

Cahaya Mata Sarawak (CMS MK)

Share Price: MYR4.47

MCap (USD): 1.3B

Malaysia

Target Price: MYR5.00 (+12%)

ADTV (USD): 2M

Construction

BUY

 (Unchanged)

Buying 5% more in OMS

- Additional 5% stake in OMS to enhance recurring earnings.
- Re-rating catalysts from further acquisitions/investments.
- Earnings forecasts unchanged for now. Reiterate BUY with a higher SOP-TP of MYR5.00 (+4%).

What's New

CMS' wholly owned subsidiary, Samalaju Industries S/B, has proposed to acquire an additional 5% stake in OM Materials (S) for USD18.45m cash from OM Holdings (OMH AU, Not Rated). This would increase CMS' stake in the ferrosilicon manganese alloys smelting plant in the Samalaju Industrial Park, Sarawak to 25% from 20%. The remaining 75% is owned by OMH. The acquisition is expected to complete by end-Mar 2015.

What's Our View

We are positive on the deal as it would enhance recurring income from its investments in SCORE. In addition, the acquisition valuation implies a low 4x FY16 PER. We estimate 3-5.5% potential upside to our FY15-17 EPS forecasts from the acquisition. In addition, OMH would redeploy the proceeds from this disposal for the development of OMS phase II that further enhance earnings.

Despite the lackluster ferrosilicon price, OMS would still able to remain profitable due to its low cost structure as it leverages on the low energy cost in Sarawak. Following this acquisition, its net cash still remains strong at MYR786m. Going forward, we expect further re-rating catalysts from more strategic investments and acquisitions. It was reported that CMS intends to acquire Sacofa S/B, the sole concessionaire that builds, operates and maintains telecommunication towers in Sarawak.

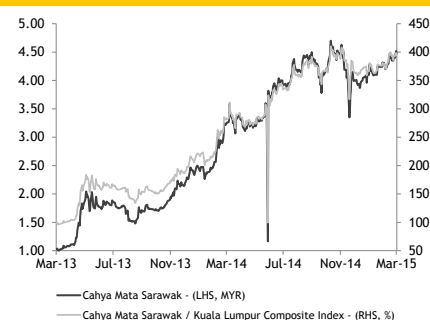
Reiterate BUY at a higher SOP-TP of MYR5.00 (+4%) after we factor in the additional stake in OMS. Our earnings forecasts are largely unchanged with the additional contribution from OMS being small. We forecast MYR69m net profit contribution from OMS in FY16 & FY17 (based on the original 20% stake).

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	1,416.8	1,673.9	1,356.5	1,467.2	1,567.7
EBITDA	376.1	374.4	400.3	433.0	467.3
Core net profit	175.1	221.3	256.0	311.6	325.3
Core EPS (sen)	17.2	21.7	25.1	30.6	31.9
Core EPS growth (%)	26.2	26.4	15.7	21.7	4.4
Net DPS (sen)	15.8	8.5	10.0	12.2	3.6
Core P/E (x)	26.0	20.6	17.8	14.6	14.0
P/BV (x)	2.8	2.5	2.3	2.1	1.9
Net dividend yield (%)	3.5	1.9	2.2	2.7	0.8
ROAE (%)	11.2	12.8	13.6	15.1	14.5
ROAA (%)	7.7	8.5	9.1	10.4	10.0
EV/EBITDA (x)	5.5	9.5	10.5	9.9	9.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Key Data

Shariah status	Yes
52w high/low (MYR)	4.70/1.17
3m avg turnover (USDm)	1.6
Free float (%)	44.0
Issued shares (m)	1,040
Market capitalization	MYR4.6B
Major shareholders:	
-Majaharta Sdn. Bhd.	13.0%
-Estate of Lejla Taib	10.7%
-TAIB SULAIMAN ABDUL RAHMAN	8.5%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	4.2	11.8	37.7
Relative to index (%)	4.3	8.4	39.2

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	1	1	0
	Maybank Consensus		% +/-
Target Price (MYR)	4.80	4.65	3.2
'15 PATMI (MYRm)	256	239	7.1
'16 PATMI (MYRm)	312	274	13.7

Source: FactSet; Maybank

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Cahaya Mata Sarawak: Sum-of-the-parts valuation

	<u>2016 estd. net profit</u> (MYR m)	<u>P/E (x)</u>	<u>Effective holding (%)</u>	<u>CMS' share (MYR m)</u>
Cement				
- CMS Cement	126.7	18.0	100%	2,280.3
Construction materials	42.4	15.0	51%	324.3
Construction & Road Maintenance				
- PPES Works (Sarawak)	19.9	10.0	51%	101.4
- Road maintenance and pavement	41.7	10.0	100%	416.8
Temporary Housing	19.9	5.0	51%	50.8
OM Materials (Sarawak)	344.8	10.0	25%	862.1
	<u>Acres developed</u>	<u>GDV</u>	<u>Shareholding (%)</u>	<u>NPV of future profits</u> (RMm)
Property				
- Project Bandar Samariang	155	474	100%	52.0
- The Isthmus, Kuching	55	511	51%	56.1
- Cahya Grove Lot 9244	19	262	51%	28.8
- Lane Park Residences	3.5	27	51%	2.9
- Bintawa, Kuching	43	430	51%	47.2
- Toll Bridge Land Lot 9882	8	150	100%	16.5
- Samalaju Eco Township	2,126	5,000	51%	256.7
- Hotel, Serviced Accomodation & Training Facilities at Samalaju Industrial park	98	244	51%	28.5
- Samalaju Central	81	250	51%	25.6
- Samalaju Light Industrial Park	192	700	51%	68.9
Total		8,048		583.0
60% discount to RNAV				(349.8)
				233.2
	<u>Remaining Area (acres)</u>	<u>NBV/Psf (MYR)</u>	<u>Effective holding (%)</u>	
Property				
- Project Bandar Samariang	4,056	0.08	100%	13.3
- The Isthmus, Kuching	144	7.80	51%	25.0
Listed Associates				
	<u>Paid-up (m shrs)</u>	<u>Share price (MYR)</u>	<u>Effective holding (%)</u>	
- K&N Kenanga	731.8	0.60	24%	105.6
- KKB Engineering	257.8	1.63	20%	84.0
Estimated net cash at CMS coy level @ Sep 2014				587.6
TOTAL SOP (MYR m)				4,912.0
No. of shares existing (m)				1,019.1
SOP per share (MYR)				4.99
Discounted SOP /share (MYR) (Rounded)				5.00

Source: Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	26.0	20.6	17.8	14.6	14.0
Core P/E (x)	26.0	20.6	17.8	14.6	14.0
P/BV (x)	2.8	2.5	2.3	2.1	1.9
P/NTA (x)	2.9	2.6	2.4	2.2	(7.6)
Net dividend yield (%)	3.5	1.9	2.2	2.7	0.8
FCF yield (%)	3.1	5.5	0.6	2.4	2.9
EV/EBITDA (x)	5.5	9.5	10.5	9.9	9.3
EV/EBIT (x)	7.0	10.9	12.1	11.4	10.7

INCOME STATEMENT (MYR m)

Revenue	1,416.8	1,673.9	1,356.5	1,467.2	1,567.7
Gross profit	291.8	327.2	349.0	373.5	405.2
EBITDA	376.1	374.4	400.3	433.0	467.3
Depreciation	(84.3)	(47.2)	(51.3)	(59.5)	(62.1)
EBIT	291.8	327.2	349.0	373.5	405.2
Net interest income / (exp)	(3.8)	(3.6)	(15.3)	(15.1)	(15.0)
Associates & JV	6.9	17.8	43.3	83.5	83.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	294.9	341.5	376.9	441.9	473.7
Income tax	(79.3)	(75.8)	(80.1)	(86.0)	(93.7)
Minorities	(40.5)	(44.3)	(40.9)	(44.4)	(54.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	175.1	221.3	256.0	311.6	325.3
Core net profit	175.1	221.3	256.0	311.6	325.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	613.7	829.6	752.0	736.1	739.5
Accounts receivable	267.4	279.6	226.6	245.1	261.9
Inventory	130.5	121.5	89.4	96.7	102.9
Property, Plant & Equip (net)	499.7	597.2	773.7	942.9	1,109.6
Intangible assets	61.9	64.0	64.0	63.9	63.7
Investment in Associates & JVs	384.5	405.3	448.6	532.1	615.7
Other assets	466.6	502.8	502.8	502.8	504.8
Total assets	2,424.4	2,800.1	2,857.1	3,119.6	3,398.1
ST interest bearing debt	73.0	74.6	74.6	74.6	74.6
Accounts payable	339.7	520.4	382.9	414.1	440.7
LT interest bearing debt	27.1	30.2	30.2	30.2	30.2
Other liabilities	96.0	100.0	100.0	100.0	101.0
Total Liabilities	536.3	725.6	588.1	619.3	646.9
Shareholders Equity	1,654.5	1,811.7	1,965.3	2,152.3	2,350.5
Minority Interest	233.6	262.8	303.7	348.0	402.8
Total shareholder equity	1,888.1	2,074.5	2,269.0	2,500.3	2,753.2
Total liabilities and equity	2,424.4	2,800.1	2,857.1	3,119.6	3,400.1

CASH FLOW (MYR m)

Pretax profit	294.9	341.5	376.9	441.9	473.7
Depreciation & amortisation	84.3	47.2	51.3	59.5	62.1
Adj net interest (income)/exp	(1.4)	(1.2)	15.3	15.1	15.0
Change in working capital	(42.6)	142.1	(52.3)	5.4	3.6
Cash taxes paid	(76.9)	(75.0)	(80.1)	(86.0)	(93.7)
Other operating cash flow	(22.3)	(40.4)	(58.6)	(98.6)	(98.5)
Cash flow from operations	236.0	414.2	252.5	337.3	362.2
Capex	(94.6)	(164.8)	(226.9)	(227.9)	(227.9)
Free cash flow	141.4	249.5	25.7	109.5	134.4
Dividends paid	(43.0)	(57.0)	(102.4)	(124.6)	(130.1)
Change in Debt	10.3	4.7	0.0	0.0	0.0
Other invest/financing cash flow	(43.7)	18.7	(0.8)	(0.8)	(0.8)
Net cash flow	64.9	215.9	(77.5)	(16.0)	3.4

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	17.7	18.1	(19.0)	8.2	6.9
EBITDA growth	30.9	(0.5)	6.9	8.2	7.9
EBIT growth	24.8	12.1	6.7	7.0	8.5
Pretax growth	30.0	15.8	10.4	17.2	7.2
Reported net profit growth	29.0	26.4	15.7	21.7	4.4
Core net profit growth	29.0	26.4	15.7	21.7	4.4
Profitability ratios (%)					
EBITDA margin	26.5	22.4	29.5	29.5	29.8
EBIT margin	20.6	19.5	25.7	25.5	25.8
Pretax profit margin	20.8	20.4	27.8	30.1	30.2
Payout ratio	91.7	39.1	40.0	40.0	11.3
DuPont analysis					
Net profit margin (%)	12.4	13.2	18.9	21.2	20.8
Revenue/Assets (x)	0.6	0.6	0.5	0.5	0.5
Assets/Equity (x)	1.5	1.5	1.5	1.4	1.4
ROAE (%)	11.2	12.8	13.6	15.1	14.5
ROAA (%)	7.7	8.5	9.1	10.4	10.0
Liquidity & Efficiency					
Cash conversion cycle	0.7	(22.4)	(56.5)	(42.7)	(43.2)
Days receivable outstanding	66.2	58.8	67.2	57.9	58.2
Days inventory outstanding	38.0	33.7	37.7	30.6	30.9
Days payables outstanding	103.4	115.0	161.4	131.2	132.3
Dividend cover (x)	1.1	2.6	2.5	2.5	8.9
Current ratio (x)	3.0	2.5	2.9	2.7	2.6
Leverage & Expense Analysis					
Asset/Liability (x)	4.5	3.9	4.9	5.0	5.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	77.2	92.0	22.8	24.7	27.1
Debt/EBITDA (x)	0.3	0.3	0.3	0.2	0.2
Capex/revenue (%)	6.7	9.8	16.7	15.5	14.5
Net debt/ (net cash)	(513.6)	(724.8)	(647.3)	(631.3)	(634.7)

Source: Company; Maybank

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