

Cahaya Mata Sarawak (CMS MK)

1Q21: Positively surprised

Core forecasts maintained

CMS' 1Q21 headline net profit of MYR78m (+350% YoY) included a MYR29m gain from the sale of 46.6m shares in Kenanga. Ex- one-off, core net profit of MYR49m (+185% YoY) was ahead of our expectation at 34% of our FY21E, with the beat coming from its cement ops and associates contribution. We raise FY21E headline net profit by 20% to incorporate the MYR29m one-off gain, but maintain FY21E core net profit as we are cautious due to rising COVID-19 cases in Sarawak. HOLD maintained, with a trimmed MYR1.73 TP (RNAV-based) upon updating some parameters.

Cement, assocs, JVs drove core profit

Cement PBT rose 17% YoY (+2.9x QoQ) driven by margin expansion from lower clinker, labour and discharging costs. Associates contribution rose 166% YoY (+6.5x QoQ), contributed by (i) KKB, whose 1Q21 net profit rose 40% YoY (4Q20: loss) and we believe, (ii) Kenanga (yet to report 1Q21), while (iii) OMS' contribution should be higher YoY (lower QoQ) on higher selling prices offsetting lower sales volume for FeSi (-49% YoY, -46% QoQ) and manganese alloys (-8% YoY, -38% QoQ). Higher JVs' contribution came from the quarry ops (under CMS Resources) on higher production volume (revenue: +49% YoY) and lower bitumen cost. Cement contributed 40% to group PBT (ex- MYR29m one-off gain), associates 56% and JVs 13%.

Caution ahead

We maintain our core earnings forecasts as we turn cautious due to rising COVID-19 cases in Sarawak. From the notes to its 1Q21 results release, management cautioned on labour shortage due COVID-19 travel restrictions impacting its cement ops, in addition to the uptrend in shipping costs since Feb 2021. As for its premix ops, supply to the Pan Borneo Highway is expected to peak this year, while its MYR1.03b outstanding construction orderbook should continue to support earnings.

Tweaking TP

We continue to tag a governance risk factor to our RNAV valuation pending outcome of an independent investigation pursuant to the recent suspension of its Group CFO. Our tweaked MYR1.73 TP (MYR1.75 previously) is based on unchanged 0.7x our revised RNAV estimate.

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	11.5	10.4	10.2
P/BV (x)	0.9	0.8	0.6	0.6	0.5
Net dividend yield (%)	1.3	0.9	2.5	2.9	2.9
ROAE (%)	6.1	(0.5)	6.1	5.5	5.3
ROAA (%)	3.3	2.2	3.3	3.5	3.5
EV/EBITDA (x)	10.0	52.9	15.5	14.6	14.4
Net gearing (%) (incl perps)	4.2	18.9	21.9	22.9	23.7
Consensus net profit	-	-	199	221	229
MKE vs. Consensus (%)	-	-	(12.3)	(26.6)	(28.4)

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HOLD

Share Price	MYR 1.57
12m Price Target	MYR 1.73 (+13%)
Previous Price Target	MYR 1.75

Company Description

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

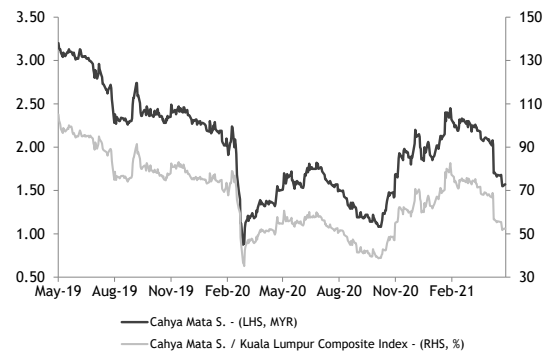
Statistics

52w high/low (MYR)	2.45/1.08
3m avg turnover (USDm)	2.0
Free float (%)	49.7
Issued shares (m)	1,074
Market capitalisation	MYR1.7B
	USD407M

Major shareholders:

Majaharta Sdn. Bhd.	12.5%
Employees Provident Fund	11.5%
Estate of Lejla Taib	10.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(25)	(32)	5
Relative to index (%)	(23)	(32)	(5)

Source: FactSet

Stocks mentioned in this report

Kenanga (KNKIB MK; CP: MYR1.47; Not Rated)
KKB (KKB MK, CP: MYR1.48; Not Rated)
OM Holdings (OMH AU, CP: AUD0.86, Not Rated)

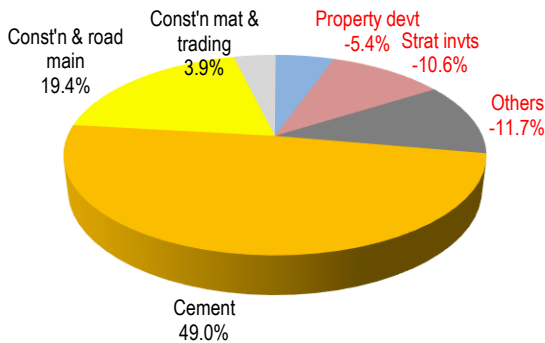
Abbreviation

MCO = Movement Control Order

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.

PBT breakdown (before unallocated expenses) in FY20

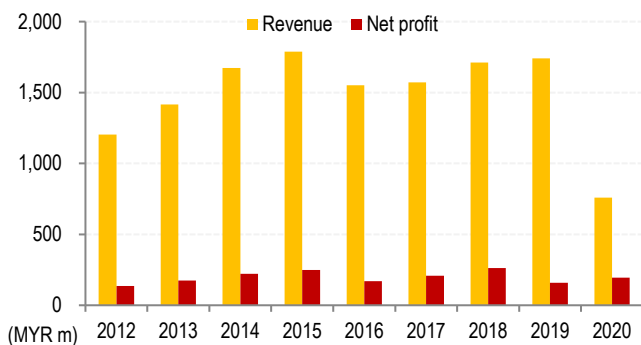


Source: Company

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.MYR1.03b order book.
- Dividend policy is 30% DPR of net profit, with a minimum 2sen/shr.

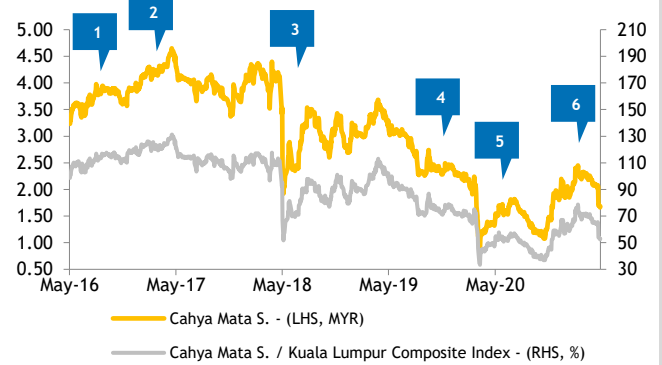
Revenue & net profit trend, FY12-20



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Sarawak state election (7 May 2016).
- 70%-JV secured a MYR1.36b Pan Borneo Highway Sarawak construction job (Jul 2016).
- State road maintenance contract extended, but by just one year (Jun 2018).
- 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).
- Start of Movement Control Order (18 Mar 2020).
- Group CFO suspended for 30 days (5 May 2021).

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 investigation into matters involving its Group CFO.

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Comments
	1Q21	1Q20	% YoY	4Q20	% QoQ	
Turnover	202.1	189.4	6.7	206.7	(2.3)	Higher YoY driven by cement, trading and property development ops.
EBIT	52.6	14.5	262.0	(63.7)	NM	
Interest expense	(7.2)	(7.6)	(4.8)	(8.3)	(12.6)	
Profit before assoc, JV	45.3	6.9	554.6	(71.9)	NM	
Share of assoc's profit	30.3	11.4	166.1	4.0	654.0	
Share of JVs' profit	6.9	(0.2)	NM	(0.8)	NM	<ul style="list-style-type: none"> Construction materials' (quarry) PBT grew 163% YoY to MYR15.5m mainly on higher production volume (revenue: +49% YoY) and lower bitumen cost. Construction's PBT was down 17% YoY to MYR2.3m on lower margins amid a 27% YoY growth in revenue.
Pre-tax profit	82.6	18.1	356.3	(68.8)	NM	
Tax	(7.4)	(7.3)	2.0	(5.2)	43.6	
Profit from discontinued ops	-	6.5	NM	162.9	NM	4Q20: Disposal and remeasurement gain from sale of 2% CMS Resources and CMS Works, completed on 2 Oct 2020.
Minorities	2.7	(0.0)	NM	25.0	(89.4)	
Net profit	77.8	17.3	350.1	114.0	(31.8)	
Core net profit	49.3	17.3	185.1	19.2	157.0	Ex- one-off gain fr sale of 46.6m shares in Kenanga (MYR28.5m).
EPS (sen)	7.32	1.61	354.7	10.69	(31.5)	
DPS (sen) - net	-	-	NM	2.0	NM	
	1Q21	1Q20	ppt chg YoY	4Q20	ppt chg QoQ	
EBIT margin (%)	26.0	7.7	18.3	(30.8)	56.8	
Pretax margin (%)	40.9	9.6	31.3	(33.3)	74.1	
Tax rate (%)	9.0	40.2	(31.2)	(7.5)	16.5	
Segmental						
Revenue:	1Q21	1Q20	% YoY	4Q20	% QoQ	
Cement	128.2	120.2	6.6	139.3	(8.0)	
Trading	27.9	21.1	32.0	28.6	(2.5)	
Road maintenance	26.7	28.0	(4.4)	24.4	9.4	
Property development	22.0	18.3	19.7	18.5	18.9	
Strategic investments	-	-	NM	-	NM	
Others	13.3	18.9	(29.3)	12.0	10.9	
Elimination	(16.0)	(17.1)	(6.3)	(16.1)	(0.4)	
Total	202.1	189.4	6.7	206.7	(2.3)	
Profit before assoc, JV						
Cement	21.7	18.6	16.9	5.5	294.7	Margins improved on lower clinker purchase price, lower labour and discharging costs.
Trading	1.7	0.8	108.0	1.4	26.9	Better margins from higher sales of water treatment chemicals, pipes and fittings to JKR, and profit recognised on a telecoms tower project.
Road maintenance	1.7	3.2	(48.4)	5.7	(70.8)	Margins impacted by unexpected costs from unfavourable on-site ground conditions of a project.
Phosphate	(9.8)	(8.1)	20.9	(49.7)	(80.4)	Phase 1 integrated phosphate complex still under construction - higher losses YoY was due to higher unrealised forex loss of MYR9.2m (1Q20: -MYR7.1m) from its USD borrowings.
Property development	2.9	4.4	(33.7)	(12.3)	NM	1Q20 included MYR4.4m gross profit for land compensation received from the Sarawak Government.
Strategic investments	5.7	0.4	1,356.0	(6.6)	NM	Included gain on disposal of Kenanga shares of MYR5.4m.
Others	1.9	1.2	58.7	(10.0)	NM	
Unallocated corporate expenses	19.5	(13.6)	NM	(6.0)	NM	Included gain from disposal of land (MYR12.7m) and sale of Kenanga shares (MYR23.1m), offset by unrealised loss on investment securities (MYR5.4m).
Total	45.3	6.9	554.6	(71.9)	NM	

Source: Company

Fig 1: Results summary (continued)

Pre-tax margin %	Quarterly					Comments
	1Q21	1Q20	ppt chg YoY	4Q20	ppt chg QoQ	
Cement	17.0	15.5	1.5	4.0	13.0	
Trading	6.2	3.9	2.3	4.7	1.4	
Road maintenance	6.3	11.6	(5.3)	23.5	(17.2)	
Property development	13.2	23.9	(10.7)	(66.4)	79.6	
Others	14.1	6.3	7.8	(82.6)	96.8	
Overall	22.4	3.7	18.8	(34.8)	57.2	

Source: Company

Near-term prospects

From the notes accompanying CMS' 1Q21 results release:

- **Cement:** To be impacted by the pandemic (labour shortage due to travel restrictions) and fluctuation in shipping costs (which has been on an uptrend since Feb 2021 and management expects this to continue into 2H21).
- **Quarry & premix:** Premix supply to the Pan Borneo Highway is expected to peak this year. Management is looking to increase its quarry assets by expanding their capacity (4m MT p.a. now) and new sites.
- **Construction:** Outstanding orderbook (ex- road maintenance concession) was MYR1.03b as of 31 Mar 2021. CMS continues to target upcoming packages under Sarawak's Coastal Road Network and Second Trunk Road to grow its orderbook.
- **Road maintenance:** CMS is in active negotiations with JKR Sarawak to procure design-and-build contracts.

From the notes accompanying OMH's 1Q21 production update [\[link\]](#):

- **OMS:** Substantially lower QoQ sales volume for FeSi (-46%) and manganese alloys (-38%) in 1Q21 was due to the pace of destocking inventory stabilising after a surge in demand from end-users such as steel mills. Production plan for OMS in 2H21 may be readjusted depending on how the COVID-19 situation evolves and manpower availability.

Fig 2: RNAV

I. TRADITIONAL CORE BUSINESSES

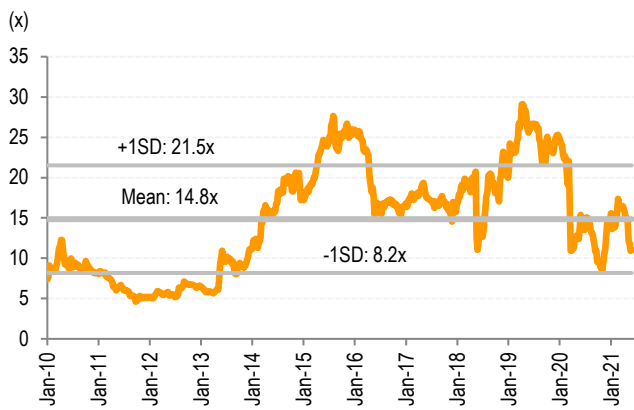
	FY21E net profit (MYR m)	PER (x)	Holding (%)	CMS' share (MYR m)
Cement				
- CMS Cement	52	15.0	100%	780
Construction materials & trading				
- CMS Resources	46	15.0	49%	339
- Trading	7	15.0	51%	52
Construction & road maintenance				
- PPES Works (Sarawak)	29	12.0	49%	171
Property landbank	Area (ha)	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	51	10.0	25%	128
Malaysian Phosphate Additives (Sarawak)	(cost of invt in 2016-19)		60%	177
SACOFA		DCF (MYR m)		
		509	50%	255
Listed Associates	Paid-up (m shrs)	Sh px (MYR)		
- Kenanga IB	699	1.47	26%	270
- KKB Engineering	258	1.48	20%	76
Net debt at CMS group level @ Dec 2019				(134)
Investment securities @ Dec 2019				251
RNAV (MYR m)				2,658
No. of shares existing (m)				1,073
RNAV per share (MYR)				2.48

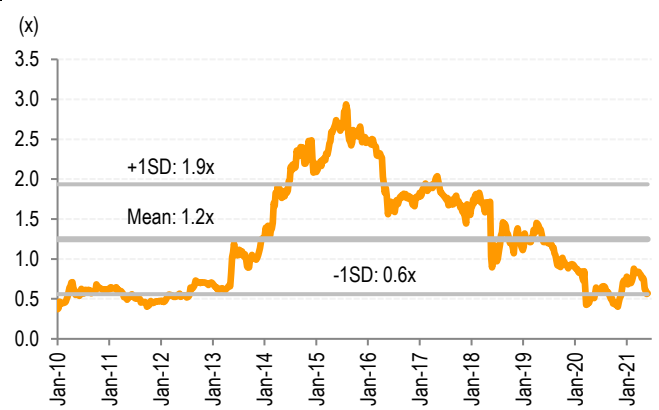
Source: Maybank KE

Fig 3. 12M forward PER



Source: Company data, Maybank KE

Fig 4. 12M forward P/B



Source: Company data, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	19.3	nm	9.6	10.4	10.2
Core P/E (x)	16.8	22.7	11.5	10.4	10.2
P/BV (x)	0.9	0.8	0.6	0.6	0.5
P/NTA (x)	1.0	0.8	0.6	nm	nm
Net dividend yield (%)	1.3	0.9	2.5	2.9	2.9
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	10.0	52.9	15.5	14.6	14.4
EV/EBIT (x)	13.4	nm	26.8	24.1	23.8
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	28.5	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	247.9	6.5	188.3	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)	174.4	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	160.0	102.4	49.4
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	4,512.6	4,629.9	4,758.8
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	2,917.5	3,031.4	3,147.6
Minority Interest	513.5	232.9	232.9	232.9	232.9
Total shareholder equity	3,151.9	3,018.8	3,150.4	3,264.4	3,380.5
Total liabilities and equity	4,554.9	4,460.7	4,512.6	4,629.9	4,758.8
CASH FLOW (MYR m)					
Pretax profit	247.9	6.5	188.3	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)	(174.9)	(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)	28.5	0.0	0.0
Net cash flow	(300.8)	(131.7)	(121.8)	(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)	2,809.2	(4.9)	1.5
Reported net profit growth	(39.2)	nm	nm	(7.0)	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	25.0	23.1	22.8
Payout ratio	20.2	nm	24.6	29.7	29.3
DuPont analysis					
Net profit margin (%)	9.2	nm	23.1	21.0	20.6
Revenue/Assets (x)	0.4	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.7	1.6	1.5	1.5	1.5
ROAE (%)	6.1	(0.5)	6.1	5.5	5.3
ROAA (%)	3.3	2.2	3.3	3.5	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)	4.1	3.4	3.4
Current ratio (x)	3.0	2.6	2.7	2.6	2.5
Leverage & Expense Analysis					
Asset/Liability (x)	3.2	3.1	3.3	3.4	3.5
Net gearing (%) (incl perps)	4.2	18.9	21.9	22.9	23.7
Net gearing (%) (excl. perps)	4.2	18.9	21.9	22.9	23.7
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	691.3	748.9	801.9

Source: Company; Maybank

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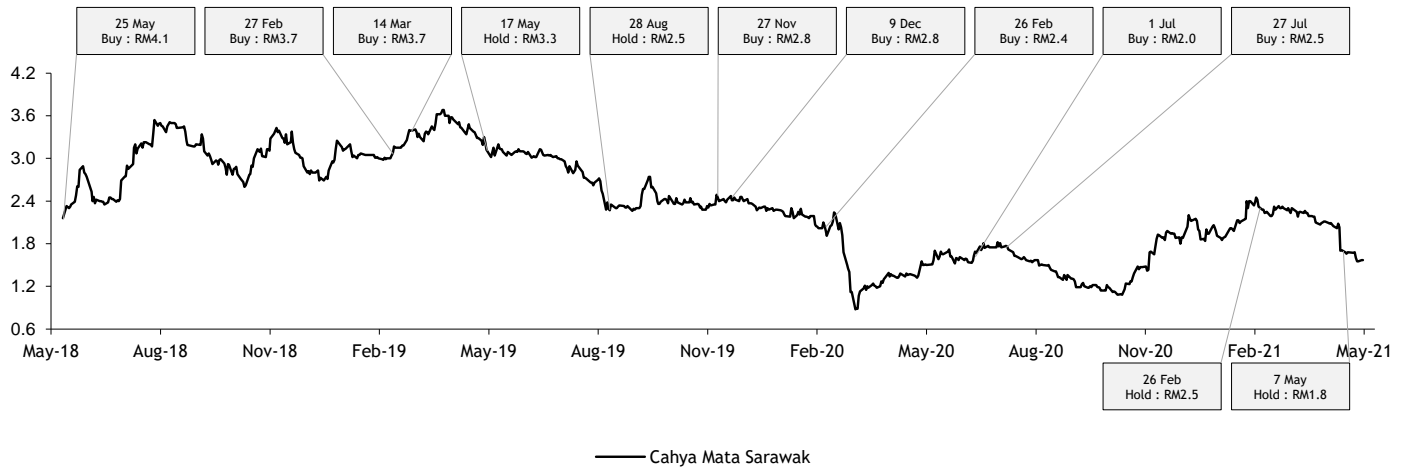
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