Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

***Maintain* BUY**

***Unchanged* Target Price: RM1.47**

(Pending review)

Improving margins in core divisions

KEY INVESTMENT HIGHLIGHTS

- **Cahya Mata Sarawak Berhad (CMSB)'s FY22 normalised earnings grew +19.5%yoy to RM207.7m**
- **Cement division and road maintenance business recorded stronger margins, recording profits of RM80.2m and RM17.1m respectively**
- **Well-positioned to benefit from increased job flows in Sarawak**
- **Maintain BUY with target price of RM1.47, pending earnings briefing**

Below Expectation. Cahya Mata Sarawak Berhad (CMSB)'s 4QFY22 core earnings declined -21.3%yoy to RM22.7m on the back of a revenue that rose +27.0%yoy to RM306.8m. For the cumulative FY22, core earnings were +19.5% to RM207.7m, as revenue rose +23.9%yoy to RM1.01b. The results were however, below ours and consensus' expectations, making up 84.9% and 91.0% respectively of full year estimates.

Improving cement cost efficiency. The cement division saw a +24.6% jump in its FY22 revenue to RM601.9m, delivering an operating profit of RM80.2m, which was +30.1% higher. This is attributable to stronger cement sales and improved margins on the back of efforts initiated in FY22, such as reducing the reliance on imported clinker and better cost management efforts.

Road maintenance. Revenue from road maintenance grew +11.7% to RM134.6m while its operating profit surged +78.4% to RM17.1m. This too, was a result of improvement in margins.

Other segments. The trading segment recorded a -12.2% reduction in revenue to RM90.8m while its operating profit dipped -61.4% to RM2.4m. Property development revenue declined -8.1% to RM105.0m with a +2.3% increase in operating profit to RM33.2m. This includes the recognition of a gain from land sale of RM12.4m.

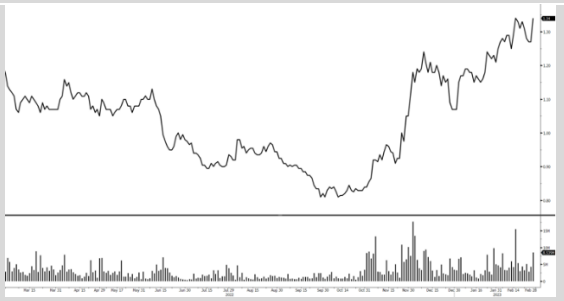
Forex losses weigh on phosphate division. CMSB's upcoming phosphate business has yet to generate any revenue while it accumulated -RM57.9m in operating losses, widening from -RM18.1m from FY21. The commissioning of all its four furnaces were completed in Dec-22 as scheduled and the group is currently implementing the commercialisation of the business. The phosphate plant is projected to be cash neutral in 2023 and optimistic expectations would see profits trickling in by 2024.

Earnings estimates and target price. We are maintaining our earnings estimate for FY23 and our TP of RM1.47 for now pending earnings briefing with the management.

Maintain BUY. We are positive on CMSB's prospects moving into FY24, in line with projects that are expected to be rolled out in the state as the newly formed federal government commits to develop East Malaysia, evident from the recently tabled Budget 2023, where RM5.6b was

RETURN STATISTICS	
Price @ 27th Feb 2023 (RM)	**1.34**
Expected share price return (%)	**+9.70**
Expected dividend yield (%)	**+2.04**
Expected total return (%)	**+11.74**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	9.8	13.0
3 months	25.2	40.4
12 months	9.8	20.1

KEY STATISTICS	
FBM KLCI	1,455.50
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)	1,439.40
52-wk price range	RM0.8 - RM1.36
Beta vs FBM KLCI (x)	1.02
3-mth average daily volume (m)	4.99
3-mth average daily value (RM'm)	5.92
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

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specifically allocated for Sarawak's development expenditure, on top of RM2.50b that was allocated for Sabah and Sarawak for public amenities. There is also the commitment of expediting the Pan Borneo Highway and the Sarawak-Sabah Link Road, which the federal government estimate will cost a total of about RM20b. Alongside the Sarawak state government's previous projection of a RM100b capital injection by 2030, all these should translate into quality job flows over the next few years. 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	1009.0	1,187.5	1,211.3	1,367.7
Operating profit	73.1	259.5	116.4	120.0	123.2
Core earnings	178.4	207.7	201.9	200.8	247.5
EPS (Sen)	16.6	19.4	18.8	18.1	23.0
EPS (Growth)(%)	0.3	16.9	-3.1	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	**Q422**	**Q322**	**Q421**	**QoQ**	**YoY**	**12M22**	**12M21**	**YoY**
Revenue	306.8	278.4	241.6	**10%**	**27.0%**	1,009.0	814.6	**24%**
Cost of sales	(267.1)	(219.8)	(207.6)	**-21%**	**-29%**	(821.0)	(669.3)	**-23%**
Gross profit	39.7	58.6	34.1	**-32%**	**17%**	188.0	145.3	**29%**
Other income	110.8	109.8	14.0	**1%**	**>+100%**	233.6	65.4	**>+100%**
Administrative expenses	(42.5)	(16.4)	(19.8)	**<-100%**	**<-100%**	(91.2)	(54.6)	**-67%**
Selling and Marketing expenses	(8.6)	(3.9)	(2.8)	**<-100%**	**<-100%**	(17.9)	(11.0)	**-62%**
Other expenses	(17.4)	(15.9)	(65.5)	**-10%**	**73%**	(53.1)	(82.9)	**36%**
Operating Profit	82.0	132.3	(40.0)	**-38%**	**>+100%**	259.5	62.1	**>+100%**
Finance costs	(5.2)	(2.9)	(7.0)	**-80%**	**26%**	(18.4)	(28.3)	**35%**
Assoc. and JV	28.5	50.6	79.5	**-44%**	**-64%**	171.2	200.8	**-15%**
Profit Before Taxation	105.3	180.0	32.5	**-42%**	**>+100%**	412.3	234.6	**76%**
Income Tax Expenses	(65.1)	(26.5)	(5.3)	**<-100%**	**<-100%**	(110.7)	(29.9)	**<-100%**
Recorded Profit	40.2	153.5	27.2	**-74%**	**47%**	301.6	204.7	**47%**
PATAMI	32.1	154.4	25.2	**-79%**	**28%**	298.1	208.5	**43%**
Non-controlling interest	8.1	(0.9)	2.1	**>+100%**	**>+100%**	301.6	204.7	**47%**
Core PATAMI	22.7	61.7	28.8	**-63%**	**-21.3%**	207.7	173.9	**19.5%**

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