

Cahaya Mata Sarawak (CMS MK)

4Q22: Shortfall

Maintain tactical BUY

4Q/12M22 headline net profit included sizeable one-off gains. Excluding this, 4Q fell into a loss, bringing 12M core net profit to MYR100m (-39% YoY), at just 48%/44% of our/consensus FY22E. The shortfall came from the cement op (loss-making in 4Q) and a high effective tax rate of 62% in 4Q. We maintain our FY23-24E earnings pending an update with management. Our TP is unchanged at MYR1.57.

12M22 core net profit -39% YoY

One-offs in 4Q22 included gain from sale of associates (OMS and Samalaju) of MYR89m. Ex- one-offs, 4Q core net loss was MYR66m. Cement was loss-making (MYR3m at PBT level) due to scheduled maintenance while losses at the phosphate op (pre-op costs) deepened. In addition, group taxes more than doubled QoQ due to RPTG and deferred tax recognition on fair value investment. 12M22's one-off gains totalled MYR198m, including positive goodwill from Oiltools acquisition (MYR71m) and reversal of impairment (MYR38m). Ex- one-offs, FY22 core net profit was MYR100m (-39% YoY) dragged by larger losses at the phosphate op and high taxes, but cushioned by higher contributions from cement and road maintenance.

Balance sheet strengthened further

Cash balance jumped to MYR965.3m (90sen/shr) as at Dec 2022 following proceeds received from the sale of OMS and Samalaju. Netting off debt, the net cash balance was MYR427.6m (40sen/shr). CMS also has investment in securities totalling MYR244.5m (23sen/shr). Including this, its net cash (+ near cash) is a high 63sen/shr, which is half its current share price.

Maintaining earnings forecasts

Our forecasts have yet to impute the contribution from the newly acquired Oiltools pending an update with management. Our unchanged TP is based on 7x FY23E PER (-1SD of LT mean) and it includes cash proceeds from the sale of OMS (of USD120m, or equiv. to 50sen/CMS share) which is in access of its operation needs. CMS remains a liquid proxy to higher construction activities in Sarawak.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	815	1,009	992	1,027	1,064
EBITDA	82	121	183	190	198
Core net profit	163	100	164	169	176
Core EPS (sen)	15.2	9.3	15.2	15.7	16.4
Core EPS growth (%)	62.8	(38.9)	64.0	3.3	4.0
Net DPS (sen)	2.0	2.0	2.0	2.0	2.0
Core P/E (x)	8.4	11.5	8.8	8.5	8.2
P/BV (x)	0.5	0.4	0.4	0.4	0.4
Net dividend yield (%)	1.6	1.9	1.5	1.5	1.5
ROAE (%)	7.0	9.5	5.0	4.9	4.9
ROAA (%)	3.5	2.0	3.3	3.3	3.4
EV/EBITDA (x)	23.8	8.1	7.1	6.9	6.6
Net gearing (%) (incl perps)	10.9	net cash	net cash	net cash	net cash
Consensus net profit	-	-	202	201	na
MIBG vs. Consensus (%)	-	-	(18.9)	(15.8)	na

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BUY

Share Price	MYR 1.34
12m Price Target	MYR 1.57 (+20%)
Previous Price Target	MYR 1.57

Company Description

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

Statistics

52w high/low (MYR)	1.34/0.81
3m avg turnover (USDm)	1.3
Free float (%)	94.9
Issued shares (m)	1,074
Market capitalisation	MYR1.4B
	USD321M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	10	37	10
Relative to index (%)	13	40	20

Source: FactSet

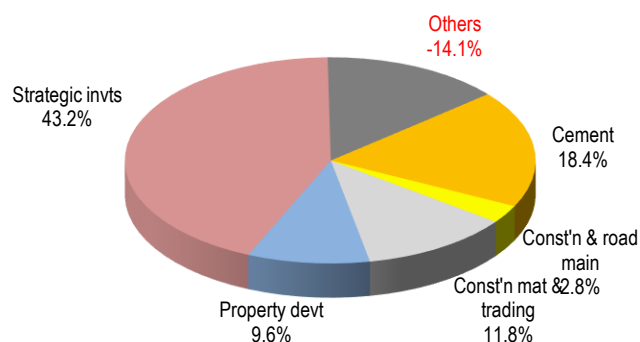
Abbreviation:

Ops = operations

Value Proposition

- Beneficiary of construction activities in Sarawak - CMS is the only cement producer and largest construction materials supplier in Sarawak.
- Strategic investment in integrated phosphate complex (via 60%-MPAS) offers long-term growth prospects.
- ICT operations (under 50%-SACOFA) is expected to benefit from Sarawak's push for a full digital economy.

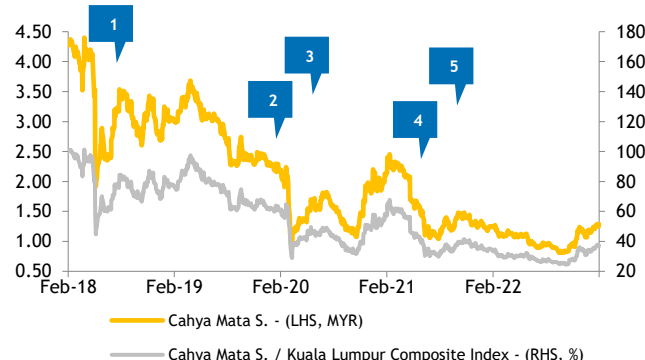
PBT breakdown (before unallocated expenses) in FY21



Source: Company

Price Drivers

Historical share price trend



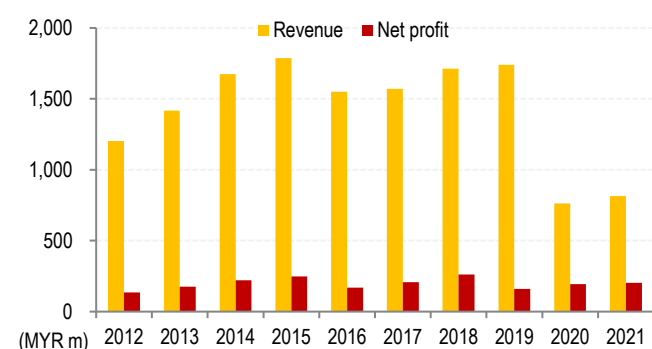
Source: Company, Maybank IBG Research

- 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).
- Dato' Sri Sulaiman Abdul Rahman Taib appointed Group MD, replacing Dato' Isaac Lugun (8 Jul 2021).

Financial Metrics

- Cement earnings, affected by high production cost, improved in FY22 - PBT rose 30% YoY - after an average 10% price hike effective 17 Feb 2022 (1st hike since 2016) and on higher sales volume.
- Construction & road maintenance's medium term earnings to be supported by its e.MYR0.67b outstanding order book (ex-road maintenance) as of end-FY21.
- Dividend policy is 30% DPR of net profit, with a minimum 2sen/shr.

Revenue & net profit trend, FY12-21



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.

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.
- Governance issues, following developments in 2021 involving its (then) Group CFO.

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative			Comments (12M22)
	4Q22	4Q21	% YoY	3Q22	% QoQ	12M22	12M21	% YoY	
Turnover	306.8	241.6	27.0	278.4	10.2	1,009.0	814.6	23.9	Higher YoY from all op, except trading & property. Also, contribution from Oiltools from 6 Sep 2022.
EBIT	82.0	(40.0)	NM	132.3	(38.1)	259.5	62.1	318.0	
Interest expense	(5.2)	(7.0)	(25.8)	(2.9)	80.1	(18.4)	(28.3)	(35.0)	
Profit before assoc, JV	76.8	(47.0)	NM	129.4	(40.7)	241.1	33.8	613.9	
Share of assoc's profit *	14.3	67.6	(78.9)	42.2	(66.2)	139.1	166.7	(16.6)	
Share of JV's profit #	14.3	11.9	20.0	8.4	70.9	32.1	34.1	(5.8)	
Pre-tax profit	105.3	32.5	224.0	180.0	(41.5)	412.3	234.6	75.7	
Tax	(65.1)	(5.3)	1,140.6	(26.5)	145.6	(110.7)	(29.9)	270.8	
Minorities	(8.1)	(2.1)	285.1	0.9	NM	(3.5)	(0.5)	565.3	
Net profit	32.1	25.2	27.7	154.4	(79.2)	298.1	204.2	46.0	
Core net profit	(66.0)	25.2	NM	54.2	NM	99.8	163.0	(38.8)	12M22 included (i) -ve goodwill on consolidation of Oiltools Group (MYR71.7m); (ii) reversal of impairment on investment and loan to an assoc (MYR37.7m), (iii) gain from sale of OMS and Samalaju (MYR89m).
EPS (sen)	2.99	2.33	28.3	14.37	(79.2)	27.75	19.06	45.6	
DPS (sen) - net	3.0	2.0	50.0	-	NM	3.0	2.0	50.0	
	4Q22	4Q21	ppt chg YoY	3Q22	ppt chg QoQ	12M22	12M21	ppt chg YoY	
EBIT margin (%)	26.7	(16.5)	43.3	47.5	(20.8)	25.7	7.6	18.1	
Pretax margin (%)	34.3	13.4	20.9	64.7	(30.3)	40.9	28.8	12.1	
Tax rate (%)	61.9	16.2	45.7	14.7	47.1	26.9	12.7	14.1	
Segmental									
Revenue:	4Q22	4Q21	% YoY	3Q22	% QoQ	12M22	12M21	% YoY	
Cement	163.9	129.8	26.3	166.7	(1.7)	601.9	483.2	24.6	Higher sales volume and avg. 10% hike in cement price wef 17 Feb 2022.
Trading	18.6	28.8	(35.6)	22.1	(16.0)	90.8	103.5	(12.2)	Lower sales volume.
Road maintenance	41.5	39.6	4.7	33.0	25.5	134.6	120.5	11.7	
Property development	23.0	45.3	(49.2)	37.9	(39.2)	105.0	114.3	(8.1)	
Oiltools	66.8	-	NM	22.3	199.5	89.1	-	NM	Consolidated Oiltools Group after the acquisition was completed on 6 Sep 2022.
Strategic investments	(0.8)	-	NM	0.4	NM	-	-	NM	
Others	96.4	13.0	642.4	61.0	58.2	185.0	50.5	266.1	
Elimination	(102.6)	(14.9)	589.3	(65.0)	57.8	(197.5)	(57.4)	244.0	
Total	306.8	241.6	27.0	278.4	10.2	1,009.0	814.6	23.9	
Profit before assoc, JV									
Cement	(3.3)	(0.0)	NM	26.6	NM	80.2	61.6	30.1	
Trading	0.1	1.9	(97.4)	0.6	(91.8)	2.4	6.1	(61.4)	Also impacted by hike in material price - margins down 3.3ppts to 2.6%.
Road maintenance	6.2	2.3	167.9	6.7	(7.0)	17.1	9.6	78.4	
Phosphate	(24.3)	(2.3)	940.1	(15.6)	56.5	(57.9)	(18.1)	219.7	
Property development	6.4	16.6	(61.1)	15.0	(57.0)	33.2	32.4	2.3	Included MYR12.4m gain from land sale.
Oiltools	10.4	-	NM	63.0	(83.5)	73.4	-	NM	Included -ve goodwill on consolidation of MYR71.1m.

* Major associates: Kenanga (26.25%-owned), SACOFA (50%), OMS (25%)

Major JVs: SEDC Resources (previously known as CMS Resources; 49%-owned), PPES Works (49%)

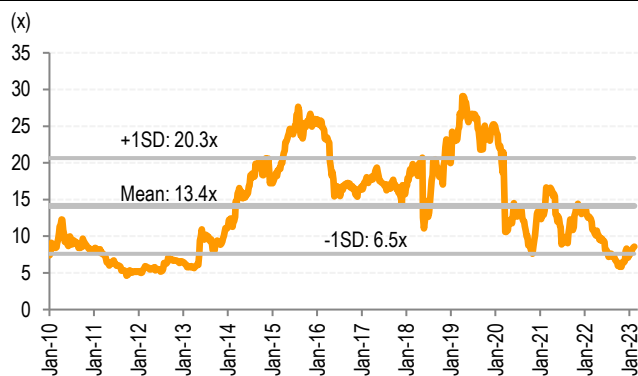
Fig 1: Results summary (continued)

	Quarterly					Cumulative			Comments
	4Q22	4Q21	% YoY	3Q22	% QoQ	12M22	12M21	% YoY	
<u>Profit before assoc, JV (cont'd)</u>									
Strategic investments	(1.2)	(6.5)	(80.9)	0.6	NM	-	-	NM	12M22 included (i) reversal of impairment of MYR37.7m on investment and loan to an assoc, and(ii) gain from sale of OMS and Samalaju of MYR89m. 12M21 included MYR23.1m gain from sale of Kenanga shares and MYR12.7m gain from sale of land.
Others	80.7	(48.5)	NM	38.2	111.2	117.5	(46.9)	NM	
Unallocated corporate expenses	1.8	(10.5)	NM	(5.7)	NM	(24.7)	(11.0)	124.5	
Total	76.8	(47.0)	NM	129.4	(40.7)	241.1	33.8	613.9	
<u>Pre-tax margin %</u>	4Q22	4Q21	ppt chg YoY	3Q22	ppt chg QoQ	12M22	12M21	ppt chg YoY	
Cement	(2.0)	(0.0)	(2.0)	15.9	(17.9)	13.3	12.8	0.6	
Trading	0.3	6.8	(6.5)	2.8	(2.5)	2.6	5.9	(3.3)	
Road maintenance	15.0	5.9	9.2	20.3	(5.3)	12.7	8.0	4.7	
Property development	28.0	36.5	(8.6)	39.5	(11.6)	31.6	28.4	3.2	
Others	83.8	(373.1)	456.8	62.7	21.0	63.5	(92.8)	156.3	
Overall	25.0	(19.5)	44.5	46.5	(21.5)	23.9	4.1	19.7	

Source: Company, Maybank IBG Research (tabulation)

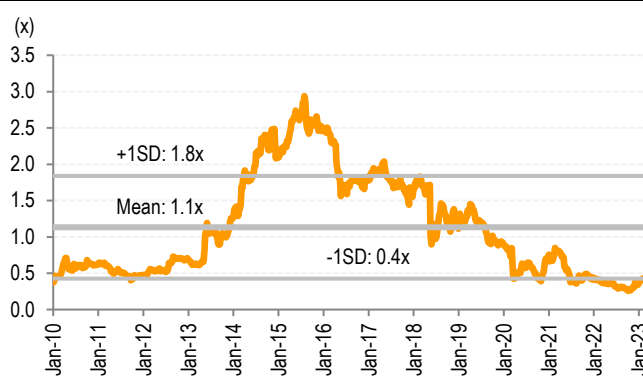
Valuation

Fig 2: 12M forward PER



Source: Bloomberg, Company data, Maybank IBG Research

Fig 3: 12M forward P/B



Source: Bloomberg, Company data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	8.4	3.8	8.8	8.5	8.2
Core P/E (x)	8.4	11.5	8.8	8.5	8.2
P/BV (x)	0.5	0.4	0.4	0.4	0.4
P/NTA (x)	0.5	nm	nm	nm	nm
Net dividend yield (%)	1.6	1.9	1.5	1.5	1.5
FCF yield (%)	9.6	nm	nm	0.7	1.1
EV/EBITDA (x)	23.8	8.1	7.1	6.9	6.6
EV/EBIT (x)	nm	17.1	11.2	10.8	10.3
INCOME STATEMENT (MYR m)					
Revenue	814.6	1,009.0	991.5	1,027.0	1,064.1
EBITDA	81.6	120.6	182.8	190.2	197.9
Depreciation	(63.0)	(63.5)	(66.7)	(68.7)	(70.7)
EBIT	18.7	57.2	116.1	121.5	127.2
Net interest income / (exp)	(26.1)	(14.3)	(27.8)	(28.7)	(29.7)
Associates & JV	200.8	171.2	96.2	98.2	101.4
Exceptionals	41.2	198.2	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	234.6	412.3	184.5	191.0	198.9
Income tax	(29.9)	(110.7)	(22.1)	(23.2)	(24.4)
Minorities	(0.5)	(3.5)	1.4	1.4	1.4
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	204.2	298.1	163.8	169.2	175.9
Core net profit	163.0	99.8	163.8	169.2	175.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	545.7	965.3	929.8	918.0	911.8
Accounts receivable	191.0	250.5	246.2	255.0	264.2
Inventory	314.1	428.7	390.3	403.8	418.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,342.3	1,420.0	1,481.2	1,540.6	1,597.9
Intangible assets	61.7	68.5	68.5	68.5	68.5
Investment in Associates & JVs	1,335.5	1,016.4	1,112.6	1,210.8	1,312.2
Other assets	1,059.1	764.8	764.8	764.8	764.8
Total assets	4,849.5	4,914.2	4,993.4	5,161.4	5,337.3
ST interest bearing debt	625.1	282.0	282.0	282.0	282.0
Accounts payable	615.9	688.2	626.5	648.2	671.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	273.4	255.8	255.8	255.8	255.8
Other liabilities	103.0	199.0	199.0	199.0	199.0
Total Liabilities	1,617.1	1,425.4	1,363.7	1,385.4	1,408.3
Shareholders Equity	3,012.6	3,234.9	3,377.1	3,524.8	3,679.2
Minority Interest	219.8	253.9	252.5	251.2	249.8
Total shareholder equity	3,232.4	3,488.8	3,629.7	3,776.0	3,929.0
Total liabilities and equity	4,849.5	4,914.2	4,993.4	5,161.4	5,337.3
CASH FLOW (MYR m)					
Pretax profit	234.6	412.3	184.5	191.0	198.9
Depreciation & amortisation	63.0	63.5	66.7	68.7	70.7
Adj net interest (income)/exp	35.0	27.0	27.8	28.7	29.7
Change in working capital	132.6	(64.4)	(18.9)	(0.6)	(0.6)
Cash taxes paid	(18.5)	(37.9)	(22.1)	(23.2)	(24.4)
Other operating cash flow	(226.0)	(390.8)	(124.0)	(127.0)	(131.0)
Cash flow from operations	220.7	9.7	114.0	137.7	143.2
Capex	(88.8)	(43.7)	(128.0)	(128.0)	(128.0)
Free cash flow	131.8	(34.0)	(14.0)	9.7	15.2
Dividends paid	(35.5)	(23.5)	(21.5)	(21.5)	(21.5)
Change in Debt	36.7	(376.5)	0.0	0.0	0.0
Other invest/financing cash flow	129.3	856.8	0.0	0.0	0.0
Net cash flow	262.4	422.8	(35.5)	(11.8)	(6.3)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	6.8	23.9	(1.7)	3.6	3.6
EBITDA growth	61.5	47.8	51.5	4.0	4.0
EBIT growth	nm	206.3	103.1	4.7	4.7
Pretax growth	3,680.3	75.7	(55.3)	3.6	4.1
Reported net profit growth	nm	46.0	(45.1)	3.3	4.0
Core net profit growth	62.9	(38.8)	64.0	3.3	4.0
Profitability ratios (%)					
EBITDA margin	10.0	12.0	18.4	18.5	18.6
EBIT margin	2.3	5.7	11.7	11.8	12.0
Pretax profit margin	28.8	40.9	18.6	18.6	18.7
Payout ratio	10.5	7.2	13.1	12.7	12.2
DuPont analysis					
Net profit margin (%)	25.1	29.5	16.5	16.5	16.5
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.6	1.5	1.5	1.5	1.5
ROAE (%)	7.0	9.5	5.0	4.9	4.9
ROAA (%)	3.5	2.0	3.3	3.3	3.4
Liquidity & Efficiency					
Cash conversion cycle	(21.6)	(27.4)	(11.8)	(7.7)	(7.7)
Days receivable outstanding	83.4	78.8	90.2	87.8	87.8
Days inventory outstanding	145.0	140.5	168.4	157.9	157.9
Days payables outstanding	250.0	246.6	270.3	253.4	253.4
Dividend cover (x)	9.5	13.9	7.6	7.9	8.2
Current ratio (x)	1.4	1.9	2.0	2.0	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	3.0	3.4	3.7	3.7	3.8
Net gearing (%) (incl perps)	10.9	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	10.9	net cash	net cash	net cash	net cash
Net interest cover (x)	0.7	4.0	4.2	4.2	4.3
Debt/EBITDA (x)	11.0	4.5	2.9	2.8	2.7
Capex/revenue (%)	10.9	4.3	12.9	12.5	12.0
Net debt/ (net cash)	352.8	(427.5)	(392.1)	(380.2)	(374.0)

Source: Company; Maybank IBG Research

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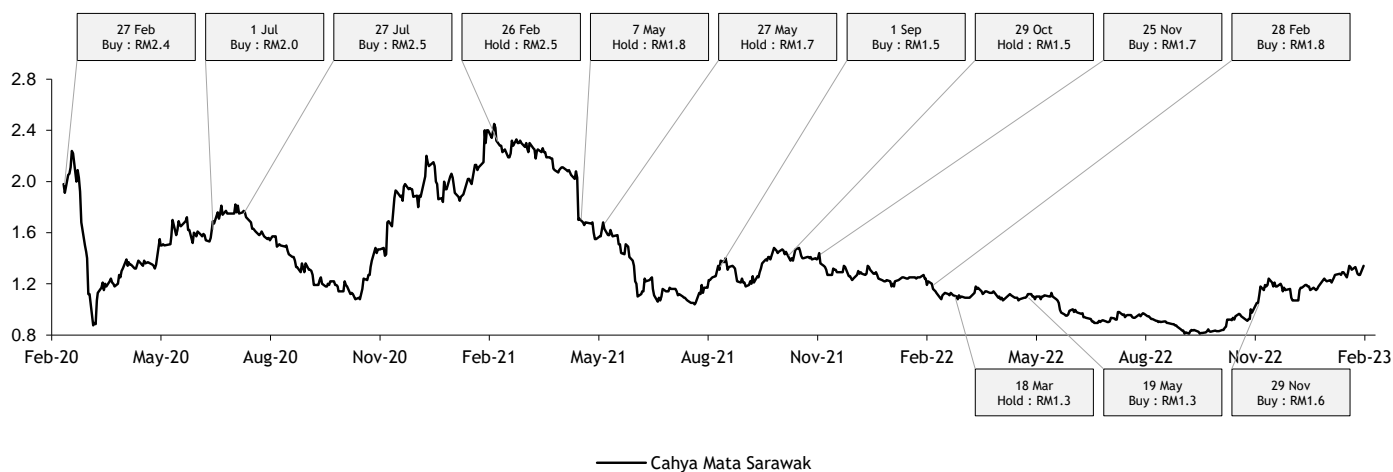
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