Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

Maintain BUY

Cost efficiency lifts earnings

Revised Target Price: RM1.47

(previously RM1.37)

KEY INVESTMENT HIGHLIGHTS

- **Cahya Mata Sarawak Berhad (CMSB)'s 3QFY22 normalised earnings grew +9.2%yoy to RM61.7m**
- **9MFY22 core earnings grew +27.5%yoy to RM185m which was above expectations**
- **Stronger margins recorded in cement and road maintenance**
- **Well positioned to benefit from increased job flows in Sarawak**
- **Maintain BUY with a revised target price of RM1.47**

Exceed Expectation. Cahya Mata Sarawak Berhad (CMSB)'s 3QFY22 core earnings grew +9.2%yoy to RM61.7m, after removing a reversal of impairment of RM37.7m and the recognition of a negative goodwill of RM62.5m. Revenue for the quarter grew +49.8%yoy to RM278.4m. For the cumulative 9MFY22, core earnings were +27.5%yoy higher at RM185m which exceeded ours and consensus expectations, making up 90.1% and 108.8% of full-year estimates respectively.

Improving cement cost efficiency. The cement division saw a +23.9%yoy spike in revenue to RM438.0m for nine-month period, delivering an operating profit of RM261.4m, which was +47.3%yoy higher. This was due to higher sales volume and improved cost efficiencies. Recall that CMSB has been improving its clinker production to reduce reliance on imported clinker and the removal of transportation subsidies to its dealers, which helped to drive its margins.

Weaker margins from trading. Lower customer orders led to a lower revenue by -3.2%yoy to RM72.3m in 9MFY22 while its operating profit plunged -44.5%yoy to RM2.3m, as margins declined due to the hike in raw material prices and delays in take up of products.

Other segments. The road maintenance division recorded a +15.2%yoy jump in revenue while operating profit surged +49.6%yoy to RM10.9m. CMSB's revenue from property development rose +18.9%yoy to RM82.0m. Removing the gain recognised from land sales of RM12.4m, the operating profit for the segment actually declined -9.8%yoy to RM14.3m.

Forex losses weigh on phosphate division. CMSB's upcoming phosphate business via its 60% stake in Malaysian Phosphate Additives Sarawak (MPAS) Sdn Bhd saw its losses widen to -RM33.5m as compared to -RM15.8m in the same period last year due to higher unrealised foreign exchange losses from the strengthening of the US dollar, of which its borrowings are denominated in. In line with management's guidance during our visit to the plant in Bintulu last month, we expect the four furnaces to be fully commissioned by the year end. The MPAS plant is projected to be cash neutral in 2023 and optimistic expectations would see profits trickling in by 2024.

Earnings estimates. We are adjusting our FY22F core earnings estimates upwards by +19% to RM244.7m in line with the better than

RETURN STATISTICS	
Price @ 29th Nov 2022 (RM)	**1.05**
Expected share price return (%)	**+40.0**
Expected dividend yield (%)	**+2.0**
Expected total return (%)	**+42.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	26.5	24.0
3 months	28.0	12.9
12 months	-21.6	-19.8

KEY STATISTICS	
FBM KLCI	1,476.96
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)	1,127.88
52-wk price range	RM0.8 - RM1.39
Beta vs FBM KLCI (x)	1.04
3-mth average daily volume (m)	2.46
3-mth average daily value (RM'm)	2.21
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

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expected performance. We also adjust our FY23F earnings estimates by +8.8% to RM201.9m.

Target price. We are revising our **TP** for CMSB upwards from RM1.37 to **RM1.47**, as we peg a PER of 7.8x based on its three-year historical mean to its FY23F EPS of 18.8 sen.

Maintain BUY. We are positive on CMSB's prospects moving into FY24, in line with projects that may be rolled out in the state as the newly formed federal government commits to develop East Malaysia. The state government had previously projected a capital injection of about RM100b by 2030, which would translate into strong job flows. This is where CMSB is positioned to benefit both ways, through construction projects and also through the supply of building materials, as it is the sole cement manufacturer in the state. We are also positive on its upcoming phosphate business in the longer-term, which is set to take on Kazakhstan and Vietnam, the two powerhouses that have dominated the yellow phosphorus industry for years. All factors considered, we reiterate our **BUY** recommendation on **CMSB**.

INVESTMENT STATISTICS

FYE 31st December (All in RM'm, unless otherwise stated)	FY21A	FY22E	FY23F	FY24F	FY25F
Revenue	813.8	1,168.8	1,187.5	1,211.3	1,367.7
Operating profit	72.2	111	116.4	120.0	123.2
Core earnings	178.4	244.7	201.9	200.8	247.5
EPS (Sen)	16.6	22.8	18.8	18.1	23.0
EPS (Growth)(%)	0.3	37.3	-17.5	5.8	27.1
Div (sen)	2.0	3.0	3.0	3.0	3.0
Div Yield (%)	1.3	2.0	2.0	2.0	2.0

Source: Company, MIDFR

CAHYA MATA SARAWAK BHD: 3QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q322**	**Q222**	**Q321**	**QoQ**	**YoY**	**9M22**	**9M21**	**YoY**
Revenue	278.4	209.7	185.9	**33%**	**49.8%**	702.2	572.9	**23%**
Cost of sales	(219.8)	(173.4)	(149.8)	**-27%**	**-47%**	(553.9)	(461.7)	**-20%**
Gross profit	58.6	36.4	36.1	**61%**	**62%**	148.3	111.2	**33%**
Other income	109.8	9.8	(0.5)	**1023%**	**22935%**	122.7	51.3	**139%**
Administrative expenses	(16.4)	(20.4)	(11.2)	**20%**	**-46%**	(48.7)	(34.7)	**-40%**
Selling and Marketing expenses	(3.9)	(2.9)	(2.4)	**-32%**	**-63%**	(9.2)	(8.2)	**-12%**
Other expenses	(15.9)	(17.3)	(0.2)	**8%**	**-7511%**	(35.6)	(17.5)	**-104%**
Operating Profit	132.3	5.5	21.8	**2319%**	**506%**	177.5	102.1	**74%**
Finance costs	(2.9)	(3.6)	(7.2)	**19%**	**60%**	(13.2)	(21.3)	**38%**
Assoc. and JV	50.6	41.2	47.4	**23%**	**7%**	142.7	121.3	**18%**
Profit Before Taxation	180.0	43.2	62.1	**317%**	**190%**	307.0	202.1	**52%**
Income Tax Expenses	(26.5)	(8.1)	(8.8)	**-228%**	**-201%**	(45.6)	(24.6)	**-85%**
Recorded Profit	153.5	35.1	53.3	**337%**	**188%**	261.4	177.5	**47%**
PATAMI	154.4	39.6	53.9	**290%**	**186%**	266.0	183.3	**45%**
Non-controlling interest	(0.9)	(4.5)	(0.6)	**80%**	**-46%**	(4.6)	(1.6)	**-182%**
Core PATAMI	61.7	49.4	56.5	**25%**	**9.2%**	185.0	145.1	**27.5%**

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