

Taliworks Corporation Berhad		Price:	RM2.40
		Market Capitalisation:	RM897.35m
		Board:	Main Board
		Sector:	Trading/Services
Stock Code:	8524	Recommendation:	HOLD

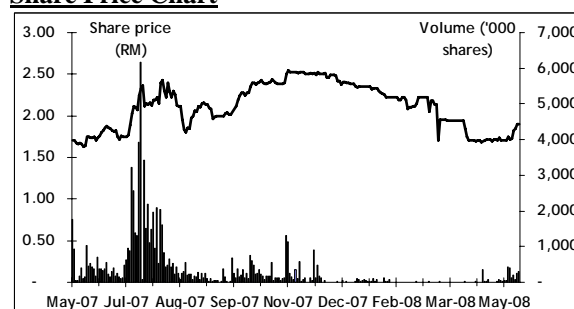
Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	9.0	12.1	10.1
PER (x)	26.6	19.9	23.7
Dividend/Share (sen)	9.5	9.5	9.5
NTA/Share (RM)	0.83	0.89	0.92
Book Value/Share (RM)	0.88	0.93	0.96
Issued Capital (m sh)	375.4	375.4	375.4
52-weeks Share Price Range (RM)	1.60-2.60		

Major Shareholders:	%
LGB	52.7
Kumpulan Perangsang Selangor Berhad	19.1

Per Share Data	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Book Value (RM)	0.84	0.88	0.93	0.96
Cash Flow (sen)	8.3	10.8	(0.4)	38.6
Earnings (sen)	9.5	9.0	12.1	10.1
Dividend (sen)	10.0	9.5	9.5	9.5
Payout Ratio (%)	76.0	76.8	57.5	68.6
PER (x)	25.1	26.6	19.9	23.7
P/Cash Flow (x)	29.1	22.3	(550.5)	6.2
P/Book Value (x)	2.9	2.7	2.6	2.5
Dividend Yield (%)	4.2	4.0	4.0	4.0
ROE (%)	12.1	10.5	13.3	10.7
Net Gearing (%) *	nc	nc	nc	nc
<i>n.c.: net cash</i>				

P&L Analysis (RMm)	FY06	FY07	FY08F	FY09F
Year-end 31 Dec				
Revenue	142.9	191.0	260.6	143.0
Operating Profit	50.0	47.3	50.8	40.0
Depreciation	(1.3)	(1.9)	(3.0)	(4.1)
Net Interest	2.0	0.7	(2.4)	(5.2)
Pre-tax profit	50.3	46.7	61.7	51.8
Effective Tax Rate (%)	29.2	29.0	27.0	27.0
Net Profit	35.7	33.7	45.1	37.8
Operating Margin (%)	35.0	24.8	19.5	27.9
Pre-tax margin	35.2	24.4	23.7	36.2
Net margin	25.0	17.7	17.3	26.4

Share Price Chart



1. Recent Developments:

- A recent meeting with management confirmed our view that uncertainties continue to surround the group's water and toll highway operations on the back of regulatory issues.
- In the water division, the enforcement of Water Services Industry Act 2006 may result in some changes to concession agreements and terms, as the government attempts to reorganise water concession assets.
- In the jointly-controlled entity, Cerah Sama Sdn Bhd (CSSB) which owns toll concessionaire, Grand Saga Sdn Bhd (GS), the recent opening of the controversial toll-free access road to Bandar Mahkota Cheras has resulted in some revenue leakage. The dispute remains unresolved pending court hearing.
- We have cut our forecasts to factor in lower contributions from the water business and CSSB, factoring in lower projected metered sales and higher financing costs, respectively.
- We maintain our **HOLD** recommendation on the stock. Uncertainties over regulatory issues surrounding the two core operations are likely to affect investor sentiment in the near term.

2. Earnings Outlook:

- Chief executive officer (CEO), Abdul Rahman Siraj, was quoted in the newspapers recently as saying that the company plans to take over rivals to expand its business overseas, and is in talks with a Thai waste management company.
- The CEO, who was speaking after the company's recent AGM, indicated that Taliworks is also looking at other markets such as Indonesia, Vietnam and the Middle East as it wants foreign businesses to make up 50% of total revenue over the next five years.
- At the toll highway operations, Taliworks intends to expand locally as well as within Southeast Asia, with plans to venture into Indonesia and Vietnam next year.
- This news ties in with the management's previously stated intention to underpin longer-term prospects with regional expansion via its core water and toll highway businesses:
 - Potential increase in presence in China's water business after the Apr 2008 signing of a cooperation agreement with Shenzhen Hanyang for the exclusive cooperation and collaboration, within a period of two years, in projects related to clinical waste, water supply, treatment of waste water and/or municipal solid waste in China.
 - Potential involvement in the development and operation of toll roads in Malaysia and the ASEAN region via jointly-controlled entity, CSSB. CSSB's other shareholders include the South East Asia Strategic Asset Fund or SEASAF, which has a 35% stake in CSSB.
- We believe plans to have overseas' contributions make up 50% of total revenue in five years versus 5% currently is a positive move, as it would provide market diversification and reduce exposure to ongoing uncertainties surrounding the local water and toll highway businesses.
- Outside of the uncertainties highlighted above, revenue and earnings in the near term should be relatively stable:
 - At the core water operations, we expect demand for water supply at SSP1 to stabilise at around 750MLD in 2008, as the production of other water treatment plants in Selangor are nearing their optimum design capacities.
 - At Taliworks Langkawi, we expect average metered sales to increase marginally by 3% per annum with an added boost from the increase in BSR by 13% from RM1.70 per m³ to RM1.92 per m³ effective 1 Jan 2008.
 - The acquisition of CSSB in Nov 2007 has added another stable income stream to the group, with its 55% stake in GS' toll concession for the Cheras-Kajang Highway. 2008 will be the first full year of contributions from CSSB.
 - At the construction division, the group is expected to book in the remaining two thirds of the project cost in 2008, for both the Padang Terap and Klang Valley Flood Mitigation projects.
 - The newer waste management division is not expected to contribute significantly at this point. This division comprise mainly the San Xin Dui wastewater treatment plant and the production and marketing of CK21 bacteria strains for water and wastewater sludge treatment in the PRC.
- The recent completion of its RM225m convertible bonds issue in Dec 2007 has strengthened Taliworks' balance sheet to capitalise on future growth opportunities from new projects and acquisition prospects, both locally and around the region.

3. Recommendation

- We maintain our **HOLD** recommendation on the stock. Uncertainties over regulatory issues surrounding the two core operations are likely to affect investor sentiment in the near term. Prospective PE multiples are also not cheap at these levels.

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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