

HLIB Research

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BUY (Maintain)

Target Price: RM0.99
Previously: RM0.99
Current Price: RM0.825

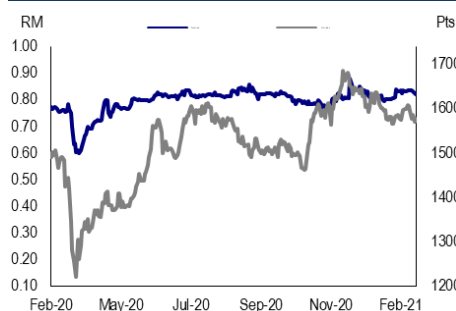
Capital upside	20.0%
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Dividend yield	8.0%
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Expected total return	28.0%
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Sector coverage: Water

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	2.5	5.1	-1.8
Relative	4.3	5.7	-6.8

Stock information

Bloomberg ticker	TWK MK
Bursa code	8524
Issued shares (m)	2016
Market capitalisation (RM m)	1663
3-mth average volume ('000)	694
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)	FY20	FY21f	FY22f
PATMI - core (RM m)	59.5	51.6	54.5
EPS - core (sen)	3.0	2.6	2.7
P/E (x)	28.0	32.2	30.6

Taliworks Corporation

Keeping its dividend promise

Taliworks's FY20 core PATAMI of RM60m (+9% YoY) was within ours and consensus expectations. Performance was buoyed by lower finance costs, turnaround at associate and higher dividend income. We think Taliworks may potentially secure work from Rasau WTP. Maintain earnings forecasts. Maintain BUY with same SOP-driven TP of RM0.99. Stock presents an attractive dividend yield of 8.0% for FY21-22.

Within expectations. Taliworks reported 4QFY20 results with revenue of RM74.9m (-9% QoQ, -29% YoY) and core earnings of RM15.7m (-3% QoQ, 43% YoY). This brings FY20 core earnings to RM59.5m, increasing by 8.5%. The core earnings accounted for 100% of our (consensus: 95%) forecast which is within expectations.

Dividends. DPS of 1.65 sen was declared for the quarter (going ex on 12 March 2021). This brings FY20 dividend to 6.6 sen meeting management's guidance.

QoQ. Core PATAMI declined by -3% brought upon by lower revenue (-9%) resulting from lower topline contributions from water (-12%) and toll (-11%) segments. During the quarter, Taliworks's Langkawi concession ended on 31 Oct-20 and toll traffic volume also saw declines as CMCO was re-imposed.

YoY. Core PATAMI improved by 43% despite revenue decline (-29%) mainly due to higher share of profit from associate (RM8m swing) as well as lower finance costs (-25%) from repayment of borrowings.

YTD. Core PATAMI increased by 9% mainly driven by (i) higher dividend income from investments resulting from deploying its receipt of SPLASH receivables as investments, (ii) lower share of losses from associates and (iii) lower finance costs from repayment of borrowings.

Water segment. For FY20, revenue declined by -12% (ex. impact of MFRS15) largely driven by lower metered sales in Langkawi and SSP1. SSP1 sales declined by 3.7% due to reduction in BSR rates pursuant to the new agreement being signed and 70.5 hours of operational disruption arising from pollution in Sungai Selangor. Meanwhile, Langkawi saw sales tumbling by -17% resulting from its concession ending in Oct-2020 coupled with various forms of MCO impacting water consumption demand in Langkawi.

Tolls. Taliworks's Cheras-Kajang highway saw ADT declining by -20% while its Grand Sepadu saw a -19% drop in traffic. Both were caused by various phases of MCO to which the company took steps to mitigate impact by reducing borrowings and various cost cutting measures.

Construction. Segment revenue was weak during FY20 with declining orderbook compounded by MCO work stoppages. Revenue was substantially contributed by its Langat 2 project. We view Taliworks as a credible candidate to secure work from the upcoming Rasau WTP phase 1 project (RM2bn) which is currently undergoing pre-qualification whereby contract awards are expected by Nov-2021. Phase 1 will be divided into multiple packages.

Forecast. Maintain forecasts as earnings are inline.

Maintain BUY, TP: RM0.99. Maintain BUY with same SOP-driven TP of RM0.99. Stock offers healthy sustainable yields of 8.0% for FY21-22.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	105.5	82.6	74.9	(9.4)	(29.0)	377.1	317.9	(15.7)
EBITDA	39.4	35.7	28.2	(21.0)	(28.5)	157.6	128.9	(18.2)
Finance cost	(7.0)	(5.2)	(5.2)	1.0	(24.9)	(25.0)	(21.2)	(15.1)
Share of results of JV	3.4	0.5	4.0	688.5	18.1	5.3	4.7	(11.0)
Share of results of associate	(6.4)	0.1	2.4	1,958.3	(137.0)	(15.1)	(1.9)	(87.6)
PBT	19.3	22.6	19.1	(15.6)	(1.3)	87.2	78.5	(9.9)
PAT	13.7	18.7	15.3	(18.2)	11.9	65.1	63.5	(2.4)
Core PATMI	11.0	16.2	15.7	(3.0)	43.3	54.8	59.5	8.5
Reported PATMI	(18.5)	16.2	15.7	(3.0)	(184.6)	76.5	59.5	(22.2)
Core EPS (sen)	0.5	0.8	0.8	(3.0)	43.3	2.7	3.0	8.5
EBITDA margin (%)	37.3%	43.2%	37.6%			41.8%	40.6%	
PBT margin (%)	18.3%	27.3%	25.5%			23.1%	24.7%	
PATMI margin (%)	13.0%	22.7%	20.4%			17.3%	20.0%	

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Figure #2 SOP valuation for Taliworks

	(x)	(%)	(RM m)	(%)	(RM m)	(RM)
Highway Assets						
Cheras- Kajang Highway		7	685	51	349	0.17
NNKSB		7	286	45	129	0.06
Water Operations						
SHSB & Taliworks Langkawi		8	524	100	524	0.26
Solid Waste Management						
SWME based on acquisition price			700	35	245	0.12
Construction	6		15	100	15	0.01
Receivables owed by SPLASH					714	0.35
Net Cash and financial assets					20	0.01
SOP Valuation					1,997	0.99

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Figure #3 Financial forecast summary

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	374.2	377.1	317.9	322.2	326.2
EBIT	114.8	122.7	96.9	106.8	106.8
PBT	78.7	87.9	78.5	86.9	87.1
PAT	61.6	64.8	63.5	65.7	65.5
PATMI – Core	52.5	54.8	59.5	51.6	54.5
PATMI – Reported	52.5	54.8	59.5	51.6	54.5
HLIB/ Consensus (%) – Core PATMI	NA	NA	79%	77%	80%
Core EPS (sen)	3.4	2.7	3.0	2.6	2.7
P/E (x)	24.3	30.3	28.0	32.2	30.6
EV/EBITDA (x)	8.1	8.9	8.6	9.6	8.6
DPS (sen)	4.8	5.2	6.6	6.6	6.6
Yield (%)	5.8	5.8	8.0	8.0	8.0
BVPS (RM/share)	0.5	0.6	0.6	0.6	0.5
P/B (x)	1.6	1.3	1.4	1.4	1.5
ROE (%)	6.5%	5.3%	6.2%	5.9%	6.8%
Net Gearing (%)	20.3%	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.