

Cahaya Mata Sarawak (CMS MK)

Calling it a day, on OMS

An opportune exit; maintain HOLD

The pricing for CMS' sale of OMS is decent, at 5.4x FY21 earnings (peak earnings) and 1.7x end-FY21 book value. The USD120m consideration translates into MYR0.48/CMS shr; CMS has yet to disclose its plans for the cash proceed. We think it is opportune that CMS makes it exit amid the present commodity price rally, considering its non-controlling stake in a highly cyclical business. No change to our earnings forecasts and MYR1.27 TP (based on 7x FY22E PER; -1SD) pending deal completion.

At USD120m EV (or USD109.5m equity value)

CMS has proposed to sell its entire 25% stake in OM Materials (Sarawak) (or 'OMS') and OM Materials (Samalaju) to Singapore based, OM Materials (S) for a total USD120m cash, giving OM Materials (S) full control over the ferrosilicon and manganese alloy smelter ops in Sarawak. The USD120m consideration includes a full discharge of a USD10.5m shareholders loan (plus interest) from CMS. CMS will receive the entire proceeds within 60 days from the deal closing date. A definitive agreement is targeted by 30 May. The deal requires the approval of CMS' shareholders in an EGM.

Decent pricing, based on our estimates

The deal values OMS at 5.4x FY21 PER based on OMS' profit contribution of MYR88m to CMS (= [USD109.5m equity value x 4.35 USDMYR] / [MYR351m OMS profit x CMS' 25% stake]). OMS' profit was at its peak in FY21 (FY20: MYR95m loss) on high selling prices (more than doubled YoY) which offset lower sales volume due to the pandemic. The USD109.5m equity value is 9.7x our FY22 earnings forecast for OMS. And, based on OMS' net asset of MYR1.15b as of end-FY21, the deal values OMS at 1.7x.

More details upon execution of definitive agreement

The impact on CMS' net assets and the estd. one-off disposal gain/(loss) will be available upon execution of a definitive agreement. Excluding OMS' profit contribution going forward, our FY22E net profit forecast for CMS would lower by 13% (assuming half year impact) and 26% for FY23E.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	763	814	958	992	1,028
EBITDA	51	149	160	167	174
Core net profit	100	219	195	205	215
Core EPS (sen)	9.3	20.5	18.2	19.1	20.0
Core EPS growth (%)	(30.7)	119.1	(11.0)	5.0	4.7
Net DPS (sen)	2.0	2.0	2.0	2.0	2.0
Core P/E (x)	22.7	6.3	6.1	5.9	5.6
P/BV (x)	0.8	0.5	0.4	0.4	0.3
Net dividend yield (%)	0.9	1.6	1.8	1.8	1.8
ROAE (%)	(0.5)	7.0	6.3	6.3	6.2
ROAA (%)	2.2	4.7	3.8	3.8	3.9
EV/EBITDA (x)	60.8	13.0	11.0	10.7	10.3
Net gearing (%) (incl perps)	18.9	10.9	10.1	10.2	10.1
Consensus net profit	-	-	210	223	238
MKE vs. Consensus (%)	-	-	(7.2)	(7.9)	(9.9)

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HOLD

Share Price	MYR 1.12
12m Price Target	MYR 1.27 (+16%)
Previous Price Target	MYR 1.27

Company Description

Cahaya Mata Sarawak engages in cement manufacturing, construction, road maintenance, building materials and property development.

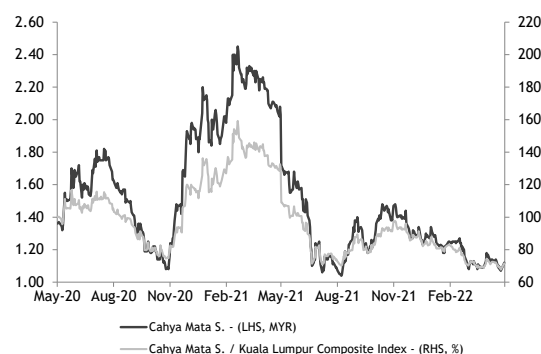
Statistics

52w high/low (MYR)	1.71/1.04
3m avg turnover (USDm)	0.8
Free float (%)	64.1
Issued shares (m)	1,074
Market capitalisation	MYR1.2B
	USD277M

Major shareholders:

Majaharta Sdn. Bhd.	12.5%
Estate of Lejla Taib	10.3%
Lembaga Tabung Haji	7.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(10)	(45)
Relative to index (%)	(1)	(15)	(46)

Source: FactSet

Abbreviation

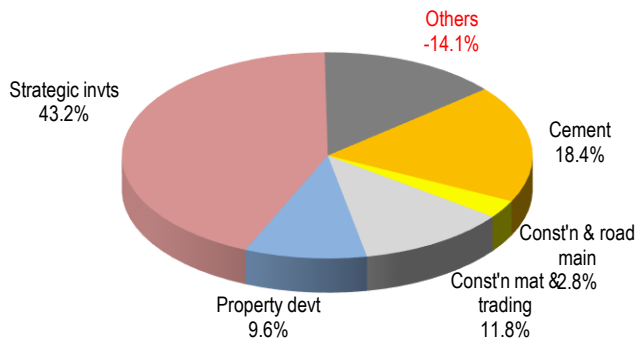
EV = enterprise value

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Beneficiary of construction activities in Sarawak - CMS is the only cement producer and largest construction materials supplier in Sarawak.
- Strategic investments in ferrosilicon & manganese alloys smelter (via 25%-OMS) and integrated phosphate complex (via 60%-MPAS) offer long-term growth prospects.
- ICT operations (under 50%-SACOFA) is expected to benefit from Sarawak's push for a full digital economy.
- The only Sarawak PLC on FTSE4Good Bursa Malaysia Index.

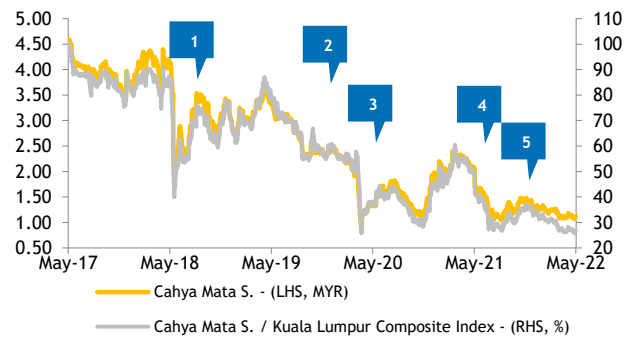
PBT breakdown (before unallocated expenses) in FY21



Source: Company

Price Drivers

Historical share price trend



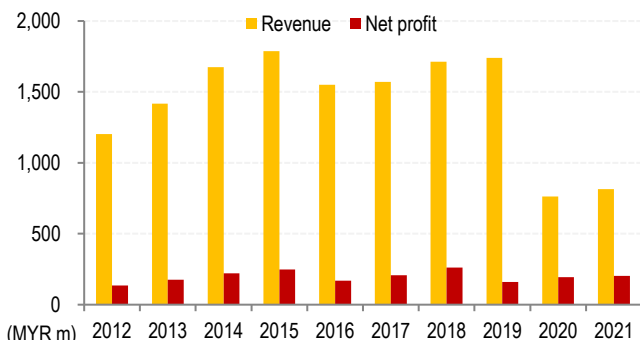
Source: Company, Maybank IBG Research

1. State road maintenance contract extended, but by just one year (Jun 2018).
2. Dato' Sri Mahmud Abu Bekir Taib sold 10.8m shares (1.0% of paid-up) in 2019; Sulaiman Abdul Rahman Taib ceases to be a substantial shareholder (Mar 2020).
3. Start of Movement Control Order (18 Mar 2020).
4. Group CFO suspended for 30 days (5 May 2021).
5. Dato' Sri Sulaiman Abdul Rahman Taib appointed Group MD, replacing Dato' Isaac Lugun (8 Jul 2021).

Financial Metrics

- Cement earnings, affected by high production cost, should improve in FY22E after an average 10% price hike effective 17 Feb 2022 (1st hike since 2016); cement earnings was at about breakeven at pretax level in 4Q21.
- Construction & road maintenance's medium term earnings to be supported by its e.MYR0.67b outstanding order book (ex-road maintenance) as of end-FY21.
- Assocs' contribution to group earnings (FY21: 72% of group core net profit; FY20: 48%) is highly dependent on FeSi/Mn alloy prices and volume sales at OMS; OMS contributed MYR80m in net profit in FY21, we est. (FY20: MYR24m loss).
- Dividend policy is 30% DPR of net profit, with a minimum 2sen/shr.

Revenue & net profit trend, FY12-21



Source: Company

Swing Factors

Upside

- Roll-out of major infrastructure projects will be positive for its (i) cement, (ii) construction materials & trading, and (iii) construction & road maintenance ops.
- Sizeable land sale as its existing landbank is carried at low cost in its books.
- Upswing in commodity prices, benefiting OMS.

Downside

- Work delay in its existing Pan Borneo Highway Sarawak package; delay in the roll-out of major infra projects.
- Volatility in raw material prices will impact earnings of its cement, and construction materials & trading ops.
- Significant downturn in ferrosilicon prices could affect the earnings contribution from OMS.
- Governance issues, following developments in 2021 involving its Group CFO.

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Risk Rating & Score ¹	48.3 (Severe)
Score Momentum ²	+0.6
Last Updated	7 Jan 2022
Controversy Score ³ (Updated: 6 Jan 2022)	2 - Governance incidents - Corporate Governance

Business Model & Industry Issues

- As a sizeable construction-based conglomerate with diversified businesses, CMS' sustainability and governance responsibilities are heavy, and its ESG risks inevitably higher than that of its peers.
- While CMS has achieved milestones in some material ESG matters, continuing on its efforts is key. A Sustainability Steering Committee and Sustainability Working Committee were to be formally established in 2021 to drive sustainability efforts from the top-down. 2021 was also the year where its new Sustainability Roadmap (2021-23) takes off, which includes implementing responsible sourcing practices, and prioritising low-carbon solutions, among others.
- With associate companies starting to contribute the bulk of group earnings (72% to group core net profit in FY21), the group's annual Sustainability Report should also cover the activities and efforts of these companies, in our view.
- Restoring confidence in governance is vital after developments in 2021 relating to its former Group CFO and changes in leadership.

Material E issues

- Energy management measures include implementing ISO 50001 at its cement ops (its Mambang clinker plant was upgraded to ISO 50001:2018 in 2020, Pending/Bintulu grinding plants to follow in 2021/2022 respectively), and the use of LED lightings throughout the group's ops.
- Water management measures include using recycled water to cool machineries at its quarry ops, and rainwater harvesting for washing and gardening at its cement ops.
- Materials management include product development. In 2018, its eco-friendly Portland Limestone Cement was launched; the product has >20% limestone addition, but uses less clinker.
- Biodiversity management includes its 2,000-acre Samalaju Eco Park Township development, which is in pursuit of the BCA Green Mark Certification. In 2017, CMS completed (as design-and-build contractor) 2 GBI-certified buildings named *The Gateway Towers* in its 246-acre *The Isthmus* development.

Material S issues

- CMS' staff force is diversified in ethnicity (2020: Malay [27%], Chinese [16%], Sarawak's multiple ethnic groups [56%]), but short in gender diversity (women made up just 21%). The group's staff training policy is an average 24 hours p.a. for executives, managers & above; 18 hours for non-executives.
- The group's community efforts come under the ambit of *CMS Doing Good* programme, introduced in the mid-1990s. Efforts include contributing to charitable organisations, community clean-ups & rebuilding works, and environmental & health awareness initiatives. In addition, CMS' 10 Road Maintenance Units across Sarawak serve as ambassadors and 1st responders in times of need to the communities around them.
- In FY20, CMS spent MYR1.6m on philanthropic causes, and donated MYR1m to the Sarawak State Disaster Relief Fund. Its OMS-associate contributed MYR1.4m worth of personal protective equipment to the govt and medical frontliners.

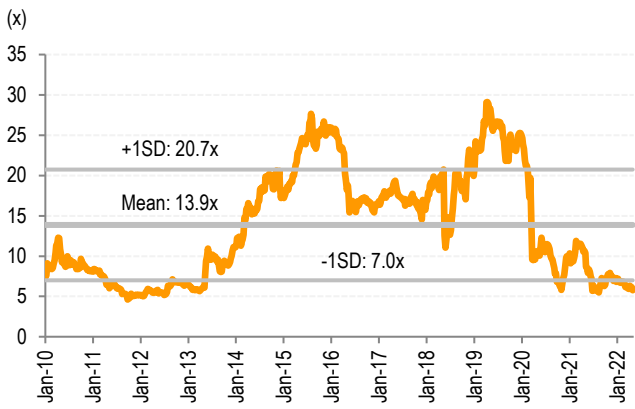
Key G metrics and issues

- CMS' Board now comprises 9 Directors: 5 Independent Non-Executive (incl. Group Chairman), 3 Non-Independent Executive, 1 Executive. Since Jun 2021, 5 Board members (incl. Group Chairman and Group Managing Director) have resigned/retired, and replaced by 4 new members.
- Independent directors make up 56% of Board members. No independent directors have served a cumulative term of >9 years each, per recommendation of the Malaysian Code on Corporate Governance and CMS' internal policy.
- Major shareholders (Governor Taib family, Sarawak Economic Development Corp) take up 3 Board seats (37.5% of total).
- There are presently 2 women on CMS' Board (22% representation), short of the 30% requirement.
- CMS provides detailed disclosure on remuneration of its directors but not top senior management. Remuneration to directors was 2.1% of net profit in FY20. Disclosures of its top 5 senior management's remuneration are in bands of MYR50k.
- Ernst & Young PLT has been CMS' external auditor since FY2000, at least.
- 4 new policies were put in place in 2020 to comply with the new Section 17A of the MACC Act 2009:
 - Anti-Bribery and Anti-Corruption Policy
 - Gift & Hospitality Policy
 - Donation, Sponsorship & Community Investment Policy
 - Third-Party Corruption Risk Due Diligence Policy
 - A Whistle-Blowing Policy has been implemented earlier.
- On 5 May 2021, CMS suspended its Group CFO to "facilitate investigations into allegation of possible financial mismanagement in relation to the Company's investments and operations". His employment contract was subsequently not renewed on expiry on 31 Aug 2021.
- CMS' previous Group Managing Director was redesignated to Non-Executive Director on 8 Jul 2021; he subsequently retired on 7 Aug 2021 after being with the group since 1996. EPF Board ceased to be a substantial shareholder on 10 Sep 2021 (from 13.25% as of 31 Mar 2020).

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

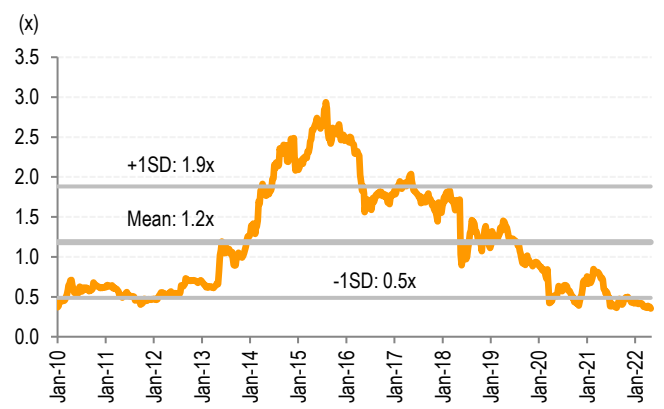
Valuation

Fig 1: 12M forward PER



Source: Company data, Maybank IBG Research

Fig 2: 12M forward P/B



Source: Company data, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	8.5	6.1	5.9	5.6
Core P/E (x)	22.7	6.3	6.1	5.9	5.6
P/BV (x)	0.8	0.5	0.4	0.4	0.3
P/NTA (x)	0.8	0.5	nm	nm	nm
Net dividend yield (%)	0.9	1.6	1.8	1.8	1.8
FCF yield (%)	nm	9.7	2.5	0.0	0.5
EV/EBITDA (x)	60.8	13.0	11.0	10.7	10.3
EV/EBIT (x)	nm	22.6	18.5	17.7	17.0
INCOME STATEMENT (MYR m)					
Revenue	762.8	813.8	958.5	992.3	1,027.7
EBITDA	50.6	148.9	160.0	167.0	174.4
Depreciation	(64.5)	(63.0)	(64.8)	(66.7)	(68.7)
EBIT	(13.9)	85.9	95.1	100.3	105.7
Net interest income / (exp)	(28.9)	(26.1)	(27.0)	(27.8)	(28.7)
Associates & JV	49.0	191.9	142.7	149.2	155.4
Exceptionals	94.8	(15.9)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	6.2	235.8	210.8	221.7	232.4
Income tax	(23.5)	(33.7)	(17.0)	(18.1)	(19.2)
Minorities	4.9	1.4	1.4	1.4	1.4
Discontinued operations	207.2	0.0	0.0	0.0	0.0
Reported net profit	(12.4)	203.4	195.1	204.9	214.5
Core net profit	100.1	219.3	195.1	204.9	214.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	281.8	545.7	554.5	533.4	518.1
Accounts receivable	186.2	190.7	224.6	232.5	240.8
Inventory	327.1	309.1	371.2	383.6	396.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,312.7	1,420.2	1,483.4	1,544.6	1,604.0
Intangible assets	61.7	61.7	61.7	61.7	61.7
Investment in Associates & JVs	1,317.6	1,330.2	1,472.9	1,622.1	1,777.5
Other assets	973.2	1,063.0	1,063.0	1,063.0	1,063.0
Total assets	4,460.4	4,920.6	5,231.2	5,441.0	5,661.8
ST interest bearing debt	47.6	625.5	625.5	625.5	625.5
Accounts payable	489.3	688.0	826.2	853.8	882.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	803.7	273.1	273.1	273.1	273.1
Other liabilities	100.0	104.0	104.0	104.0	104.0
Total Liabilities	1,440.8	1,690.9	1,829.2	1,856.8	1,885.8
Shareholders Equity	2,786.3	3,011.8	3,185.5	3,369.0	3,562.2
Minority Interest	233.2	217.9	216.5	215.2	213.8
Total shareholder equity	3,019.5	3,229.7	3,402.1	3,584.2	3,775.9
Total liabilities and equity	4,460.4	4,920.6	5,231.2	5,441.0	5,661.8
CASH FLOW (MYR m)					
Pretax profit	6.2	235.8	210.8	221.7	232.4
Depreciation & amortisation	64.5	63.0	64.8	66.7	68.7
Adj net interest (income)/exp	25.4	32.7	27.0	27.8	28.7
Change in working capital	(53.3)	210.9	42.2	7.3	7.7
Cash taxes paid	(32.2)	(18.0)	(17.0)	(18.1)	(19.2)
Other operating cash flow	62.7	(225.9)	(169.6)	(177.0)	(184.2)
Cash flow from operations	73.2	298.5	158.2	128.4	134.1
Capex	(267.6)	(165.3)	(128.0)	(128.0)	(128.0)
Free cash flow	(194.4)	133.2	30.2	0.4	6.1
Dividends paid	(139.7)	(35.5)	(21.4)	(21.4)	(21.4)
Change in Debt	106.4	36.7	0.0	0.0	0.0
Other invest/financing cash flow	(111.1)	128.0	0.0	0.0	0.0
Net cash flow	(338.8)	262.4	8.7	(21.1)	(15.3)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(56.2)	6.7	17.8	3.5	3.6
EBITDA growth	(83.5)	194.5	7.4	4.4	4.4
EBIT growth	nm	nm	10.8	5.4	5.4
Pretax growth	(97.5)	3,698.9	(10.6)	5.2	4.8
Reported net profit growth	nm	nm	(4.1)	5.0	4.7
Core net profit growth	(30.8)	119.2	(11.0)	5.0	4.7
Profitability ratios (%)					
EBITDA margin	6.6	18.3	16.7	16.8	17.0
EBIT margin	nm	10.6	9.9	10.1	10.3
Pretax profit margin	0.8	29.0	22.0	22.3	22.6
Payout ratio	nm	10.5	11.0	10.5	10.0
DuPont analysis					
Net profit margin (%)	nm	25.0	20.4	20.7	20.9
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	(0.5)	7.0	6.3	6.3	6.2
ROAA (%)	2.2	4.7	3.8	3.8	3.9
Liquidity & Efficiency					
Cash conversion cycle	45.9	(50.4)	(95.9)	(103.8)	(103.8)
Days receivable outstanding	113.3	83.4	78.0	82.9	82.9
Days inventory outstanding	155.1	157.3	141.8	152.3	152.3
Days payables outstanding	222.6	291.1	315.7	339.0	339.1
Dividend cover (x)	(0.6)	9.5	9.1	9.6	10.0
Current ratio (x)	2.6	1.3	1.2	1.2	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	2.9	2.9	2.9	3.0
Net gearing (%) (incl perps)	18.9	10.9	10.1	10.2	10.1
Net gearing (%) (excl. perps)	18.9	10.9	10.1	10.2	10.1
Net interest cover (x)	na	3.3	3.5	3.6	3.7
Debt/EBITDA (x)	16.8	6.0	5.6	5.4	5.2
Capex/revenue (%)	35.1	20.3	13.4	12.9	12.5
Net debt/ (net cash)	569.4	352.8	344.1	365.1	380.5

Source: Company; Maybank IBG Research

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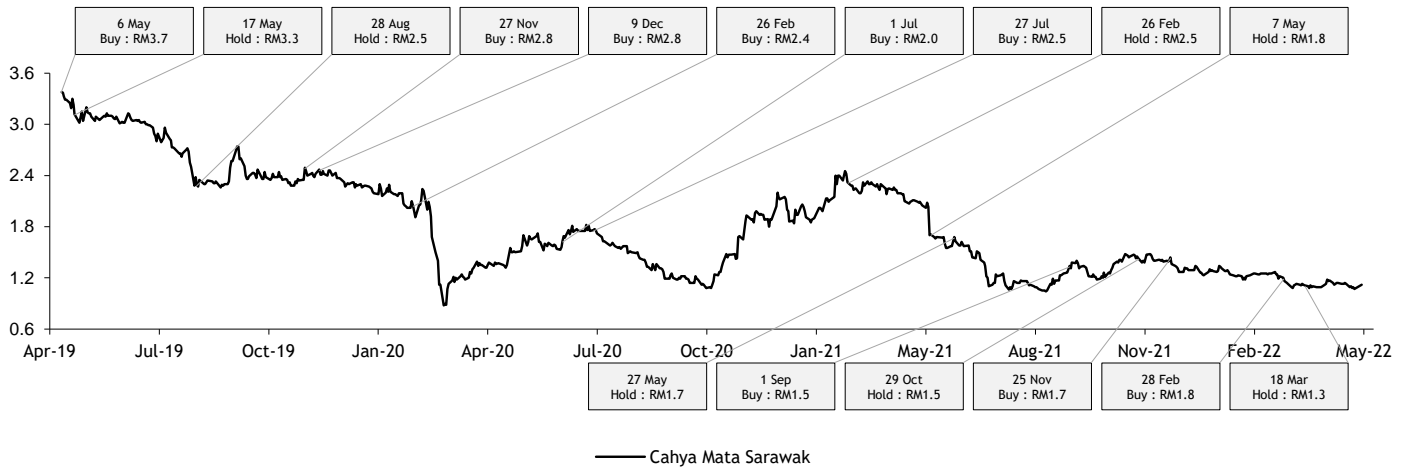
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