

# Cahaya Mata Sarawak (CMS MK)

## ESG: Continuity in efforts, restoring confidence are key

### Take profit; D/G to HOLD

As a major construction-based conglomerate with diversified businesses, CMS' sustainability and governance responsibilities are heavy, and its ESG risks inevitably higher than that of its peers. While CMS has achieved milestones in some material ESG matters, continuing on its efforts is key. Restoring confidence in governance is also key after recent developments relating to its former Group CFO and changes in leadership. On limited upside to our unchanged TP (0.7x RNAV), we D/G the stock to HOLD. Our BUYs in the construction-cum-infrastructure sector are Gamuda and IJM.

### Making strides in some material ESG matters

Energy management measures include implementing ISO 50001 at its cement ops, and the use of LED lightings throughout the group's ops. Materials management include product development; its eco-friendly *Portland Limestone Cement* has >20% limestone addition, but uses less clinker. Biodiversity management includes pursuing BCA Green Mark Certification for its *Samalaju Eco Park Township* and GBI-certified buildings in *The Isthmus*. In 2020, 4 new policies were put in place to comply with the new Section 17A of the MACC Act 2009.

### Continuity is key under its new leadership

Two sustainability committees are to be formally established in 2021 to drive sustainability efforts from the top-down. 2021 is also the year where its new 3-year Sustainability Roadmap takes off, which includes implementing responsible sourcing practices, and prioritising low-carbon solutions, among others. With associate companies starting to contribute the bulk of group earnings, the group's Sustainability Report should also cover the activities and efforts of these companies, in our view.

### Restoring confidence in governance is also key

Outcome of an independent investigation pertaining to its former Group CFO is pending. Since Jun 2021, 5 Board members (incl. Group Chairman and Group Managing Director) have resigned/retired and replaced by 3 new members. These have impacted investors' confidence. EPF Board, which used to be its 3<sup>rd</sup> largest shareholder (13.25% @ 31 Mar 2020) has ceased to be a substantial shareholder on 10 Sep 2021.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,741	763	779	965	993
EBITDA	307	51	159	165	170
Core net profit	145	100	153	159	167
Core EPS (sen)	13.5	9.3	14.1	14.7	15.4
Core EPS growth (%)	(42.2)	(30.7)	51.2	4.1	4.7
Net DPS (sen)	3.0	2.0	4.0	4.0	4.0
Core P/E (x)	16.8	22.7	10.3	9.9	9.4
P/BV (x)	0.9	0.8	0.5	0.5	0.5
Net dividend yield (%)	1.3	0.9	2.8	2.8	2.8
ROAE (%)	6.1	(0.5)	6.4	5.3	5.4
ROAA (%)	3.3	2.2	3.4	3.4	3.5
EV/EBITDA (x)	10.0	60.8	15.7	15.5	15.4
Net gearing (%) (incl perps)	4.2	18.9	21.9	23.5	24.2
Consensus net profit	-	-	177	197	223
MKE vs. Consensus (%)	-	-	2.5	(18.9)	(25.0)

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# HOLD

[Prior:BUY]

Share Price MYR 1.45  
12m Price Target MYR 1.48 (+5%)  
Previous Price Target MYR 1.48

### Company Description

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

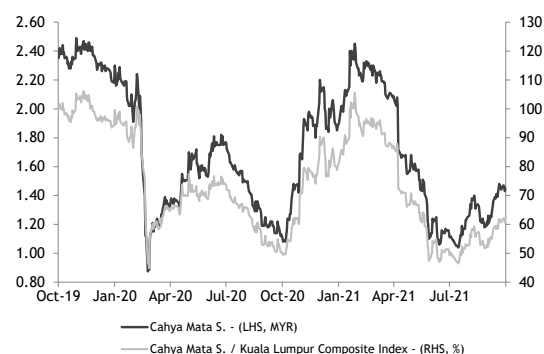
### Statistics

52w high/low (MYR) 2.45/1.04  
3m avg turnover (USDm) 3.5  
Free float (%) 64.1  
Issued shares (m) 1,074  
Market capitalisation MYR1.6B  
USD375M

### Major shareholders:

Majaharta Sdn. Bhd. 12.5%  
Estate of Lejla Taib 10.3%  
Lembaga Tabung Haji 7.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	19	27	29
Relative to index (%)	16	22	22

Source: FactSet

### Stocks mentioned in this report

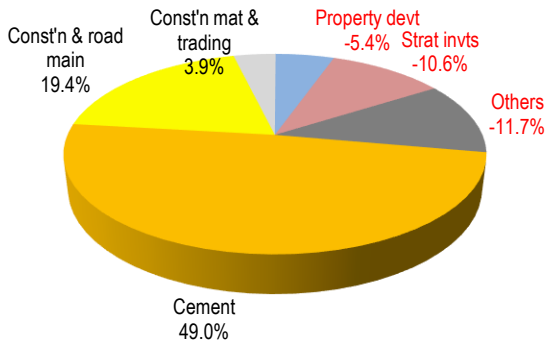
Gamuda (GAM MK, SP MYR3.23, BUY, TP MYR4.00)  
IJM (IJM MK, SP MYR1.86, BUY, TP MYR2.20)

**ESG@MKE**  
Tear Sheet Insert

### 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 FTSE4Good Bursa Malaysia Index.

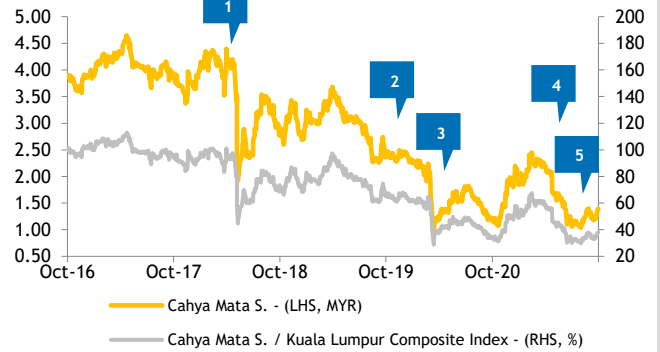
### PBT breakdown (before unallocated expenses) in FY20



Source: Company

### Price Drivers

#### Historical share price trend



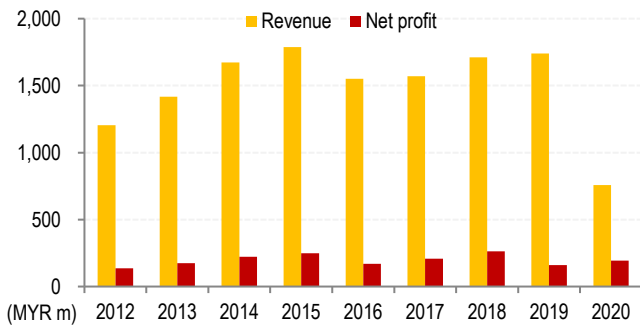
Source: Company, Maybank Kim Eng

1. State road maintenance contract extended, but by just one year (Jun 2018).
2. 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).
3. Start of Movement Control Order (18 Mar 2020).
4. Group CFO suspended for 30 days (5 May 2021).
5. Dato' Sri Sulaiman Abdul Rahman Taib appointed Group MD, replacing Dato' Isaac Lugun (8 Jul 2021).

### Financial Metrics

- FY21E core earnings to recover, after FY20's 31% fall (ex-one offs), impacted by pandemic induced lockdowns and standard operating procedures at workplace.
- Construction & road maintenance's medium term earnings to be supported by its e.MYR0.89b outstanding order book (ex- road maintenance).
- Dividend policy is 30% DPR of net profit, with a minimum 2sen/shr.

#### Revenue & net profit trend, FY12-20



Source: Company

### 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 downturn in ferrosilicon prices could affect the earnings contribution from OMS.
- Governance issues, following investigation into matters involving its Group CFO.

# ESG@MKE

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Risk Rating & Score <sup>1</sup>	48.9 (Severe)
Score Momentum <sup>2</sup>	+1.2
Last Updated	7 May 2021
Controversy Score <sup>3</sup> (Updated: 4 Aug 2021)	2 - Business ethics incidents; Governance incidents

## Business Model & Industry Issues

- As a major construction-based conglomerate with diversified businesses, CMS' sustainability and governance responsibilities are heavy, and its ESG risks inevitably higher than that of its peers.
- While CMS has achieved milestones in some material ESG matters, continuing on its efforts is key. A Sustainability Steering Committee and Sustainability Working Committee are to be formally established in 2021 to drive sustainability efforts from the top-down. 2021 is also the year where its new Sustainability Roadmap (2021-23) takes off, which includes implementing responsible sourcing practices, and prioritising low-carbon solutions, among others.
- With associate companies starting to contribute the bulk of group earnings (63% to group core net profit in 1H21), the group's annual Sustainability Report should also cover the activities and efforts of these companies, in our view.
- Restoring confidence in governance is essential after recent developments relating to its former Group CFO and changes in leadership.

### Material E issues

- Energy management measures include implementing ISO 50001 at its cement ops (its Mambang clinker plant was upgraded to ISO 50001:2018 in 2020, Pending/Bintulu grinding plants to follow in 2021/2022 respectively), and the use of LED lightings throughout the group's ops.
- Water management measures include using recycled water to cool machineries at its quarry ops, and rainwater harvesting for washing and gardening at its cement ops.
- Materials management include product development. In 2018, its eco-friendly *Portland Limestone Cement* was launched; the product has >20% limestone addition, but uses less clinker.
- Biodiversity management includes its 2,000-acre *Samalaju Eco Park Township* development, which is in pursuit of the BCA Green Mark Certification. In 2017, CMS completed (as design-and-build contractor) 2 GBI-certified buildings named *The Gateway Towers* in its 246-acre *The Isthmus* development.

### Material S issues

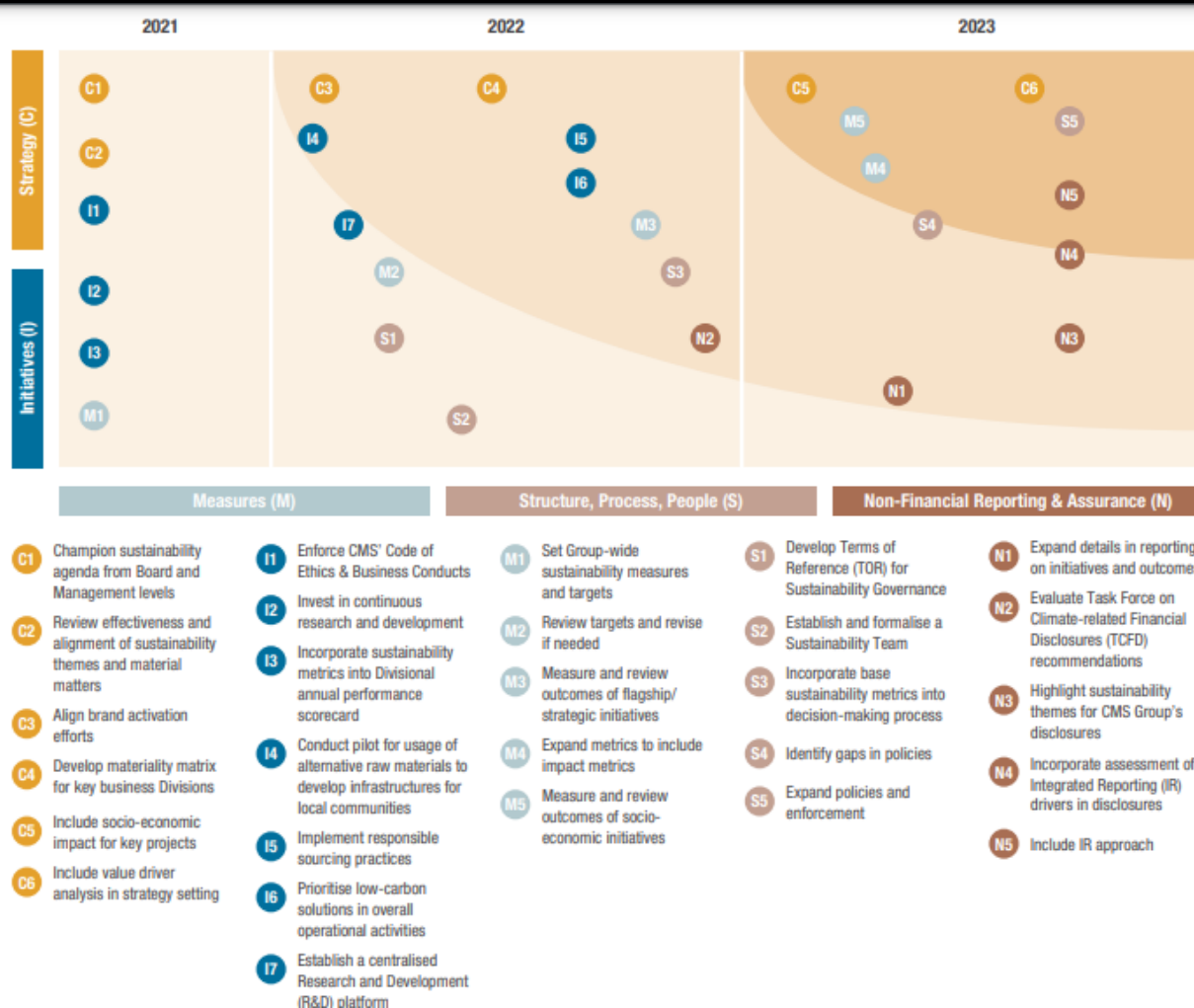
- CMS' staff force is diversified in ethnicity (2020: Malay [27%], Chinese [16%], Sarawak's multiple ethnic groups [56%]), but short in gender diversity (women made up just 21%). The group's staff training policy is an average 24 hours p.a. for executives, managers & above; 18 hours for non-executives.
- The group's community efforts come under the ambit of *CMS Doing Good* programme, introduced in the mid-1990s. Efforts include contributing to charitable organisations, community clean-ups & rebuilding works, and environmental & health awareness initiatives. In addition, CMS' 10 Road Maintenance Units across Sarawak serve as ambassadors and 1<sup>st</sup> responders in times of need to the communities around them.
- In FY20, CMS spent MYR1.6m on philanthropic causes, and donated MYR1m to the Sarawak State Disaster Relief Fund. Its OMS-associate contributed MYR1.4m worth of personal protective equipment to the govt and medical frontliners.

### Key G metrics and issues

- CMS' Board now comprises 8 Directors: 4 Independent Non-Executive (incl. Group Chairman), 3 Non-Independent Executive, 1 Executive. Since Jun 2021, 5 Board members (incl. Group Chairman and Group Managing Director) have resigned/retired, and replaced by 3 new members.
- Independent directors make up 50% of Board members. No independent directors have served a cumulative term of >9 years each, per recommendation of the Malaysian Code on Corporate Governance and CMS' internal policy.
- Major shareholders (Taib family, Sarawak Economic Development Corp) take up 3 Board seats (37.5% of total).
- There is presently just 1 woman on CMS' Board (12.5% representation), short of the 30% requirement.
- CMS provides detailed disclosure on remuneration of its directors but not top senior management. Remuneration to directors was 2.1% of net profit in FY20. Disclosures of its top 5 senior management's remuneration are in bands of MYR50k.
- Ernst & Young PLT has been CMS' external auditor since FY2000, at least.
- 4 new policies were put in place in 2020 to comply with the new Section 17A of the MACC Act 2009:
  - Anti-Bribery and Anti-Corruption Policy
  - Gift & Hospitality Policy
  - Donation, Sponsorship & Community Investment Policy
  - Third-Party Corruption Risk Due Diligence Policy
 A Whistle-Blowing Policy has been implemented earlier.
- On 5 May 2021, CMS suspended its Group CFO to "facilitate investigations into allegation of possible financial mismanagement in relation to the Company's investments and operations". His employment contract was subsequently not renewed on expiry on 31 Aug 2021. Details of the investigations are still pending.
- CMS' previous Group Managing Director was redesignated to Non-Executive Director on 8 Jul 2021; he subsequently retired on 7 Aug 2021 after being with the group since 1996.
- EPF Board ceased to be a substantial shareholder on 10 Sep 2021 (from 13.25% as of 31 Mar 2020).

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: CMS' Sustainability Roadmap (2021-23)



Source: Company

Fig 2: Changes in CMS' Board since 31 May 2021

Date of chg	Action	Name	Designation	Notes
1 Oct	Redesignation	Gen. (R) Dato' Seri Diraja Tan Sri (Dr.) Mohd Zahidi Bin Haji Zainuddin	Group Chairman	From Independent, Non-Executive director
30 Sep	Retirement	Tan Sri Abdul Rashid bin Abdul Manaf	Group Chairman	After serving 3 years as Chairman
9 Aug	Appointment	Gen. (R) Dato' Seri Diraja Tan Sri (Dr.) Mohd Zahidi Bin Haji Zainuddin	Independent, Non-Executive	-
7 Aug	Retirement	Isaac Lugun	Non-Independent, Non-Executive	-
8 Jul	Redesignation	Isaac Lugun	Non-Independent, Non-Executive	From Group Managing Director
8 Jul	Redesignation	Sulaiman Abdul Rahman bin Abdul Taib	Non-Independent, Executive	To Group Managing Director
22 Jun	Appointment	Sulaiman Abdul Rahman bin Abdul Taib	Non-Independent, Non-Executive	-
22 Jun	Appointment	Jeyabalan a/l S.K. Parasingam	Independent, Non-Executive	-
21 Jun	Resignation	Dr Yam Kong Choy	Non-Independent, Non-Executive	-
21 Jun	Resignation	Ho Heng Chuan	Independent, Non-Executive	-
31 May	Retirement	Chin Mui Khiong	Independent, Non-Executive	Retirement mentioned in the 2020 Annual Report

Source: Bursa announcements

## Valuations

Fig 3: RNAV

### I. TRADITIONAL CORE BUSINESSES

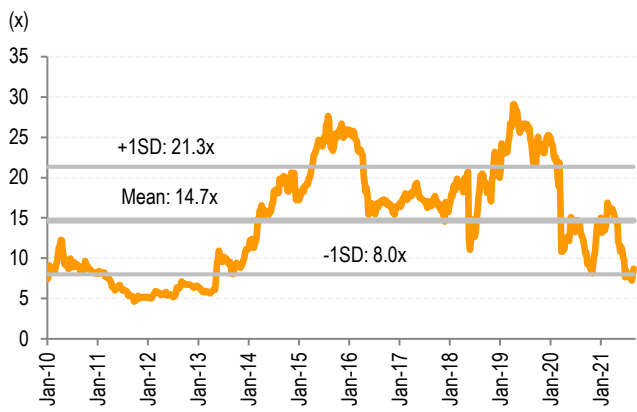
	FY22E net profit (MYR m)	PER (x)	Holding (%)	CMS' share (MYR m)
<b>Cement</b>				
- CMS Cement	50	15.0	100%	747
<b>Construction materials &amp; trading</b>				
- SEDC Resources	47	15.0	49%	344
- Trading	3	15.0	51%	24
<b>Construction &amp; road maintenance</b>				
- PPES Works (Sarawak)	16	12.0	49%	95
- Road maintenance	7	12.0	100%	89
<b>Property landbank</b>	<b>Area (ha)</b>	<b>NBV (MYR m)</b>		
- Bandar Samariang, Kuching	1,454	41	100%	41
- Kuching Town	26	68	100%	68
- The Isthmus, Kuching	74	71	51%	36
- Samariang Industrial Park	574	116	51%	59
- Samariang Hotel	- NA -	35	100%	35
- Others	10	51	100%	51
				290

### II. STRATEGIC INVESTMENTS

	FY22E net profit (MYR m)	PER (x)		
OM Materials (Sarawak) - Phase 1	67	8.0	25%	133
Malaysian Phosphate Additives (Sarawak)	(cost of invt in 2016-20)		60%	146
SACOFA		<b>DCF (MYR m)</b>	50%	312
<b>Listed Associates</b>	<b>Paid-up (m shrs)</b>	<b>Sh px (MYR)</b>		
- Kenanga IB	699	1.30	26%	238
- KKB Engineering	258	1.30	20%	67
Net debt at CMS group level @ Dec 2020				(569)
Investment securities @ Dec 2020				381
<b>RNAV (MYR m)</b>				2,296
				=====
No. of shares existing (m)				1,085
<b>RNAV per share (MYR)</b>				<b>2.12</b>
<b>Target price (0.7x RNAV; MYR)</b>				<b>1.48</b>

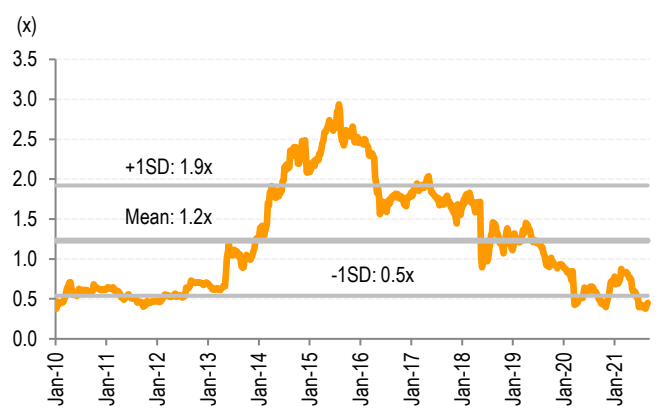
Source: Maybank KE

**Fig 4: 12M forward PER**



Source: Company data, Maybank KE

**Fig 5: 12M forward P/B**



Source: Company data, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	19.3	nm	8.7	9.9	9.4
Core P/E (x)	16.8	22.7	10.3	9.9	9.4
P/BV (x)	0.9	0.8	0.5	0.5	0.5
P/NTA (x)	1.0	0.8	0.5	nm	nm
Net dividend yield (%)	1.3	0.9	2.8	2.8	2.8
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	10.0	60.8	15.7	15.5	15.4
EV/EBIT (x)	13.4	nm	26.9	26.6	26.2
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	1,740.5	762.8	779.3	964.6	993.2
EBITDA	306.8	50.6	159.2	164.9	170.1
Depreciation	(77.3)	(64.5)	(66.6)	(68.5)	(70.5)
EBIT	229.5	(13.9)	92.6	96.4	99.6
Net interest income / (exp)	(39.4)	(28.9)	(29.8)	(30.8)	(31.8)
Associates & JV	57.8	49.0	101.2	105.4	111.2
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	6.2	192.5	171.0	179.0
Income tax	(59.8)	(23.5)	(15.7)	(16.4)	(16.9)
Minorities	(28.7)	4.9	4.9	4.9	4.9
Discontinued operations	0.0	207.2	0.0	0.0	0.0
Reported net profit	159.5	(12.4)	181.7	159.5	166.9
Core net profit	144.6	100.1	153.2	159.5	166.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	621.1	281.8	159.5	85.0	31.1
Accounts receivable	294.0	186.2	190.3	235.5	242.5
Inventory	342.3	327.1	341.7	440.7	453.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,332.1	1,312.7	1,385.4	1,444.8	1,502.3
Intangible assets	83.7	61.7	61.7	61.7	61.7
Investment in Associates & JVs	996.8	1,317.6	1,418.8	1,524.2	1,635.4
Other assets	884.9	973.2	973.2	973.2	973.2
<b>Total assets</b>	<b>4,554.9</b>	<b>4,460.4</b>	<b>4,530.5</b>	<b>4,765.0</b>	<b>4,899.8</b>
ST interest bearing debt	45.5	47.6	47.6	47.6	47.6
Accounts payable	471.1	489.3	426.0	549.4	565.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	709.3	803.7	803.7	803.7	803.7
Other liabilities	177.0	100.0	100.0	100.0	100.0
<b>Total Liabilities</b>	<b>1,403.0</b>	<b>1,440.8</b>	<b>1,377.5</b>	<b>1,500.9</b>	<b>1,517.0</b>
Shareholders Equity	2,638.5	2,786.3	2,924.6	3,040.7	3,164.2
Minority Interest	513.5	233.2	228.3	223.4	218.6
<b>Total shareholder equity</b>	<b>3,151.9</b>	<b>3,019.5</b>	<b>3,152.9</b>	<b>3,264.1</b>	<b>3,382.8</b>
<b>Total liabilities and equity</b>	<b>4,554.9</b>	<b>4,460.4</b>	<b>4,530.5</b>	<b>4,765.0</b>	<b>4,899.8</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	247.9	6.2	192.5	171.0	179.0
Depreciation & amortisation	77.3	64.5	66.6	68.5	70.5
Adj net interest (income)/exp	23.2	28.9	29.8	30.8	31.8
Change in working capital	61.3	119.2	(82.0)	(20.8)	(3.8)
Cash taxes paid	(57.1)	(23.5)	(15.7)	(16.4)	(16.9)
Other operating cash flow	(106.2)	(77.9)	(159.5)	(136.2)	(143.0)
Cash flow from operations	246.4	117.4	31.7	96.9	117.6
Capex	(371.1)	(325.9)	(139.2)	(128.0)	(128.0)
Free cash flow	(124.6)	(208.5)	(107.5)	(31.1)	(10.4)
Dividends paid	(79.4)	(21.4)	(43.4)	(43.4)	(43.4)
Change in Debt	142.0	96.4	0.0	0.0	0.0
Other invest/financing cash flow	(238.8)	(6.3)	28.5	0.0	0.0
Net cash flow	(300.8)	(139.8)	(122.4)	(74.5)	(53.8)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	1.7	(56.2)	2.2	23.8	3.0
EBITDA growth	(15.9)	(83.5)	215.0	3.6	3.2
EBIT growth	(24.0)	nm	nm	4.0	3.3
Pretax growth	(33.4)	(97.5)	3,002.2	(11.2)	4.7
Reported net profit growth	(39.2)	nm	nm	(12.2)	4.7
Core net profit growth	(42.2)	(30.8)	53.1	4.1	4.7
<b>Profitability ratios (%)</b>					
EBITDA margin	17.6	6.6	20.4	17.1	17.1
EBIT margin	13.2	nm	11.9	10.0	10.0
Pretax profit margin	14.2	0.8	24.7	17.7	18.0
Payout ratio	20.2	nm	23.9	27.2	26.0
<b>DuPont analysis</b>					
Net profit margin (%)	9.2	nm	23.3	16.5	16.8
Revenue/Assets (x)	0.4	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.7	1.6	1.5	1.6	1.5
ROAE (%)	6.1	(0.5)	6.4	5.3	5.4
ROAA (%)	3.3	2.2	3.4	3.4	3.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	33.2	45.9	22.3	39.4	42.2
Days receivable outstanding	62.9	113.3	87.0	79.5	86.6
Days inventory outstanding	80.6	155.1	175.3	162.2	180.1
Days payables outstanding	110.3	222.6	239.9	202.2	224.5
Dividend cover (x)	5.0	(0.6)	4.2	3.7	3.8
Current ratio (x)	3.0	2.6	2.7	2.3	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.2	3.1	3.3	3.2	3.2
Net gearing (%) (incl perps)	4.2	18.9	21.9	23.5	24.2
Net gearing (%) (excl. perps)	4.2	18.9	21.9	23.5	24.2
Net interest cover (x)	5.8	na	3.1	3.1	3.1
Debt/EBITDA (x)	2.5	16.8	5.3	5.2	5.0
Capex/revenue (%)	21.3	42.7	17.9	13.3	12.9
Net debt/ (net cash)	133.8	569.4	691.8	766.3	820.1

Source: Company; Maybank



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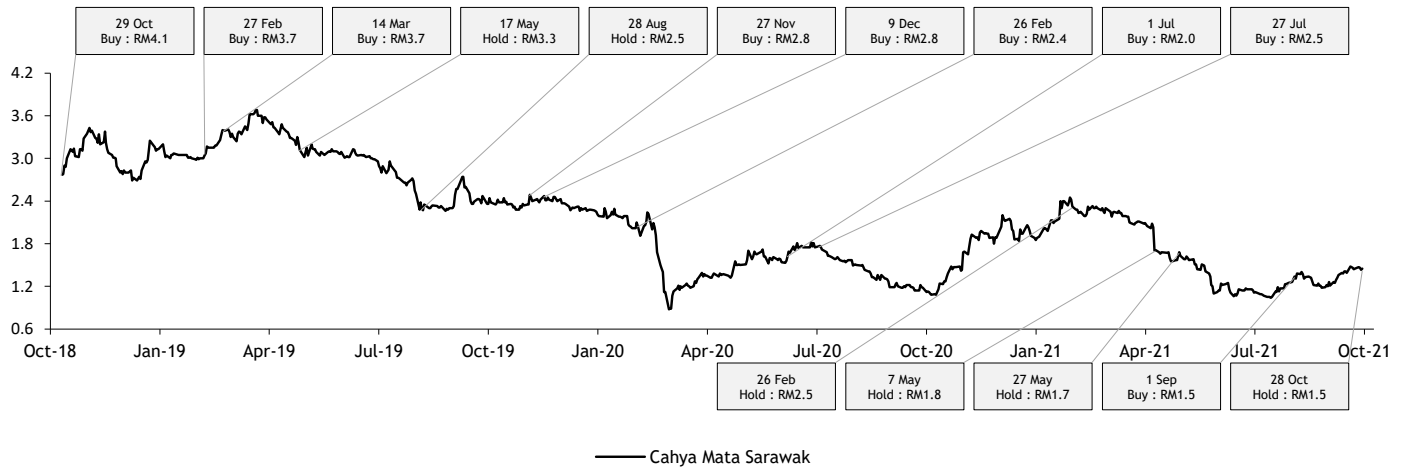
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