

Cahaya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

Maintain BUY

Staying ahead of the curve

KEY INVESTMENT HIGHLIGHTS

- **Cahaya Mata Sarawak Berhad (CMSB) to continue improving cost efficiencies**
- **Group aims to tap into supply opportunities for various infrastructure projects in Sarawak**
- **MPAS to fire up fourth furnace before year end, commercial production to begin early next year**
- **Outstanding construction order book of RM600m**
- **Maintain BUY with an unchanged target price at RM1.47**

Positive momentum for construction. We came away from Cahya Mata Sarawak Berhad (CMSB)'s post results briefing yesterday feeling positive on the group's future performance as management focusses on improving its cost efficiency. To recap, the group's core earnings for 9MFY22 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.

Focused on cost efficiency. Being the sole cement manufacturer in the state, CMSB stands to benefit from the potential rise in jobs flows. It raised its cement prices earlier this year by about 10% for the first time in six years. Management is not planning to raise prices any further for now despite coal prices still being rather elevated and will instead focus on improving its plant efficiency and on its procurement and logistic arrangements.

Improving construction margins. Construction revenue rose slightly by +0.2%yoy in 9MFY22 to RM291m while its PBT grew about +25%yoy to RM5m, mainly due to higher gross margin recognised from an offshore gas plant project. CMSB's outstanding construction orderbook stands at RM600m, made up of projects such as the Bintulu Jepak bridge and the Pan Borneo Highway. 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. There is a replenishment target of RM1b over the next two years.

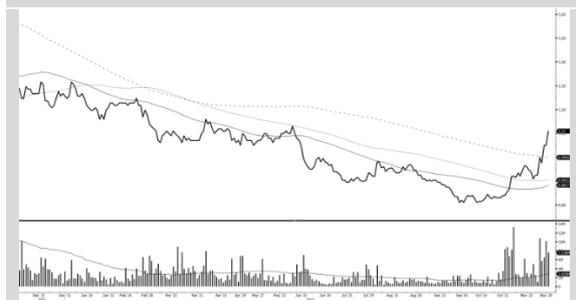
Fully fired up by year-end. CMSB's 60% owned Malaysian Phosphate Additives Sarawak (MPAS) fired its third furnace on Wednesday and the final fourth furnace will be fired up before the end of 2022. The commercial production is expected to start early next year. Management reiterates its guidance that MPAS is able to turn cash flow neutral by FY23 and is projected to generate profit by FY24. Our back on the envelope calculations points towards a net earnings contribution of about RM50m to CMSB annually come FY25, assuming that MPAS manages to fulfill its entire export capacity of 48,000 and if the price of yellow phosphorus stabilises at USD4,000 per tonne. Read our [visit note](#) for more details on MPAS, which was issued following our visit to MPAS in October.

Unchanged Target Price: RM1.47

RETURN STATISTICS

Price @ 1 st Dec 2022 (RM)	1.11
Expected share price return (%)	+32.4
Expected dividend yield (%)	+2.0
Expected total return (%)	+34.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	32.1	28.1
3 months	35.4	20.0
12 months	-15.3	-15.0

KEY STATISTICS

FBM KLCI	1,491.51
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)	1,192.34
52-wk price range	RM0.8 - RM1.36
Beta vs FBM KLCI (x)	1.04
3-mth average daily volume (m)	2.72
3-mth average daily value (RM'm)	2.48
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

Target price and recommendation. We maintain our **TP** at **RM1.47**, derived by pegging a PER of 7.8x to the Group's FY23 EPS of 18.8sen. We are positive on CMSB's prospects moving into FY23, in line with projects that may be rolled out in the state as the newly formed federal government commits to develop East Malaysia, on top of a capital injection of RM100b by 2030, both of which would translate into a steady flow of jobs, that would benefit CMSB in terms of job replenishments and supply of building materials. 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 year and no new entrants into the industry are expected at least for several years to come. All in, we maintain our **BUY** recommendation on CMSB. 

INVESTMENT STATISTICS

FYE 31 st 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 net profit	178.4	244.7	201.9	200.8	247.5
Core EPS (Sen)	16.6	22.8	18.8	18.1	23.0
Core 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

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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 <i>rise</i> 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 <i>fall</i> 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