

14 October 2022

# Cahaya Mata Sarawak (CMS MK)

## The Unshakable Cement Giant In Borneo; Stay BUY

Construction & Engineering | Construction

**Buy** (Maintained)

Target Price (Return): MYR1.02 (+25%)  
Price (Market Cap): MYR0.82 (USD187m)  
ESG score: 2.33 (out of 4)  
Avg Daily Turnover (MYR/USD) 1.29m/0.29m

• **Reiterate BUY, with new TP MYR1.02 TP from MYR1.40, 25% upside and c.4% FY23F yield.** After a better-than-expected 1H22, Cahya Mata Sarawak has embarked on improving cost and operating efficiency to sail through a challenging 2H22 amid rising raw material costs and labour shortage. We expect the ongoing/potential newly awarded infrastructure contracts in East Malaysia and relocation of Indonesia's capital city to East Kalimantan as key catalysts for the company. This report marks a transfer of coverage to Oong Chun Sung.

• **Cement demand.** In 1H22, monthly average cement production of 1.8m tonnes was higher than the pre-pandemic monthly average of 1.6m tonnes as the sector saw a spike in demand following the full reopening of the economy. However, increasingly challenging operating conditions ie labour shortage and cost pressure since the second quarter has led to a downtrend in cement production. In July, monthly cement production stood at only 1.1m tonnes after peaking at 2.5m tonnes in February.

• **Cement ASP.** Bulk cement prices have moderated 3% MoM to MYR295.50 per tonne, but remained higher than the pre-COVID-19 average ASP of MYR198 per tonne by 49%. Demand recovery has also been impeded by the persistent labour shortage, which may only improve in 2023 as foreign workers slowly return. We think that the revival of local infrastructure projects post-Budget 2023 and political stabilisation (ie post-elections) would be a near-term key sector catalyst moving forward.

• **ESG aspect.** Post review on CMSB's ESG factors, we maintain our "E" score owing to its renewable power sourcing for its phosphate plant. We downgrade our "S" score as a result of a lack of disclosure in terms of workplace safety relatively to peers. Despite concluding its investigations on allegations of the financial irregularities, we still think the "G" criteria remains weak and should continue to be a key concern among investors. Overall, there has been a lack of further deliberation in terms of ESG disclosure after the company streamlined its sustainability reporting into its annual report as compared to a separate comprehensive report it did in 2020. All in, our ESG score is revised down to 2.3 from 2.4.

• **Earnings revision and valuation.** We raise our FY22 cement price assumption by 10% to MYR370, taking into consideration CMSB's ASP hike in February. We also raise our 2022-2023 coal cost assumption by 70% and 28% to factor in elevated coal prices following Russia's invasion on Ukraine and export ban imposed by the Indonesian Government. Our SOP-based TP MYR1.02 incorporates a 13% ESG discount to its intrinsic value.

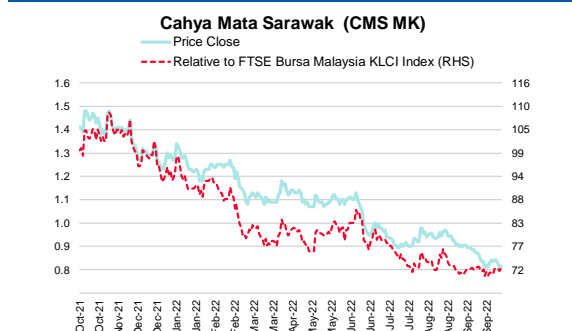
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(36.3)	(10.0)	(10.0)	(27.9)	(42.2)
Relative	(23.9)	(2.3)	(7.3)	(13.9)	(28.0)
52-wk Price low/high (MYR)				0.81 – 1.48	



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	763	815	1,021	1,159	1,203
Recurring net profit (MYRm)	113	209	84	191	247
Recurring net profit growth (%)	(21.7)	85.0	(59.9)	127.9	29.3
Recurring P/E (x)	7.74	4.19	10.42	4.57	3.53
P/B (x)	0.3	0.3	0.3	0.3	0.3
P/CF (x)	11.94	2.93	na	4.26	3.42
Dividend Yield (%)	2.5	2.4	1.4	4.4	5.7
EV/EBITDA (x)	15.45	5.22	5.51	2.43	1.72
Return on average equity (%)	7.2	7.0	2.8	6.0	7.4
Net debt to equity (%)	8.1	net cash	1.0	net cash	net cash

Source: Company data, RHB

### Overall ESG Score: 2.33 (out of 4)

#### E: GOOD

Cahaya Mata Sarawak put in place various environmental metrics to improve its environmental footprint across business divisions.

#### S: GOOD

The company had committed to prevent workplace accidents and job-related injuries by upholding towards its occupational safety & health (OHS) policy. CMSB also upheld its townhall session with employees to keep them fully engaged and motivated via interaction with the senior management.

#### G: MODERATE

CMSB is committed to embark on Human Capital Transformation Programme to build strong culture of governance and strengthen the group accountability and integrity at senior management level.

#### Note:

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

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Malaysia	Recurring EPS	0.11	0.19	0.08	0.18	0.23
Construction & Engineering	DPS	0.02	0.02	0.01	0.04	0.05
<b>Cahaya Mata Sarawak</b>	BVPS	2.60	2.80	2.88	3.02	3.20
CMS MK	Return on average equity (%)	7.2	7.0	2.8	6.0	7.4
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Cahaya Mata Sarawak 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)	7.74	4.19	10.42	4.57	3.53
	P/B (x)	0.3	0.3	0.3	0.3	0.3
	FCF Yield (%)	(23.1)	15.2	(13.6)	14.0	19.5
	Dividend Yield (%)	2.5	2.4	1.4	4.4	5.7
	EV/EBITDA (x)	15.45	5.22	5.51	2.43	1.72
	EV/EBIT (x)	na	10.81	11.40	3.31	2.21
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Government support for East Malaysia public infrastructure spending which should lead to pick up of cement demand.	Total turnover	763	815	1,021	1,159	1,203
	Gross profit	127	145	158	260	326
	EBITDA	60	124	129	260	326
	Depreciation and amortisation	(74)	(64)	(67)	(69)	(72)
	Operating profit	(14)	60	63	190	254
	Net interest	(29)	(26)	(52)	(51)	(50)
	Pre-tax profit	6	235	88	231	304
	Taxation	(23)	(30)	(3)	(39)	(57)
	Reported net profit	195	204	84	191	247
	Recurring net profit	113	209	84	191	247
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Weakening of MYR against USD;	Change in working capital	(53)	211	(165)	(16)	(13)
ii. Delays or cancellation of Sarawak development projects;	Cash flow from operations	73	299	(38)	205	256
iii. Corporate governance shake-ups	Capex	(275)	(165)	(80)	(82)	(85)
	Cash flow from investing activities	(353)	(51)	(26)	(18)	(87)
	Dividends paid	(140)	(21)	(13)	(38)	(49)
	Cash flow from financing activities	(59)	15	(85)	(109)	(118)
	Cash at beginning of period	621	282	546	464	540
	Net change in cash	(339)	262	(149)	77	51
	Ending balance cash	282	545	397	542	592
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Cahaya Mata Sarawak 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 cash and equivalents	643	954	872	948	996
	Tangible fixed assets	1,313	1,420	1,366	1,381	1,398
	Total investments	1,366	1,441	1,464	1,491	1,591
	Total assets	4,460	4,921	4,694	4,846	5,013
	Short-term debt	59	630	620	610	600
	Total long-term debt	829	295	285	275	265
	Total liabilities	1,441	1,691	1,393	1,390	1,360
	Total equity	3,020	3,230	3,302	3,455	3,654
	Total liabilities & equity	4,460	4,921	4,694	4,846	5,013
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.	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(56.2)	6.8	25.3	13.6	3.8
	Recurrent EPS growth (%)	(21.7)	84.7	(59.8)	127.9	29.3
	Gross margin (%)	16.7	17.8	15.5	22.4	27.1
	Operating EBITDA margin (%)	7.9	15.3	12.7	22.4	27.1
	Net profit margin (%)	25.5	25.1	8.2	16.5	20.5
	Dividend payout ratio (%)	11.0	10.5	15.0	20.0	20.0
	Capex/sales (%)	36.1	20.3	7.8	7.1	7.1
	Interest cover (x)	(0.45)	2.12	1.15	3.57	4.87

Source: Company data, RHB

Figure 1: SOP valuation

Business segment	Methodology	Multiple (x)	Total Value	Value per share	Description
Cement division	P/E	15	1,137	1.06	Based on FY23 estimates
Construction materials division	P/E	12	143	0.13	Based on FY23 estimates, 49% owned
Property division	RNAV		103	0.10	Based on 75% discount to RNAV
Construction & road maintenance	P/E	9	150	0.14	Based on FY23 estimates
KKB Engineering	Market cap		71	0.07	17.9% equity stake
Kenanga Investment Bank Bhd	Market cap		120	0.11	18.6% equity stake
Sacofa	P/E	8	335	0.31	Based on FY23 estimates
			2,059	1.92	
Net cash			62	0.06	Net cash
<b>SOP valuation</b>			<b>2,121</b>	<b>1.18</b>	40% SOP discount
Intrinsic value (MYR)				1.18	
ESG premium/(discount)		(13%)		(0.16)	
<b>Target price</b>				<b>1.02</b>	

Source: RHB

## Recommendation Chart

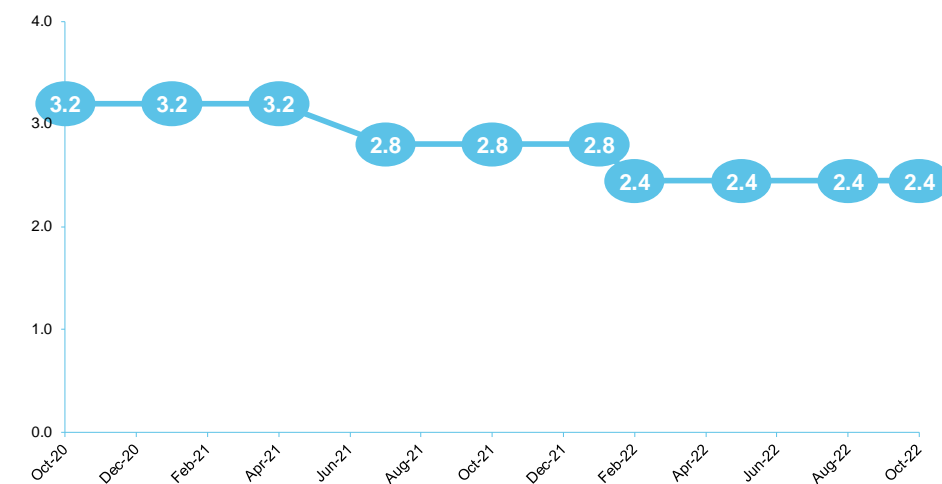


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-07-21	Buy	1.40	0.91
2022-02-28	Buy	1.60	1.20
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
2021-02-26	Buy	2.90	2.32
2021-02-17	Buy	2.90	2.30
2020-12-07	Buy	2.40	1.88
2020-11-26	Buy	2.23	1.68
2020-08-27	Buy	2.17	1.51
2020-06-30	Buy	2.17	1.56
2020-06-19	Buy	2.17	1.61
2020-02-27	Buy	2.63	1.98

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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