Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

A Humble Start to FY23

***Maintain* BUY**

***Revised* Target Price: RM1.50**
(previously RM1.55)

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 core net profit came in -51.8%yoy lower at RM35.6m, lower profit contribution from associates**
- **Cement, the main business segment, posted strong PBT growth by +28.8%yoy to RM37.6m**
- **Improving construction job flows to benefit the group in terms of cement supply, construction projects and road maintenance jobs**
- **Maintain BUY with a revised TP of RM1.50**

Below expectations. Cahya Mata Sarawak's (CMSB's) core net profit for 1QFY23 came in -51.8%yoy lower at RM35.6m on the back of lower profit contribution from associates following the disposal of OM Materials (Sarawak) Sdn Bhd and OM Materials (Samalaju) Sdn Bhd. The results were below our expectations at 17.1% of full-year estimates but within consensus at 25.4%.

Operating divisions. Revenue for the main business segment, cement, rose +16.6%yoy to RM159.3m. As such it delivered a PBT of RM37.6m which saw a growth of +28.8%yoy. Meanwhile, the group's new oiltools division contributed RM4.6m of PBT. The road maintenance division slipped into a loss this quarter at -RM0.1m, attributable to lower revenue recognition as a result of delays in instructed work. As for property development, the slower sale of properties weighed on the PBT, down by -86.1%yoy to RM0.9m.

Phosphate division. The new segment which is now on its way to commercialisation took on a loss before tax of -RM25.7m, as compared to -RM4.1m in the same quarter last year. Most of the costs incurred in 2022 were capitalised as its plant in Samalaju was still in construction phase. Recall that Cahya Mata Phosphates Industries is currently awaiting the approval and necessary licenses to sell its products before it enters the commercialisation stage.

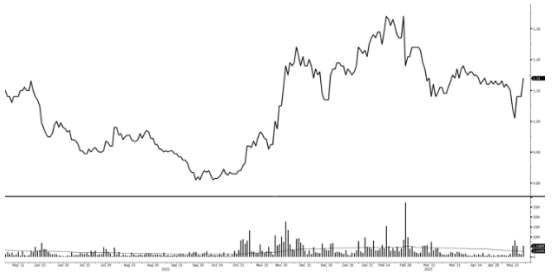
Earnings estimates. We are trimming our FY23E bottom line forecasts by -21.2% to RM171.4m respectively to account for the weaker associate contributions and weaker road maintenance and property development performance.

Target price: As we roll forward our valuation base year to FY24, we are revising our target price to RM1.50 as we peg a forward PE of 8x based on -1SD below its five-year mean to the FY24F EPS of 18.7 sen.

Maintain BUY. We remain positive on CMSB's earnings outlook in FY23, as the expected improvement in construction job flows would benefit the group in terms of cement supply, construction projects and road maintenance jobs. Recall that the group recently recognised a contingent liability of RM266m in an ongoing dispute with Syarikat SESCO Berhad, though we remain optimistic of an amicable resolution, considering the benefits of the phosphate production to Sarawak's economy. All factors considered, we reiterate our **BUY** recommendation on **CMSB.**

RETURN STATISTICS	
Price @ 22nd May 2023 (RM)	1.14
Expected share price return (%)	+31.58
Expected dividend yield (%)	2.00
Expected total return (%)	**+33.58**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	0.2
3 months	0.0	-8.1
12 months	1.8	11.1

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	1,187.5	1,211.3	1,367.7
Operating Profit	124.2	163.2	123.2
Profit Before Tax	214.2	252.5	300.9
Core net profit	171.4	195.3	240.7
Core EPS (sen)	16.0	21.5	18.7
DPS (sen)	3.0	3.0	3.0
Dividend Yield	2.0%	2.0%	2.0%

KEY STATISTICS	
FBM KLCI	1,419.00
Issue shares (m)	1073.98
Estimated free float (%)	55.71
Market Capitalisation (RM'm)	1,224.56
52-wk price range	RM0.80-RM1.36
3-mth average daily volume (m)	3.03
3-mth average daily value (RM'm)	3.54
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

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CAHYA MATA SARAWAK: 1QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Revenue	275.7	306.8	214.0	-10%	28.8%
Cost of sales	(212.3)	(267.1)	(160.7)	21%	-32%
Gross profit	63.4	39.7	53.3	60%	19%
Other income	16.3	110.8	3.1	-85%	>+100%
Administrative expenses	(26.8)	(42.5)	(11.9)	37%	-126%
Selling and Marketing expenses	(7.2)	(8.6)	(2.5)	16%	<-100%
Other expenses	(23.6)	(17.4)	(2.4)	-36%	<-100%
Operating Profit	22.1	82.0	39.7	-73%	-44%
Finance costs	(3.4)	(5.2)	(6.7)	35%	50%
Assoc. and JV	20.6	28.5	50.9	-28%	-60%
Profit Before Taxation	39.3	105.3	83.9	-63%	-53%
Income Tax Expenses	(11.9)	(65.1)	(11.0)	82%	-9%
Recorded Profit	27.3	40.2	72.9	-32%	-62%
PATAMI	42.6	32.1	72.0	33%	-41%
Non Controlling interest	(15.2)	8.1	0.8	<-100%	<-100%
Core PATAMI	35.6	22.7	73.9	57%	-51.8%

FINANCIAL SUMMARY

Income Statement (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Revenue	814.6	1009.0	1,187.5	1,211.3	1,367.7
Gross profit	145.3	188.0	290.9	296.7	288.6
Operating profit	62.1	259.5	124.2	163.2	123.2
Finance costs	-28.300	(18.40)	(23.8)	(24.2)	(27.4)
Profit before tax	234.6	412.3	214.2	252.5	300.9
Tax	-29.9	-110.7	(42.8)	(57.2)	(60.2)
Net profit	204.2	298.1	171.4	200.8	240.7
Core net profit	172.1	118.7	171.4	200.8	240.7

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	2,571.0	2,766.3	3,007.0
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**	**214.2**	**252.5**	**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%	24.5%	21.1%
PBT margin	28.8%	40.9%	18.0%	20.8%	22.0%
PAT margin	25.1%	29.5%	14.4%	16.1%	17.6%
Core PAT margin	21.1%	11.8%	14.4%	16.1%	17.6%

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