

Cahaya Mata Sarawak (CMS MK)

On track for higher earnings delivery

Maintain BUY with an unchanged TP of MYR1.60

We maintain our BUY call on CMS with an unchanged TP of MYR1.60, pegged to 10x FY25E PER which implies 0.4x P/B (BVPS of MYR3.16 @ 30 Jun 2024) and 0.4x our RNAV/shr est. (of MYR3.38). We make negligible changes to our earnings estimates due to house-keeping, expecting strong 29% earnings growth in FY24E with cement and Oiltools to be the drivers. Valuation remains undemanding, now at 9.8x FY24E PER. Further catalyst would be a favourable outcome to the impasse for its phosphate op.

Cement to gain fr MYR recovery, better efficiencies

Cement volume sale was flattish QoQ in 2Q24, we estimate, still affected by the prolonged rainy season in Sarawak which impacted construction activities there. For 1H24, we est. that volume was down 4-6% YoY due to the wet weather. Positively, cement PBT margin expanded 4.8ppts YoY (to 23.6%) in 1H24 on lower imported clinker costs and improved efficiencies. Volume sale is expected to pick up in 2H24 while margins should remain supported on lower clinker cost (with the MYR recovery), and as the group continues to pursue operational, logistics and distribution efficiencies.

Oiltools to deliver stronger earnings

Oiltools' orderbook has built up to c.MYR0.5b as at end-Jun 2024, of which c.20% was secured this year. Active tender is ongoing, which could lift its orderbook further. Oiltools delivered both topline (+12% YoY) and PBT growth (+73% YoY; 18.1% PBT margin) in 1H24, and it was the 2nd largest contributor to group PBT in 1H24 (at 26%), after cement. With 1H24 PBT already at MYR28m, FY24E PBT is poised to surpass that of FY23's MYR29m.

Phosphate arbitration hearing pushed fwd. to 2025

Hearing dates of CM Phosphates and SESCO arbitration proceedings have been pushed forward by 9 months - to 13-16 May and 19-23 May 2025, from 26-29 Aug 2024. The phosphate op posted a loss before tax of MYR40m in 1H24 due to costs incurred to prepare the operation for commercialisation despite the ongoing dispute with SESCO. 1H24's loss also included MYR16m write-down of inventories to NRV. Our earnings forecasts have imputed a conservative MYR108m loss est. for the phosphate op in FY24E.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,011	1,201	1,191	1,227	1,265
EBITDA	115	156	230	298	331
Core net profit	107	114	147	171	186
Core EPS (sen)	9.9	10.7	13.7	15.9	17.3
Core EPS growth (%)	(39.4)	7.2	28.6	16.1	9.0
Net DPS (sen)	3.0	2.0	2.0	2.0	2.0
Core P/E (x)	10.8	10.1	9.8	8.4	7.7
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	3.6	3.8
EV/EBITDA (x)	8.4	7.2	6.1	4.7	4.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	146	170	179
MIBG vs. Consensus (%)	-	-	0.8	0.5	4.1

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BUY

Share Price	MYR 1.34
12m Price Target	MYR 1.60 (+22%)
Previous Price Target	MYR 1.60

Company Description

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

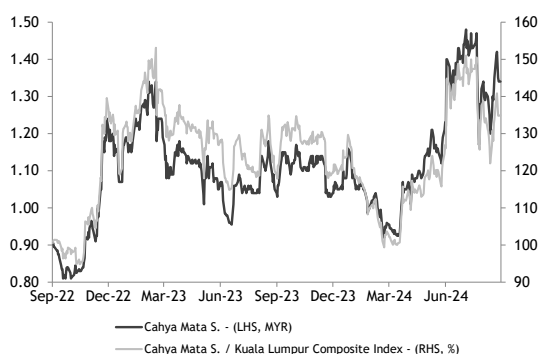
Statistics

52w high/low (MYR)	1.48/0.92
3m avg turnover (USDm)	2.8
Free float (%)	61.8
Issued shares (m)	1,075
Market capitalisation	MYR1.4B
	USD330M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	13	28
Relative to index (%)	(2)	10	12

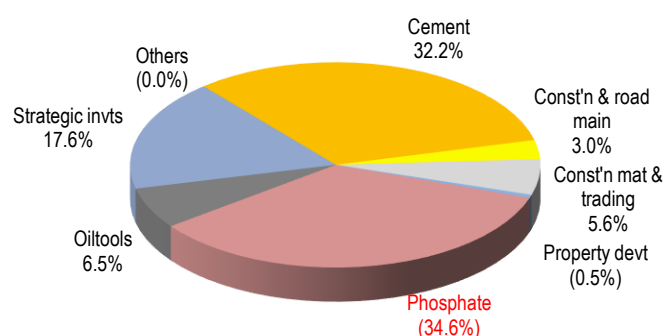
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

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

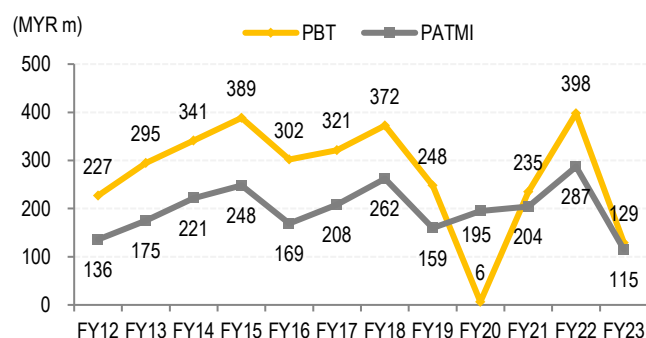


Source: Company

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 in FY23.
- 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.

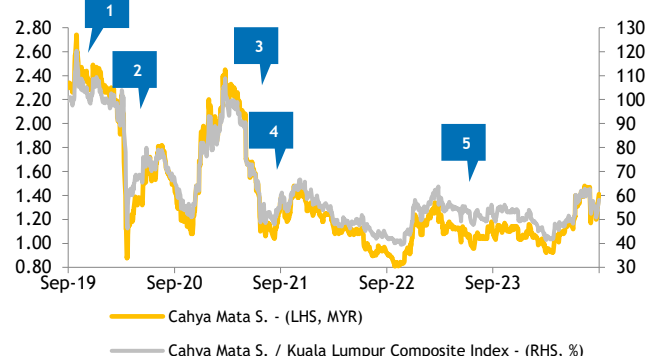
PBT & PATMI



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- 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).
- Start of COVID-19 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).
- SESCO terminated electricity supply to CMS' phosphate complex (10 Jul 2023).

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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Risk Rating & Score ¹	37.6 (High)
Score Momentum ²	-10.7
Last Updated	27 Feb 2023
Controversy Score ³ (Updated: NA)	NA

Business Model & Industry Issues

- As a sizeable construction-based conglomerate with diversified businesses in Sarawak, CMS' sustainability and governance responsibilities are heavy, and its ESG risks inevitably higher than that of its peers.
- While CMS had, in the past, achieved milestones in some material ESG matters, recent years saw much fewer disclosure in its FY21-22 Annual Reports on matters relating to Environmental and Social. During the Dec 2022 semi-annual review, CMS was excluded from the FTSE4Good Bursa Malaysia (F4GBM) index as it "no longer meets FTSE4Good criteria"; CMS has been a constituent since Dec 2016.
- Positively, CMS is working on a Sustainability Policy and Sustainability Plan (as disclosed in its FY22 Annual Report), and intends to roll them out in 2023.

Matters that could Improve CMS' ESG rating, in our view, are: 1) increased disclosure and engagement on ESG matters, 2) restoring confidence in governance (after developments in 2021 relating to its former Group CFO), and 3) setting a carbon neutrality timeline.

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), 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) two 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% in 2021).
- 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 1st responders in times of need to the communities around them.
- In FY21, CMS spent MYR845k (FY20: MYR1.6m) on philanthropic causes.

Key G metrics and issues

- CMS's Board comprises 7 Directors (as at 20 Apr 2023): 4 Independent Non-Executive (incl. Group Chairman), 2 Non-Independent Executive, 1 Executive. This compares to 8 Directors in FY22, with one Non-Independent Director having resigned on 19 Apr 2023.
- Independent Directors make up 57% of Board members (FY22: 50%). 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 shareholder (Governor Taib family) takes up 2 Board seats (29% of total). Another substantial shareholder (SEDC) used to occupy one Board seat before resigning on 19 Apr.
- There are 2 women on CMS' Board (29% representation as of 20 Apr 2023), close to the 30% recommendation.
- CMS provides detailed disclosure on remuneration of its directors but not top senior management. Remuneration to directors was 1.6% of net profit in FY22. Disclosures of its top 5 senior management's remuneration are in bands of MYR50k, but not on named basis.
- 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).

¹**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. ²**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. ³**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).

Quantitative parameters (Score: 19)						
	Particulars	Unit	FY20	FY21	FY22	IJM (FY22)
E	Scope 1 GHG emissions	tCO2e	2712	2876	3580	28312
	Scope 2 GHG emissions	tCO2e	80053	43532	64804	38995
	Total	tCO2e	82765	46408	68384	67307
	Scope 3 GHG emissions	tCO2e	392	11	29	365817
	Total	tCO2e	83157	46419	68413	433124
	GHG intensity (Scope 1 and 2)	tCO2e/m2	NA	NA	NA	NA
	Energy consumed	MWh	NA	NA	NA	69455
	Share of renewable energy use in operations	%	NA	NA	NA	4.0%
	Water / waste recycled	%	NA	NA	NA	7.7% (water)
S	Cases of environmental non-compliance	number	NA	0	0	1
	% of women in workforce	%	20.8%	21.0%	NA	36.0%
	% of women in senior management	%	NA	NA	NA	34.0%
	Lost time injury rate (LTIR)	Per 1,000 workers	5.10	NA	NA	0.63 (LTIF)
	Ave. no. of training hours per employee	hours	7.0	7.7	NA	NA
G	Corporate philanthropy contribution	MYR'000	1615	845	NA	4500
	MD/CEO remuneration as % of PATAMI	%	0.83%	1.24%	0.48%	0.26%
	Board (ex-CEO) remuneration as % of PATAMI	%	1.27%	1.62%	1.09%	0.54%
	Independent directors on the Board (<10 yrs)	%	50%	56%	50%	55%
	Female directors on the Board	%	10%	22%	25%	18%

Qualitative Paramaters (Score: 33)	
a)	Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? <i>No - CMS intends to roll out a Sustainability Policy and Sustainability Plan in 2023.</i>
b)	Is the senior management salary linked to fulfilling ESG targets? <i>No - CMS targets to roll out this practice from the 2023/2024 period.</i>
c)	Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? <i>No.</i>
d)	Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? <i>Yes - CMS reported its Scope 3 emissions since FY20; it currently focuses on 1 out of 15 parameters, ie. business air travels.</i>
e)	What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? <i>The Cement division's in-house generated waste (SW109, SW409 and SW410) are co-processed as alternative fuel. CMS is also collaborating with UNIMAS, in 2022-23, to determine the effectiveness of using river gravel as an alternative raw material for road construction works.</i>
f)	Does carbon offset form part of the net zero/carbon neutrality target of the company? <i>No.</i>

Target (Score: 0)		
Particulars	Target	Achieved
Carbon neutrality	Timeline not established	N/A
Impact		
NA		
Overall score: 18		
As per our ESG matrix, Cahya Mata Sarawak (CMS MK) has an overall score of 18.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	19	9
Qualitative	25%	33	8
Target	25%	0	0
Total			18

As per our ESG assessment, CMS lacks an established framework, internal policies, and tangible mid/long-term targets. It also needs to make headway in improving its "E" and "S" disclosures. CMS' overall ESG score is 18, which makes its ESG rating below-average, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Valuation

Fig 1: Revalued Net Asset Value (RNAV)

I. TRADITIONAL CORE BUSINESSES

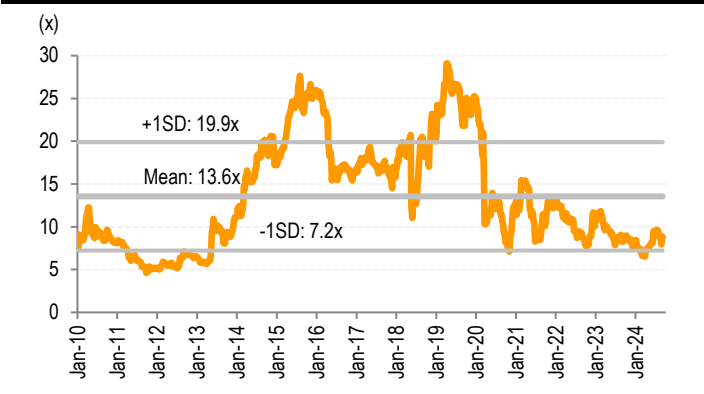
	FY24E net profit (MYR m)	PER (x)	Holding (%)	CMS' share (MYR m)
Cement				
- Cahya Mata Cement	101	15.0	100%	1,522
Construction materials & trading				
- SEDC Resources	36	15.0	49%	268
Construction & road maintenance				
- PPES Works (Sarawak)	4	12.0	49%	24
- Road maintenance	7	12.0	100%	89
Property 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)		
Cahaya 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	1.00	18.8%	139
Net debt at CMS group level @ Dec 2023				288
Investment securities @ Dec 2023				265
RNAV (MYR m)				3,635
No. of shares existing (m)				1,074
RNAV per share (MYR) - rounded				3.38
Current share price (MYR)				1.33
P/RNAV (x)				0.39

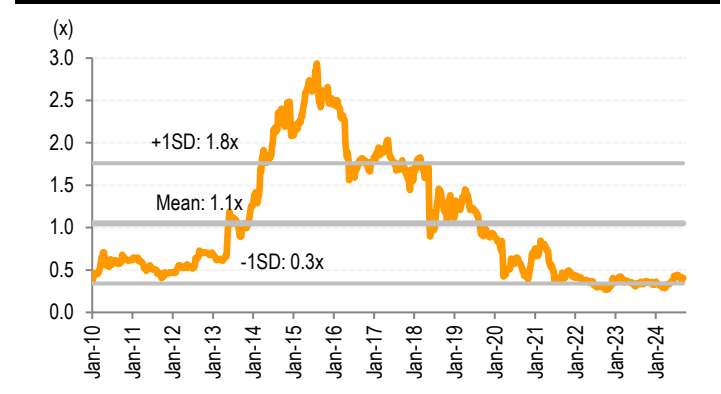
Source: Maybank IBG Research

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	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	3.9	10.5	9.8	8.4	7.7
Core P/E (x)	10.8	10.1	9.8	8.4	7.7
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	0.0	2.4	4.3
EV/EBITDA (x)	8.4	7.2	6.1	4.7	4.1
EV/EBIT (x)	20.6	16.8	10.2	6.8	5.8

INCOME STATEMENT (MYR m)

Revenue	1,010.6	1,200.9	1,191.2	1,227.1	1,264.8
EBITDA	115.2	156.0	230.2	297.8	330.9
Depreciation	(68.1)	(89.5)	(91.6)	(93.7)	(95.9)
EBIT	47.2	66.5	138.6	204.1	235.0
Net interest income / (exp)	(18.0)	(24.7)	(25.8)	(26.9)	(28.0)
Associates & JV	170.6	86.5	83.7	85.7	87.6
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	196.5	263.0	294.6
Income tax	(108.1)	(46.6)	(62.1)	(93.1)	(104.6)
Minorities	(2.8)	32.8	12.7	1.0	(3.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	287.1	114.4	147.1	170.9	186.3
Core net profit	106.7	114.4	147.1	170.9	186.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	965.4	607.6	586.3	599.7	640.4
Accounts receivable	243.0	290.8	288.5	297.2	306.3
Inventory	414.0	436.8	401.7	388.4	390.3
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	1,143.6	1,229.3	1,316.9
Other assets	702.8	738.7	738.7	738.7	738.7
Total assets	4,855.8	4,673.2	4,734.5	4,863.3	5,034.8
ST interest bearing debt	282.0	113.0	113.0	113.0	113.0
Accounts payable	652.0	643.2	591.5	572.0	574.8
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	1,077.4	1,057.9	1,060.7
Shareholders Equity	3,226.7	3,297.2	3,422.8	3,572.2	3,737.1
Minority Interest	250.5	246.9	234.2	233.2	237.0
Total shareholder equity	3,477.2	3,544.1	3,657.1	3,805.5	3,974.1
Total liabilities and equity	4,855.8	4,673.2	4,734.5	4,863.3	5,034.8

CASH FLOW (MYR m)

Pretax profit	398.0	128.2	196.5	263.0	294.6
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)	(14.2)	(15.0)	(8.2)
Cash taxes paid	(37.9)	(95.0)	(62.1)	(93.1)	(104.6)
Other operating cash flow	(381.0)	(61.4)	(109.4)	(112.5)	(115.6)
Cash flow from operations	9.7	(65.7)	128.1	162.9	190.2
Capex	(43.7)	(43.2)	(128.0)	(128.0)	(128.0)
Free cash flow	(34.0)	(108.9)	0.1	34.9	62.2
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)	(21.4)	13.5	40.7

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.1	18.8	(0.8)	3.0	3.1
EBITDA growth	21.7	35.4	47.5	29.4	11.1
EBIT growth	49.8	40.9	108.5	47.3	15.1
Pretax growth	69.6	(67.8)	53.2	33.8	12.0
Reported net profit growth	40.6	(60.1)	28.6	16.1	9.0
Core net profit growth	(39.3)	7.2	28.6	16.1	9.0
Profitability ratios (%)					
EBITDA margin	11.4	13.0	19.3	24.3	26.2
EBIT margin	4.7	5.5	11.6	16.6	18.6
Pretax profit margin	39.4	10.7	16.5	21.4	23.3
Payout ratio	11.2	18.8	14.6	12.6	11.5
DuPont analysis					
Net profit margin (%)	28.4	9.5	12.4	13.9	14.7
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.5	1.4	1.4	1.4	1.3
ROAE (%)	9.2	3.5	4.4	4.9	5.1
ROAA (%)	2.2	2.4	3.1	3.6	3.8
Liquidity & Efficiency					
Cash conversion cycle	(13.9)	9.5	19.8	20.2	21.6
Days receivable outstanding	77.3	80.0	87.5	85.9	85.9
Days inventory outstanding	136.0	135.0	143.4	139.0	136.1
Days payables outstanding	227.2	205.5	211.1	204.7	200.5
Dividend cover (x)	8.9	5.3	6.8	8.0	8.7
Current ratio (x)	2.0	2.0	2.1	2.2	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	3.5	4.1	4.4	4.6	4.7
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	5.4	7.6	8.4
Debt/EBITDA (x)	4.7	2.1	1.4	1.1	1.0
Capex/revenue (%)	4.3	3.6	10.7	10.4	10.1
Net debt/ (net cash)	(427.6)	(287.6)	(266.3)	(279.7)	(320.4)

Source: Company; Maybank IBG Research

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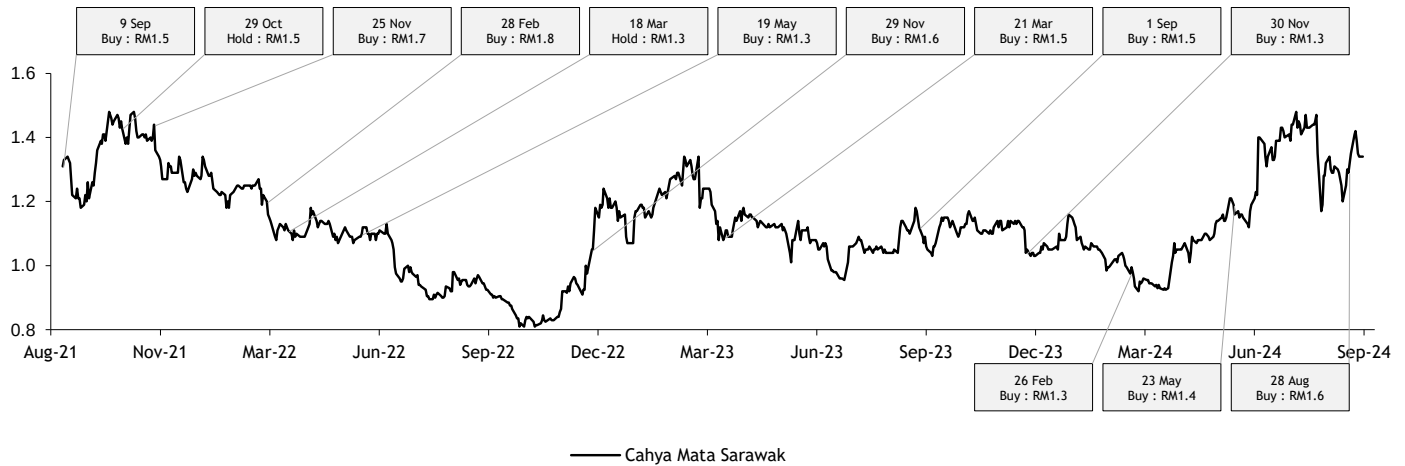
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