

23 February 2022

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# Taliworks Corporation (TWK MK)

**Buy** (Maintained)

## Construction To Make a Mark In FY22; Stay BUY

Target Price (Return): MYR1.03 (13.2%)  
 Price (Market Cap): MYR0.91 (USD438m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.95m/0.23m

- **Keep BUY, new SOP-derived MYR1.03 TP from MYR0.98, 13% upside and c.7.3% FY22F yield.** FY21 core earnings were within our and Street's estimates. A fourth interim dividend of 1.65 sen/share was declared during the quarter, bringing total FY21 DPS to 6.6 sen, similar to FY19's payout. We expect a similar dividend payout in FY22, supported by decent cash flow generation across Taliworks Corp's concession-based assets. We continue to favour the stock for its defensive earnings base, stable growth outlook, and attractive c.8% FY21F yield.
- **In line with expectations.** TWK booked a 4Q21 core net profit of MYR13.2m (-13% YoY, -63% QoQ), bringing FY21 core earnings to MYR70.4m (+21% YoY) at 99% and 95% of our and Street's estimates. In deriving our 4Q21 core net profit, we stripped out items related to loss allowance on trade receivables and amounts due from contract customers.
- **4Q21 revenue from the water treatment segment was lower by 13% YoY** amid the cessation of the Langkawi operations. Nevertheless, the revenue from the water segment was higher on a sequential basis at 4% QoQ due to increased metered sales in the Sungai Selangor Water Treatment Plant Phase 1 or SSP1 operations, which reached 89.3m cu m in 4Q21 vs 3Q21's 86.7m cu m.
- **Although toll highways saw higher 4Q21 average daily traffic or ADT amid the relaxation of movement restrictions,** share of JVs decreased 91% YoY (-93% QoQ) in the absence of toll compensation during the quarter. In addition, the higher repair & maintenance expense was another cause for the lower share of contribution from the JVs.
- **FY22F-23F earnings raised by 13% and 40%** as we impute the latest job wins for TWK's construction segment, which saw its orderbook grow to c.MYR900m from just <MYR50m. The wins relate to the Sungai Rasau Water Treatment Plant & Water Supply Scheme Phase 1 under Packages 2 and 3. We have yet to include the potential contributions for the solar assets into our earnings forecasts, pending completion of the deal slated for end 1Q21. Nevertheless, we impute the solar assets into our SOP based on the purchase price that is netted off against TWK's cash position. At the same time, we have also introduced our FY24F earnings.
- **As a result, our TP is raised to MYR1.03** after factoring in a 0% ESG premium based on our in-house proprietary ESG methodology. The stock currently trades at 11x FY22F EV/EBITDA, ie -1.5SD from its 5-year average rolling forward mean. We think this is attractive, considering the dividend yield of 7.3%.

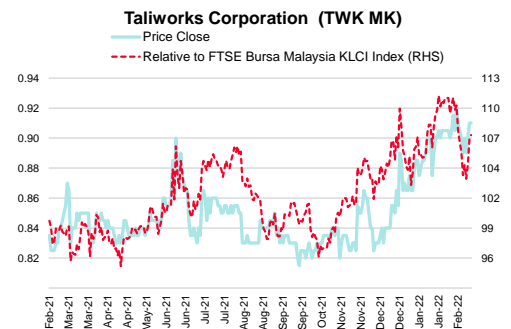
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.2	1.1	5.2	9.6	10.3
Relative	4.6	(2.2)	1.9	5.7	9.9
52-wk Price low/high (MYR)	0.82 – 0.92				



Source: Bloomberg

### Overall ESG Score: 3.00 (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 USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	318	302	519	660	640
Recurring net profit (MYRm)	58	70	81	88	94
Recurring net profit growth (%)	28.0	21.5	15.0	8.4	7.6
Recurring P/E (x)	31.66	26.06	22.66	20.91	19.43
P/B (x)	1.9	2.0	2.2	2.3	2.2
P/CF (x)	28.19	12.08	19.85	13.19	12.11
Dividend Yield (%)	7.3	7.3	7.3	7.3	7.3
EV/EBITDA (x)	13.35	11.53	10.96	10.51	10.03
Return on average equity (%)	6.0	8.4	9.2	10.6	11.5
Net debt to equity (%)	net cash	net cash	net cash	1.4	2.5

Source: Company data, RHB

See important disclosures at the end of this report

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

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.03	0.03	0.04	0.04	0.05
Utilities	DPS	0.07	0.07	0.07	0.07	0.07
<b>Taliworks Corporation</b>	BVPS	0.48	0.45	0.42	0.40	0.42
TWK MK	Return on average equity (%)	6.0	8.4	9.2	10.6	11.5
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	31.66	26.06	22.66	20.91	19.43
SOP	P/B (x)	1.9	2.0	2.2	2.3	2.2
	FCF Yield (%)	3.5	8.2	4.8	7.3	8.0
	Dividend Yield (%)	7.3	7.3	7.3	7.3	7.3
<b>Key drivers</b>	EV/EBITDA (x)	13.35	11.53	10.96	10.51	10.03
i. Stable operations;	EV/EBIT (x)	17.76	14.78	14.44	13.74	13.01
ii. Favourable outcome on tariff hikes;						
iii. Lower losses at associate companies						
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	318	302	519	660	640
Risks to our call include:	Gross profit	117	140	124	132	140
i. Unfavourable outcome on tariff revisions;	EBITDA	129	152	164	173	181
ii. Restrictive cash flow from its associates and	Depreciation and amortisation	(32)	(33)	(40)	(41)	(42)
iii. JVs, given the step-up repayment of	Operating profit	97	119	124	132	140
bonds/sukuks;	Net interest	(21)	(19)	(17)	(16)	(14)
iv. Deteriorating asset quality, giving rise to higher	Pre-tax profit	79	114	121	131	140
operating costs;	Taxation	(15)	(12)	(24)	(26)	(28)
v. A broad-based economic slowdown;	Reported net profit	59	78	81	88	94
vi. Escalating waste management costs, dragging	Recurring net profit	58	70	81	88	94
the company into losses						
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Company Profile</b>	Change in working capital	(49)	13	(47)	(7)	(2)
Taliworks Corp is a pure-play infrastructure company	Cash flow from operations	65	152	92	139	152
primarily engaged in water treatment, supply and	Capex	(0)	(1)	(5)	(5)	(5)
distribution – which involves management, operations	Cash flow from investing activities	226	70	51	51	(13)
& maintenance (O&M) of water treatment plants and	Dividends paid	(157)	(133)	(100)	(133)	(133)
water distribution systems. It is also engaged in	Cash flow from financing activities	(277)	(205)	(130)	(166)	(169)
highway toll concessionaires (O&M), engineering &	Cash at beginning of period	73	87	73	76	100
construction, and waste management.	Net change in cash	14	17	14	24	(30)
	Ending balance cash	87	103	87	100	70
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	473	420	373	347	332
	Tangible fixed assets	9	6	6	6	6
	Total investments	277	270	278	286	294
	Total assets	2,075	1,943	2,011	2,012	1,885
	Short-term debt	30	30	33	33	30
	Total long-term debt	358	329	329	329	329
	Total liabilities	867	786	906	952	792
	Total equity	1,208	1,157	1,105	1,060	1,093
	Total liabilities & equity	2,075	1,943	2,011	2,012	1,885
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(15.7)	(4.9)	71.6	27.2	(3.0)
	Recurrent EPS growth (%)	28.0	21.5	15.0	8.4	7.6
	Gross margin (%)	37.0	46.2	24.0	20.0	21.9
	Operating EBITDA margin (%)	40.6	50.4	31.6	26.2	28.4
	Net profit margin (%)	18.7	26.0	15.6	13.3	14.8
	Dividend payout ratio (%)	223.7	169.5	164.3	151.6	140.9
	Capex/sales (%)	0.1	0.4	1.0	0.8	0.8
	Interest cover (x)	4.57	6.22	7.22	8.39	9.82

Source: Company data, RHB

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Figure 1: TWK's 4QFY21 results

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
<b>Revenue</b>	74.9	102.3	72.4	-29%	-3%	317.9	302.3	-5%	
<b>EBIT</b>	18.0	64.3	17.4	-73%	-3%	96.9	118.8	23%	
<i>EBIT margin (%)</i>	24%	63%	24%			30%	39%		
Finance cost	(5.2)	(4.9)	(4.8)	1%	8%	(21.2)	(19.1)	10%	
Share of JV	4.0	5.0	0.4	-93%	-91%	4.7	6.0	28%	Lower QoQ/YoY in absence of cash compensation from non-increase in toll rates and higher maintenance costs.
Share of associate	2.4	2.8	0.9	-66%	-61%	(1.9)	8.3	546%	
<b>Pre-tax profit</b>	19.1	67.2	13.8	-79%	-27%	78.5	114.0	45%	
<i>Pre-tax margin (%)</i>	25%	66%	19%			25%	38%		
Tax	(3.7)	(3.9)	(1.9)	52%	51%	(15.0)	(11.6)	22%	
Effective tax rate (%)	20%	6%	13%			19%	10%		Lower ETR due to non-taxability of certain income.
Minority interest	0.4	(22.0)	0.2	101%	-48%	(4.0)	(23.9)		
<b>Net profit</b>	15.7	41.4	12.2	-71%	-22%	59.5	78.5	32%	
<b>Core profit</b>	15.1	35.9	13.2	-63%	-13%	57.9	70.4	21%	Met expectations.
<i>Core net margin (%)</i>	20%	35%	18%			18%	23%		

Source: Company data, RHB

Figure 2: TWK's 4QFY21 segmental results

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
<b>Revenue</b>									
Water treatment, supply and distribution	49.8	41.7	43.2	4%	-13%	225.5	169.1	-25%	YoY decline due to cessation of the Langkawi concession.
Construction	4.5	1.4	6.5	364%	45%	12.7	14.5	15%	
Toll highway	19.3	58.0	21.5	-63%	11%	74.4	113.7	53%	
Others	1.3	1.3	1.3	0%	-5%	5.3	5.0	-5%	
<b>EBIT</b>									
Water treatment, supply and distribution	13.8	17.6	11.5	-35%	-17%	74.8	58.6	-22%	
Construction	1.1	(0.5)	0.8	266%	-28%	0.5	(1.0)	-287%	
Toll highway	5.6	50.8	5.1	-90%	-10%	31.0	70.0	125%	ADT for Grand Saga was up 16% YoY and 67% QoQ but was mitigated by higher repair costs and amortisation of intangible assets.
Others	(2.6)	(3.6)	(0.0)	100%	99%	(9.5)	(8.8)	7%	
<b>EBIT Margins</b>									
Water treatment, supply and distribution	28%	42%	27%			33%	35%		
Construction	25%	-34%	12%			4%	-7%		
Toll highway	29%	88%	24%			42%	62%		

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%	369.4	0.18	WACC 6.3%, concession up to 2033
		<b>P/E</b>		
Construction	100%	12.0	0.009	We think that this target P/E is fair as it is within the range ascribed to construction peers under our coverage.
Solar assets		180.35	0.09	Purchase price of MYR180.35
Remaining unallocated FY21F net debt		290.5	0.45	Adjusted to exclude net debts included in FCFE calculation for Grand Saga and the water assets, as well as the cash consideration for the solar assets.
No. of shares		2,015.8		
Gross SOTP		1977.4	1.03	
ESG discount/premium			0%	
<b>SOTP</b>			<b>1.03</b>	Intrinsic Value

Source: Company data, RHB

## Recommendation Chart

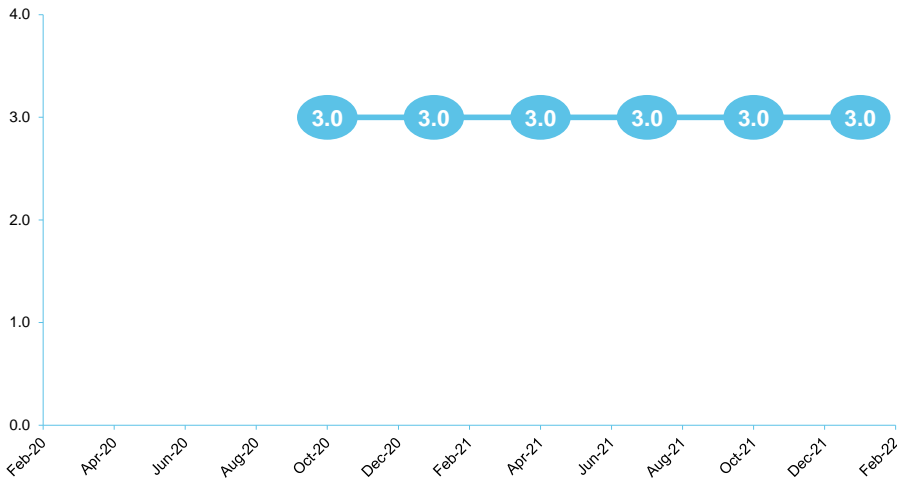


Date	Recommendation	Target Price	Price
2021-11-16	Buy	0.98	0.86
2021-05-20	Buy	0.94	0.85
2020-08-21	Buy	0.98	0.87
2020-07-02	Buy	0.97	0.86

Source: RHB, Bloomberg

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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