Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

Maintain BUY

Laying the groundwork for upcoming developments

Revised Target Price: RM1.55
(previously RM1.47)

KEY INVESTMENT HIGHLIGHTS

- **Cost optimisation on top of the agenda for FY23 to improve long-term margins for cement**
- **Plans in store to expand road maintenance and construction businesses**
- **Group to focus drill waste management to tap on green opportunities**
- **Maintain BUY with a revised TP of RM1.55**

Cost optimisation. FY23 will be a year of cost optimisation for Cahya Mata Sarawak (CMSB) as it seeks to improve its long-term profit margins. The group aims to achieve this via strengthening and improvement of clinker production and to increase the use of the PLC-32.5N cement over the traditional PC42.5N as the former uses less clinker, which also lowers the carbon footprint significantly. The division slipped into a loss of -RM3.3m in 4Q22 due to a scheduled maintenance. Nevertheless, its gross profit margin from remained at 18% in FY22 while PBT came in +30% higher at RM80m. Management expects cement demand to be strong in FY23.

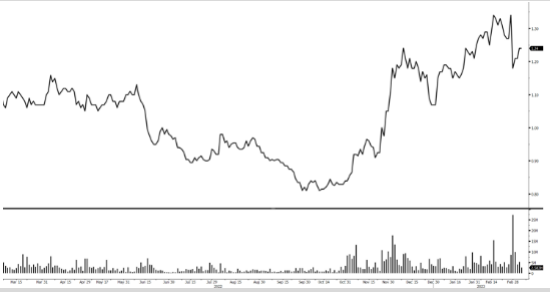
Road maintenance. Another core business of the group, the road maintenance division delivered a PBT of RM17m in FY22, marking an improvement in GP margin from 12% in FY21 to 22% in FY22 on the back of higher work progress on routine maintenance, instructed works and additional road rehabilitation works completed. The group aims to capitalise on its track record and seek innovative ways of delivering its services efficiently. CMSB maintains some 2,000km of roads in Sarawak and it aims to improve this by expanding into the Pan-Borneo Highway and building its tender for roads throughout East Malaysia.

Construction. PBT from construction rose +27.3% to RM14m in FY22 with a slight improvement in margin from 4% to 5%, attributable to improved work progress. Outstanding order book currently stands at RM600m and management is actively bidding for projects related to infrastructure development in Sarawak. We opine that the prospects are bright for construction in Sarawak with the Federal Government's commitment to develop East Malaysia, evident from the recently tabled Budget 2023, where RM5.6b was 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.

Push for green drilling. CMSB's entry into the energy sector began in Sept-22 following completion of the acquisition of Scomi Oilfield Ltd from Scomi Energy Services. Management guided that the oiltools division has started generating profits and is expected to grow over the next 12 to 24 months. The division currently has about USD100m (RM447.6m) of order book across the globe. CMSB is planning to intensify its efforts on drill waste

RETURN STATISTICS	
Price @ 6th March 2023 (RM)	1.24
Expected share price return (%)	+25.00
Expected dividend yield (%)	1.94
Expected total return (%)	**+26.94**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.4	0.2
3 months	15.9	5.6
12 months	9.7	21.2

INVESTMENT STATISTICS

FYE Dec	2021A	2022A	2023E
Revenue	813.8	1009.0	1,188
Operating Profit	62.1	259.5	116.4
Profit Before Tax	234.6	412.3	213.8
Core net profit	172.1	118.7	207.8
Core EPS (sen)	16.6	11.1	19.4
DPS (sen)	2.0	3.0	3.0
Dividend Yield	1.3%	2.0%	1.9%

KEY STATISTICS	
FBM KLCI	1,452.68
Issue shares (m)	1071.32
Estimated free float (%)	55.71
Market Capitalisation (RM'm)	1,331.98
52-wk price range	RM0.8 - RM1.36
3-mth average daily volume (m)	5.02
3-mth average daily value (RM'm)	6.11
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

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management where it has identified vast opportunities to assist oil and gas firms in their greening efforts.

Earnings estimates. We raise our FY23F earnings estimate by +2.9% to RM207.8m to reflect better margins and a stronger year with more infrastructure jobs.

Target price. We are revising our **TP** to **RM1.55** as we peg the group's FY23E EPS of 19.4 sen per share to a PER of 8x (-1SD of five-year mean).

Maintain BUY. We remain sanguine on CMSB's earnings outlook, in line with projects that are expected to be rolled out in the state from the recently tabled Budget 2023 and alongside the Sarawak state government's previous projection of a RM100b capital injection by 2030, which 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 road maintenance jobs and also through the supply of building materials, as it is the sole cement manufacturer in the state. All factors considered, we reiterate our **BUY** recommendation on **CMSB**.

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	814.6	1,009.0	1,187.5	1,211.3	1,367.7
Gross profit	145.3	188.0	290.9	245.9	288.6
Operating profit	62.1	259.5	116.4	119.9	123.2
Finance costs	(28.3)	(18.40)	(23.8)	(24.2)	(27.4)
Profit before tax	234.6	412.3	213.8	285.9	300.9
Tax	(29.9)	(110.7)	(42.8)	(57.2)	(60.2)
Net profit	204.2	298.1	207.8	200.8	247.5
Core net profit	172.1	118.7	207.8	200.8	247.5

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1,342.3	1,420.0	1,462.6	1,506.5	1,551.7
Intangible assets	0.6	2.4	3.0	3.5	3.5
Non-current assets	**3,119.6**	**2,867.5**	**2,953.5**	**3,042.1**	**3,133.4**
Cash	545.7	965.3	772.2	787.7	803.4
Trade debtors	191.0	250.5	255.5	260.6	265.8
Current assets	1,729.9	2,046.0	2,107.4	2,170.6	2,235.7
Trade creditors	615.9	688.2	702.0	716.0	730.3
Short-term debt	625.1	282.0	286.2	286.2	286.2
Current liabilities	**1,260.1**	**1,050.6**	**1,103.1**	**1,158.3**	**1,216.2**
Long-term debt	273.4	255.8	255.8	255.8	255.8
Non-current liabilities	**357.0**	**374.7**	**382.2**	**389.8**	**397.6**
Share capital	867.9	867.9	867.9	867.9	867.9
Retained earnings	2,122.9	2,399.6	2,607.4	2,808.2	3,055.7
Equity	**3,232.4**	**3,488.8**	**3,488.8**	**3,488.8**	**3,488.8**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	**234.6**	**412.3**	**213.8**	**285.9**	**300.9**
Depreciation & amortisation	63.0	63.5	64.1	64.8	65.43
Changes in working capital	132.6	-64.4	-19.3	-5.8	-5.8
Operating cash flow	**220.7**	**9.7**	**115.4**	**139.3**	**144.9**
Capital expenditure	-88.8	-43.7	-78.7	-82.6	-86.7
Investing cash flow	**25**	**823.5**	**247.1**	**247.1**	**247.1**
Debt raised/(repaid)	36.7	-376.5	-125	-125	**-**
Dividends paid	-35.5	-23.5	-23.5	-23.5	-23.5
Financing cash flow	**16.7**	**-410.5**	**-150**	**-150**	**-30**
Net cash flow	**262.4**	**422.8**	**212.5**	**236.4**	**362**
Beginning cash flow	**277.2**	**540.7**	**962.7**	**1,175.2**	**1,411.6**
Ending cash flow	**540.7**	**962.7**	**1,175.2**	**1,411.6**	**1,773.6**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross profit margin	17.8%	18.6%	24.5%	20.3%	21.1%
PBT margin	28.8%	40.9%	18.0%	23.6%	22.0%
PAT margin	25.1%	29.5%	17.5%	16.6%	18.1%
Core PAT margin	21.1%	11.8%	17.5%	16.6%	18.1%

Source: Bloomberg, 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