

28 February 2022

Cahaya Mata Sarawak (CMS MK)

Looking Forward To a Stronger Year; BUY

- **Maintain BUY, lower SOP-derived MYR1.60 TP from MYR1.70, 31% upside and c.3% yield.** FY21 core net profit came in broadly within our expectations. Cahya Mata Sarawak's core performance was largely driven by the capitalisation on high ferrosilicon/manganese alloy prices by its associate OM Holdings. Moving forward, we are optimistic of the group's prospects to benefit from the sustained rollout of state development projects. This report marks the transfer of coverage to Sean Chew.
- **FY21 earnings within expectations.** 4Q21 core net profit was at MYR57.7m (+3% QoQ, -49% YoY), bringing the full year figure to MYR208m (+7% YoY) – broadly within our full-year expectations (96%) and Street's (100%). Its core performance for the quarter was largely driven by the higher contribution from associates – believe OMH contributed the bulk of the outperformance, on the back of higher ferrosilicon/manganese alloy prices. Its cement division recorded minor losses due to the planned maintenance shutdown of its Mambong plant and higher import prices for clinkers. A DPS of 2 sen was declared, implying a 10% payout ratio.
- **Raising cement ASPs.** CMS recently announced its decision to raise the selling prices of its cement products by 10%, given the rise of freight charges as well as the cost of packaging materials, imported clinkers, and energy. We believe this is timely, as we expect the group's core business segments to benefit from the resumption of major infrastructure and telco projects in FY22F.
- **We trim FY22-23F earnings by 1-3%,** after updating the latest financial figures and the removal of KKB Engineering's contribution after its de-recognition as an associate following CMS' stake dilution to 17.9% (from 20%) pursuant to a private placement.
- **BUY with lower TP.** The internal investigation on the financial management of its previous projects was completed. In response, CMS introduced a number of measures which include: (i) The creation of a new independent Group Risk Division, (ii) initiation of operational improvements, and (iii) recruitment of additional senior management to strengthen its governance controls. We believe restoring investors' confidence is imperative and this may take some time. Nonetheless, current valuations look undemanding at -2SD from its 5-year mean P/E of 18x. Post coverage transfer, we cut our ESG score to 2.4 (from 2.8). As such, we ascribe an ESG discount of 12% to our intrinsic value as CMS's ESG score is below the country median.
- **Key risks:** Resurgence of COVID-19 infections; delays in the implementation of proposed state infra-projects; and unfavourable developments to ongoing governance matters.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	763	814	913	966	1,013
Recurring net profit (MYRm)	113	208	243	249	267
Recurring net profit growth (%)	(21.7)	84.3	16.5	2.6	7.2
Recurring P/E (x)	11.58	6.29	5.39	5.25	4.89
P/B (x)	0.5	0.4	0.4	0.4	0.4
P/CF (x)	17.87	4.39	na	7.93	7.76
Dividend Yield (%)	1.6	1.6	2.8	3.9	4.2
EV/EBITDA (x)	19.10	6.82	4.63	3.98	3.67
Return on average equity (%)	7.2	7.0	7.9	7.6	7.7
Net debt to equity (%)	8.1	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Malaysia Results Review

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Buy (Maintained)

Target Price (Return): MYR1.60 (31.1%)
Price (Market Cap): MYR1.22 (USD312m)
ESG score: 2.44 (out of 4)
Avg Daily Turnover (MYR/USD) 4.42m/1.05m

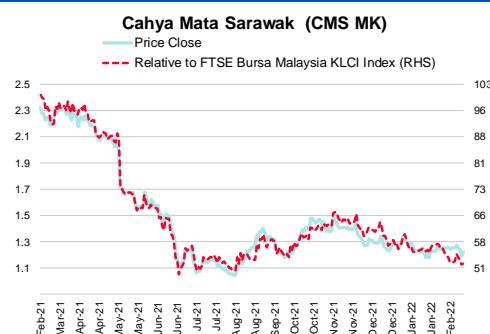
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.7)	3.4	(15.3)	(0.8)	(49.6)
Relative	(6.2)	(2.1)	(20.2)	(2.2)	(50.2)
52-wk Price low/high (MYR)				1.04 – 2.33	



Source: Bloomberg

Overall ESG Score: 2.44 (out of 4)

E: GOOD

Cahaya Mata Sarawak has rolled out various KPIs and initiatives to improve its environmental footprint across business divisions.

S: GOOD

Management has put in place a broad set of employment practices to safeguard its employees' safety and wellbeing, in addition to having a longstanding CSR track record.

G: MODERATE

The group is committed to uphold responsible management and governance practices, and has formally adopted GRI Standards – a global benchmark for sustainability reporting. However, corporate governance concerns are seen to linger on for the time being.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.11	0.19	0.23	0.23	0.25
Construction & Engineering	DPS	0.02	0.02	0.03	0.05	0.05
Cahaya Mata Sarawak	BVPS	2.60	2.80	3.01	3.20	3.40
CMS MK	Return on average equity (%)	7.2	7.0	7.9	7.6	7.7
Buy						
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
CMS is a conglomerate with businesses ranging from cement, road maintenance / construction to building materials trading and property development. It also has other strategic investments. As such, we value the company based on a SOP approach.	Recurring P/E (x)	11.58	6.29	5.39	5.25	4.89
	P/B (x)	0.5	0.4	0.4	0.4	0.4
	FCF Yield (%)	(15.4)	10.2	(7.1)	6.3	6.4
	Dividend Yield (%)	1.6	1.6	2.8	3.9	4.2
	EV/EBITDA (x)	19.10	6.82	4.63	3.98	3.67
	EV/EBIT (x)	na	13.70	7.27	6.37	5.87
Key drivers	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
CMS is the sole supplier of cement in Sarawak with a total capacity of 2.75m tonnes pa, previously running at c.60% of total capacity.	Total turnover	763	814	913	966	1,013
Cement demand is expected to be strong on the back of Pan-Borneo Highway Sarawak projects. In addition, the progressive rollout of the Sarawak Highway and Second Trunk Road projects, as well as the new Baleh Dam project would augur well for CMS	Gross profit	127	145	160	161	167
	EBITDA	60	128	184	185	192
	Depreciation and amortisation	(74)	(64)	(67)	(69)	(72)
	Operating profit	(14)	64	117	115	120
	Net interest	(29)	(20)	(35)	(34)	(33)
	Pre-tax profit	6	236	273	277	296
	Taxation	(23)	(34)	(25)	(23)	(24)
	Reported net profit	195	203	247	254	272
	Recurring net profit	113	208	243	249	267
Key risks	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Weakening of ferrosilicon and manganese prices;	Change in working capital	(53)	211	(172)	3	1
ii. Delays or cancellation of Sarawak development projects;	Cash flow from operations	73	299	(12)	165	168
iii. Corporate governance shake-ups.	Capex	(275)	(165)	(80)	(82)	(85)
	Cash flow from investing activities	(353)	(51)	58	59	(82)
	Dividends paid	(140)	(21)	(37)	(51)	(54)
	Cash flow from financing activities	(59)	15	(96)	(109)	(110)
	Cash at beginning of period	621	282	546	563	676
	Net change in cash	(339)	262	(51)	115	(24)
	Ending balance cash	282	545	495	678	653
Company Profile	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Cahaya Mata Sarawak, a conglomerate based in Sarawak with core operations in cement manufacturing, building materials, construction, road maintenance and property development. The group also holds a portfolio of strategic investments.	Total cash and equivalents	643	954	970	1,084	1,057
	Tangible fixed assets	1,313	1,420	1,366	1,381	1,398
	Total investments	1,366	1,441	1,498	1,557	1,766
	Total assets	4,460	4,921	4,781	4,990	5,207
	Short-term debt	59	630	620	610	600
	Total long-term debt	829	295	285	275	265
	Total liabilities	1,441	1,691	1,340	1,346	1,345
	Total equity	3,020	3,230	3,441	3,645	3,863
	Total liabilities & equity	4,460	4,921	4,781	4,990	5,207
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(56.2)	6.7	12.2	5.9	4.8
	Recurrent EPS growth (%)	(21.7)	84.0	16.8	2.6	7.2
	Gross margin (%)	16.7	17.8	17.6	16.6	16.5
	Operating EBITDA margin (%)	7.9	15.7	20.2	19.1	18.9
	Net profit margin (%)	25.5	25.0	27.1	26.3	26.9
	Dividend payout ratio (%)	11.0	10.5	15.0	20.0	20.0
	Capex/sales (%)	36.1	20.3	8.8	8.5	8.4
	Interest cover (x)	(0.45)	2.25	2.85	2.86	3.04

Source: Company data, RHB

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Figure 1: Quarterly results review (*4Q20, FY20 restated)

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
Revenue	207.0	185.9	240.9	29.6	16.4	762.8	813.8	6.7	Driven by cement, construction materials & trading and property development division Higher maintenance and clinker costs in the cement division
EBIT	(66.0)	24.2	3.4	(85.8)	(105.2)	(11.7)	77.0	(756.7)	
EBIT Margin (%)	(31.9)	13.0	1.4			(1.5)	9.5		
Interest expense	(9.0)	(7.2)	(7.0)	(2.0)	(22.4)	(31.1)	(28.3)	(8.9)	Stronger performance across most associate/JV companies, plus reclassification of construction and materials business contributions as equity-accounted in FY21 Includes KIB divestment gains of MYR28.5m, but offset by recognition of diminution in value of investment in associate MYR15.9m and impairment loss on a loan to associate of MYR28.5m.
Associates	6.0	47.4	70.6	48.8	nm	49.0	191.9	nm	
El/Others	0.0	(2.4)	(33.3)	nm	nm	0.0	(4.8)	nm	
Pretax profit	(69.0)	62.1	33.6	(45.8)	(148.7)	6.2	235.8	3,698.9	Within our and consensus' expectations
Pretax Margin (%)	(33.4)	33.4	14.0			0.8	29.0		
Tax	(4.5)	(8.8)	(9.1)	3.3	103.2	(23.5)	(33.7)	43.8	
Effective tax rate (%)	(6.5)	14.2	27.1			378.0	14.3		
Minority Interest	24.7	0.6	(0.1)	(121.4)	(100.5)	4.9	1.4	(70.8)	
Discont. Ops*	162.9	-	-			207.2	-		
Net Profit	114.1	53.9	24.4	(54.7)	(78.6)	194.8	203.5	4.4	
Core Profit	114.1	56.3	57.7	2.6	(49.4)	194.8	208.3	6.9	
Core Net Margin (%)	55.1	30.3	24.0			25.5	25.6		

Source: Company data, RHB

Figure 2: SOP valuation

Business segment	Methodology	Equity value (MYRm)	Value per share	Description
Cement division	P/E	939	0.86	15x FY22F P/E
Construction material division	P/E	511	0.47	13x FY22F P/E
Property division	RNAV	249	0.23	75% discount to RNAV
Construction & road maintenance	P/E	188	0.17	9x FY22F P/E
KKB Engineering Bhd	Market cap	79	0.07	17.9% equity stake
Kenanga Investment Bank Bhd	Market cap	179	0.16	18.6% equity stake
OM Materials (Sarawak)	P/E	912	0.83	12x FY22F P/E
Sacofa	P/E	243	0.22	8x FY22F P/E
		3301	3.01	
Net cash/(debt)		28	0.03	Net cash
SOP valuation (MYR)			1.82	40% SOP discount
ESG premium/(discount)	4%		(0.22)	
Target Price			1.60	

Source: RHB

Recommendation Chart

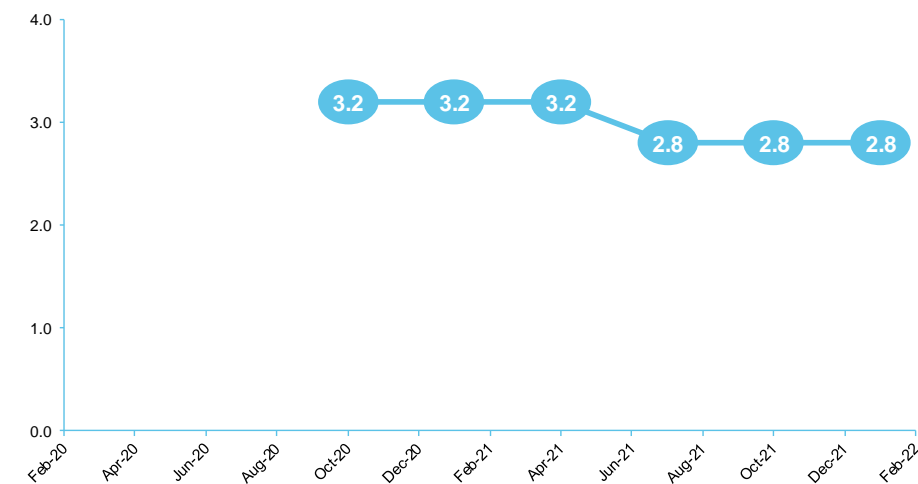


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-24	Buy	1.70	1.40
2021-09-01	Neutral	1.20	1.34
2021-07-09	Neutral	1.10	1.11
2021-05-27	Neutral	1.70	1.68
2021-05-07	Buy	2.25	1.71
2021-02-17	Buy	2.90	2.30
2020-12-07	Buy	2.40	1.88
2020-11-26	Buy	2.23	1.68
2020-06-19	Buy	2.17	1.61
2020-02-27	Buy	2.63	1.98
2019-12-10	Buy	2.83	2.41
2019-11-29	Buy	3.07	2.40

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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