Cahya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

FY23 to Remain Strong

***Maintain* BUY**

***Unchanged* Target Price: RM1.50**

KEY INVESTMENT HIGHLIGHTS

- **Seeking to improve cement margins further with lower reliance on imported clinker**
- **Cement inventory actively stockpiled to ensure continuous supply, ahead of scheduled maintenance in mid-2023**
- **CMS to benefit from strong job flows in terms of cement supply and construction jobs**
- **Maintain BUY with unchanged TP of RM1.50**

Seeking margin improvements. Cahya Mata Sarawak Berhad (CMS) will continue to increase and improve its clinker production in order to have a lower reliance on imported clinker, which is intended at reducing operating costs and improving longer-term margins. In a post-result briefing yesterday, management added that they will increase the use of PLC-32.5N cement over the traditional PC-42.5N as the former uses less clinker, which will reduce its carbon footprint. The group recorded an operating profit margin of 23.6% for the cement segment in 1QFY23, as compared to 21.3% a year ago.

Scheduled maintenance. There will be a scheduled maintenance for the cement manufacturing plant in mid-2023 and management guided that the planned shutdown will be during a low demand period. An interruption in the manufacturing is inevitable, but the group has been stockpiling its inventory to ensure sufficient cement supply during the downtime. Overall for FY23, the group expects a robust cement supply, in line with expectations of upbeat construction activities in Sarawak.

Road maintenance performance to rebound. As reported last week, CMS' road maintenance division recorded an operating loss of RM0.1m on the back of a -39.9%yoy decline in revenue to RM21.8m, due to delays in instructed works contracts. Management expects the division to return to the black in the coming quarters. CMS manages some 3,000km of roads in Sarawak and they are currently tendering for more maintenance contracts.

Monitoring Nusantara developments. CMS is keeping a close watch on activities in Nusantara for longer term prospects of the group. For now, the group is focusing on new projects in other areas especially in Sarawak, where management foresees a "substantial amount" of jobs, which will benefit the group in terms of construction order book and cement supply.

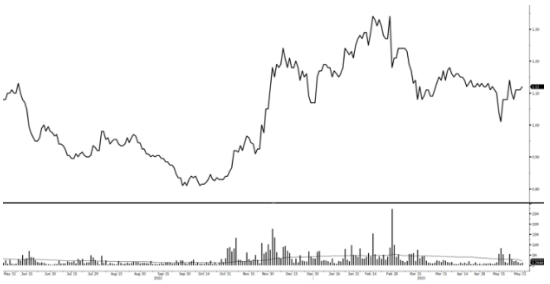
Earnings estimates. We are maintaining our earnings estimates after trimming our FY23E bottom line forecasts by -21.2% to RM171.4m last week.

Target price: Our target price is kept unchanged at 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 and beyond, on the back of development projects that have been planned

RETURN STATISTICS	
Price @ 30th May 2023 (RM)	1.12
Expected share price return (%)	+33.93
Expected dividend yield (%)	2.00
Expected total return (%)	**+35.93**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	1.4
3 months	-1.8	-1.2
12 months	1.8	14.4

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	1,396.91
Issue shares (m)	1073.98
Estimated free float (%)	56.64
Market Capitalisation (RM'm)	1,203.08
52-wk price range	RM0.80-RM1.36
3-mth average daily volume (m)	2.82
3-mth average daily value (RM'm)	3.22
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

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for the state. To recap, Budget 2023 saw RM5.6b allocated for Sarawak's development expenditure, on top of RM2.5b for public amenities in Sabah and Sarawak. The Federal Government is also expediting the Pan Borneo Highway and the Sarawak-Sabah Link Road. All these, on top of a RM100b capital injection into the state by 2030 would see strong contract flows over the coming years, where CMS stands to benefit as 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	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	195.3	240.7
Core net profit	172.1	118.7	171.4	195.3	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