

PP14767/09/2012(030761)

Thursday, Sept 1, 2016

Cahya Mata Sarawak Berhad

“Good Recovery Seen”

Result Review

- Actual vs. expectation.** Cahya Mata Sarawak (CMSB) reported weaker 1H16 revenue of RM746 million (-14% y-o-y), largely derailed by poor sales performance in 1Q16. PBT plunged 59% y-o-y to RM66 million in 1H16 as the result of lower earnings contribution from cement and construction & road maintenance (CRM) divisions. The 98% free fall in PATMI to merely RM1 million in 1Q16 has seen improvement in 2Q16 that eventually pushed 1H16 PATMI to RM9 million (-91% y-o-y). However, the RM9 million bottom line was still way below our expectations, forming of 9% of our FY16 forecasts.
- Dividend.** No dividend was declared during the quarter. We expect the board to distribute up to 3 sen dividend for FY16 or 0.7% dividend yield.
- 2Q16 results.** After the worst ever earnings results in 1Q16, CMSB saw its revenue recovered gradually in 2Q16 to RM399 million (+15% q-o-q ; +6% y-o-y). Higher sales turnover had been achieved by almost all divisions (except for strategic investments & others) compared to the preceding quarter. Among all, construction materials & trading (CMT), made the biggest improvement after making RM160 million in sales turnover (+37% q-o-q ; +16% y-o-y) on the back of higher sales volume and higher contract and freight services. The division has surpassed cement division and became the largest sales contributor to the group during the quarter.

At operating level, cement division continued to lead all divisions after recording RM32 million (+233% q-o-q ; +27% y-o-y) in operating profit followed by CMT division of RM31 million (+84% q-o-q ; +73% y-o-y) and CRM division of

BUY (TP: RM4.66)

Current Price (RM)	RM3.81
New Target Price (RM)	RM4.66
Previous Target Price (RM)	RM3.70
Previous Recommend.	HOLD
Upside To Target Price	29%
Dividend Yield	1%

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)	4,093
YTD Chg In Share Price	-26%
Beta (x)	0.85
52-week Hi/Lo (RM)	5.43 3.17
3M Average Volume (shrs)	2.37
Estimated Free Float	26%

Major Shareholders

Alwee Alsree	13%
Majaharta Sdn Bhd	13%
EPF	12%

RM21 million (+19% q-o-q ; +4% y-o-y). Strong 2Q16 group PBT of RM43 million (+87% q-o-q ; -36% y-o-y) was supported by significant improvement in most divisions after multiple unfavourable factors seen in 1Q16. Notwithstanding that, bottom line still appeared weak on year-on-year basis owing to higher cost of importation of raw materials amid weak Ringgit as well as enormous loss in associate company (OM Material).

- **Achieved higher gross margin.** In light of more stabilised cost of sales, 2Q16 gross profit jumped 18% y-o-y to RM91 million. Gross margin also improved to 23% during the quarter vs 20% in 2Q15, potentially bolstered by more steady Ringgit performance as compared to preceding quarter. This could have mitigated the pressure on higher cost of raw materials and of imported cement as well as the impact from lower sales volume and lack of new big projects in its maiden cement division.
- **Earnings hampered by associate company.** The share of results of associates was dragged into red largely due to the loss-making 25%-owned associate OM Materials (Sarawak) or OMS, which operates a ferro silicon alloys smelter in Samalaju Industrial Park where commodity prices have been at record lows. To recall, OMS was the key culprit to result in RM16 million loss in share of associate in 1Q16 from RM14 million profit in 1Q15. The share results from associates continued to weigh down group's earnings by doubling the losses to RM33 million in 2Q16 due largely to OMS performance as well. Stripping off the share of results of associates, CMSB had actually recorded a handsome 23% y-o-y improvement at the operating profit level of RM77 million in 2Q16, compared to RM63 million in the previous corresponding period.
- **Outlook.** We expect to see significant improvement in the bleeding segment (OMS) in FY17 as all the 16 furnaces are going to be up and running in tandem with the potential recovery of commodity prices. We opine that steel and aluminium prices are on the verge of recovery supported by restocking activity as well as improving demand outlook in China thanks to additional infrastructure projects announced by government earlier this year.

In addition, the group's ICT division operated under Sacofa Sdn Bhd, a 50%-owned subsidiary is also expected to boost the bottom line of CMSB by building and maintaining the State's telecommunication network including towers, on-land fibre network optical fibre submarine cable system and direct internet access.

2Q16 analyst briefing will be conducted later today, and further company outlook will be presented and updated in our next briefing note.

- **Change to forecast.** To factor in higher cost of raw materials that stressed the group's gross profit as well as continued loss making in OMS, we lowered down our FY16 PAT forecast from RM241 million to RM152 million (-37%) to incorporate the losses made by CMSB's associates.
- **Valuation & recommendation.** We maintain our target price at RM4.66 based on SOTP valuation, implying 16.0x FY17 PER, which is in line with consensus PER of 16.1x. Maintain **BUY**. CMSB's core businesses are expected to remain resilient during this challenging environment. However, as a proxy of Sarawak's accelerating economic growth, we are confident CMSB is well positioned

Result Review - Cahya Mata Sarawak Berhad

to benefit from mega projects including the RM16 billion Pan Borneo Highway and other infrastructure projects in the state.

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

Business division	Valuation Method	Effective stake	PER (x)	Value (RM mil)
Cement	PER	100%	22	1,734
Construction Material	PER	51%	20	682
Road Maintenance	PER	100%	12	1,043
Property	RNAV (50% discount)			234
OM Sarawak	PER	25%	5	100
Sacofa	PER	50%	15	876
Total value				4,670
K&N Kenanga		25%		90
KKB Engineering		20%		85
Net Cash (minus Inv. In Sacofa)				162
Total Equity Value				5,007
Share Base				1,074
SOTP/share (RM)				4.66

Source: M&A Securities

Exhibit 2: Segmental Analysis

	2Q16	1Q16	2Q15	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue								
Cement	140	135	151	4%	-7%	294	275	-7%
Construction materials & trading	160	117	138	37%	16%	361	277	-23%
Construction & road maintenance	98	89	92	10%	6%	219	188	-14%
Property development	22	19	19	16%	19%	35	41	17%
Samalaju development	NA	NA	3	NA	NA	5	NA	NA
Strategic investments	2	3	2	-5%	7%	5	5	8%
Others	9	9	6	-3%	62%	14	19	37%
EBIT								
Cement	32	10	25	233%	27%	55	42	-24%
Construction materials & trading	31	17	18	84%	73%	48	48	0%
Construction & road maintenance	21	18	20	19%	4%	45	38	-15%
Property development	4	3	3	23%	15%	6	7	17%
Samalaju development	NA	NA	(0)	NA	NA	(1)	NA	NA
Strategic investments	(1)	(1)	(1)	-21%	13%	(1)	(2)	156%
Others	(7)	(4)	(0)	60%	NM	(0)	(11)	NM

Source: M&A Securities

Exhibit 3: CMS Profit and Loss (FY14-FY18F)

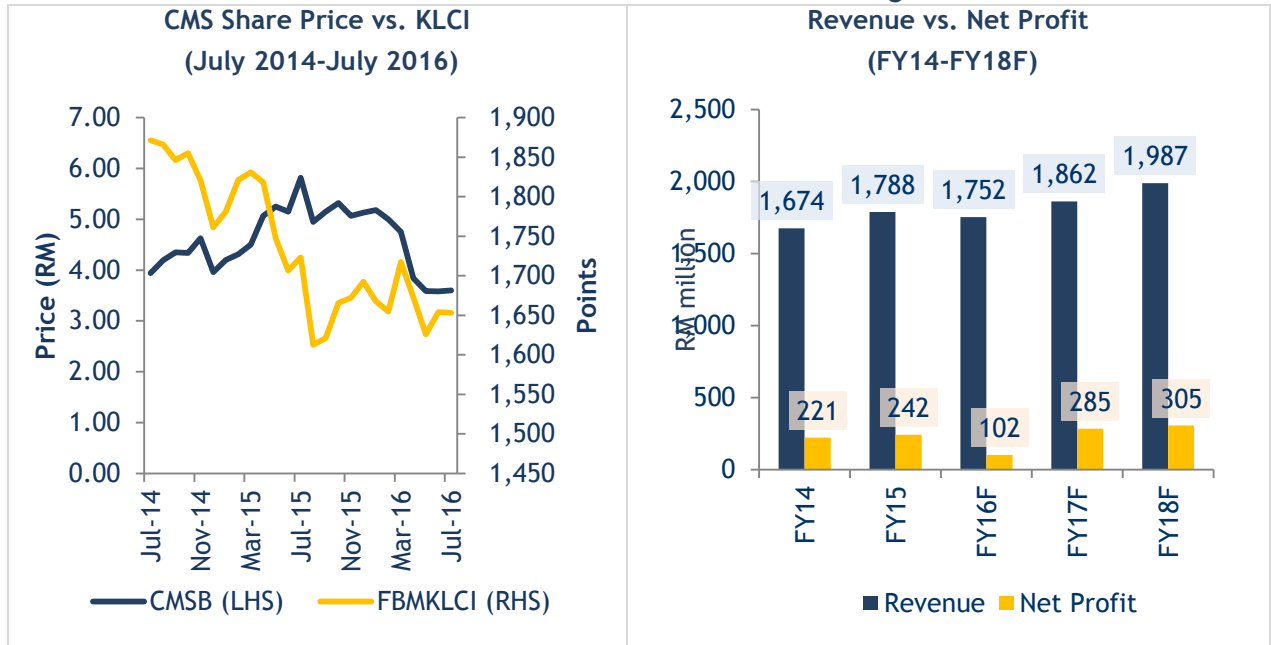
YE: DEC (RM'million)	2Q16	1Q16	2Q15	q-o-q	y-o-y	6M15	6M16	y-o-y
Revenue	399	347	377	15%	6%	868	746	-14%
EBIT	77	39	63	96%	23%	143	117	-19%
Finance costs	(2)	(2)	(1)	26%	138%	(2)	(4)	162%
Associates	(33)	(16)	4	103%	-831%	18	(49)	-369%
JV	1	2	1	-58%	2%	2	2	32%
PBT	43	23	67	87%	-36%	162	66	-59%
Taxation	(22)	(13)	(17)	72%	35%	(41)	(35)	-13%
Minorities	(12)	(9)	(9)	41%	32%	(23)	(21)	-7%
Net profit	8	1	41	652%	-81%	98	9	-91%
EBIT margin	19%	11%	17%	8%	3%	17%	16%	-1%
PBT margin	11%	7%	18%	4%	-7%	19%	9%	-10%
Net profit margin	2%	0%	11%	2%	-9%	11%	1%	-10%
Tax rate	52%	57%	25%	-4%	27%	25%	54%	29%

Exhibit 4: CMS Profit and Loss (FY14-FY18F)

FYE Dec (RM mn)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	1,674	1,788	1,752	1,862	1,987
Gross profit	396	413	289	357	381
EBITDA	369	400	313	439	473
EBIT	327	347	247	368	393
Finance cost	(4)	(4)	(7)	(8)	(7)
Associates	17	37	(24)	95	102
JV	1	2	2	2	2
PBT	341	382	217	457	490
Taxation	(76)	(84)	(65)	(114)	(122)
PAT	266	298	152	343	367
Minority interest	(44)	(56)	(50)	(58)	(62)
Net profit	221	242	102	285	305
EPS (sen)	21	22	9	26	28
EBITDA margin	22%	22%	18%	24%	24%
EBIT margin	20%	19%	14%	20%	20%
PBT margin	20%	21%	12%	25%	25%
Net profit margin	13%	14%	6%	15%	15%

Source: Bursa Malaysia, M&A Securities

Exhibit 5: Share Price Performance & Earnings Forecast



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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