

Cahaya Mata Sarawak (CMS MK)

Amid extreme challenges

Realigning priorities

Amid extreme challenges brought on by the pandemic, CMS' priorities are to remain in operations under strict SOP compliance and to catch-up on its plans. Its focus are to maintain a strong cash position, continue its collaboration with the Sarawak State, and build its leadership strength. We make no change to our earnings forecasts. Our MYR1.73 TP is based on 0.7x RNAV, incorporating a governance risk factor pending outcome of an independent investigation relating to its Group CFO. Maintain HOLD.

Operating under strict SOP compliance

CMS' cement, quarry and premix ops are termed essential services under Sarawak's MCO (29 May - 14 Jun); they are operating on 30% staff force. Longer term plans are still to raise its clinker plant production to 800,000 MT p.a. by 2023, and start operating a 4th/5th quarry in 3Q21/4Q22. At construction, travel restriction means difficulty in bringing in foreign specialists, affecting the progress of its Jepak Bridge project. The target is still to grow its orderbook to MYR2b in 2 years; outstanding orderbook (ex- road maintenance concession) was MYR1.03b as of 31 Mar 2021. Expectations are for larger contract wins only post the State Election.

Hiccups at OMS and MPA

OMS' production was temporarily halted on 28 May after a lockdown of its workers' dormitories due to COVID-19 cases. 4 out of its 12 furnaces are currently down and OMS is working with the authorities to re-start operations. At MPA, the completion of Phase 1 construction and its commissioning are delayed again as specialist workers from China are unable to enter Sarawak due to travel restrictions. Full commercial operation is now expected in Aug 2021 (from Mar 2021).

Maintaining forecasts for now

We retain our earnings forecasts as we continue to monitor the pandemic situation. 1Q21 net profit (ex-one off), which is 34% of our FY21E core net profit, provides some buffer. Elsewhere, the 30-day suspension of its Group CFO has been extended by 60 days to allow the duration required for the independent consultant to review the matter; this follows the appointment of the consultant (KPMG) last week.

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	11.7	10.6	10.4
P/BV (x)	0.9	0.8	0.6	0.6	0.5
Net dividend yield (%)	1.3	0.9	2.5	2.8	2.8
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	15.7	14.7	14.6
Net gearing (%) (incl perps)	4.2	18.9	21.9	22.9	23.7
Consensus net profit	-	-	193	217	225
MKE vs. Consensus (%)	-	-	(9.6)	(25.4)	(27.0)

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HOLD

Share Price	MYR 1.60
12m Price Target	MYR 1.73 (+11%)
Previous Price Target	MYR 1.73

Company Description

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

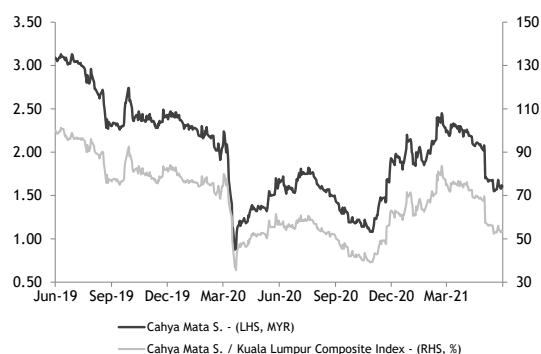
Statistics

52w high/low (MYR)	2.45/1.08
3m avg turnover (USDm)	1.9
Free float (%)	49.7
Issued shares (m)	1,074
Market capitalisation	MYR1.7B USD417M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(21)	(28)	(5)
Relative to index (%)	(21)	(29)	(9)

Source: FactSet

Stocks mentioned in this report

Kenanga (KNKIB MK; CP: MYR1.52; Not Rated)
KKB (KKB MK, CP: MYR1.44; Not Rated)
OM Holdings (OMH AU, CP: AUD0.79, Not Rated)

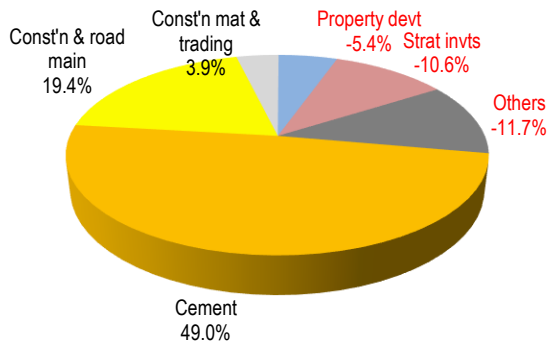
Abbreviation

SOP = Standard Operating Procedures
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

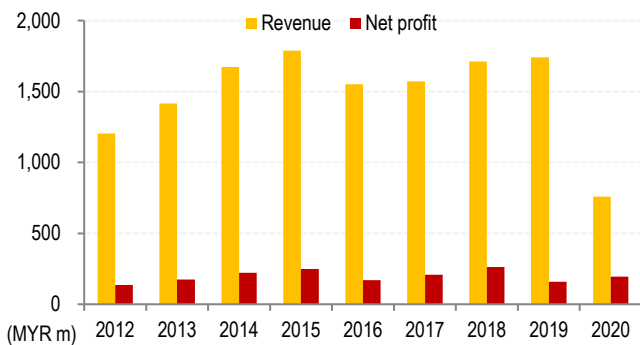


Source: Company

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.

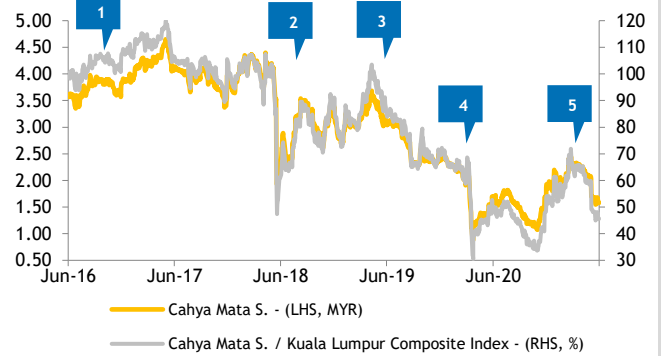
Revenue & net profit trend, FY12-20



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. 70%-JV secured a MYR1.36b Pan Borneo Highway Sarawak construction job (Jul 2016).
2. State road maintenance contract extended, but by just one year (Jun 2018).
3. 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).
4. Start of Movement Control Order (18 Mar 2020).
5. 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.

Fig 1: RNAV

I. TRADITIONAL CORE BUSINESSES

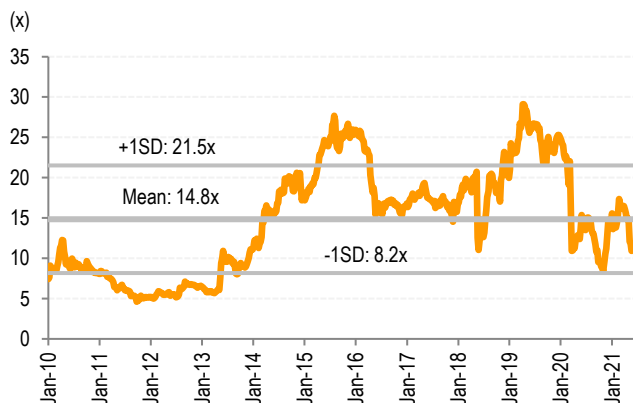
	FY21E net profit (MYR m)	PER (x)	Holding (%)	CMS' share (MYR m)
Cement				
- CMS Cement	52	15.0	100%	780
Construction materials & trading				
- CMS Resources	46	15.0	49%	339
- Trading	7	15.0	51%	52
Construction & road maintenance				
- PPES Works (Sarawak)	29	12.0	49%	171
Property landbank	Area (ha)	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	51	10.0	25%	128
Malaysian Phosphate Additives (Sarawak)	(cost of invt in 2016-19)		60%	177
SACOFA		DCF (MYR m)	50%	255
		509		
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

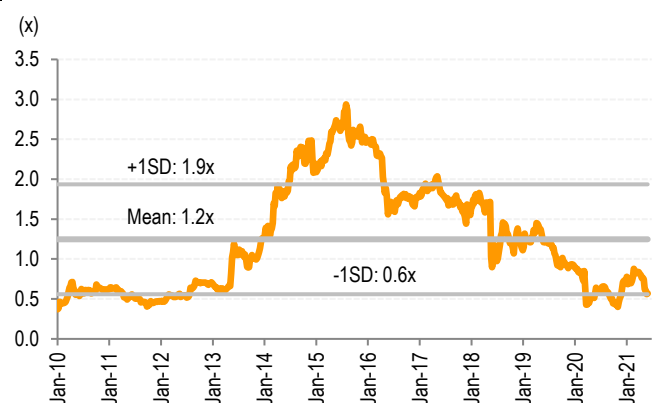
Source: Maybank KE

Fig 2: 12M forward PER



Source: Company data, Maybank KE

Fig 3: 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	9.8	10.6	10.4
Core P/E (x)	16.8	22.7	11.7	10.6	10.4
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	2.8	2.8
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	10.0	52.9	15.7	14.7	14.6
EV/EBIT (x)	13.4	nm	27.1	24.4	24.1
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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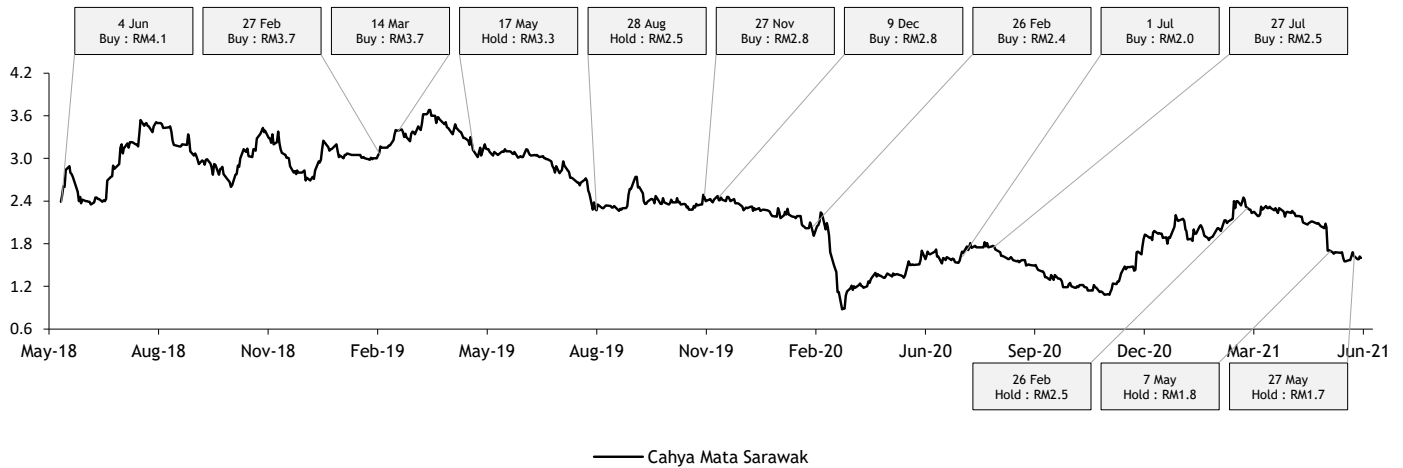
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