)	35.3	28.0	(5.4)	19.1	(14.6)
Recurring P/E (x)	36.97	28.88	30.54	25.63	30.03
P/B (x)	1.6	1.7	1.9	2.1	2.3
P/CF (x)	2.60	25.71	12.80	12.74	13.13
Dividend Yield (%)	6.3	8.0	8.0	8.0	8.0
EV/EBITDA (x)	8.07	12.27	10.89	10.60	11.75
Return on average equity (%)	7.3	6.0	6.0	7.7	7.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	1.7

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.02	0.03	0.03	0.03	0.03
Utilities	DPS	0.05	0.07	0.07	0.07	0.07
Taliworks Corporation	BVPS	0.51	0.48	0.44	0.40	0.37
TWK MK	Return on average equity (%)	7.3	6.0	6.0	7.7	7.2
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	36.97	28.88	30.54	25.63	30.03
	P/B (x)	1.6	1.7	1.9	2.1	2.3
	FCF Yield (%)	38.2	3.9	7.5	7.5	7.3
	Dividend Yield (%)	6.3	8.0	8.0	8.0	8.0
	EV/EBITDA (x)	8.07	12.27	10.89	10.60	11.75
	EV/EBIT (x)	10.06	16.32	14.52	14.28	16.45
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	377	318	297	306	314
	Gross profit	148	117	110	114	101
	EBITDA	180	129	146	153	142
	Depreciation and amortisation	(36)	(32)	(37)	(40)	(41)
	Operating profit	144	97	110	114	101
	Net interest	(25)	(21)	(19)	(17)	(16)
	Pre-tax profit	110	79	94	102	91
	Taxation	(23)	(15)	(19)	(20)	(18)
	Reported net profit	76	59	55	65	56
	Recurring net profit	45	58	55	65	56
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	523	(49)	3	(2)	4
	Cash flow from operations	643	65	131	131	127
	Capex	(3)	(0)	(5)	(5)	(5)
	Cash flow from investing activities	(541)	226	50	51	51
	Dividends paid	(97)	(157)	(100)	(133)	(133)
	Cash flow from financing activities	(120)	(277)	(139)	(166)	(166)
	Cash at beginning of period	90	73	65	107	123
	Net change in cash	(17)	14	42	16	13
	Ending balance cash	73	87	107	123	135
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	658	451	443	409	372
	Tangible fixed assets	12	9	9	9	9
	Total investments	291	277	275	274	273
	Total assets	2,354	2,075	2,026	1,960	1,889
	Short-term debt	40	30	30	30	30
	Total long-term debt	428	358	358	358	358
	Total liabilities	1,061	867	896	898	905
	Total equity	1,293	1,208	1,129	1,062	984
	Total liabilities & equity	2,354	2,075	2,026	1,960	1,889
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	0.8	(15.7)	(6.6)	3.2	2.3
	Recurrent EPS growth (%)	35.3	28.0	(5.4)	19.1	(14.6)
	Gross margin (%)	39.2	37.0	36.9	37.2	32.3
	Operating EBITDA margin (%)	47.7	40.6	49.2	50.1	45.2
	Net profit margin (%)	20.2	18.7	18.4	21.3	17.8
	Dividend payout ratio (%)	138.9	223.7	242.9	203.8	238.8
	Capex/sales (%)	0.9	0.1	1.6	1.7	1.7
	Interest cover (x)	5.78	4.57	5.85	6.60	6.42

Source: Company data, RHB

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Results At a Glance

Figure 1: TWK's 2QFY21 results

FYE Dec (MYRm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)	Comments
Revenue	76.1	65.6	61.9	-6%	-19%	160.4	127.5	-20%	Lower contributions, mainly from the water treatment, supply and distribution segment, due to (i) expiration of Langkawi concession, and (ii) lower metered sales and electric rebates.
EBIT	21.8	18.7	18.5	-1%	-15%	51.8	37.1	-28%	
<i>EBIT margin (%)</i>	29%	28%	30%			32%	29%		
Finance cost	(5.2)	(4.7)	(4.8)	-2%	8%	(10.8)	(9.4)	12%	Higher YTD ADT of 7.7% at Grand Sepadu highway
Share of JV	0.0	0.4	0.2	-48%	405%	0.2	0.6	209%	
Share of Associate	(1.0)	2.3	2.3	-3%	336%	(4.3)	4.6	206%	Higher revenue from its waste management associate
Pretax profit	15.7	16.7	16.2	-3%	3%	36.9	32.9	-11%	Broadly in line with our expectations. Expecting a stronger 2H
<i>Pretax margin (%)</i>	21%	25%	26%			23%	26%		
Tax	(3.7)	(3.0)	(2.9)	2%	21%	(7.4)	(5.9)	20%	
Effective tax rate (%)	23%	18%	18%			20%	18%		
Minority interest	(0.3)	(1.4)	(0.7)	49%	-113%	(1.9)	(2.1)		
Net profit	11.7	12.4	12.6	1%	7%	27.6	25.0	-10%	
Core profit	13.9	11.0	10.3	-6%	-25%	25.9	21.4	-18%	
<i>Core net margin (%)</i>	18%	17%	17%			16%	17%		

Source: Company data, RHB

Figure 2: TWK's 2QFY21 segmental results

FYE Dec (MYRm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)	Comments
Revenue									
Water treatment, supply and distribution	57.7	42.1	42.1	0%	-27%	119.3	84.2	-29%	SSP1 meter sales were flattish QoQ but lower YoY due to (i) expiration of Langkawi concession and (ii) lower metered sales and electric rebates
Construction	3.3	3.9	2.7	-31%	-18%	4.9	6.6	34%	
Toll highway	13.8	18.3	15.9	-13%	15%	33.5	34.2	2%	
Others	1.3	1.3	1.3	0%	-5%	2.6	2.5	-5%	Lower ADT at Grand Saga highway on travel restrictions
EBIT									
Water treatment, supply and distribution	18.1	14.5	15.0	3%	-17%	42.1	29.5	-30%	Higher operating profit was mitigated by lower interest income and higher expenses, such as amortisation of intangible assets, provision for heavy repairs, and repairs and maintenance in the current quarter
Construction	(0.2)	(0.9)	(0.4)	59%	-126%	(0.4)	(1.3)	-259%	
Toll highway	6.1	7.7	6.4	-16%	6%	14.8	14.1	-4%	
Others	(2.2)	(2.6)	(2.6)	3%	-17%	(4.7)	(5.2)	-11%	
EBIT Margins									
Water treatment, supply and distribution	31%	34%	36%			35%	35%		Higher operating losses in line with reduction in revenue and downward revision in the projected construction margin
Construction	-5%	-23%	-14%			-7%	-20%		
Toll highway	44%	42%	40%			44%	41%		

Source: Company data, RHB

Figure 3: TWK's SOP valuation

Highway assets	Stake	FY22F FCFE	Per share	Remark
Grand Saga	51%	603.3	0.30	WACC 6.3%, concession up to 2045 with four toll rate hikes assumed
Grand Sepadu (45% economic benefit)	45%	107.2	0.05	WACC 6.3%, concession up to 2032 with two toll rate hikes assumed
Water assets	100%	414.7	0.21	WACC 6.3%, concession up to 2036 with contracted base supply rate assumed. No extension to Langkawi water asset.
Waste management asset	35%	289.9	0.14	WACC 6.3%, concession up to 2033
		P/E		
Construction	100%	12.0	0.00	
Solar assets		180.35	0.09	Purchase price of MYR180.35m
Remaining unallocated FY22F net cash		296.7	0.15	Adjusted to exclude net debts included in FCFE calculation for Grand Saga and the water assets.
No. of shares		2,015.8		
SOTP		1,904.2	0.94	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-05-20	Buy	0.94	0.85
2020-08-21	Buy	0.98	0.87
2020-07-02	Buy	0.97	0.86

Source: RHB, Bloomberg

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Malaysia

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