

Cahaya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

Maintain BUY

Better year ahead but challenges persist

Adjusted Target Price: RM1.70
(from RM 2.21)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings missed estimates**
- **Cement division has shown an improvement**
- **Construction & road maintenance division booked revenue of RM81.3m in 1QFY20, down by -37.4%yoy**
- **Earnings forecasts revised lower**
- **Reiterate BUY with a lower TP of RM1.70**

Earnings missed estimates. CMSB's registered 1QFY20 core earnings of RM282.5m (-32.5%yoy) from RM418.2m in 1QFY19. The results trailed both our and consensus estimates, representing only 8% and 11% of full year forecasts. We attribute the underperformance to lower contribution from all the divisions except for the cement division.

Cement division has shown an improvement. The top line for this division dipped by -18%yoy to RM120.25m. Despite the lower topline figure, its PBT has improved by 69% to RM18.6m as compared to RM11.0m in the previous year. This improvement was largely underpinned by (1) cheaper imported clinker, (2) lower repair & maintenance cost, and (3) higher clinker production volume.

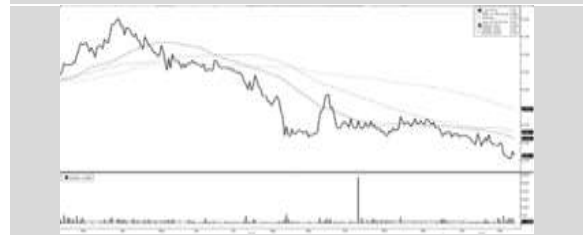
Construction & road maintenance division booked revenue of RM81.3m in 1QFY20, down by -37.4%yoy. Consequently, the division's PBT shrank to RM6.06m (-60.5%yoy) in the same quarter from RM15.33m in the year before. The factors that steered down the profitability of the construction & road maintenance division were (1) more scope under the new road maintenance contract whilst the value of contract remains unchanged, and (2) lower revenue contributed by construction works due to less work performed this quarter. However, it is worth noting that this division's order book stood at RM1.23b as of end of March. Going ahead, we lean that construction & road maintenance division will continue to derive stable recurring income from its road concession which currently involves the maintenance of approximately 3,343 km of State roads.

Impact on earnings. Despite our sanguine outlook on the prospects of the construction sector in Sarawak, we are prompted to adjust our earnings forecasts downward after factoring in weaker performance for all divisions except for the cement division in review quarter. Hence, we revise down our earnings forecasts for FY20 and FY21 by -50.1% and -23.2% respectively.

RETURN STATISTICS

Price @ 30 June 2020 (RM)	RM1.56
Expected share price return (%)	+8.66
Expected dividend yield (%)	+4.17
Expected total return (%)	+12.83

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-1.3	-3.1
3 months	0.0	22.1
12 months	-50.2	-44.5

KEY STATISTICS

FBM KLCI	1,500.97
Syariah compliant	Yes
Issue shares (m)	1070.84
Estimated free float (%)	41.03
Market Capitalisation (RM'm)	1,673.29
52-wk price range	RM0.83 - RM3.14
Beta vs FBM KLCI (x)	1.54
Monthly velocity (%)	0.00
Monthly volatility (%)	21.37
3-mth average daily volume (m)	9.20
3-mth average daily value (RM'm)	12.79
Top Shareholders (%)	
Majaharta Sdn Bhd	12.56
Employees Provident Fund Board	11.99
TAIB LEJLA	10.35

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Introduce FY22 forecast. On top of that, we introduce our earnings forecast for FY22. The table below summarizes our latest core net profit forecasts for Cahya Mata Sarawak.

Reiterate BUY with a lower TP of RM1.70. Going ahead, we anticipate brighter prospects for CMSB as we believe that the Group is a likely beneficiary of the RM11b major infrastructure projects in Sarawak which include (1) Coastal Road, (2) Second Trunk Road, and (3) 11 bridges given its track record as one of the biggest infrastructure players in East Malaysia. However, we remain cautious on the overall outlook for the construction sector on the back of slow progress in construction activities. We adjust our **TP** to **RM1.70** from RM2.21 as we revised down our FY21 earnings. We ascribed blended PER multiple of 10x. The new TP implies expected total return of +12.83%. Hence, maintain **BUY** call. 

INVESTMENT STATISTICS

FYE December	FY17	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1606.0	1711.9	1741.0	1703.2	1795.6	1824.2
Operating profit	281.3	305.1	234.7	238.7	272.1	298.3
Net Profit	215.3	265.7	160.3	108.5	181.4	219.0
EPS (Sen)	20.1	24.8	15.0	10.1	17.0	20.5
EPS (Growth)(%)	42.8	23.4	-39.6	-32.3	67.2	20.7
PER	12.0	9.8	10.7	15.4	9.2	7.6
Div (sen)	8.0	7.4	3.0	6.5	6.5	6.5
Div Yield (%)	3.3	3.1	1.4	4.2	4.2	4.2

Source: Company, MIDFR

1QFY20 RESULTS REVIEW

FYE Dec (RM'm)	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Revenue	282.45	418.18	456.47	-32.5%	-38.1%	282.45	418.18	-32.5%
Cost of sales	-232.69	-349.70	-414.58	-33.5%	-43.9%	-232.69	-349.70	-33.5%
Gross profit	49.8	68.5	41.89	-27.3%	18.8%	49.8	68.5	-27.3%
Other income	6.31	12.97	26.05	-51.4%	-75.8%	6.31	12.97	-51.4%
Administrative expenses	-16.69	-16.96	-19.72	-1.6%	-15.4%	-16.69	-16.96	-1.6%
Selling and marketing exp	-4.31	-4.69	-4.67	-8.1%	-7.7%	-4.31	-4.69	-8.1%
Other expenses	-11.76	-2.11	-13.73	456.2%	-14.4%	-11.76	-2.11	456.2%
Operating Profit	23.3	57.7	29.82	-59.6%	-21.8%	23.3	57.7	-59.6%
Finance cost	-7.68	-8.76	-16.07	-12.2%	-52.2%	-7.68	-8.76	-12.2%
Share results of associates	11.39	13.35	3.79	-14.7%	200.3%	11.39	13.35	-14.7%
Share results of JVs	-0.21	0.16	2.67	-234.4%	-107.9%	-0.21	0.16	-234.4%
Pre-tax profit	26.8	62.4	20.2	-57.1%	32.7%	26.8	62.4	-57.1%
Taxation	-9.48	-13.76	-11.20	-31.2%	-15.4%	-9.48	-13.76	-31.2%
NCI	0.05	7.91	3.65	-99.4%	-98.7%	0.05	7.91	-99.4%
PATAMI	17.3	40.8	5.4	-57.6%	222.5%	17.3	40.8	-57.6%
FD EPS (sen)	1.61	3.80	0.50	-57.6%	222.0%	1.61	3.80	-57.6%
	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts

Operating margin	8.3%	13.8%	6.5%	-5.5	1.7	8.3%	13.8%	-5.5
Pre-tax margin	9.5%	14.9%	4.4%	-5.4	5.1	9.5%	14.9%	-5.4
PATAMI margin	6.1%	9.7%	1.2%	-3.6	4.9	6.1%	9.7%	-3.6
Effective tax rate	35.3%	22.0%	55.4%	13.3	-20.1	35.3%	22.0%	13.3
Segmental breakdown								
Revenue	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Cement	120.245	146.4	153.097	-17.9%	-21.5%	120.245	146.393	-17.9%
Construction Materials	77.9	113.0	179.0	-31.1%	-56.5%	77.9	113.0	-31.1%
Construction/Road	81.3	129.7	123.8	-37.4%	-34.4%	81.3	129.7	-37.4%
Property Development	18.3	44.5	27.6	-58.8%	-33.5%	18.3	44.5	-58.8%
Strategic Investments	0.0	2.5	2.4	-100.0%	-100.0%	0.0	2.5	-100.0%
Others	18.9	19.4	16.1	-2.6%	17.4%	18.9	19.4	-2.6%
Inter-Segment Eliminations	-34.2	-37.4	-45.5	-8.6%	-25.0%	-34.2	-37.4	-8.6%
TOTAL	282.5	418.2	456.5	-32.5%	-38.1%	282.5	418.2	-32.5%
Operating Profit	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Cement	18.6	11.0	7.6	69.0%	144.7%	18.6	11.0	69.0%
Construction Materials	6.7	21.0	29.1	-68.0%	-76.9%	6.7	21.0	-68.0%
Construction/Road	6.1	15.3	-10.5	-60.5%	-157.8%	6.1	15.3	-60.5%
Property Development	4.38	15.08	-6.29	-70.9%	-169.7%	4.38	15.08	-70.9%
Phosphate	-8.07	0.00	0.00	NA	NA	-8.07	0.00	NA
Strategic Investments	0.39	-2.35	-0.15	-116.6%	-361.1%	0.39	-2.35	-116.6%
Others	1.2	-1.7	1.9	-168.9%	-38.2%	1.2	-1.7	-168.9%
TOTAL	29.3	58.3	22.4	-49.8%	30.7%	29.3	58.3	-49.8%
OP Margin	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Cement	15.5%	7.5%	5.0%	7.9	10.5	15.5%	7.5%	7.9
Construction Materials	8.6%	18.6%	16.3%	-9.9	-7.6	8.6%	18.6%	-9.9
Construction/Road	7.5%	11.8%	-8.5%	-4.4	15.9	7.5%	11.8%	-4.4

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.