Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

***Maintain* BUY**

A steady rise in earnings

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

KEY INVESTMENT HIGHLIGHTS

- **Cahya Mata Sarawak Berhad (CMSB)'s 2QFY22 normalised earnings grew +12.5%yoy to RM49.4m, which are above expectations**
- **Better cost efficiency in cement division led to +37.2%yoy higher earnings to RM57m**
- **Integrated phosphate complex in Bintulu to be fully operational by Dec-22**
- **Maintain BUY with an unchanged target price at RM1.37**

Within Expectation. Cahya Mata Sarawak Berhad (CMSB)'s 2QFY22 normalised earnings inched upwards by +12.5%yoy to RM49.4m, on the back of a stronger revenue which came in at +13.4%yoy to RM209.7m. For the 1HFY22, the normalised earnings were +39.2%yoy higher to RM123.3m, which was above ours and consensus expectations, making up 60% and 58.1% of full year estimates.

Better cement cost efficiency. The cement division saw a +14.1%yoy spike in revenue to RM271.3m for 1HFY22, delivering an operating profit of RM57m, which was +37.2%yoy higher. This was due to higher sales volume and improved cost efficiencies.

Weaker margins from trading. Although revenue in the trading division was +2.8%yoy higher at RM50.2m in 1HFY22, the operating profit posted a -38.1%yoy decline to RM1.7m, on the back of delays in take up of telecommunication products and the spike in construction material prices that led to lower customer orders. We expect this situation to moderate moving forward as raw material prices have started to come off its peak.

Other segments. Revenue from road maintenance rose +11.6% to RM60.1m, though its operating profit inched lower by -7.3%yoy to RM4.2m coming from higher equipment rental and supervision fees. Meanwhile, the property development division registered a lower revenue by -12.3% to RM44.1m but its operating profit rose +4.3%yoy to RM11.7m.

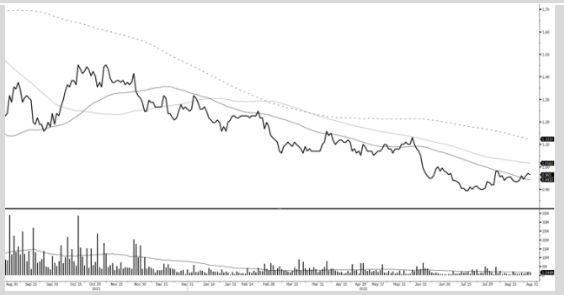
Phosphate complex to be fully operational by 4Q22. CMSB posted a loss before tax of RM16m for its phosphate division in 1HFY22, almost double the loss of RM8.7m seen in 1HFY21, due to higher unrealised foreign exchange losses. Its integrated phosphate complex in Bintulu is yet to be operational. Recall that CMSB fired up the first furnace at the complex on Aug 8 while three remaining furnaces will be fully commissioned by Dec-22. The plant is estimated to be cash flow neutral by FY23 and be in the black by FY24.

Earnings estimates. We are maintaining our FY22E-FY24F estimates.

Target price. We also retain our **TP** of **RM1.37** as we peg a PER of 8x to the Group's FY23 EPS of 17.1sen.

RETURN STATISTICS	
Price @ 26th August 2022 (RM)	**0.965**
Expected share price return (%)	**+41.97**
Expected dividend yield (%)	**+4.00**
Expected total return (%)	**+45.97**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.2	6.6
3 months	-1.5	-9.6
12 months	-22.8	-18.2

KEY STATISTICS	
FBM KLCI	1,500.29
Syariah compliant	Yes
F4BGM Index	Yes
ESH Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1071.32
Estimated free float (%)	55.71
Market Capitalisation (RM'm)	1,036.58
52-wk price range	RM0.88 - RM1.51
Beta vs FBM KLCI (x)	1.39
Monthly velocity (%)	0.00
Monthly volatility (%)	24.60
3-mth average daily volume (m)	1.80
3-mth average daily value (RM'm)	1.77
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

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Maintain BUY. We opine that CMSB's revenue and earnings prospects will remain strong for FY22, especially for the cement division, which would benefit alongside the improvement in construction activities. Long-term prospects are also looking positive as the state government is projecting a capital injection of about RM100b by 2030, which would mean strong job flows for Sarawak, which augurs well for CMSB being the sole cement manufacturer in the state. All factors considered, we reiterate our **BUY** recommendation on **CMSB**.

INVESTMENT STATISTICS

FYE 31st December (All in RM'm, unless otherwise stated)	FY20A	FY21A	FY22E	FY23F	FY24F
Revenue (RM'm)	762.9	813.8	1,168.8	1,187.5	1,211.3
Operating profit (RM'm)	(11.7)	72.2	111	116.4	120
Normalised Patanci (RM'm)	177.81	178.4	205.6	185.6	195.8
EPS (Sen)	16.6	16.6	19.1	17.1	18.1
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

CAHYA MATA SARAWAK BHD: 3QFY21 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q222**	**Q122**	**Q221**	**QoQ**	**YoY**	**1H22**	**1H21**	**YoY**
Revenue	209.7	214.0	185.0	**-2%**	**13%**	423.8	387.1	**9%**
Cost of sales	(173.4)	(160.7)	(146.3)	**-8%**	**-18%**	(334.1)	(312.0)	**-7%**
Gross profit	36.4	53.3	38.7	**-32%**	**-6%**	89.7	75.1	**19%**
Other income	9.8	3.1	6.8	**>+100%**	**44%**	12.9	51.8	**-75%**
Administrative expenses	(20.4)	(11.9)	(11.8)	**-72%**	**-73%**	(32.3)	(23.5)	**-37%**
Selling and Marketing expenses	(2.9)	(2.5)	(3.1)	**-18%**	**7%**	(5.4)	(5.9)	**9%**
Other expenses	(17.3)	(2.4)	(2.9)	**<-100%**	**<-100%**	(19.7)	(17.3)	**-14%**
Operating Profit	5.5	39.7	27.7	**-86%**	**-80%**	45.2	80.2	**-44%**
Finance costs	(3.6)	(6.7)	(6.9)	**47%**	**48%**	(10.3)	(14.1)	**27%**
Assoc. and JV	41.2	50.9	36.7	**-19%**	**12%**	92.1	73.9	**25%**
Profit Before Taxation	43.2	83.9	57.5	**-49%**	**-25%**	127.0	140.0	**-9%**
Income Tax Expenses	(8.1)	(11.0)	(8.4)	**26%**	**4%**	(19.1)	(15.8)	**-21%**
Recorded Profit	35.1	72.9	49.1	**-52%**	**-29%**	108.0	124.2	**-13%**
PATAMI	39.6	72.0	47.4	**-45%**	**-17%**	111.6	129.4	**-14%**
Non-Controlling interest	(4.5)	0.8	1.7	**<-100%**	**<-100%**	(3.7)	(1.0)	**<-100%**
Core PATAMI	49.4	73.9	44.0	**-33%**	**12%**	123.3	88.6	**39%**

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