

2Q FYE DEC 2011 RESULTS REPORT

Date: 24 August 2011

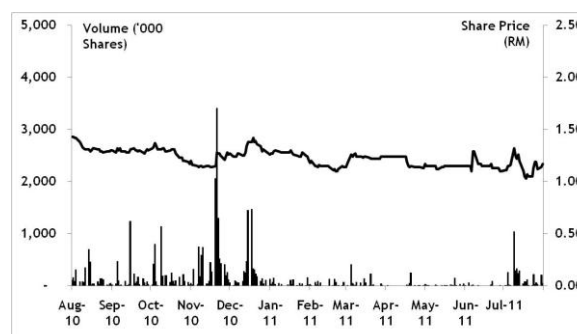
Name of PLC: Taliworks Corporation Berhad (Taliworks)	Target Price:	RM 1.30
Business Summary : Investment holding company involved in water treatment and supply, waste management via O&M contract and concession, construction and toll concession		
Major Shareholders :	Dato' Lim Chee Meng (direct and indirect stakes)	55.5%
	Kumpulan Perangas Selangor Berhad	16.9%
PLC Website : www.taliworks.com.my	Recommendation:	Buy
IR Contact : Mr. Ronnie Lim, Executive Director ronnie@taliworks.com.my Mr. Victor Wong, General Manager, Finance victorwong@taliworks.com.my	Market Capitalisation:	RM 510.7m
- FBM Small Cap	Current Price :	RM 1.17
- FBM Emas Shariah	Market / Sector:	Trading/Services
	Stock Code:	8524
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my		

Key Stock Statistics	2009	2010	2011F	2012F
EPS (sen)	10.2	6.7	11.1	9.9
EPS excl EI (sen)	10.2	8.8	10.9	11.1
P/E (x)	11.4	17.5	10.5	11.8
P/E excl EI (x)	11.4	13.3	10.7	10.6
Dividend/Share (sen)	4.5	1.1	1.1	1.1
NTA/Share (RM)	0.95	1.05	1.16	1.25
Book Value/Share (RM)	1.00	1.09	1.19	1.28
Issued Capital (mil shares)	376.7	436.5	436.5	436.5
52-weeks Share Price Range (RM)			0.98 - 1.49	

Per Share Data	2009	2010	2011F	2012F
Book Value (RM)	1.00	1.09	1.19	1.28
Operating Cash Flow (sen)	4.7	5.1	19.5	(4.5)
Earnings (sen)	10.2	6.7	11.1	9.9
Dividend (sen)	4.5	1.1	1.1	1.1
Payout Ratio (%)	44.0	16.9	10.1	11.4
PER (x)	11.4	17.5	10.5	11.8
P/Cash Flow (x)	24.8	22.9	6.0	(25.9)
P/Book Value (x)	1.2	1.1	1.0	0.9
Dividend Yield (%)	3.8	1.0	1.0	1.0
ROE (%)	10.6	6.8	9.8	8.0
Net Gearing (%)	n.c.	n.c.	n.c.	18.1

n.c. - net cash

P&L Analysis (RM mil)	2009	2010	2011F	2012F
Revenue	158.9	172.5	179.0	197.3
Operating Profit	59.6	55.1	55.7	61.8
Depreciation	(3.7)	(3.9)	(11.1)	(26.5)
Finance	(16.1)	(15.3)	(1.9)	(6.4)
Jointly-controlled & Asso	7.5	13.8	6.7	7.7
EI	-	(9.2)	1.0	(5.0)
Pre-tax Profit	51.0	43.8	61.5	58.1
Effective Tax Rate (%)	(23.6)	(32.9)	(22.0)	(22.0)
Net Profit	38.6	29.1	48.6	43.3
Net Profit (excl EI)	38.6	38.4	47.6	48.3
Operating Margin (%)	37.5	31.9	31.1	31.3
Pre-tax Margin (%)	32.1	25.4	34.3	29.4
Net-Margin (%)	24.3	16.9	27.1	21.9

Share Price Chart

1. 2QFY11 Results Highlight

	2Q 2011	2Q 2010	Chg
	RMm	RMm	%
Revenue	52.9	41.5	27.6
Operating Profit	13.8	12.5	10.7
Finance cost	-	(4.0)	n.m.
Jointly-controlled & associates	3.3	3.3	(0.3)
EI	4.7	(6.2)	n.m.
Pre-tax Profit	21.9	5.6	288.3
Net Profit	17.2	2.2	699.2
Operating Margin (%)	26.1	30.2	
Pre-tax Margin (%)	41.3	13.6	
Net-Margin (%)	32.5	5.2	

- Taliworks reported a headline net profit of RM17.2m in 2QFY11 on the back of a turnover of RM52.9m.
- However, the financial performance was distorted by non-recurring and exceptional items (EI). Operationally, Taliworks recorded a 10.7% increase in operating profit to RM13.8m in 2QFY11.

- The PBT of RM21.9m in 2QFY11 was arrived at after accounting for the following items:

	2Q 2011 RMm	2Q 2010 RMm	
Operating Profit	13.8	12.5	
Finance cost	-	(4.0)	Zero finance cost due to early redemption of RM125.7m convertible bonds
Jointly-controlled & associates	3.3	3.3	
EI			
Derivative gain/(loss)	-	(5.6)	Absence of fair value gain/loss due to redemption of CBs
Provision for impairment from effects of discounting	(1.3)	(0.6)	Non cash-flow provision for impairment arising from delay in receipts of payments
Full settlement	6.0	-	Settlement Agreement with Wijaya in respect of
Pre-tax Profit	21.9	5.6	the construction of Subang South Pond

- The 10.7% growth in operating profit for 2QFY11 was due to the following reasons:
 - Marginal decline in EBIT contribution from Water Division. This was attributed to 5% increase in production output of SSP1. While Taliworks Langkawi Sdn Bhd (TLKB) implemented a scheduled BSR hike to RM2.11/m³ from RM1.92/m³, it was offset by lower metered sales of 11.7%;
 - Meanwhile, its Construction Division a small EBIT of RM0.8m, as the sole construction project was completed in 2QFY11;
 - Waste Management Division turned in a small profit of RM0.7m (2QFY11) as compared with RM1.1m loss (2QFY10).

1HFY11 Results Highlight

	1H 2011 RMm	1H 2010 RMm	Chg %
Revenue	93.5	85.8	9.0
Operating Profit	25.8	24.3	6.4
Finance cost	(0.5)	(7.9)	(93.1)
Jointly-controlled & associates	5.1	6.9	(26.1)
EI	3.4	5.5	(38.8)
Pre-tax Profit	33.8	28.8	17.1
Net Profit	25.7	22.0	16.8
Operating Margin (%)	27.6	28.3	
Pre-tax Margin (%)	36.1	33.6	
Net-Margin (%)	27.5	25.6	

- For 1HFY11, while turnover grew by 9.0%, net profit increased by 16.8%. However, the financial performance was distorted by non-recurring and exceptional items as in the case of 2QFY11

	1H 2011 RMm	1H 2010 RMm	
Operating Profit	25.8	24.3	
Finance cost	(0.5)	(7.9)	Reduced finance cost due to early redemption of RM125.7m convertible bonds
Jointly-controlled & associates	5.1	6.9	
EI			
Derivative gain/(loss)	-	6.0	Absence of fair value gain/loss due to redemption of CBs
Provision for impairment from effects of discounting	(2.6)	(0.6)	Non cash-flow provision for impairment arising from delay in receipts of payments
Full settlement (Wijaya)	6.0	-	Settlement Agreement with Wijaya in respect of
Pre-tax Profit	33.8	28.8	the construction of Subang South Pond

- Operationally, Taliworks recorded a 6.4% increase in operating profit to RM25.8m in 1HFY11. This was due to flat EBIT contribution from Water Division, while Waste Management Division swung to profit.

2. Earnings Outlook

- Earnings contribution from Water Division will remain stable due to steady consumption demand.
- Earnings prospects for its Waste Management Division will not be significant yet in FY11 as only the Panlou and Guanhan Projects are currently operational. While Linhe will start its commercial operation towards 2HFY11, the bigger Yinchuan Project and Meihua will only contribute more significantly in FY12 and FY13 onwards.
- The early redemption of convertible bonds (CBs) amounting to RM125.7m is expected to result in some savings in finance costs.

3. Valuation and Recommendation

- Excluding EI, annualised 1HFY11 earnings is in line with our forecast. Hence, we are maintaining our earnings forecast and Buy recommendation on Taliworks.
- We like Taliworks for its steady and recurring earnings stream from its Water Division while the Waste Management Division offers promising long-term growth prospects once its current projects that are in various stages of implementation, commences commercial operations.
- Excluding EI, the stock is trading at a P/E of 10.7x for FY11. We have arrived at a target price of RM1.30, based on a target P/E of 12x for FY11.

Disclosures/Disclaimer

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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