

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Aug 2018

Cahaya Mata Sarawak (CMS MK) : BUY

Mkt. Cap: US\$916m | 3m Avg. Daily Val: US\$1.9m

Last Traded Price (24 Aug 2018): RM3.50

Price Target 12-mth: RM4.00 (14% upside) (Prev RM4.00)

Analyst

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Within expectations

- 1H18 met expectations
- Core businesses remain resilient supported by Pan Borneo Highway project
- OM Sarawak continues to deliver with all 16 furnaces now up and running
- Maintain BUY with SOP-based TP of RM4.00

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	1,606	1,650	1,711	1,774
EBITDA	432	470	502	521
Pre-tax Profit	331	362	389	405
Net Profit	213	257	277	288
Net Pft (Pre Ex.)	233	257	277	288
Net Pft Gth (Pre-ex) (%)	37.8	10.1	7.8	3.9
EPS (sen)	19.8	23.9	25.8	26.8
EPS Pre Ex. (sen)	21.7	23.9	25.8	26.8
EPS Gth Pre Ex (%)	38	10	8	4
Diluted EPS (sen)	21.7	23.9	25.8	26.8
Net DPS (sen)	8.00	9.56	10.3	10.7
BV Per Share (sen)	219	233	249	265
PE (X)	17.6	14.6	13.6	13.1
PE Pre Ex. (X)	16.1	14.6	13.6	13.1
P/Cash Flow (X)	13.3	11.6	12.8	12.3
EV/EBITDA (X)	8.4	7.6	7.1	6.7
Net Div Yield (%)	2.3	2.7	2.9	3.1
P/Book Value (X)	1.6	1.5	1.4	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	9.4	10.6	10.7	10.4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

2Q18 results within expectations. Cahya Mata Sarawak (CMS) recorded net profit of RM91.6m in 2Q18 (+135% q-o-q, +42% y-o-y). This brings 1H18 earnings to RM130.6m (+49% y-o-y), accounting for 51% of our full-year estimates. We expect the core divisions to remain resilient, underpinned by building materials demand from the Pan Borneo Highway project and contribution from Pan Borneo Highway construction packages which, according to Works Minister Baru Bian, was 22% completed and 2% ahead of schedule as of May 25.

Furthermore, we also expect contribution from joint ventures (JVs) and associates to the group's bottom line to continue, led by OM Materials (Sarawak) Sdn Bhd (OM Sarawak).

Cement division impacted by higher production costs. The PBT for its cement division was flattish this quarter at RM32m despite registering better revenue (+10% y-o-y). This was due to an increase in production costs (+15% YTD) caused by the rise in price of clinker, fuelled by growing demand from China and Bangladesh.

CMS indicated that its clinker plant underwent another maintenance shutdown in August which will add to operating costs in the next quarter. To recap, the first shutdown was in January and February this year. As such, we expect 2H18 performance to be similar to 1H18.

Flash Note

Construction materials division – Pan Borneo Highway demand picking up. PBT for this division fell 33% y-o-y in 2Q18, on the back of lower revenue from its premix operations due to an unprecedented shortage of quarry aggregates and quarry sands caused by the steep spike in demand from the Pan Borneo Highway project. PBT also was impacted by price increases of raw materials such as bitumen and aggregates.

CMS believes this issue will be addressed in 2H18 with additional quarry production capacity that will be coming on stream. We view this as a positive for the division as this is a good indication that it could continue to benefit from Pan Borneo construction packages.

Road maintenance division. The division recorded 44% improvement in PBT to RM36m in 2Q18. This was attributed to higher contribution from the Pan Borneo Highway construction package, Miri-Marudi road rehabilitation as well as an increase in the length of state roads during the quarter.

OM Sarawak continues to deliver. JVs and associates' recorded another strong quarter with contribution of RM40m (+600% y-o-y; 7% q-o-q). The improvement was led by OM Sarawak.

16 furnaces up and running. In June 2018, a total of 16 furnaces were in operation as the company successfully fired up the final ferrosilicon (FeSi) furnace in early June.

During the quarter, sales volume decreased. This was attributed to 2 local festivals in Sarawak in June. Nonetheless, all furnaces continue to outperform their designed capacity.

With all 16 furnaces expected to operate at full capacity going forward, we believe OM's contribution to CMS' bottom line should improve in 2H18.

EXHIBIT 1: OM Sarawak's commercial operations

	Jun 2018 Quarter	Mar 2018 Quarter	YTD 2018
Tonnes			
Production			
Ferrosilicon	52,171	52,431	104,602
Manganese Alloy	61,229	63,750	124,979
Sales			
Ferrosilicon	44,766	59,582	104,348
Manganese Alloy	53,782	65,813	119,595

Source: OM Holdings Ltd

Maintain BUY with RM4.00 SOP-based TP. We make no changes to our earnings and reiterate our BUY call on CMS, with our SOP-derived TP at RM4.00 – which implies 16.7x FY18F PE and 1.7x P/BV.

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	388	355	395	1.8	11.3
Cost of Goods Sold	(284)	(308)	(298)	5.1	(3.2)
Gross Profit	105	47.0	97.3	(7.1)	107.0
Other Oper. (Exp)/Inc	(8.1)	(19.9)	(10.6)	30.3	(46.8)
Operating Profit	96.6	27.1	86.7	(10.2)	219.7
Other Non Opg (Exp)/Inc	(4.8)	(8.2)	(7.3)	(51.4)	(11.0)
Associates & JV Inc	5.76	37.5	40.0	593.3	6.7
Net Interest (Exp)/Inc	(0.6)	0.59	(0.3)	47.7	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	96.9	56.9	119	22.8	109.0
Tax	(22.0)	(13.4)	(18.6)	(15.7)	38.5
Minority Interest	(10.1)	(4.6)	(8.8)	13.2	92.2
Net Profit	64.7	39.0	91.6	41.6	135.3
Net profit bef Except.	64.7	39.0	91.6	41.6	135.3
EBITDA	111	71.6	135	20.9	88.0
Margins (%)					
Gross Margins	27.0	13.2	24.6		
Opg Profit Margins	24.9	7.6	21.9		
Net Profit Margins	16.7	11.0	23.2		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Aug 17	3.96	4.30	HOLD
2:	30 Nov 17	3.97	4.40	BUY
3:	06 Dec 17	3.78	4.40	BUY
4:	26 Feb 18	4.31	5.00	BUY
5:	16 May 18	3.50	4.00	BUY
6:	19 Jun 18	2.40	4.00	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Abdul Azim Muhthar

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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