

PP14767/09/2012(030761)

Thursday, May 19, 2016

Cahya Mata Sarawak Berhad

“Not Weather Friendly Quarter”

Results Review

- Actual vs. expectations.** Cahya Mata Sarawak Berhad (CMS) reported 1Q16 net profit of RM1.1 million (-99% y-o-y, -98% q-o-q), making up only 0.4% of ours and consensus full year net profit forecast. CMS registered disappointing earnings performance in 1Q16 that was hammered by lower EBIT contribution from construction materials & trading division, construction & road maintenance division and cement division. Furthermore, the group also suffered higher associates losses of RM16 million in 1Q16 vs. 1Q15 profit of RM13 million, largely due to the losses of its 25% associate, OM Material (Sarawak) (OMS) in line with weaker commodity prices.
- Dividend.** No dividend was declared during the quarter.
- Top line vs bottom line.** CMS's 1Q16 revenue and EBIT declined to RM347 million (-29% y-o-y, -32% q-o-q) and RM39 million (-51% y-o-y, -59% q-o-q) respectively due to the lower contribution across all segments from construction materials & trading division, construction & road maintenance division to cement division. Construction material & trading division posted weaker revenue and EBIT of RM117 million (-47% y-o-y, -43% q-o-q) and RM17 million (-44% y-o-y, -52% q-o-q) respectively impacted by slower progress of works and lower premix sales volume due to the frequent rain in 1Q16.

Construction & road maintenance division recorded lower revenue and EBIT of RM89 million (-29% y-o-y, -31% q-o-q) and RM18 million (-30% y-o-y, -60% q-o-q) in tandem with less construction work undertaken and higher cost for state road maintenance in line with higher than usual rain fall during the quarter. To top it off, cement division buckled weaker revenue and EBIT

BUY (TP: RM3.70)

Current Price (RM)	RM3.23
New Target Price (RM)	RM3.70
Previous Target Price (RM)	RM5.45
Previous Recommend.	BUY
Upside To Target Price	12%
Dividend Yield (FY17)	3%

Stock Code

Bloomberg	CMS MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Diversified
Shariah Compliance	Yes
Issued Shares (mn)	1,074
Market Cap (RM mn)	4,297
YTD Chg In Share Price	-36%
Beta (x)	0.85
52-week Hi/Lo (RM)	6.00 3.73
3M Average Volume (shrs)	2.37
Estimated Free Float	26%

Major Shareholders

Majaharta Sdn Bhd	13%
Lejla Taib	10%
EPF	9%

of RM135 million (-6% y-o-y, -14% q-o-q) and RM10 million (-67% y-o-y, -31% q-o-q) impacted by lower cement sales volume, higher cost of raw materials and imported cement due to the stronger USD movement within the period, higher maintenance cost due to plants shutdown added with higher fixed overheads cost upon commissioning of the new grinding plant.

- **OMS facing a difficult time.** OMS recorded higher associates losses of approximately RM26 million (25% stake) in 1Q16 due to the exceptionally low ferrosilicon prices which has effected production volume that coughed only 40% utilisation rate. Furthermore, out of 16 furnaces at OMS facilities which have been completed, only 6 are operating currently. In near term, OMS is scheduled to convert 6 of its furnaces to manganese alloy production which is expected to generate a better demand.
- **Rainy period in 1Q16.** Bad weather condition has impacted the performance of CMS' core division in 1Q16. According to Malaysian Meteorological Department, Sarawak state has received higher total rainfall amount (200 mm-1421 mm) as compared Peninsular Malaysia (100 mm-200 mm) in February 2016. This has been one of the reasons which dragged earnings contribution from construction and cement division due to lower progress of construction works, weaker quarry production volume as well as poorer cement production volume.
- **Sacofa to fuel ICT division growth.** CMS has completed the acquisition of 50% stake in Sacofa Sdn Bhd in October 2015 which will provide higher earnings visibility for the group due to Sacofa's position as the sole provider of telecommunication towers in Sarawak. Sacofa is currently operating more than 600 towers and holding a 20-year concession to build, manage, lease and maintain telecommunication towers in Sarawak by the state government of Sarawak till 2022. In the long-term, Sacofa aims grow the average speed of 100Mbps in 4 cities (Kuching, Sibu, Bintulu and Miri) and develop Kenyalang Hub to attract traffic providers and drive broadband cost down.
- **Riding on the construction growth.** The toll free Pan Borneo Highway will span a total distance of 2,239km across Sarawak and Sabah. The entire Sarawak section of the highway will stretch 1,090km from Tanjung Datu to Merapok, estimated to be completed by 2021, costing approximately RM16 billion. Based on our channel checks, CMS will partner with Bina Puri Holdings in bidding for work package of Pan Borneo Highway project which to be awarded in the next few months.
- **Change to forecast.** We have done some housekeeping exercise and came out with new FY16 and FY17 earnings projection of RM193 million (-20% y-o-y) and RM257 million (+33% y-o-y) respectively. At this juncture, we expect CMS to post lower FY16 earnings due to weaker margin from cement division on higher raw material cost affected by stronger USD against Ringgit while FY17 earnings trajectory will be anchored by the recovery in construction margin.
- **Valuation and recommendation.** We re-value CMS with a target price of RM3.70 based on sum-of-part (SOP) valuation (ascribing 15% discount), implying 15x FY17 PER. The stock is still a **BUY**

Results Review - Cahya Mata Sarawak Berhad

underpinned by; i) full year earnings contribution from Sacofa, ii) strong construction prospects related to Pan Borneo Highway project, and iii) riding on the growth from SCORE initiative.

Table 1: Sum-of-parts (SOP) Valuation

Business division	Valuation Method	Effective stake	PER (x)	Value (RM mil)
Cement	PER	100%	22	2,039
Construction Material	PER	51%	20	577
Road Maintenance	PER	100%	12	742
Property	RNAV			469
Samalaju Development	PER	51%	9	35
Sacofa	PER	50%	10	475
Total value				4,338
K&N Kenanga		25%		90
KKB Engineering		20%		85
Net Cash (minus Inv. In Sacofa)				162
Total Equity Value				4,674
Share Base				1,074
SOTP Valuation (RM)				4.35
Discount				15%
Target Price (RM)				3.70

Source: M&A Securities

Table 2: CMS Profit and Loss (FY13-FY17F)

FYE DEC (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,417	1,674	1,788	1,752	1,862
Gross profit	351	396	413	385	447
EBITDA	375	369	400	375	439
EBIT	293	327	347	308	368
Finance cost	(5)	(4)	(4)	(7)	(8)
Associates	7	17	37	21	47
JV	0	1	2	2	2
PBT	295	341	382	324	409
Taxation	(79)	(76)	(84)	(81)	(102)
PAT	216	266	298	243	307
Minority interest	(40)	(44)	(56)	(50)	(49)
Net profit	175	221	242	193	257
EPS (sen)	18	21	22	18	24
EBITDA margin	26%	22%	22%	21%	24%
EBIT margin	21%	20%	19%	18%	20%
PBT margin	21%	20%	21%	18%	22%
Net profit margin	12%	13%	14%	11%	14%
PER (x)	13.1	18.5	22.2	18.4	13.8
P/BV (x)	1.4	2.3	2.8	1.7	1.6
Dividend (sen)	17	9	5	7	10
Dividend yield	7%	2%	1%	2%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

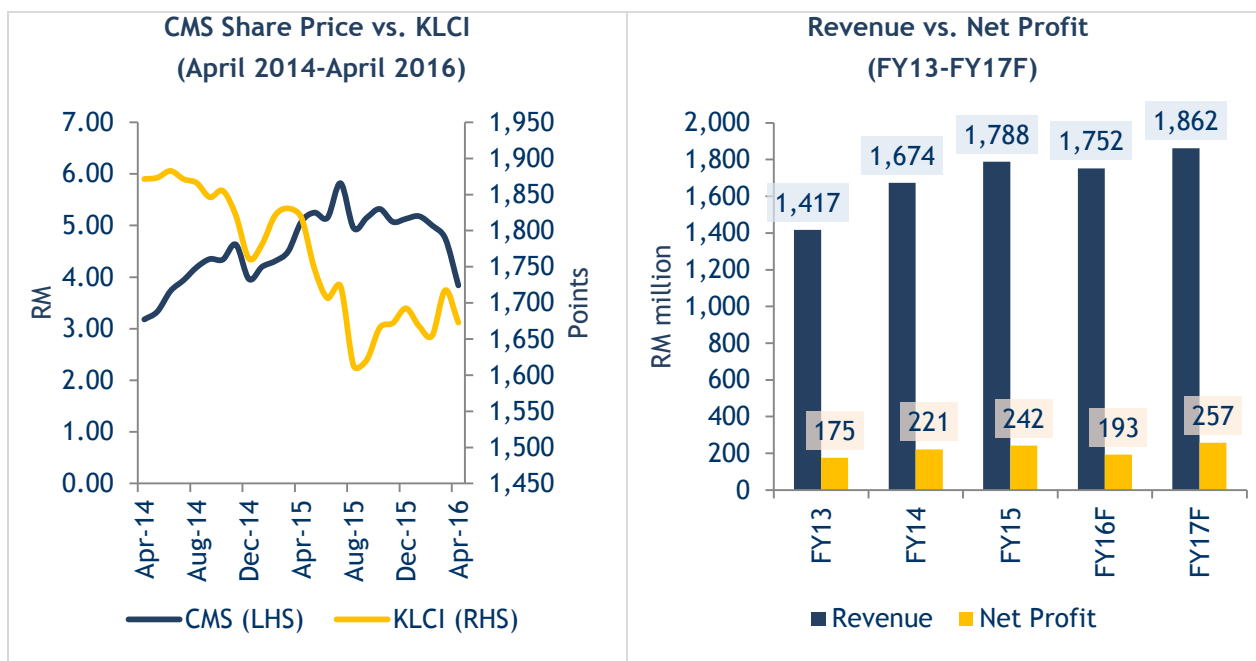
YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	491	508	347	-32%	-29%	491	347	-29%
EBIT	81	96	39	-59%	-51%	81	39	-51%
Finance costs	(1)	(1)	(2)	48%	200%	(1)	(2)	200%
Associates	14	22	(16)	-175%	-218%	14	(16)	-218%
JV	1	(1)	2	-239%	50%	1	2	50%
PBT	95	115	23	-80%	-76%	95	23	-76%
Taxation	(24)	(16)	(13)	-20%	-46%	(24)	(13)	-46%
Minorities	(14)	(21)	(9)	-58%	-35%	(14)	(9)	-35%
Net profit	57	78	1	-99%	-98%	57	1	-98%
EBIT margin	16%	19%	11%			16%	11%	
PBT margin	19%	23%	7%			19%	7%	
Net profit margin	12%	15%	0%			12%	0%	
Tax rate	25%	14%	57%			25%	57%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue								
Cement	144	157	135	-14%	-6%	144	135	-6%
Construction materials & trading	222	203	117	-43%	-47%	222	117	-47%
Construction & road maintenance	127	130	89	-31%	-29%	127	89	-29%
Property development	17	36	19	-47%	15%	17	19	15%
Samalaju development	2	8	NA	NM	NM	2	NA	NM
Strategic investments	2	2	3	38%	8%	2	3	8%
Others	8	4	9	134%	19%	8	9	19%
EBIT								
Cement	29	14	10	-31%	-67%	29	10	-67%
Construction materials & trading	30	35	17	-52%	-44%	30	17	-44%
Construction & road maintenance	25	44	18	-60%	-30%	25	18	-30%
Property development	2.7	10	3	-69%	19%	2.7	3	19%
Samalaju development	(0.7)	(3)	NA	NM	NM	(0.7)	NA	NM
Strategic investments	0.0	(0.9)	(1.0)	NM	NM	0.0	(1.0)	NM
Others	0.0	0.03	(4)	NM	NM	0.0	(4)	NM

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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