Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

***Maintain* BUY**

Prospects remain intact

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

KEY INVESTMENT HIGHLIGHTS

- **Cahya Mata Sarawak Berhad (CMSB) to improve cement margins by reducing reliance on imported clinker and removal of transportation subsidies to dealers**
- **Group aims to tap into supply opportunities for various infrastructure projects in Sarawak**
- **Construction order book replenishment target of RM1b over 2 years**
- **Maintain BUY with an unchanged target price at RM1.37**

Positive momentum for construction. We came away from Cahya Mata Sarawak Berhad (CMSB)'s post results briefing yesterday further convinced that the construction sector is on the right footing and that the strong performance of the group remains intact. We mentioned in our report yesterday that CMSB's 1HFY22 normalised earnings were +39.2%yoy higher at RM123.3m, which was above ours and consensus expectations, making up 60% and 58.1% of full year estimates.

Better cement division results expected. Being the sole cement manufacturer in the state, CMSB stands to benefit from the potential rise in jobs flows. Management intends to ride on this momentum to improve its margins via several measures, such as improving clinker production to reduce reliance on imported clinker and the removal of transportation subsidies to its dealers. The latter is expected to result in a slight margin improvement by 1% to 2%.

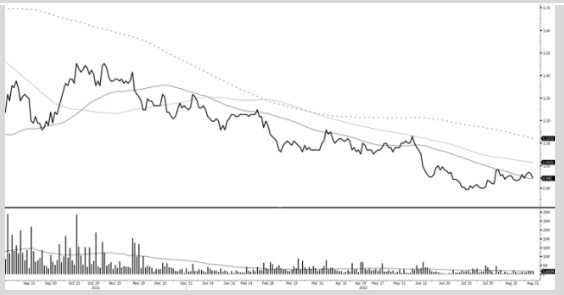
Supply opportunities aplenty. In line with the positive outlook on infrastructure projects, CMSB is seeking to tap into supply opportunities for the Pan Borneo Highway, PR1MA housing and the PPR Sarawak low-cost housing project. Management also expects its construction materials and trading business to benefit from the various infrastructure projects in Sarawak and to supply premix products to the Coastal Road and Second Trunk Road developments.

Actively seeking projects. Revenue and PBT from the construction division were almost unchanged in 1HFY22 at RM210m and RM2m from RM214m and RM3m from 1HFY21. CMSB's outstanding order book is about RM600m, which will last well in FY23. Management is aiming to bid for projects related to the Autonomous Rapid Transit, Petchem Earthworks, the proposed upgrading of Jalan Sultan Tengah in Kuching and the Emart Underpass. CMSB also expects to bid for other projects such as the construction of coastal and rural roads, bridges, expansion of water and electricity grids to rural areas and maintenance works in major sections of state roads. We understand that management has pencilled in a replenishment target of RM1b over the next two years.

Property Division. This division saw a -12.3%yoy reduction in revenue to RM44.1m but its operating profit rose +4.3%yoy to RM11.7m. Measures to improve margins include site costs the rolling out of more premium products into the market. CMSB is targeting to roll out 34

RETURN STATISTICS	
Price @ 29th August 2022 (RM)	0.945
Expected share price return (%)	**+44.97**
Expected dividend yield (%)	**+4.00**
Expected total return (%)	**+48.97**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.1	0.4
3 months	-3.6	-11.5
12 months	-24.4	-19.9

KEY STATISTICS	
FBM KLCI	1,501.57
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)	1,015.10
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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commercial units, a light industrial project and up to 200 landed houses in FY23. It is also planning to launch 499 units of single storey terrace for its Cahaya Intan development in Bandar Samarian over the coming years, with about 288 units slated to be launched in 1HFY22, with a GDV of RM100m.

MPAS updates. After firing up the first furnace at the Malaysian Phosphate Additives Sarawak (MPAS) complex on Aug 8, management is looking to commission the second furnace by Sept 10 and the remaining two by Dec-22. These are still at the testing and calibration stage and commercial productions is targeted to begin in Jan-23. The plant is estimated to be cash flow neutral by FY23 and be in the black by FY24.

ESG commitment. Management reiterates its intention to appoint an independent agency to conduct an ESG review on the entire group and its projects, adding that the MPAS complex is a fully-green plant. On a separate note, management will also increase the use of its eco-friendly Portland Limestone Cement (PLC) 32.5N cement over the traditional PC-42.5N version as the former uses less clinker, therefore lowering its carbon footprint significantly.

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 are positive on 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. The slew of projects in Sarawak is good news for CMSB, opening up more avenues for them to either take on the new jobs or to tap on the construction material supply opportunities. All in, we maintain our **BUY** recommendation on CMSB.

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