

# Cahaya Mata Sarawak (CMS MK)

## Deeply discounted

### Maintain tactical BUY

We maintain our tactical BUY call on CMS with a revised MYR1.48 TP (-9sen). Excluding net cash plus ST/LT investments of 68sen/shr as at end-Dec 2022, the stock now trades at just 3.1x FY23E PER. Our TP implies 0.5x FY23E P/B and 0.5x P/RNAV. While it still needs to do more to reassure investors that governance issue (in 2021) is a one-off, its' extremely low valuation underscores its dominant position in Sarawak which we continue to see upside. Our revised earnings forecasts incorporate losses expected from its phosphate ops, and small earnings contribution from Oiltools.

### Incorporating phosphate ops into forecasts

We lower FY23/FY24E core PATMI for CMS by 15%/7%, and maintain FY25E. We project MYR58m loss (before MI) at its 80.2%-owned phosphate ops in FY23E, narrowing to MYR29m in FY24E and breakeven in FY25E. The internal target is operating cashflow neutral in FY23E, and breakeven in FY24E. The MYR1b plant is slated to start commercial ops (in phases) from Apr 2023 with full commercial ops targeted for end-2023. 80% of its off-take is believed to have been locked in with the prospective buyers.

### Also, including Oiltools ops into forecasts

75%-owned Oiltools' USD100m outstanding orderbook will last 3 years, while its current tender book is a mix of PETRONAS/overseas contracts. Excluding negative goodwill of MYR71m, Oiltools contributed MYR2m in PBT (and MYR89m in revenue) to CMS in FY22, over a 4-month period after its acquisition on 6 Sep 2022. Our earnings forecasts for CMS assume Oiltools' profits to sustain, on MYR260m revenue contribution in FY23E.

### Cement & construction mat ops to anchor earnings

Cement demand rebounded to 1.5m MT in FY22 (+14% YoY) but still below the 1.64m MT peak in FY19. The op continues to see strong demand into FY23. Our forecasts assume 5% demand growth p.a., with sales to reach FY19 (pre-pandemic) level in FY24E. Cement contributed MYR80m in PBT in FY22. Elsewhere, CMS' construction material (largely quarry ops under 49%-assoc., SEDC Resources) & trading ops will continue to benefit from Sarawak's economic growth. The op contributed MYR33m in profit in FY22.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	815	1,009	1,226	1,261	1,298
EBITDA	95	121	110	142	175
Core net profit	176	118	140	157	175
Core EPS (sen)	16.4	10.9	13.0	14.6	16.3
Core EPS growth (%)	75.5	(33.2)	18.6	12.7	11.5
Net DPS (sen)	2.0	3.0	3.0	3.0	3.0
Core P/E (x)	7.8	9.8	8.3	7.4	6.6
P/BV (x)	0.5	0.4	0.3	0.3	0.3
Net dividend yield (%)	1.6	2.8	2.8	2.8	2.8
ROAE (%)	7.0	9.5	4.2	4.6	5.0
ROAA (%)	3.8	2.4	2.8	3.0	3.2
EV/EBITDA (x)	20.5	8.1	9.4	7.6	6.4
Net gearing (%) (incl perps)	10.9	net cash	net cash	net cash	net cash
Consensus net profit	-	-	223	229	256
MIBG vs. Consensus (%)	-	-	(37.4)	(31.4)	(31.4)

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# BUY

Share Price	MYR 1.08
12m Price Target	MYR 1.48 (+40%)
Previous Price Target	MYR 1.57

### Company Description

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

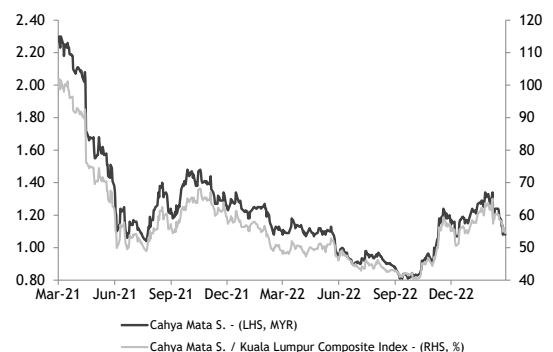
### Statistics

52w high/low (MYR)	1.34/0.81
3m avg turnover (USDm)	1.2
Free float (%)	94.9
Issued shares (m)	1,074
Market capitalisation	MYR1.2B USD259M

### 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)	(8)	(3)
Relative to index (%)	(15)	(5)	10

Source: FactSet

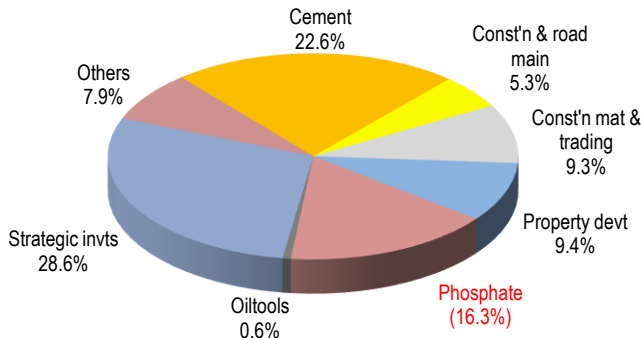
### Abbreviation:

Ops = operations

## Value Proposition

- Beneficiary of construction activities in Sarawak - CMS is the only cement producer and largest construction materials supplier in Sarawak.
- Investment in integrated phosphate complex (via 80%-Cahaya Mata Phosphates) offers long-term growth prospects.
- ICT operations (under 50%-SACOFA) is expected to benefit from Sarawak's push for a full digital economy.

### Segmental PBT (before +ve one-off, unallocated exp), FY22



Source: Company

## Price Drivers

### Historical share price trend



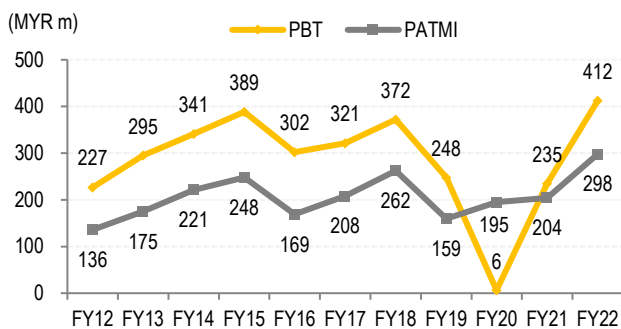
Source: Company, Maybank IBG Research

- 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 improved in FY22 - PBT rose 30% YoY - after an average 10% price hike effective 17 Feb 2022 (1<sup>st</sup> hike since 2016) and on higher sales volume.
- Construction & road maintenance's medium term earnings to be supported by its MYR0.6b outstanding order book (ex- road maintenance) as of end-FY22.
- Dividend policy is 30% DPR of net profit, with a minimum 2sen/shr.

### PBT & PATMI



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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Risk Rating & Score <sup>1</sup>	48.3 (Severe)
Score Momentum <sup>2</sup>	+9.8
Last Updated	7 Jan 2022
Controversy Score <sup>3</sup> (Updated: NA)	NA

## Business Model & Industry Issues

- As a sizeable 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 were to be formally established in 2021 to drive sustainability efforts from the top-down. 2021 was 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 (72% to group core net profit in FY21), the group's annual Sustainability Report should also cover the activities and efforts of these companies, in our view.
- Restoring confidence in governance is vital after developments in 2021 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 9 Directors: 5 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 4 new members.
- Independent directors make up 56% 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 (Governor Taib family, Sarawak Economic Development Corp) take up 3 Board seats (37.5% of total).
- There are presently 2 women on CMS' Board (22% 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.
- 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).

## Higher stake in Cahya Mata Phosphates

CMS had, on 28 Feb, raised its equity holding in Cahya Mata Phosphates Industries (previously “Malaysian Phosphate Additives (Sarawak)”), to 80.18% from 60.73% via 1) debt conversion of MYR315.6m, and 2) cash injection of MYR3.9m. This effectively values the phosphate ops at MYR398.5m. The phosphate plant is the only plant globally powered by “clean” hydroelectric energy and it is also SEA’s 1<sup>st</sup> integrated plant producing food, feed and fertiliser phosphate. All 4 furnaces of Phase 1 were fully commissioned as at end-Dec 2022 with commercialisation (in phases) targeted from Apr 2023. The internal financial target is operating cash flow neutral in FY23E, and breakeven in FY24E based on locked-in off-takes.

**Fig 1: Cahya Mata Phosphates’ annual production capacity, Phase 1**

Yellow phosphorus	48,000 tonnes
Technical grade phosphoric acid	75,000 tonnes
Food grade phosphoric acid	60,000 tonnes

Source: Company

## Financials

**Fig 2: Segmental PBT**

(MYR m)	FY21	FY22	FY23E	FY24E	FY25E
Cement	61.6	80.2	83.2	84.7	86.1
Const’n & road maintenance	10.7	18.8	18.7	18.3	18.3
Const’n mat & trading	38.1	32.8	34.2	35.6	37.3
Property development	32.4	33.2	20.8	20.8	20.8
Phosphate	(18.1)	(57.9)	(58.0)	(29.0)	-
Oiltools	-	2.3	6.9	6.9	6.9
Strategic investments:	168.0	101.4	72.5	73.7	74.7
- OMS	92.7	68.0	-	-	-
- SACOFA	53.9	51.3	52.8	54.0	54.9
- Kenanga & KKB (pre FY22)	34.9	13.7	13.7	13.7	13.7
- Others	(13.5)	6.1	6.1	6.1	6.1
Others	(47.3)	28.0	(9.7)	(9.7)	(9.7)
Unallocated expenses	(11.0)	(24.7)	(16.7)	(16.7)	(16.7)
<b>Total PBT</b>	<b>234.6</b>	<b>214.1</b>	<b>151.8</b>	<b>184.5</b>	<b>217.6</b>

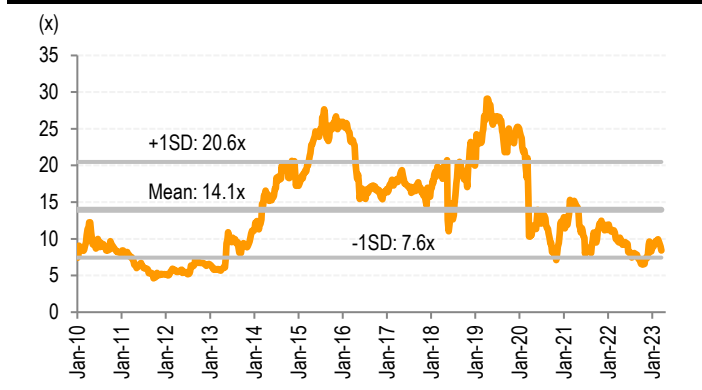
Note: Excludes MYR198m positive one-offs in FY22

Source: Company, Maybank IBG Research

## TP and valuations

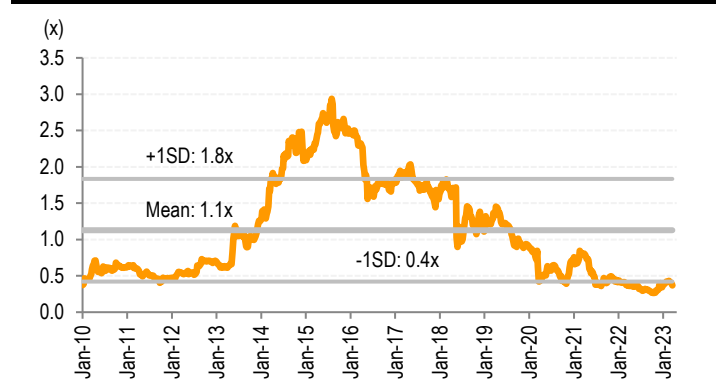
Our revised TP is based on 7.5x FY23E PER (on unchanged but updated -1SD of LT mean; previously 7x PER) and it includes cash proceeds from the sale of OMS (of USD120m, or equiv. to 50sen/CMS share) which is in access of CMS’ operational needs. CMS had a net cash of MYR428m (40sen/shr) and ST/LT investments totalling MYR309m (29sen/shr) as at end-FY22, while its higher stake in the phosphate ops requires a cash outflow of just MYR3.9m. CMS remains a liquid proxy to higher construction activities in Sarawak.

**Fig 3: 12M forward PER**



Source: Bloomberg, Company data, Maybank IBG Research

**Fig 4: 12M forward P/B**



Source: Bloomberg, Company data, Maybank IBG Research

Fig 5: RNAV

## I. TRADITIONAL CORE BUSINESSES

	FY23E net profit (MYR m)	PER (x)	Holding (%)	CMS' share (MYR m)
<b>Cement</b>				
- Cahya Mata Cement	60	15.0	100%	905
<b>Construction materials &amp; trading</b>				
- SEDC Resources	57	15.0	49%	421
- Trading	2	15.0	51%	14
<b>Construction &amp; road maintenance</b>				
- PPEC Works (Sarawak)	3	12.0	49%	19
- 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	23	61	100%	61
- The Isthmus, Kuching	70	71	51%	36
- Samariang Industrial Park	574	115	51%	59
- Samariang Hotel	- NA -	34	100%	34
- Others	10	49	100%	49
				279

## II. STRATEGIC INVESTMENTS

	Methodology	Valuation (MYR m)		
Cahaya Mata Phosphates Industries	Implied valuation	398.5	80%	319
SACOFA	DCF	855	50%	427
<b>Listed Associate</b>	<b>Paid-up (m shrs)</b>	<b>Sh px (MYR)</b>		
- Kenanga IB	699	0.995	26%	182
Net debt at CMS group level @ Dec 2022				428
Investment securities @ Dec 2022				309
<b>RNAV (MYR m)</b>				3,392
No. of shares existing (m)				1,074
<b>RNAV per share (MYR)</b>				<b>3.16</b>
Current share price (MYR)				1.08
<b>P/RNAV (x)</b>				<b>0.34</b>

Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	8.4	3.8	8.3	7.4	6.6
Core P/E (x)	7.8	9.8	8.3	7.4	6.6
P/BV (x)	0.5	0.4	0.3	0.3	0.3
P/NTA (x)	0.5	nm	nm	nm	nm
Net dividend yield (%)	1.6	2.8	2.8	2.8	2.8
FCF yield (%)	9.6	nm	nm	nm	0.7
EV/EBITDA (x)	20.5	8.1	9.4	7.6	6.4
EV/EBIT (x)	61.7	17.1	23.3	14.5	10.6
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	814.6	1,009.0	1,226.5	1,261.3	1,297.8
EBITDA	94.7	120.6	109.8	142.5	175.1
Depreciation	(63.2)	(63.5)	(65.4)	(67.3)	(69.3)
EBIT	31.5	57.2	44.4	75.2	105.8
Net interest income / (exp)	(26.3)	(14.3)	1.6	1.5	1.5
Associates & JV	200.8	171.2	105.8	107.8	110.4
Exceptionals	28.5	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	151.8	184.5	217.6
Income tax	(29.9)	(110.7)	(13.8)	(23.0)	(32.2)
Minorities	(0.5)	(3.5)	1.5	(4.3)	(10.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	204.2	298.1	139.5	157.3	175.4
Core net profit	175.7	117.6	139.5	157.3	175.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	545.7	965.3	915.4	868.1	844.4
Accounts receivable	191.0	250.5	304.5	313.1	322.2
Inventory	314.1	428.7	538.9	539.9	541.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,342.3	1,420.0	1,482.6	1,543.3	1,602.0
Intangible assets	61.7	68.5	68.5	68.5	68.5
Investment in Associates & JVs	1,335.5	1,016.4	1,122.2	1,230.0	1,340.4
Other assets	1,059.1	764.8	764.8	764.8	764.8
<b>Total assets</b>	<b>4,849.5</b>	<b>4,914.2</b>	<b>5,196.8</b>	<b>5,327.7</b>	<b>5,484.0</b>
ST interest bearing debt	625.1	282.0	282.0	282.0	282.0
Accounts payable	615.9	688.2	865.0	866.7	869.7
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
<b>Total Liabilities</b>	<b>1,617.1</b>	<b>1,425.4</b>	<b>1,602.2</b>	<b>1,603.9</b>	<b>1,606.9</b>
Shareholders Equity	3,012.6	3,234.9	3,342.2	3,467.2	3,610.3
Minority Interest	219.8	253.9	252.4	256.6	266.7
<b>Total shareholder equity</b>	<b>3,232.4</b>	<b>3,488.8</b>	<b>3,594.5</b>	<b>3,723.8</b>	<b>3,877.0</b>
<b>Total liabilities and equity</b>	<b>4,849.5</b>	<b>4,914.2</b>	<b>5,196.8</b>	<b>5,327.7</b>	<b>5,484.0</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	234.6	412.3	151.8	184.5	217.6
Depreciation & amortisation	63.2	63.5	65.4	67.3	69.3
Adj net interest (income)/exp	35.0	27.0	(1.6)	(1.5)	(1.5)
Change in working capital	132.6	(64.4)	12.7	(8.0)	(7.9)
Cash taxes paid	(18.5)	(37.9)	(13.8)	(23.0)	(32.2)
Other operating cash flow	(226.3)	(390.8)	(104.2)	(106.3)	(108.9)
Cash flow from operations	220.7	9.7	110.3	113.0	136.5
Capex	(88.8)	(43.7)	(128.0)	(128.0)	(128.0)
Free cash flow	131.8	(34.0)	(17.7)	(15.0)	8.5
Dividends paid	(35.5)	(23.5)	(32.2)	(32.2)	(32.2)
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	(50.0)	(47.2)	(23.8)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	6.8	23.9	21.6	2.8	2.9
EBITDA growth	87.4	27.4	(9.0)	29.8	22.9
EBIT growth	nm	81.4	(22.3)	69.2	40.7
Pretax growth	3,680.3	75.7	(63.2)	21.6	17.9
Reported net profit growth	nm	46.0	(53.2)	12.7	11.5
Core net profit growth	75.6	(33.1)	18.6	12.7	11.5
<b>Profitability ratios (%)</b>					
EBITDA margin	11.6	12.0	9.0	11.3	13.5
EBIT margin	3.9	5.7	3.6	6.0	8.2
Pretax profit margin	28.8	40.9	12.4	14.6	16.8
Payout ratio	10.5	10.8	23.1	20.5	18.4
<b>DuPont analysis</b>					
Net profit margin (%)	25.1	29.5	11.4	12.5	13.5
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.6	1.5	1.6	1.5	1.5
ROAE (%)	7.0	9.5	4.2	4.6	5.0
ROAA (%)	3.8	2.4	2.8	3.0	3.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(23.3)	(27.4)	(7.7)	(10.9)	(10.7)
Days receivable outstanding	83.4	78.8	81.5	88.1	88.1
Days inventory outstanding	147.4	140.5	147.3	163.7	163.3
Days payables outstanding	254.1	246.6	236.5	262.8	262.2
Dividend cover (x)	9.5	9.2	4.3	4.9	5.4
Current ratio (x)	1.4	1.9	1.8	1.7	1.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.0	3.4	3.2	3.3	3.4
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)	1.2	4.0	na	na	na
Debt/EBITDA (x)	9.5	4.5	4.9	3.8	3.1
Capex/revenue (%)	10.9	4.3	10.4	10.1	9.9
Net debt/ (net cash)	352.8	(427.5)	(377.6)	(330.3)	(306.6)

Source: Company; Maybank IBG Research



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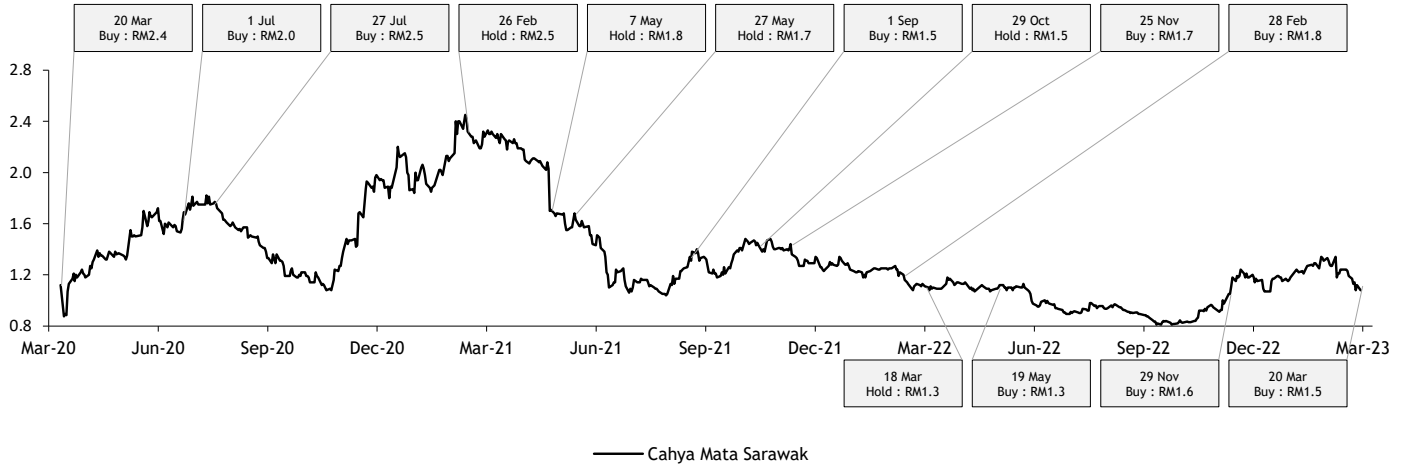
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