Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

***Maintain* BUY**

***Unchanged Target* Price: RM1.37**

Firing the first MPAS furnace in August

KEY INVESTMENT HIGHLIGHTS

- **Cahya Mata Sarawak Berhad (CMSB) to fire up first furnace at the MPAS integrated phosphate complex on Aug 8. Full commission of 3 other furnaces by Dec-22**
- **Plant is expected to be cash flow neutral by FY23 and profitable by FY24**
- **Management going aggressively on ESG, ensuring best practices in place**
- **Maintain BUY with an unchanged target price at RM1.37**

All systems go. Cahya Mata Sarawak Berhad (CMSB) will be firing up its first furnace at its Malaysian Phosphate Additives Sarawak (MPAS) complex in Bintulu on Aug 8, a much-awaited progress that has been delayed for two years due to Covid-induced bottlenecks from lockdowns to supply chain disruptions and unavailability of foreign workers. The remaining three furnaces will be fully commissioned by Dec-22.

Flashback on plant details. CMBS holds 60% of MPAS via its wholly-owned subsidiary Samalaju Industries Sdn Bhd. It is the first integrated phosphate complex in the country. The first phase will consist of three plants with an annual capacity of 48,000 metric tonnes (MT) of yellow phosphorus, 75,000 MT of technical phosphoric acid and 60,000 MT of food grade phosphoric acid. The total investment for the first phase is about RM898m, funded via shareholder's equity and long-term loans. The entire complex when completed, will have an annual production capacity of 500,000 MT of food, feed and fertiliser phosphate additives, 100,000 MT of ammonia and 900,000 MT of coke.

Financial impact. In a brief update call yesterday, management guided that based on conservative pricing, it is estimating that the plant will be cash flow neutral by FY23 and be in the black by FY24. Management is optimistic about the demand it is seeing so far and the interest garnered for the second phase and potential downstream activities. We are maintaining our FY23F-FY24F earnings forecast for now after revising our estimates downwards by 15% recently in view of CMSB's impending disposal of its entire stake of 25% each in OM Materials (Sarawak) Sdn Bhd and in OM Materials (Samalaju) Sdn Bhd, marking its exit from the smelting business.

Suing former director and other officers. As per CMSB's announcement on 21 July 2022 last week, CMSB has filed lawsuits against a former executive director and five others for breaches of fiduciary duties to CMSB, related to the MPAS development. Based on independent advice from its legal counsel, the board approved for the filing of the suits, based on the findings by KMPG in a special review that found gaps in the contract management and bidding processes and lack of monitoring on hedging transactions, leading to losses for the project due to adverse currency exchange movements; lack of due diligence and stakeholder management on JV partner's risks of a project and for not adhering to reporting structures by management to the board. The impact has

RETURN STATISTICS	
Price @ 26th July 2022 (RM)	0.90
Expected share price return (%)	**+52.2**
Expected dividend yield (%)	**+2.20**
Expected total return (%)	**+54.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-9.1	-10.8
3 months	-8.2	-10.7
12 months	-22.4	-19.8

KEY STATISTICS	
FBM KLCI	1,463.69
Syariah compliant	Yes
F4BGM Index	Yes
ESH Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1071.32
Estimated free float (%)	55.72
Market Capitalisation (RM'm)	966.76
52-wk price range	RM0.88 - RM1.51
Beta vs FBM KLCI (x)	1.40
Monthly velocity (%)	0.00
Monthly volatility (%)	24.60
3-mth average daily volume (m)	2.28
3-mth average daily value (RM'm)	2.38
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

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already been accounted for in the financial statements of affected years, which management guided to be about RM251m, including impairment.

Brushing up ESG profile. The legal suits, according to management, is part of CMSB's governance process to be forthright about the findings. It has also hired senior personnel for the positions of internal audit chief and group legal counsel to ensure higher standards of internal audit and governance. In terms of environmental concerns, there will be zero gas emissions from the MPAS project according to CMSB, on top of having 99.9% of its water recycled and no water discharge. We are reassured of management's direction moving forward as it places heightened emphasis on driving CMSB to be on track with the best practices of ESG. It is currently pushing for its ESG rating to be certified by an independent third party.

Target price and recommendation. We maintain our **TP** at **RM1.37**, derived by pegging a PER of 8x to the Group's FY23 EPS of 17.1sen. We maintain our **BUY** recommendation on CMSB. We are positive on the upcoming commissioning of the first phase of the integrated phosphate complex, which is expected to open more doors for CMSB. We also like the counter for its strong net cash position of RM100.6m, which is estimated to strengthen to RM627.2m post disposal of its stakes in OM Sarawak and OM Samalaju. This augurs well for CMSB for upcoming investments or acquisitions.

INVESTMENT STATISTICS

FYE 31st December (All in RM'm, unless otherwise stated)	FY20A	FY21A	FY22E	FY23F	FY24F
Revenue	762.9	813.8	1,168.8	1,187.5	1,211.3
Operating profit	(11.7)	72.2	111	116.4	120
Core net profit	177.81	178.4	205.6	185.6	195.8
Core EPS (Sen)	16.6	16.6	19.1	17.1	18.1
Core EPS (Growth)(%)	14.8	0.3	15.2	-10.5	5.8
Div (sen)	2.0	2.0	3.0	3.0	3.0
Div Yield (%)	1.3	1.3	2.6	2.2	2.2

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology