Shariah Compliant

Construction

Malaysia

August 28, 2024

Maybank Investment Bank

Cahya Mata Sarawak (CMS MK)

2Q24: Tracking in-line

BUY

Share Price	MYR 1.30
12m Price Target	MYR 1.60 (+26%)
Previous Price Target	*MYR 1.38*

Significantly undervalued; maintain BUY

CMS' 1H24 net profit was in-line at 48% of our full-year est., but above consensus at 54%. We tweak FY24/FY25/26E net profit forecasts by +0.1%/-3%/+4% post house-keeping. Rolling forward valuation to FY25E and pegging on an unchanged 10x PER (-0.5SD of LT mean), our revised TP is MYR1.60 (+22sen). The stock remains significantly undervalued, trading at 8x FY25E PER, 0.4x P/B (BVPS of MYR3.16 @ 30 Jun 2024) and 0.4x our RNAV/shr est. (of MYR3.10). We reiterate our tactical BUY call.

Mixed segmental delivery; stronger from cement ops

2Q24 net profit of MYR33m (+27% YoY, -13% QoQ) lifted 1H24 net profit to MYR72m (+4% YoY). 2Q profit was weaker sequentially due to 1) a small loss at the property ops (likely in absence of land sale gain), 2) lower contributions from road maintenance, Oiltools and assoc., but partially offset by 3) stronger cement earnings (on lower imported clinker prices and improved efficiencies). 1H net profit growth was mainly driven by the cement ops (improved margins), higher Oiltools contribution, and lower losses at the phosphate ops. A 1st interim 2sen DPS was declared (30% DPR).

Optimistic on cement's prospects

Cement volume sale was flattish QoQ in 2Q24, we estimate, still affected by the prolonged rainy season in Sarawak which had impacted/slowed down construction activities there. Nonetheless, management expects cement demand to pick up in 2H driven by infrastructure projects. At the same time, the group will continue to pursue operational, logistics and distribution efficiencies to sustain margins.

Balance sheet remains in a net cash

Balance sheet remains strong with a net cash of MYR226m or 21sen/shr @ 30 Jun 2024, and MYR281m or 26sen/shr in investment securities. Excluding the net cash and investment securities of total 47sen/shr, the stock currently trades at just 5x FY25E PER.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,011	1,201	1,237	1,274	1,313
EBITDA	115	156	181	230	259
Core net profit	107	114	148	171	186
Core EPS (sen)	9.9	10.7	13.8	15.9	17.3
Core EPS growth (%)	(39.4)	7.2	29.4	15.2	9.0
Net DPS (sen)	3.0	2.0	2.0	2.0	2.0
Core P/E (x)	10.8	10.1	9.4	8.2	7.5
P/BV (x)	0.4	0.4	0.4	0.4	0.4
Net dividend yield (%)	2.8	1.9	1.5	1.5	1.5
ROAE (%)	9.2	3.5	4.4	4.9	5.1
ROAA (%)	2.2	2.4	3.1	3.5	3.7
EV/EBITDA (x)	8.4	7.2	7.5	5.9	5.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	148	164	176
MIBG vs. Consensus (%)	-	-	0.2	4.0	5.7

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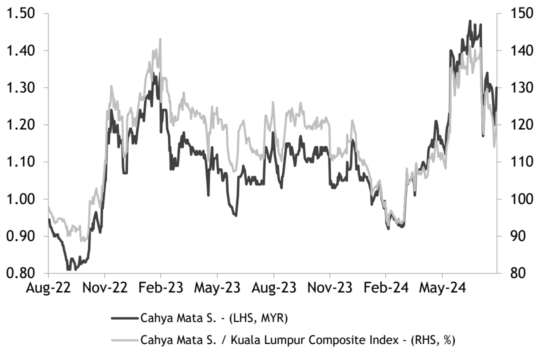
Company Description

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

Statistics

52w high/low (MYR)	1.48/0.92
3m avg turnover (USDm)	2.7
Free float (%)	61.8
Issued shares (m)	1,075
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 (%)	(9)	11	17
Relative to index (%)	(11)	10	3

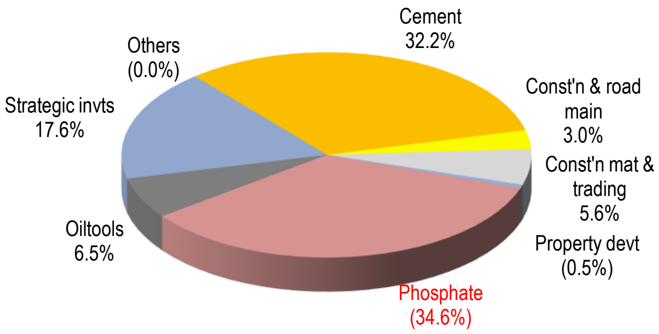
Source: FactSet

Abbreviation:
Op = operation

Value Proposition

- Beneficiary of higher construction activities in Sarawak - CMS is the only cement producer and largest construction materials (quarry, etc.) supplier in Sarawak.
- ICT operation (under 50%-SACOFA) will benefit from Sarawak's push for a full digital economy. With c.1,700 towers and c.12,000km fibre network, SACOFA provides end-to-end telco infrastructure services from tower leasing, built-to-suit transmission, to operations & maintenance.
- 75%-owned Cahya Mata Oiltools (acquired in Sep 2022) offers integrated drilling fluids & drilling waste mgmt for the oil & gas industry, and is present in 9 countries – M'sia, Indonesia, India, Saudi Arabia, UAE, Russia, Oman, Nigeria, Kuwait.
- Investment in an integrated phosphate complex in Samalaju (via 80%-Cahya Mata Phosphates) has yet to start commercial operation but it offers long term growth potential.

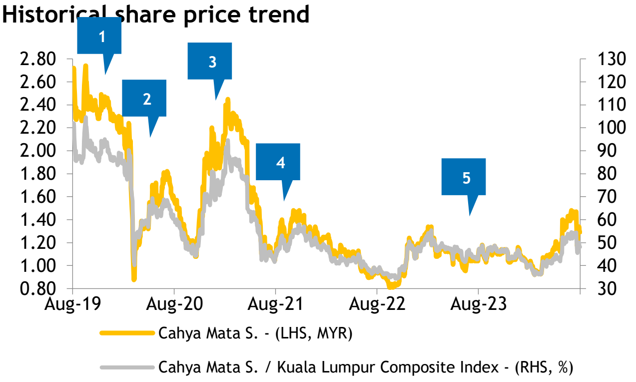
Segmental PBT (before +ve one-off, unallocated exp), FY23



Source: Company

Price Drivers

Historical share price trend



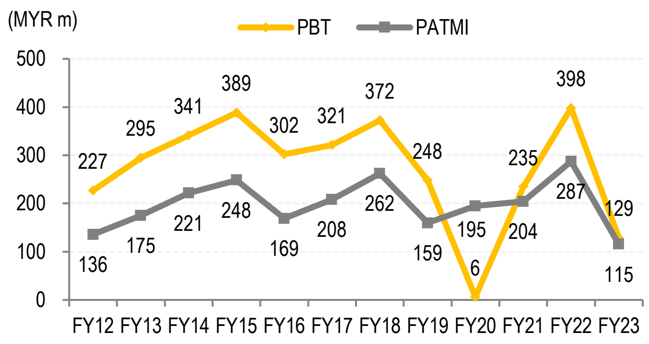
Source: Company, Maybank IBG Research

1. Dato' Sri Mahmud Abu Bekir Taib sold 10.8m shares (1.0% of paid-up) in 2019; Dato' Sri Sulaiman Abdul Rahman Taib ceases to be a substantial shareholder (Mar 2020).
2. Start of COVID-19 movement control order (18 Mar 2020).
3. Group CFO suspended for 30 days (5 May 2021).
4. Dato' Sri Sulaiman Abdul Rahman Taib appointed Group MD, replacing Dato' Isaac Lugun (8 Jul 2021).
5. SESCO terminated electricity supply to CMS' phosphate complex (10 Jul 2023).

Financial Metrics

- Cement earnings improved in FY23 - PBT rose 82% YoY - on higher sales volume and margins (lower input costs).
- SACOFA was the 2nd largest contributor to group earnings in FY23 – we estimate 39% to group PBT.
- Phosphate operation was loss-making in FY23 at MYR157m as it prepared for commercialisation despite legal dispute with SESCO; also, included an inventory write-down of MYR52m.
- 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 cement, and construction materials & trading ops.
- Sizeable property land sale as its existing landbank is carried at low cost in its books.
- Positive outcome of the legal dispute relating to its phosphate operation where Cahya Mata Phosphates has filed a claim of MYR1.21b for losses suffered.
- Better-than-expected contribution from Cahya Mata Phosphates (yet to start commercial operation).

Downside

- Market share loss to new cement players in Sarawak.
- Delay in the roll-out of major infrastructure projects.
- Volatility in raw material and fuel prices will impact earnings of its cement, and construction materials ops.
- Negative outcome of the legal dispute relating to its phosphate operation where SESCO has made a counter-claim of MYR342m.
- Further governance issues, following developments in 2021 involving its (then) Group CFO.

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Fig 1: Results summary

	Quarterly					Cumulative			Comments (6M24)
FY Dec (MYR m)	**2Q24**	**2Q23**	***% YoY***	**1Q24**	***% QoQ***	**6M24**	**6M23**	***% YoY***	
Turnover	278.0	290.5	*(4.3)*	277.4	*0.2*	555.4	566.2	*(1.9)*	
EBIT	41.4	18.1	*129.2*	43.7	*(5.3)*	85.1	40.1	*112.1*	
Interest expense	(7.7)	(2.5)	*204.9*	(7.7)	*(0.2)*	(15.4)	(5.9)	*160.4*	
Profit before assoc, JV	**33.7**	**15.5**	***116.9***	**36.0**	***(6.4)***	**69.7**	**34.2**	***103.7***	
Share of assocs' profit *	15.3	15.1	*1.3*	17.0	*(10.3)*	32.3	29.1	*11.0*	
Share of JV's profit #	1.3	4.7	*(71.8)*	4.2	*(68.7)*	5.6	11.3	*(50.7)*	
Pre-tax profit	**50.3**	**35.3**	***42.4***	**57.3**	***(12.2)***	**107.6**	**74.6**	***44.2***	YoY growth driven by cement & Oiltools.
Tax	(19.1)	(8.6)	*120.9*	(17.7)	*7.5*	(36.8)	(20.5)	*79.0*	
Minorities	2.1	(0.4)	*NM*	(1.3)	*NM*	0.8	14.9	*(94.4)*	
Net profit	**33.4**	**26.3**	***26.6***	**38.2**	***(12.8)***	**71.6**	**68.9**	***3.9***	
Core net profit	**33.4**	**26.3**	***26.6***	**38.2**	***(12.8)***	**71.6**	**68.9**	***3.9***	
EPS (sen)	3.11	2.45	*26.9*	3.56	*(12.6)*	6.67	6.41	*4.1*	
DPS (sen) - net	2.00	3.00	*(33.3)*	-	*NM*	2.00	3.00	*(33.3)*	DPR was 30% (vs. 47% in 1H23).
	2Q24	**2Q23**	***ppt chg YoY***	**1Q24**	***ppt chg QoQ***	**6M24**	**6M23**	***ppt chg YoY***	
EBIT margin (%)	*14.9*	*6.2*	*8.7*	*15.8*	*(0.9)*	*15.3*	*7.1*	*8.2*	
Pretax margin (%)	*18.1*	*12.2*	*5.9*	*20.6*	*(2.5)*	*19.4*	*13.2*	*6.2*	
Tax rate (%)	*37.9*	*24.4*	*13.5*	*31.0*	*6.9*	*34.2*	*27.5*	*6.6*	
Segmental									
Revenue:	**2Q24**	**2Q23**	***% YoY***	**1Q24**	***% QoQ***	**6M24**	**6M23**	***% YoY***	
Cement	150.0	157.5	*(4.8)*	149.2	*0.5*	299.2	316.8	*(5.6)*	Sales volume affected by a prolonged rainy season.
Trading	-	-	*NM*	-	*NM*	-	-	*NM*	
Road maintenance	27.7	25.4	*8.8*	27.1	*2.0*	54.8	47.3	*16.0*	Higher rev from 3rd party and instructed works.
Property development	9.2	17.2	*(46.6)*	13.8	*(33.2)*	22.9	28.0	*(18.2)*	Included land sale.
Oiltools	77.0	71.6	*7.5*	78.1	*(1.5)*	155.1	138.6	*11.9*	Strong performance in Nigeria, Indonesia.
Strategic investments	12.4	18.5	*(32.8)*	11.1	*11.7*	23.6	40.1	*(41.2)*	
Others	19.7	20.3	*(2.9)*	17.7	*11.8*	37.4	35.2	*6.4*	
Elimination	(18.0)	(20.0)	*(10.1)*	(19.6)	*(8.3)*	(37.6)	(39.7)	*(5.2)*	
Total	**278.0**	**290.5**	***(4.3)***	**277.4**	***0.2***	**555.4**	**566.2**	***(1.9)***	
Profit before assoc, JV									
Cement	43.9	22.0	*99.8*	26.8	*63.7*	70.7	59.5	*18.8*	Margins improved (+4.8ppts YoY) on lower imported clinker prices and improved efficiencies.
Trading	-	-	*NM*	-	*NM*	-	-	*NM*	
Road maintenance	2.3	3.2	*(27.8)*	5.3	*(56.9)*	7.6	3.1	*148.4*	Higher rev and improved margins (+7.4ppts YoY).
Phosphate	(21.2)	(29.8)	*(28.9)*	(19.2)	*10.3*	(40.4)	(55.5)	*(27.2)*	Lower opex YoY.
Property development	(1.9)	3.1	*NM*	6.2	*NM*	4.2	4.0	*5.3*	Included land sale.
Oiltools	13.3	11.6	*14.2*	14.8	*(10.5)*	28.1	16.2	*73.2*	Higher rev and improved margins (+6.4ppts YoY).
Strategic investments	0.9	11.6	*(91.9)*	6.7	*(85.9)*	7.6	16.1	*(52.6)*	
Others	(1.1)	0.8	*NM*	(1.2)	*(8.8)*	(2.4)	1.2	*NM*	
Unallocated corp exp	(2.4)	(6.9)	*(65.3)*	(3.4)	*(28.5)*	(5.8)	(10.4)	*(44.7)*	
Total	**33.7**	**15.5**	***116.9***	**36.0**	***(6.4)***	**69.7**	**34.2**	***103.7***	

** Major associates: Kenanga (18.8%-owned), SACOFA (50%)*
 # Major JVs: SEDC Resources (previously known as CMS Resources; 49%-owned), PPES Works (49%)

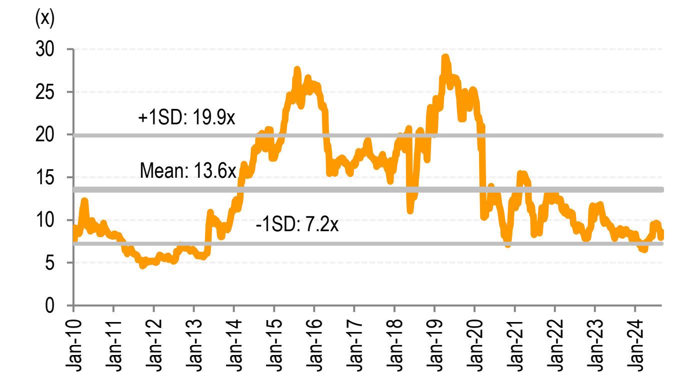
Fig 1: Results summary (continued)

	Quarterly					Cumulative			Comments (6M24)
	2Q24	2Q23	*ppt chg YoY*	1Q24	*ppt chg QoQ*	6M24	6M23	*ppt chg YoY*	
Pre-tax margin %									
Cement	29.3	13.9	*15.3*	18.0	*11.3*	23.6	18.8	*4.8*	
Road maintenance	8.3	12.5	*(4.2)*	19.6	*(11.3)*	13.9	6.5	*7.4*	
Property development	(21.2)	18.0	*(39.2)*	45.0	*(66.2)*	18.5	14.4	*4.1*	
Oiltools	17.3	16.2	*1.0*	19.0	*(1.7)*	18.1	11.7	*6.4*	
Others	*(5.7)*	4.2	*(9.9)*	(7.0)	*1.3*	*(6.3)*	*3.5*	*(9.9)*	
Overall	**12.1**	**5.3**	***6.8***	**13.0**	***(0.9)***	**12.5**	**6.0**	***6.5***	

Source: Company, Maybank IBG Research (tabulation)

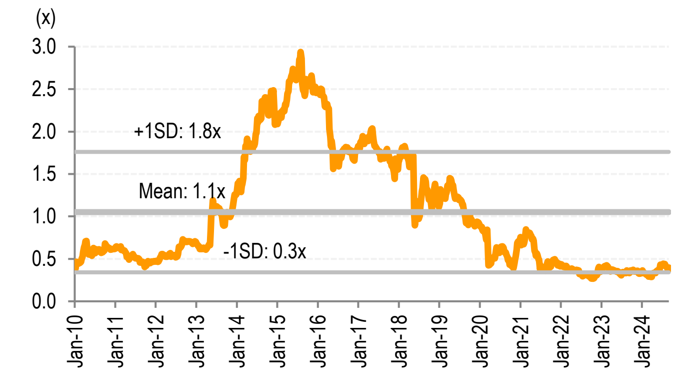
Valuation

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

Fig 4: Revalued Net Asset Value (RNAV)

I. TRADITIONAL CORE BUSINESSES

	FY24E net profit (MYR m)	PER (x)	Holding (%)	CMS' share (MYR m)
Cement				1,193
- Cahya Mata Cement	80	15.0	100%	887
Construction materials & trading				
- SEDC Resources	38	15.0	49%	277
Construction & road maintenance				
- PPES Works (Sarawak)	4	12.0	49%	24
- Road maintenance	7	12.0	100%	89
Property landbank	**Area (ha)**	**NBV (MYR m)**		
- Bandar Samariang, Kuching	1,449	18	100%	18
- Kuching Town	38	85	100%	85
- The Isthmus, Kuching	24	23	51%	12
- Samariang Industrial Park	587	119	51%	61
- Samariang Hotel	- NA -	32	100%	32
- Others	10	47	100%	47
				254

II. STRATEGIC INVESTMENTS

	Methodology	Valuation (MYR m)		
Cahya Mata Phosphates Industries	0.8x FY24E BV	208	80%	167
SACOFA	DCF	1,241	50%	621
Listed Associate	**Paid-up (m shrs)**	**Sh px (MYR)**		
- Kenanga IB	736	1.14	18.8%	158

Net debt at CMS group level @ Dec 2023	288
Investment securities @ Dec 2023	265

RNAV (MYR m)	**3,335**
	===========
No. of shares existing (m)	1,074
RNAV per share (MYR) - rounded	**3.10**
Current share price (MYR)	1.30
P/RNAV (x)	**0.42**

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	3.9	10.5	9.4	8.2	7.5
Core P/E (x)	10.8	10.1	9.4	8.2	7.5
P/BV (x)	0.4	0.4	0.4	0.4	0.4
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	2.8	1.9	1.5	1.5	1.5
FCF yield (%)	nm	nm	0.1	2.2	4.0
EV/EBITDA (x)	8.4	7.2	7.5	5.9	5.1
EV/EBIT (x)	20.6	16.8	15.2	9.9	8.0
INCOME STATEMENT (MYR m)					
Revenue	1,010.6	1,200.9	1,236.6	1,274.0	1,313.3
EBITDA	115.2	156.0	180.9	230.2	259.5
Depreciation	(68.1)	(89.5)	(91.6)	(93.7)	(95.9)
EBIT	47.2	66.5	89.3	136.5	163.6
Net interest income /(exp)	(18.0)	(24.7)	(25.8)	(26.9)	(28.0)
Associates & JV	170.6	86.5	88.2	90.3	92.2
Exceptionals	198.2	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	398.0	128.2	151.8	199.9	227.8
Income tax	(108.1)	(46.6)	(19.1)	(32.9)	(40.7)
Minorities	(2.8)	32.8	15.3	3.6	(1.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	287.1	114.4	148.1	170.6	186.0
Core net profit	106.7	114.4	148.1	170.6	186.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	965.4	607.6	587.7	597.3	631.1
Accounts receivable	243.0	290.8	299.5	308.6	318.1
Inventory	414.0	436.8	441.2	436.3	440.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,439.4	1,458.3	1,494.7	1,529.0	1,561.1
Intangible assets	75.4	81.0	81.0	81.0	81.0
Investment in Associates & JVs	1,015.8	1,060.0	1,148.2	1,238.5	1,330.7
Other assets	702.8	738.7	738.7	738.7	738.7
Total assets	**4,855.8**	**4,673.2**	**4,791.0**	**4,929.3**	**5,101.1**
ST interest bearing debt	282.0	113.0	113.0	113.0	113.0
Accounts payable	652.0	643.2	649.8	642.5	648.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	255.8	207.0	207.0	207.0	207.0
Other liabilities	189.0	166.0	166.0	166.0	166.0
Total Liabilities	**1,378.6**	**1,129.1**	**1,135.7**	**1,128.4**	**1,134.5**
Shareholders Equity	3,226.7	3,297.2	3,423.8	3,572.9	3,737.4
Minority Interest	250.5	246.9	231.6	228.0	229.2
Total shareholder equity	**3,477.2**	**3,544.1**	**3,655.4**	**3,800.9**	**3,966.6**
Total liabilities and equity	**4,855.8**	**4,673.2**	**4,791.0**	**4,929.3**	**5,101.1**
CASH FLOW (MYR m)					
Pretax profit	398.0	128.2	151.8	199.9	227.8
Depreciation & amortisation	68.1	89.5	91.6	93.7	95.9
Adj net interest (income)/exp	27.0	13.4	25.8	26.9	28.0
Change in working capital	(64.4)	(140.4)	(6.5)	(11.4)	(7.5)
Cash taxes paid	(37.9)	(95.0)	(19.1)	(32.9)	(40.7)
Other operating cash flow	(381.0)	(61.4)	(114.0)	(117.1)	(120.2)
Cash flow from operations	9.7	(65.7)	129.6	159.0	183.3
Capex	(43.7)	(43.2)	(128.0)	(128.0)	(128.0)
Free cash flow	(34.0)	(108.9)	1.6	31.0	55.3
Dividends paid	(23.5)	(32.2)	(21.5)	(21.5)	(21.5)
Change in Debt	(376.5)	(217.8)	0.0	0.0	0.0
Other invest/financing cash flow	856.8	(6.5)	0.0	0.0	0.0
Net cash flow	422.8	(365.4)	(19.9)	9.5	33.8

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.1	18.8	3.0	3.0	3.1
EBITDA growth	21.7	35.4	16.0	27.2	12.7
EBIT growth	49.8	40.9	34.4	52.7	19.9
Pretax growth	69.6	(67.8)	18.4	31.7	14.0
Reported net profit growth	40.6	(60.1)	29.4	15.2	9.0
Core net profit growth	(39.3)	7.2	29.4	15.2	9.0
Profitability ratios (%)					
EBITDA margin	11.4	13.0	14.6	18.1	19.8
EBIT margin	4.7	5.5	7.2	10.7	12.5
Pretax profit margin	39.4	10.7	12.3	15.7	17.3
Payout ratio	11.2	18.8	14.5	12.6	11.6
DuPont analysis					
Net profit margin (%)	28.4	9.5	12.0	13.4	14.2
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.5	1.4	1.4	1.4	1.4
ROAE (%)	9.2	3.5	4.4	4.9	5.1
ROAA (%)	2.2	2.4	3.1	3.5	3.7
Liquidity & Efficiency					
Cash conversion cycle	(13.9)	9.5	20.8	20.3	21.0
Days receivable outstanding	77.3	80.0	85.9	85.9	85.9
Days inventory outstanding	136.0	135.0	137.8	138.9	137.3
Days payables outstanding	227.2	205.5	202.9	204.5	202.2
Dividend cover (x)	8.9	5.3	6.9	7.9	8.7
Current ratio (x)	2.0	2.0	2.0	2.0	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	3.5	4.1	4.2	4.4	4.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	2.6	2.7	3.5	5.1	5.8
Debt/EBITDA (x)	4.7	2.1	1.8	1.4	1.2
Capex/revenue (%)	4.3	3.6	10.4	10.0	9.7
Net debt/ (net cash)	(427.6)	(287.6)	(267.7)	(277.3)	(311.0)

Source: Company; Maybank IBG Research

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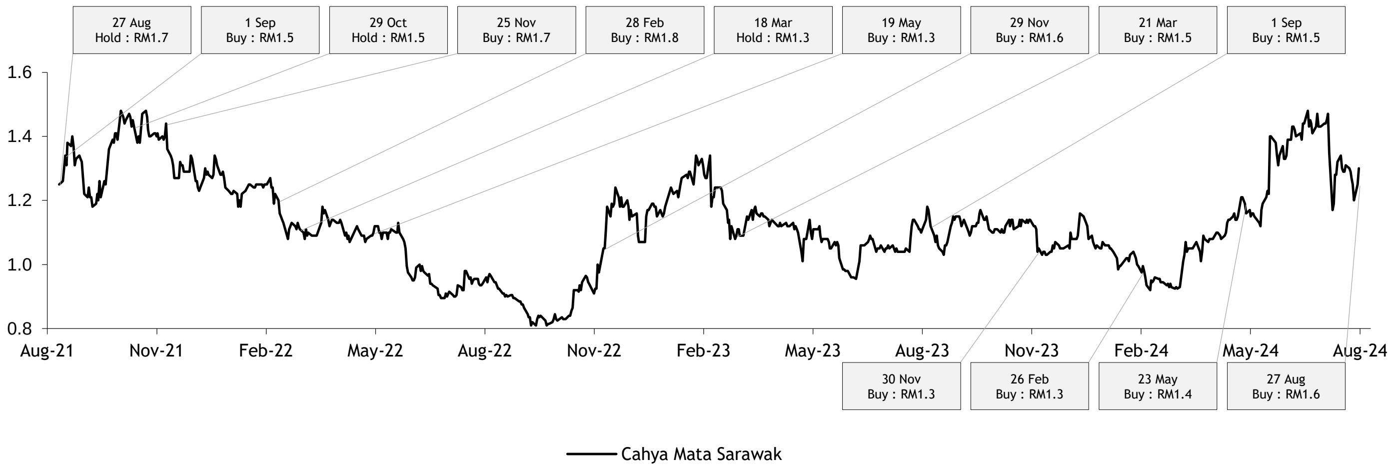

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