

# Cahaya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

## FY19 ended with sluggish performance

### KEY INVESTMENT HIGHLIGHTS

- **CMSB recorded RM467.2m revenue in 3QFY2019**
- **FY19 revenue largely underpinned by cement division**
- **Construction/road division booked revenue of RM502.5m in FY19, a decline of -9.3%yoy**
- **Construction and road maintenance earnings dropped by -21%yoy to RM52.8m**
- **3sen/share dividend proposed**
- **Maintain BUY call but at lower TP of RM2.21**

**RM1.7b revenue logged in FY20, a slight improvement of +1.7%yoy compared to RM1.7b in FY18.** However, CMSB's profit before tax (PBT) shrank -32.6%yoy to RM251.05m despite the increase in revenue. The decline was due to a significant decrease in aggregate contribution from its associate companies. Cumulatively, PATAMI for FY19 came in below expectations at RM160.3m (-38.9%yoy) which accounted for 81% and 85% of our and consensus respective full year estimates.

**FY19 revenue largely underpinned by cement division.** The revenue of cement division rose +7.8% to RM601.6m in FY19 compared to RM557.9 million in FY18. However, despite an increase in revenue, PBT declined -18.9%yoy to RM73.1m. The reduction was caused by increased production costs mainly due to (1) scheduled maintenance, and (2) higher raw material prices. To note, an increase in imported clinker prices was attributed to higher demand from regional market coupled with reduced supply from China.

**Construction/road division booked revenue of RM502.5m in FY19, a decline of -9.3%yoy.** Consequently, PBT shrank to RM42.3m (-53%yoy) in the same quarter from RM90.4 in the year before. The factors that steered down the profitability of construction/road division were (1) costs revision for the Pan Borneo Highway project, and (2) retrenchment compensation amounting to RM4.2m. It is also worth noting that CMSB is bidding for new projects related to Sarawak's costal road network and the second trunk road projects.

## Maintain BUY

**Adjusted Target Price : RM 2.21**

(from RM2.94)

### RETURN STATISTICS

Price @ 26 <sup>st</sup> Feb 2020 (RM)	RM2.21
Expected share price return (%)	+7.67
Expected dividend yield (%)	+3.17
<b>Expected total return (%)</b>	<b>+10.84</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-6.39	-1.53
3 months	-9.69	-7.59
12 months	-32.57	-22.47

### KEY STATISTICS

FBM KLCI	1495.19
Syariah compliant	Yes
Issue shares (m)	1067.6
Estimated free float (%)	26.5
Market Capitalisation (RM'm)	2198.88
52-wk price range	RM1.98 - RM3.92
Beta vs FBM KLCI (x)	1.3
Monthly velocity (%)	11.0
Monthly volatility (%)	24.6
3-mth average daily volume (m)	1.18
3-mth average daily value (RM'm)	2.66
Top Shareholders (%)	
Majaharta Sdn Bhd	12.56
Employees Provident Fund Board	11.7
TAIB LEJLA	10.35

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**3sen/share dividend proposed.** The group proposed a first and final tax exempt (single-tier) dividend of 3.0 sen per ordinary shares for the financial year ended 31 December 2019. We understand that the first and final dividend is subject to shareholders' approval at the forthcoming Forty-Fifth (45th) Annual General Meeting of CMSB.

**Reiterate BUY with a new TP of RM2.21.** We understand that the escalation in clinker price had led to a decline in the income of cement segment. On a positive note, prices have recently stabilised but remain higher than during the past two years. Moving forward, we learned that CMSB will place emphasis on the maintenance of the clinker plant for the next two years in order to prolong the lifespan. We adjust our **TP** to **RM2.21** as we rollover our valuation base year to FY21. We ascribed blended PER multiples of between 8-12x. The new TP implies expected total return of +10.84%. Hence, maintain **BUY** call. 

## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue	1660.0	1606.0	1711.9	1741.0	1725.6	1898.2
Operating profit	325.4	281.3	305.1	234.7	258.8	292.9
Net Profit	259.0	215.3	265.7	160.3	217.4	236.2
EPS (Sen)	24.2	20.1	24.8	15.0	20.3	22.1
EPS (Growth)(%)	-38.2	42.8	23.4	-39.6	35.6	8.6
PER	30.3	12.0	9.8	13.7	10.1	9.3
Div (sen)	6.3	8.0	7.4	3.0	6.5	6.5
Div Yield (%)	2.6	3.3	3.1	1.4	3.1	3.1

Source: Company, MIDFR

## 4QFY19 RESULTS REVIEW

FYE Dec (RM'm)	4QFY19	4QFY18	3QFY19	YoY Chg	QoQ Chg	12MFY19	12MFY18	YoY Chg
<b>Revenue</b>	<b>456.47</b>	<b>496.81</b>	<b>467.18</b>	-8.1%	-2.3%	<b>1,741.0</b>	<b>1,712.2</b>	1.7%
Cost of sales	-414.58	-400.13	-371.29	3.6%	11.7%	-1,457.3	-1,368.3	6.5%
<b>Gross profit</b>	<b>41.9</b>	<b>96.7</b>	<b>95.9</b>	-56.7%	-56.3%	<b>283.7</b>	<b>344.0</b>	-17.5%
Other income	26.05	24.90	3.67	4.6%	609.4%	45.8	40.9	12.0%
Administrative expenses	-19.72	-16.79	-10.75	17.5%	83.5%	-60.7	-54.2	12.0%
Selling and marketing exp	-4.67	-5.16	-4.11	-9.5%	13.5%	-17.3	-17.0	1.5%
Other expenses	-13.73	-5.64	-0.79	143.7%	1638.5%	-16.9	-8.9	90.2%
<b>Operating Profit</b>	<b>29.8</b>	<b>94.0</b>	<b>83.9</b>	-68.3%	-64.5%	<b>234.7</b>	<b>304.8</b>	-23.0%
Finance cost	-16.07	-14.23	-8.59	12.9%	87.0%	-42.0	-37.3	12.4%
Share results of associates	3.79	6.14	30.09	-38.3%	-87.4%	59.6	105.3	-43.4%
Share results of JVs	2.67	-2.84	-2.62	-194.0%	-201.8%	-1.3	-0.5	128.9%
<b>Pre-tax profit</b>	<b>20.2</b>	<b>83.1</b>	<b>102.8</b>	-75.7%	-80.3%	<b>251.1</b>	<b>372.3</b>	-32.6%
Taxation	-11.20	-21.90	-20.20	-48.9%	-44.6%	(61.982a0	-75.1	#VALUE!
NCI	3.65	7.66	9.76	-52.4%	-62.6%	28.8	35.1	-18.0%
<b>PATAMI</b>	<b>5.4</b>	<b>53.5</b>	<b>72.8</b>	-90.0%	-92.6%	<b>160.3</b>	<b>262.1</b>	-38.9%
FD EPS (sen)	0.50	5.00	6.79	-90.0%	-92.6%	14.9	24.5	-38.9%
	<b>4QFY19</b>	<b>4QFY18</b>	<b>3QFY19</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>12MFY19</b>	<b>12MFY18</b>	<b>+/- ppts</b>
Operating margin	6.5%	18.9%	18.0%	-12.4	-11.4	13.5%	17.8%	-4.3
Pre-tax margin	4.4%	16.7%	22.0%	-12.3	-17.6	14.4%	21.7%	-7.3
PATAMI margin	1.2%	10.8%	15.6%	-9.6	-14.4	9.2%	15.3%	-6.1
Effective tax rate	55.4%	26.4%	19.7%	29.1	35.8	#VALUE!	20.2%	#VALUE!
<b>Segmental breakdown</b>								
<b>Revenue</b>	<b>4QFY19</b>	<b>4QFY18</b>	<b>3QFY19</b>	<b>YoY Chg</b>	<b>QoQ Chg</b>	<b>12MFY19</b>	<b>12MFY18</b>	<b>YoY Chg</b>
Cement	153.097	148.397	164.292	3.2%	-6.8%	601.6	557.9	7.8%
Construction Materials	179.0	207.8	163.4	-13.9%	9.5%	597.0	559.3	6.7%
Construction/Road	123.8	146.8	138.0	-15.6%	-10.2%	502.4	554.2	-9.3%
Property Development	27.6	26.8	30.9	2.9%	-10.8%	136.3	132.2	3.1%
Strategic Investments	2.4	2.4	2.5	1.8%	-3.4%	9.97	9.63	3.5%
Others	16.1	18.1	16.9	-11.2%	-4.6%	68.6	71.1	-3.5%
Inter-Segment Eliminations	-45.5	-53.5	-48.8	-14.8%	-6.7%	-174.9	-172.0	1.6%
<b>TOTAL</b>	<b>456.5</b>	<b>496.8</b>	<b>467.2</b>	<b>-8.1%</b>	<b>-2.3%</b>	<b>1,741.0</b>	<b>1,712.2</b>	<b>1.7%</b>
<b>Operating Profit</b>	<b>4QFY19</b>	<b>4QFY18</b>	<b>3QFY19</b>	<b>YoY Chg</b>	<b>QoQ Chg</b>	<b>12MFY19</b>	<b>12MFY18</b>	<b>YoY Chg</b>
Cement	7.6	19.8	33.8	-61.6%	-77.6%	73.1	90.1	-18.9%
Construction Materials	29.1	23.9	23.6	21.8%	23.2%	92.7	71.3	30.0%
Construction/Road	-10.5	23.9	18.8	-143.9%	-155.9%	42.3	90.4	-53.2%
Property Development	-6.29	4.55	5.40	-238.1%	-216.4%	20.1	33.6	-40.3%
Strategic Investments	-0.15	-0.78	-0.08	-80.9%	93.5%	-0.8	-2.0	-58.0%
Others	1.9	6.6	1.2	-70.9%	59.8%	3.05	11.73	-74.0%
<b>TOTAL</b>	<b>22.4</b>	<b>77.9</b>	<b>82.8</b>	<b>-71.3%</b>	<b>-73.0%</b>	<b>227.9</b>	<b>295.1</b>	<b>-22.8%</b>
<b>OP Margin</b>	<b>4QFY19</b>	<b>4QFY18</b>	<b>3QFY19</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>12MFY19</b>	<b>12MFY18</b>	<b>+/- ppts</b>
Cement	5.0%	13.3%	20.6%	-8.4	-15.6	12.2%	16.2%	-4.0
Construction Materials	16.3%	11.5%	14.5%	4.8	1.8	15.5%	12.7%	2.8
Construction/Road	-8.5%	16.3%	13.6%	-24.7	-22.1	8.4%	16.3%	-7.9

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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