

Cahaya Mata Sarawak (CMS MK)

Independent investigation to start

Tagging on a governance risk factor to our valuation

At yesterday's investor briefing, CMS' Group MD is confident that there is no fraud involved in the case relating to the suspension of its Group CFO. An independent consultant will be appointed to investigate the losses at its Pan Borneo project (at the contract level) and to review the group's control system and risk mitigation framework. The findings, in our view, could take a while. Pending its outcome, we are tagging on a governance risk factor to our valuation. Our revised MYR1.75 TP (MYR2.50 previously) is based on 0.7x (1.0x previously) our RNAV estimate.

What was announced; two unrelated cases

CMS' Board suspended its Group CFO on 5 May with immediate effect for 30 days to "facilitate investigations into allegation of possible financial mismanagement in relation to the Company's investments and operations". This came hot-on-the-heels of an allegation of conflict of interest (on 22 Apr) involving its Deputy Group Chairman and former CIO. At yesterday's briefing, CMS' Group MD clarified that matters relating to its Deputy Group Chairman and Group CFO are unrelated. CMS also announced last night that its Board is satisfied that allegation involving its Deputy Group Chairman has no basis; he will continue his service.

Losses at Pan Borneo ops level was the trigger

The MYR1.36b Pan Borneo Highway Phase 1 WPC06 contract was awarded to a JV comprising PPES Works (Sarawak) S/B [70%] and Bina Puri S/B [30%] in Jul 2016. PPES Works was a 51% subsidiary of CMS then, but this is now down to 49% after the sale of a 2% stake to SEDC in Oct 2020. What triggered the case-in-point was Pan Borneo's contract/construction losses at PPES Works. At the 70:30 JV level, the project is still profitable.

Independent investigation to start

CMS is now drawing the Terms of Reference (ToR) to appoint a consultant; the target is for an appointment by mid-May 2021. As the ToR would also include a review of the Group's control system and risk mitigation measures to ensure no future recurrences, we think that the consultant's work could take a while. Meanwhile, a potential share buy-back exercise may cap its share price near-term downside.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,741	759	754	774	798
EBITDA	307	58	168	183	188
Core net profit	145	100	146	162	164
Core EPS (sen)	13.5	9.3	13.6	15.1	15.3
Core EPS growth (%)	(42.2)	(30.8)	46.0	11.2	1.3
Net DPS (sen)	3.0	2.0	4.0	4.5	4.5
Core P/E (x)	16.8	22.7	12.5	11.2	11.1
P/BV (x)	0.9	0.8	0.6	0.6	0.6
Net dividend yield (%)	1.3	0.9	2.4	2.6	2.6
ROAE (%)	6.1	(0.5)	5.1	5.5	5.4
ROAA (%)	3.3	2.2	3.3	3.6	3.5
EV/EBITDA (x)	10.0	52.9	16.5	15.5	15.3
Net gearing (%) (incl perps)	4.2	18.9	23.1	24.0	24.8
Consensus net profit	-	-	199	221	229
MKE vs. Consensus (%)	-	-	(26.6)	(26.6)	(28.4)

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HOLD

Share Price	MYR 1.70
12m Price Target	MYR 1.75 (+5%)
Previous Price Target	MYR 2.50

Company Description

Cahaya Mata Sarawak engages in cement manufacturing, construction, road maintenance, building materials and property development.

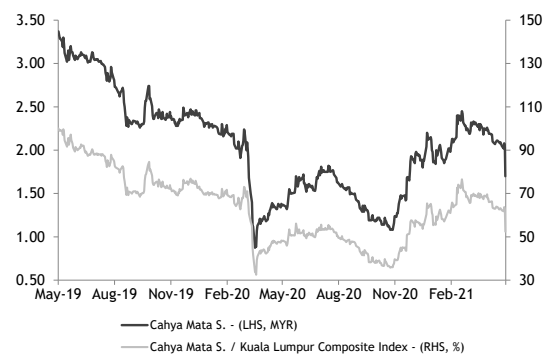
Statistics

52w high/low (MYR)	2.45/1.08
3m avg turnover (USDm)	1.9
Free float (%)	59.2
Issued shares (m)	1,074
Market capitalisation	MYR1.8B
	USD443M

Major shareholders:

Majaharta Sdn. Bhd.	12.5%
Estate of Lejla Taib	10.3%
Employees Provident Fund	9.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(25)	(14)	25
Relative to index (%)	(25)	(14)	9

Source: FactSet

Abbreviation

MD = Managing Director

CFO = Chief Financial Officer

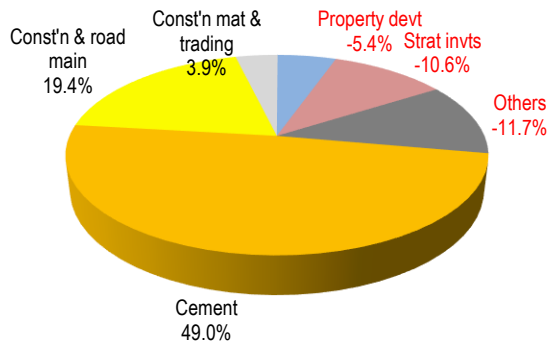
CIO = Chief Information Officer

SEDC = Sarawak Economic Development Corp

Value Proposition

- Beneficiary of construction activities in Sarawak - CMS is the only cement producer and largest construction materials supplier in Sarawak.
- Strategic investments in ferrosilicon & manganese alloys smelter (via 25%-OMS) and integrated phosphate complex (via 60%-MPAS) offer long-term growth prospects.
- ICT operations (under 50%-SACOFA) is expected to benefit from Sarawak's push for a full Digital Economy.
- The only Sarawak PLC on the FTSE4Good Bursa Malaysia Index, testament to its ESG practices.

PBT breakdown (before unallocated expenses) in FY20

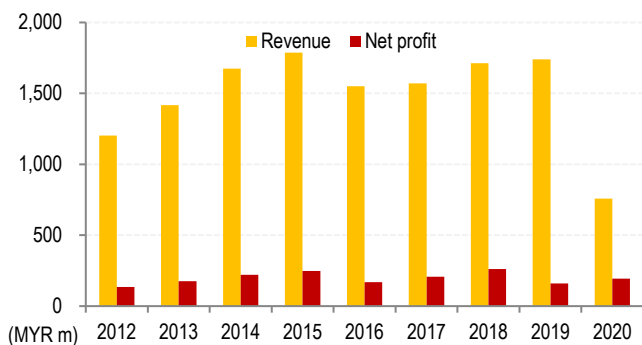


Source: Company

Financial Metrics

- FY21E earnings to recover, after FY20's 34% earnings fall (ex-one offs), impacted by Malaysia's MCO.
- Construction & road maintenance's medium term earnings to be supported by its e.MYR1.0b order book.
- Dividend policy is 30% DPR of net profit, with a minimum 2sen/shr.

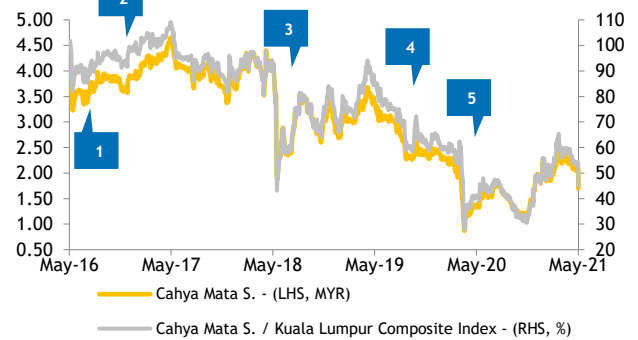
Revenue & net profit trend, FY12-20



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Sarawak state election (7 May 2016).
2. 70%-JV secured a MYR1.36b Pan Borneo Highway Sarawak construction job (Jul 2016).
3. State road maintenance contract extended, but by just one year (Jun 2018).
4. Dato' Sri Mahmud Abu Bekir Taib sold 10.8m shares (1.0% of paid-up) in 2019; Sulaiman Abdul Rahman Taib ceases to be a substantial shareholder (Mar 2020).
5. Start of Movement Control Order (18 Mar 2020).

Swing Factors

Upside

- Roll-out of major infrastructure projects will be positive for its (i) cement, (ii) construction materials & trading, and (iii) construction & road maintenance ops.
- Sizeable land sale as its existing landbank is carried at low cost in its books.
- Upswing in commodity prices, benefiting OMS.

Downside

- Work delay in its existing Pan Borneo Highway Sarawak package; delay in the roll-out of major infra projects.
- Volatility in raw material prices will impact earnings of its cement, and construction materials & trading ops.
- Significant swings in ferrosilicon prices could affect the earnings contribution from OMS.
- Governance issues, following investigations into matters involving its Group CFO.

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Fig 1: RNAV

I. TRADITIONAL CORE BUSINESSES

	FY21E net profit (MYR m)	PER (x)	Holding (%)	CMS' share (MYR m)
Cement				
- CMS Cement	52	15.0	100%	780
Construction materials & trading				
- CMS Resources	46	15.0	49%	339
- Trading	7	15.0	51%	52
Construction & road maintenance				
- PPES Works (Sarawak)	29	12.0	49%	171
Property landbank	Area (ha)	NBV (MYR m)		
- Bandar Samariang, Kuching	1,493	38	100%	38
- Kuching Town	26	66	100%	66
- The Isthmus, Kuching	74	71	51%	36
- Samariang Industrial Park	1,123	116	51%	59
- Samariang Hotel	- NA -	47	100%	47
- Others	10	47	100%	47
				293

II. STRATEGIC INVESTMENTS

	FY21E net profit (MYR m)	PER (x)		
OM Materials (Sarawak) - Phase 1	37	10.0	25%	94
Malaysian Phosphate Additives (Sarawak)	(cost of invt in 2016-19)		60%	177
SACOFA		DCF (MYR m)	50%	427
		853		
Listed Associates	Paid-up (m shrs)	Sh px (MYR)		
- Kenanga IB	699	0.90	26%	165
- KKB Engineering	258	1.59	20%	82
Net debt at CMS group level @ Dec 2019				(134)
Investment securities @ Dec 2019				251
RNAV (MYR m)				2,697
No. of shares existing (m)				1,073
RNAV per share (MYR)				2.50

Source: Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	19.3	nm	12.5	11.2	11.1
Core P/E (x)	16.8	22.7	12.5	11.2	11.1
P/BV (x)	0.9	0.8	0.6	0.6	0.6
P/NTA (x)	1.0	0.8	0.6	nm	nm
Net dividend yield (%)	1.3	0.9	2.4	2.6	2.6
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	10.0	52.9	16.5	15.5	15.3
EV/EBIT (x)	13.4	nm	28.5	25.6	25.3
INCOME STATEMENT (MYR m)					
Revenue	1,740.5	758.5	754.2	774.1	797.9
EBITDA	306.8	58.1	167.7	182.9	188.5
Depreciation	(77.3)	(73.0)	(70.4)	(72.5)	(74.6)
EBIT	229.5	(14.8)	97.3	110.4	113.9
Net interest income / (exp)	(39.4)	(27.9)	(42.0)	(43.3)	(44.7)
Associates & JV	57.8	49.3	104.4	111.8	112.4
Exceptionals	14.8	94.8	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	247.9	6.5	159.8	179.0	181.6
Income tax	(59.8)	(24.1)	(13.8)	(16.8)	(17.3)
Minorities	(28.7)	5.2	0.0	0.0	0.0
Discontinued operations	0.0	207.2	0.0	0.0	0.0
Reported net profit	159.5	(12.4)	145.9	162.2	164.3
Core net profit	144.6	100.0	145.9	162.2	164.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	621.1	281.8	131.5	73.9	20.9
Accounts receivable	294.0	186.2	185.1	190.0	195.8
Inventory	342.3	327.1	328.7	331.3	341.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,332.1	1,312.7	1,381.5	1,437.1	1,490.5
Intangible assets	83.7	61.7	61.7	61.7	61.7
Investment in Associates & JVs	996.8	1,317.6	1,422.0	1,533.9	1,646.3
Other assets	884.9	973.6	973.6	973.6	973.6
Total assets	4,554.9	4,460.7	4,484.1	4,601.4	4,730.3
ST interest bearing debt	45.5	48.5	48.5	48.5	48.5
Accounts payable	471.1	489.8	410.1	413.5	426.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	709.3	802.8	802.8	802.8	802.8
Other liabilities	177.0	101.0	101.0	101.0	101.0
Total Liabilities	1,403.0	1,441.9	1,362.2	1,365.5	1,378.3
Shareholders Equity	2,638.5	2,785.9	2,889.0	3,002.9	3,119.1
Minority Interest	513.5	232.9	232.9	232.9	232.9
Total shareholder equity	3,151.9	3,018.8	3,121.9	3,235.9	3,352.0
Total liabilities and equity	4,554.9	4,460.7	4,484.1	4,601.4	4,730.3
CASH FLOW (MYR m)					
Pretax profit	247.9	6.5	159.8	179.0	181.6
Depreciation & amortisation	77.3	73.0	70.4	72.5	74.6
Adj net interest (income)/exp	23.2	27.9	42.0	43.3	44.7
Change in working capital	61.3	119.7	(80.2)	(4.2)	(3.3)
Cash taxes paid	(57.1)	(24.1)	(13.8)	(16.8)	(17.3)
Other operating cash flow	(106.2)	(77.2)	(146.4)	(155.1)	(157.1)
Cash flow from operations	246.4	125.8	31.7	118.6	123.2
Capex	(371.1)	(325.9)	(139.2)	(128.0)	(128.0)
Free cash flow	(124.6)	(200.1)	(107.5)	(9.4)	(4.8)
Dividends paid	(79.4)	(21.4)	(42.8)	(48.2)	(48.2)
Change in Debt	142.0	96.4	0.0	0.0	0.0
Other invest/financing cash flow	(238.8)	(6.6)	0.0	0.0	0.0
Net cash flow	(300.8)	(131.7)	(150.3)	(57.6)	(53.0)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.7	(56.4)	(0.6)	2.6	3.1
EBITDA growth	(15.9)	(81.0)	188.4	9.1	3.1
EBIT growth	(24.0)	nm	nm	13.5	3.1
Pretax growth	(33.4)	(97.4)	2,368.7	12.0	1.5
Reported net profit growth	(39.2)	nm	nm	11.2	1.3
Core net profit growth	(42.2)	(30.9)	46.0	11.2	1.3
Profitability ratios (%)					
EBITDA margin	17.6	7.7	22.2	23.6	23.6
EBIT margin	13.2	nm	12.9	14.3	14.3
Pretax profit margin	14.2	0.9	21.2	23.1	22.8
Payout ratio	20.2	nm	29.4	29.7	29.3
DuPont analysis					
Net profit margin (%)	9.2	nm	19.3	21.0	20.6
Revenue/Assets (x)	0.4	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.7	1.6	1.6	1.5	1.5
ROAE (%)	6.1	(0.5)	5.1	5.5	5.4
ROAA (%)	3.3	2.2	3.3	3.6	3.5
Liquidity & Efficiency					
Cash conversion cycle	33.2	46.1	21.7	42.8	43.1
Days receivable outstanding	62.9	113.9	88.6	87.2	87.0
Days inventory outstanding	80.6	155.8	179.7	179.0	177.0
Days payables outstanding	110.3	223.6	246.6	223.4	221.0
Dividend cover (x)	5.0	(0.6)	3.4	3.4	3.4
Current ratio (x)	3.0	2.6	2.7	2.5	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	3.2	3.1	3.3	3.4	3.4
Net gearing (%) (incl perps)	4.2	18.9	23.1	24.0	24.8
Net gearing (%) (excl. perps)	4.2	18.9	23.1	24.0	24.8
Net interest cover (x)	5.8	na	2.3	2.6	2.5
Debt/EBITDA (x)	2.5	14.6	5.1	4.7	4.5
Capex/revenue (%)	21.3	43.0	18.5	16.5	16.0
Net debt/ (net cash)	133.8	569.4	719.8	777.4	830.4

Source: Company; Maybank

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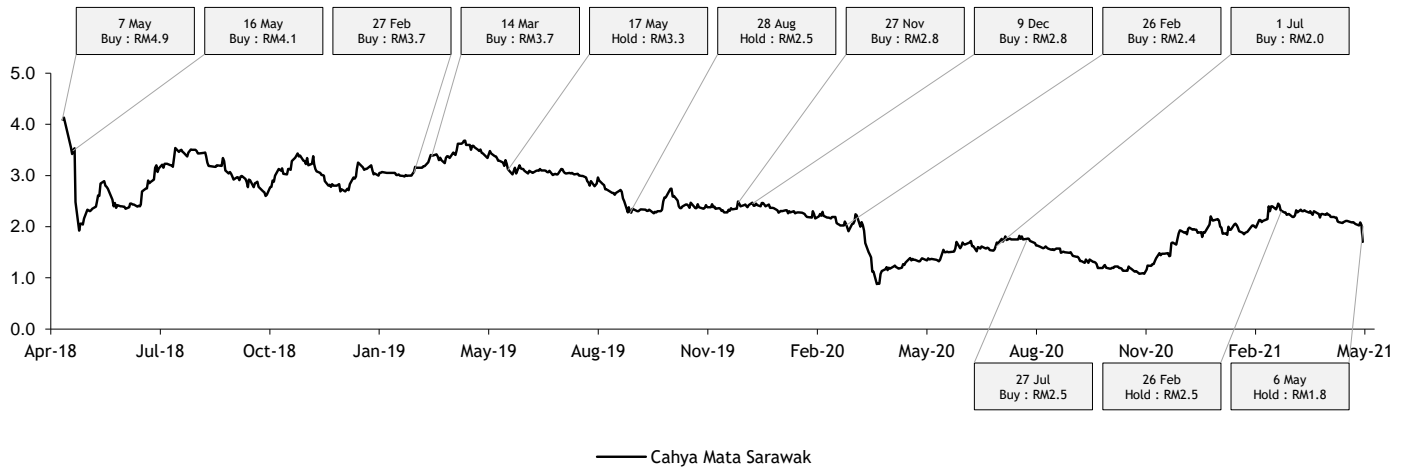
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Historical recommendations and target price: Cahya Mata Sarawak (CMS MK)



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