

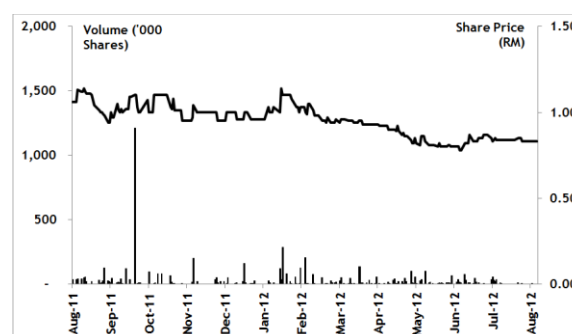
**2Q FYE DEC 2012 RESULTS REPORT**
**29 August 2012**

<b>Name of PLC:</b> Taliworks Corporation Berhad (Taliworks)	<b>Target Price:</b>	RM 1.15
<b>Business Summary :</b> Investment holding company involved in water treatment and supply, waste management via O&M contract and concession, construction and toll concession		
<b>Major Shareholders :</b>		
Dato' Lim Chee Meng (direct and indirect stakes)		55.5%
Kumpulan Perangsan Selangor Berhad		16.9%
as at 4 May 2012		
<b>PLC Website :</b> <a href="http://www.taliworks.com.my">www.taliworks.com.my</a>	<b>Recommendation:</b>	Buy
<b>IR Contact :</b> Mr. Victor Wong, General Manager, Finance <a href="mailto:victorwong@taliworks.com.my">victorwong@taliworks.com.my</a>	<b>Market Capitalisation:</b>	RM 362.3m
- FBM Small Cap	<b>Current Price :</b>	RM 0.83
- FBM Emas Shariah	<b>Market / Sector:</b>	Trading/Services
	<b>Stock Code:</b>	8524
<b>Analyst :</b> Lim Boon Ngee Tel : +603 2163 3200; Email : <a href="mailto:bnlim@nra.com.my">bnlim@nra.com.my</a>		

Key Stock Statistics	2010	2011	2012F	2013F
EPS (sen)	6.7	7.5	9.6	9.9
EPS excl EI (sen)	9.7	11.8	9.6	9.9
P/E (x)	12.4	11.1	8.7	8.4
P/E excl EI (x)	8.6	7.0	8.7	8.4
Dividend/Share (sen)	1.1	0.4	0.4	0.4
NTA/Share (RM)	1.08	1.15	1.24	1.34
Book Value/Share (RM)	1.09	1.16	1.25	1.35
Issued Capital (mil shares)	436.5	436.5	436.5	436.5
52-weeks Share Price Range (RM)			0.78 - 1.20	

Per Share Data	2010	2011	2012F	2013F
Year-end 31 Dec				
Book Value (RM)	1.09	1.16	1.25	1.35
Operating Cash Flow (sen)	11.4	(2.0)	13.5	8.9
Earnings (sen)	6.7	7.5	9.6	9.9
Dividend (sen)	1.1	0.4	0.4	0.4
Payout Ratio (%)	16.8	5.0	3.9	3.8
PER (x)	12.4	11.1	8.7	8.4
P/Cash Flow (x)	7.3	(42.5)	6.1	9.3
P/Book Value (x)	0.8	0.7	0.7	0.6
Dividend Yield (%)	1.4	0.5	0.5	0.5
ROE (%)	6.9	6.6	7.9	7.6
Net Gearing (%)	n.c.	26.6	37.8	29.6
n.c. - net cash				

P&L Analysis (RM mil)	2010	2011	2012F	2013F
Revenue	169.3	168.1	278.5	316.3
Operating Profit	58.4	50.5	55.1	58.8
Depreciation	(4.2)	(4.2)	(16.0)	(16.5)
Finance	(15.2)	(2.4)	(14.4)	(17.4)
Jointly-controlled & Asso	14.0	15.9	12.7	14.7
EI	(13.1)	(18.9)	-	-
Pre-tax Profit	44.1	45.1	53.4	56.0
Effective Tax Rate (%)	(25.5)	(18.7)	(20.0)	(21.0)
Net Profit	29.2	32.6	41.7	43.3
Net Profit (excl EI)	42.3	51.5	41.7	43.3
Operating Margin (%)	34.5	30.0	19.8	18.6
Pre-tax Margin (%)	26.0	26.8	19.2	17.7
Net-Margin (%)	17.2	19.4	15.0	13.7

**Share Price Chart**

**1. 2QFY12 Results Highlight**

	2Q 2012 RMm	2Q 2011 RMm	Chg %
Revenue	76.5	52.9	44.4
Operating Profit	15.5	13.8	12.2
Finance cost	(5.4)	-	n.m.
EI	13.4	4.7	186.2
Jointly-controlled & associates	2.6	3.3	(20.6)
Pre-tax Profit	26.2	21.9	19.7
Net Profit	21.1	17.2	22.5
Operating Margin (%)	20.3	26.1	
Pre-tax Margin (%)	34.2	41.3	
Net-Margin (%)	27.6	32.5	

- Stripping out exceptional items, Taliworks' core operating profit improved by 12.2% in 2QFY12.

- In 2QFY12, due to improved repayment of receivables owed by SPLASH, a writeback of impairment amounting to RM13.4m was recorded as compared with an impairment of RM1.3m in 2QFY11. In addition, 2QFY11 also included an exceptional gain of RM6.0m arising from a settlement agreement with Wijaya. In totality, exceptional gain for 2QFY12 amounted to RM13.4m as compared with a lower exceptional gain of RM4.7m in 2QFY11.
- Stripping out the non-cash flow items as mentioned above, although Taliworks' core operating profit increased by 12.2% to RM15.5m in 2QFY12, PBT (ex-EI) and net profit (ex-EI) declined by 25.8% and 39.0% to RM12.7m and RM7.6m respectively in 2QFY12.
  - EBIT of water division grew by 16.3% to RM16.9m. This was driven mainly by 6.2% and 6.6% increase in production output of Sungai Selangor Water Treatment Works Phase 1 (SSP1) and treated water for its Langkawi operation to 76.2m m<sup>3</sup> and 4.19m m<sup>3</sup> respectively.
  - Construction division recorded a small EBIT of RM0.16m in 2QFY12 against 2QFY11's RM0.78m. As the Mengkuang Dam expansion project (RM339m) is still in its early stage of implementation, profit contribution remained negligible.
  - Its waste management operation turned around with an EBIT of RM1.02m as compared with RM0.41m of 2QFY11. This was attributed to the Yinchuan wastewater TOT project after the take-over of 4 municipal wastewater treatment plants with recycled water facilities in end-FY11.
  - Finance cost increased substantially due to the drawdown of bank borrowings to fund the take-over of Yinchuan wastewater TOT project.
  - Arising from the closure of one-bound traffic on Kajang-Cheras highway since 2-Mar-2012, the average daily traffic decreased substantially by 44%. However, share of net profit from jointly-controlled entity only declined marginally from RM3.0m (2QFY11) to RM2.54m (2QFY12) as the drop in revenue was offset by government compensation, reduced tax charges and lower amortisation due to the extension of concession period.

### **1H FY12 Results Highlight**

	<b>1H 2012</b>	<b>1H 2011</b>	<b>Chg</b>
	<b>RMm</b>	<b>RMm</b>	<b>%</b>
Revenue	124.1	93.6	32.6
Operating Profit	26.9	25.8	4.2
Finance cost	(9.4)	(0.5)	n.m.
Jointly-controlled & associates	7.5	5.1	45.5
EI	5.8	3.4	72.2
Pre-tax Profit	30.8	33.8	(8.8)
Net Profit	21.7	25.7	(15.5)
Operating Margin (%)	21.7	27.6	
Pre-tax Margin (%)	24.8	36.1	
Net-Margin (%)	17.5	27.5	

- For 1H FY12, core operating profit was marginally higher by 4.2% to RM26.9m. Total exceptional gains for 1H FY12 amounted to RM5.8m as compared with RM3.4m in 1H FY11.
- The improvement in core operations was due to higher water demand (+9% for SSP1 and +6% for Langkawi). However, this was offset by losses at its construction and waste management operations due to poor performance in 1QFY12.
- PBT (ex-EI) declined by 17.8% to RM25.0m in 1H FY12 due mainly to substantial increase in finance costs due to the drawdown of bank borrowings to fund the take-over of Yinchuan wastewater TOT project.

## 2. Earnings Outlook

- Core operating profit is largely driven by water division. Earnings contribution from this division will remain stable due to steady consumption demand.
- The Mengkuang Dam expansion project (RM339m) in Pulau Pinang should contribute more meaningfully from FY12 onwards after the initial mobilisation. This project is expected to be 18-20% completed by end-FY12.
- Contribution from waste management operation will still be negligible in FY12-13 before the scheduled increase in tariff rate from 70 cts/m<sup>3</sup> to 75 cts/m<sup>3</sup> starting FY14.
- Upon the completion of Linhe project which is expected to come on stream in 3QFY12, Taliworks will have a sizeable design capacity of 370 MLD.

Projects	Design Capacity (tonne/day)
Panlou	1,000
	(MLD)
Guanghan	50
Linhe	20
Yinchuan	300
<b>Total</b>	<b>370</b>

## 3. Valuation and Recommendation

- Excluding non-cash flow items, annualized reported 1H FY12 net profit (ex-EI) is within our earnings forecast. Hence, we are maintaining our earnings forecast and Buy recommendation on the stock.
- 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 non-cash flow item, the stock is trading at P/E of 8.7x and 8.4x for FY12 and FY13. Its share price is currently trading at a discount to its book value of RM1.21/share.

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## 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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