

# Cahaya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

**Maintain BUY**

## Prospects burning bright with phosphate

### KEY INVESTMENT HIGHLIGHTS

- **Four phosphate furnaces at MPAS expected to be fully commissioned by end of 2022**
- **Manufacturing capacity of 48,000 tonnes of yellow phosphorus; 75,000 tonnes of technical grade phosphoric acid/60,000 tonnes of food grade phosphoric acid**
- **Global phosphorus and derivatives market projected to grow at a CAGR of +3.9% from USD65.13b in 2021 to USD85.01b by 2028**
- **Maintain BUY with an unchanged target price at RM1.37**

**MPAS site visit.** We visited Malaysian Phosphate Additives Sarawak (MPAS) Sdn Bhd (MPAS) in Samalaju recently, where we were given a tour of its upcoming integrated phosphate complex. MPAS is a JV company where Cahya Mata Sarawak Berhad (CMSB) holds a 60% stake via its wholly-owned unit Samalaju Industries Sdn Bhd. The remaining 40% are held by Malaysian Phosphate Ventures (27.2%) and Arif Enigma (12.8%).

**Commissioning status.** The first phase of the plant comprises four furnaces, the first of which was commissioned early August. The three remaining furnaces are expected to be commissioned by the end of 2022. Management guided that commercial production would commence early 2023, after testing and calibration. When fully commissioned, the plant will have an annual manufacturing capacity of 48,000 tonnes of yellow phosphorus and 75,000 tonnes of technical grade phosphoric acid or 60,000 tonnes of food grade phosphoric acid. The latter is the product after arsenic is removed from the technical grade phosphoric acid.

**Strategic location.** MPAS is located on a piece of land spanning 350 acres at the Samalaju Industrial Park (SIP), about 60km away from Bintulu, Sarawak. About 30% of the land has been utilised so far. It is also located directly opposite the Samalaju Industrial Port, giving MPAS the logistical advantage for the movement of finished goods and raw materials.

**Demand on an upward trajectory.** The global phosphorus and derivatives market are projected to grow from USD65.1b in 2021 to USD85.0b by 2028, which is equivalent to a CAGR of +3.9%, according to Fortune Business Insights. For phosphoric acid, MarketsandMarkets projected a CAGR of +4.1% from USD46.4b in 2022 to USD56.8b in 2027. One of the key areas that propels this growth is the lithium iron phosphate, which is widely used in vehicles due to its better thermal stability and renewability as compared to conventional lithium batteries. Research and Markets forecasted that the lithium iron phosphate battery market will grow at a CAGR of +16.4% from USD5.3b in 2021 to USD15.35 in 2028.

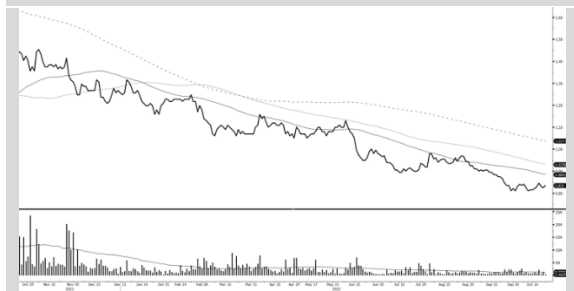
**Other use cases.** Among the many other usages of phosphoric acid are for palm oil refinery, to produce detergent and soaps, fertiliser and animal feed, part of the ingredients of food and beverages such as soft drinks,

**Unchanged Target Price: RM1.37**

### RETURN STATISTICS

Price @ 25 <sup>th</sup> October 2022 (RM)	0.835
Expected share price return (%)	<b>+64.1</b>
Expected dividend yield (%)	<b>+4.0</b>
<b>Expected total return (%)</b>	<b>+68.1</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.5	-4.8
3 months	1.8	-6.4
12 months	-43.2	-37.5

### KEY STATISTICS

FBM KLCI	1,444.41
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)	896.94
52-wk price range	RM0.8 - RM1.51
Beta vs FBM KLCI (x)	1.28
3-mth average daily volume (m)	1.43
3-mth average daily value (RM'm)	1.29
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

**MIDF Research**  
research@midf.com.my


and also used for metal polishing, rust removal, zinc plating and usage in semiconductor manufacturing, among others.

**First mover advantage.** Being the only integrated phosphate complex in Malaysia, this gives MPAS an advantage of being the first, as far as the Malaysian market is concerned. Even in the region, there has been no new entrants to the market at least over the past decade. CMSB's entry into the phosphate business via MPAS is timely in light of a shortage of supply mainly from China, which is affected by a clampdown on energy intensive industries as the country pledges zero carbon emission by 2060. Demand is still intact, which led to a shortage of supply and yellow phosphorus prices shot through the roof from USD2,815 per tonne in Sept-21 to USD7,521 per tonne in Feb-22, or almost 2.7 times in only five months. Prices have since moderated to USD5,500 per tonne in Oct-22.

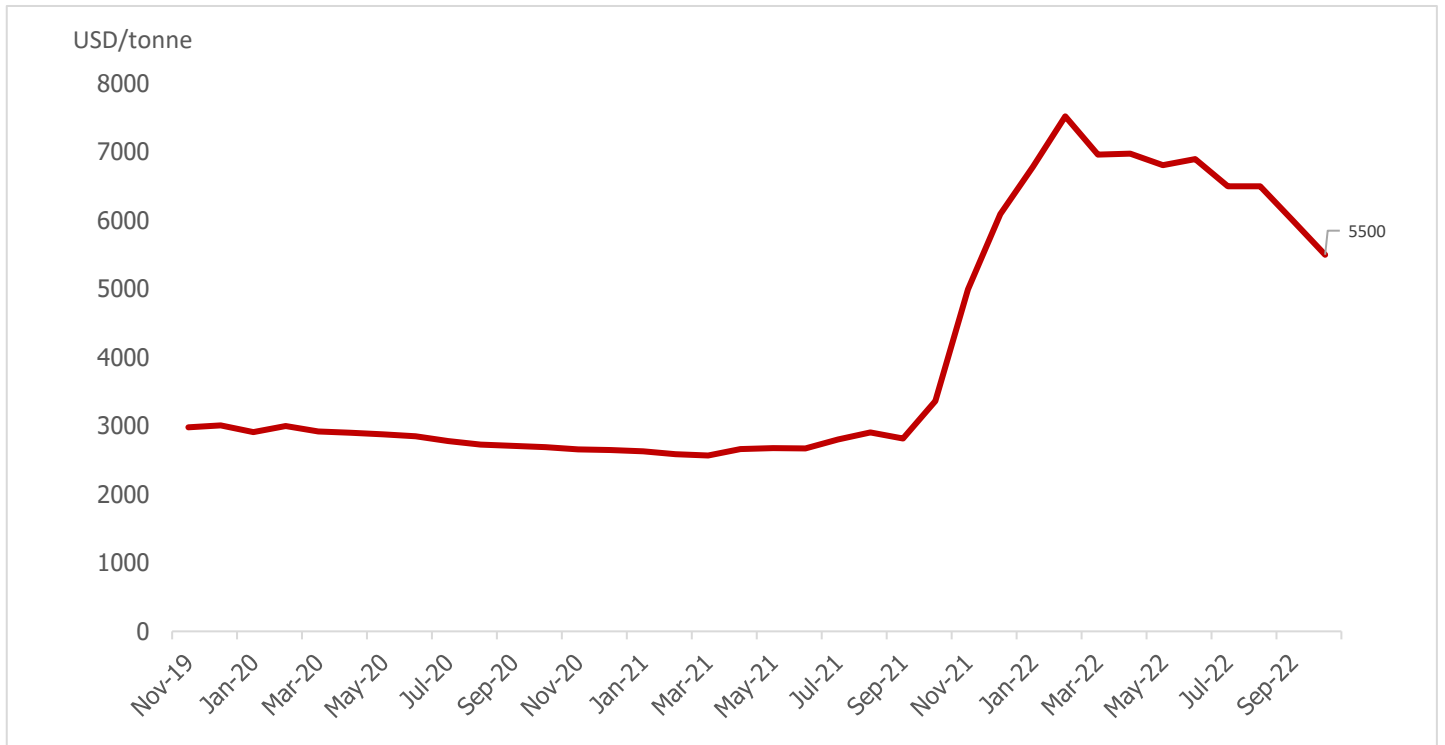
**Cost vs. benefit.** Management guided that prices of yellow phosphorus would stabilise above pre-Covid levels, which used to be about USD2,900 to USD3,100 per tonne. They are confident that prices would not fall below USD4,000 and even at USD4,000, it still remains a very profitable business. We gather that the breakeven point would be somewhere around USD2,500 per tonne. This may eventually be lower as MPAS optimises its costs as it automates its processes further and embark on long-term agreements for the supply of raw materials. Net margins for the industry have averaged about 10% to 15%. Raw materials are expected to make up the bulk of the costs at about 50%. For every 1 tonne of yellow phosphorus, the input materials are 10 tonnes of rock phosphate, three tonnes of metallurgical coke and one tonne of silica. Only silica is available locally why the other raw materials are sourced overseas, mainly China. Another major cost component is electricity at about 30%. The MPAS' plant, which is powered by a 275/33kV substation connected to the Sarawak hydro power grid, has a 20-year power purchase agreement (PPA) with Sarawak Energy to lock in favourable electricity rates, which will be raised marginally by 2.5% annually.

**Regional play.** Currently, the key players in the phosphate market are producers in Vietnam and Kazakhstan, both of which serves different markets globally. Vietnam mainly supplies to Asian countries while Kazakhstan serves predominantly the European market. MPAS has so far secured 60% commitment for its product offtakes, with clients from Indonesia, Thailand, Japan, South Korea and certain parts of China and Europe. Based on estimates, Vietnam and Kazakhstan exports about 200,000 tonnes of phosphorus annually. When MPAS is completed, it will have an export capacity of about 48,000 tonnes per year.

**Financial impact.** Management has previously guided that the MPAS plant will be cash neutral in 2023 and optimistic expectations would see profits trickling in by 2024. Assuming that it manages to fulfil its entire export capacity of 48,000 tonnes by 2025 and if the price of yellow phosphorus stabilises at USD4,000 per tonne, Cahya Mata will be able to add about RM50m to its net earnings annually by FY25, based on the lower end of the industry's average margin of 10%. Given that the contribution from the MPAS plant is expected fully come in FY25, we make no changes to our FY22 and FY23 earnings estimates.

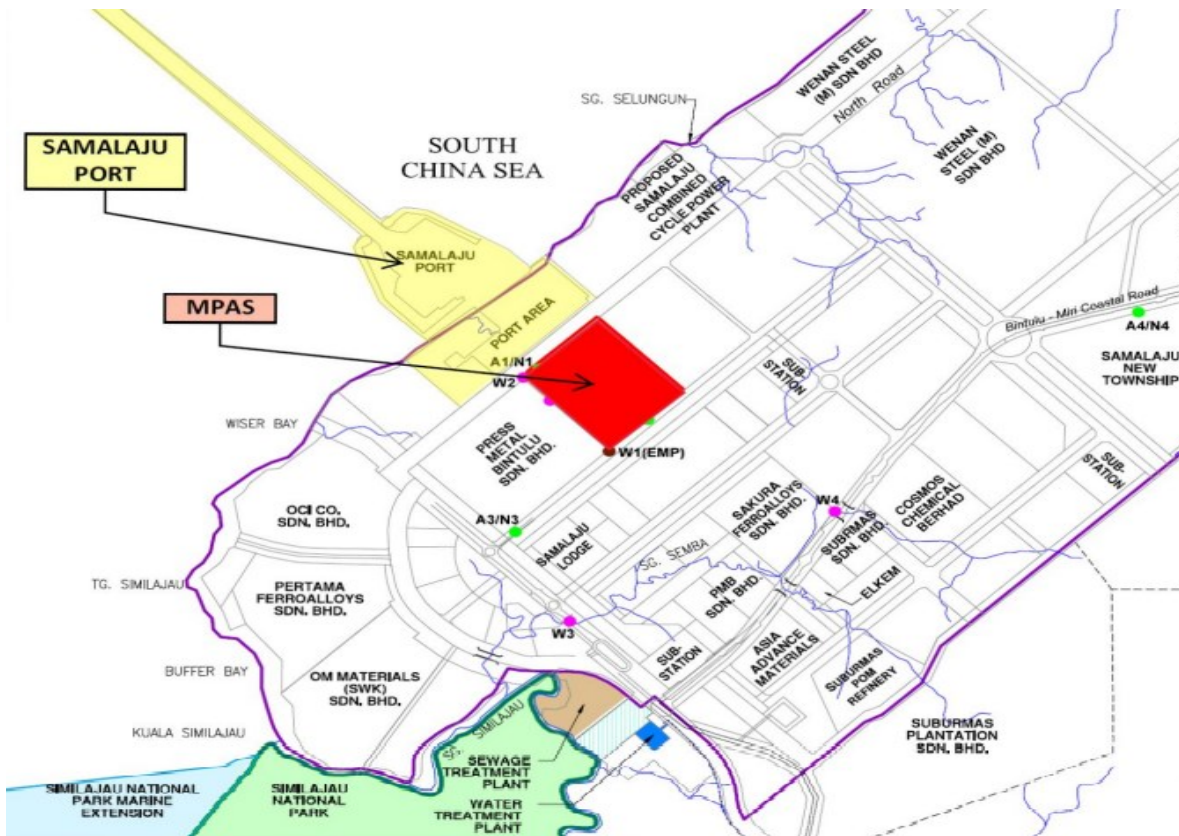
**Target price and recommendation.** We are optimistic about the long-term prospects of CMSB as it diversifies into the phosphate business, which would see sustained demand due to the wide range of use cases and at prices above pre-Covid levels coming from the slowdown of production in China. There is still ample land in Samalaju where MPAS is, which much room for expansion into various downstream industries. All these bodes well for CMSB. We continue to like the counter as it is the sole cement manufacturer in Sarawak, on top of having a sizeable construction business in the state, enabling them to benefit either way from the potential rise in job flows in Sarawak. Among supply opportunities that it is seeking to tap into are the Pan Borneo Highway, PR1MA housing and the PPR Sarawak low-cost housing project. We maintain our **TP** at **RM1.37**, derived by pegging a PER of 8x to the Group's FY23 EPS of 17.1sen. All factors considered, we are reiterating our **BUY** recommendation on **CMSB**. 

**Exhibit 1: Yellow phosphorus price trend**



Source: Export Genius, Company

**Exhibit 2: MPAS' location in Samalaju**



Source: Company

### Exhibit 3: Yellow phosphorus furnace building



Source: Company

### INVESTMENT STATISTICS

<b>FYE 31<sup>st</sup> December (All in RM'm, unless otherwise stated)</b>	<b>FY21A</b>	<b>FY22E</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
Revenue	813.8	1,168.8	1,187.5	1,211.3	1,367.7
Operating profit	72.2	111	116.4	120	123.2
Core net profit	178.4	205.6	185.6	200.8	247.5
Core EPS (Sen)	16.6	19.1	17.1	18.7	23.0
Core EPS (Growth)(%)	0.3	15.2	-10.5	9.4	23.0
Div (sen)	2.0	3.0	3.0	3.0	3.0
Div Yield (%)	1.3	2.6	2.2	2.2	2.2

Source: Company, MIDFR

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#### 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 news flow.
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 news flow.

#### 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