

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Aug 2020

Cahya Mata Sarawak (CMS MK) : HOLD

Mkt. Cap: US\$386m | **3m Avg. Daily Val:** US\$1.7m

Last Traded Price (26 Aug 2020): RM1.50

Price Target 12-mth: RM1.65 (10% upside) (Prev RM1.65)

Analyst

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Gradual recovery seen

- 2Q20 earnings within expectations; associates lifted profit
- Full impact of MCO in 2Q and some impact in 3Q20 on plant closure due to Covid-19
- Still one of the best proxies to an impending state elections
- Maintain HOLD and SOP-based TP of RM1.65

Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	1,712	1,741	1,781	2,072
EBITDA	450	339	327	472
Pre-tax Profit	372	248	199	328
Net Profit	262	159	112	219
Net Pft (Pre Ex.)	242	134	112	219
Net Pft Gth (Pre-ex) (%)	3.9	(44.8)	(16.5)	96.5
EPS (sen)	24.4	14.8	10.4	20.4
EPS Pre Ex. (sen)	22.6	12.4	10.4	20.4
EPS Gth Pre Ex (%)	4	(45)	(17)	96
Diluted EPS (sen)	22.6	12.4	10.4	20.4
Net DPS (sen)	8.00	3.00	3.12	6.12
BV Per Share (sen)	237	246	253	267
PE (X)	6.1	10.1	14.4	7.4
PE Pre Ex. (X)	6.7	12.1	14.4	7.4
P/Cash Flow (X)	12.7	6.5	6.7	5.9
EV/EBITDA (X)	3.3	5.7	6.7	4.4
Net Div Yield (%)	5.3	2.0	2.1	4.1
P/Book Value (X)	0.6	0.6	0.6	0.6
Net Debt/Equity (X)	CASH	CASH	0.0	CASH
ROAE (%)	10.7	6.1	4.2	7.8

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

Within expectations. Cahya Mata Sarawak's (CMS) headline net profit came in at RM17m in 2Q20 (-60% y-o-y), bringing 1H20 net profit to RM34m (-59% y-o-y). This was within our and consensus estimates, as 2Q20 was impacted of the full brunt of the movement control order (MCO) and the still poor showing of OM Sarawak due to slumping ferrosilicon and manganese prices.

Cement. This division was barely profitable in 2Q20 with a pretax profit of RM0.3m, bringing 1H20 pretax profit to RM19m (-40% y-o-y). 1H20 revenue also plunged by 31% y-o-y to RM195m. The decline was attributable to a drop in sales volume during the MCO period. Nonetheless, GP margins was flat at 16% due to lower repair & maintenance costs and lower discharging costs as the clinker plant had its long annual maintenance shutdown in January 2019.

Construction materials division. 2Q20 pretax profit for this division came in at RM3m, while the 1H20 number plunged by 76% y-o-y to RM10m due to lower revenue from quarry, premix and trading, coupled with a one-off reversal of RM9m in 1H19. We understand this division is expected to show a strong pick-up in 2H20 and be one of its best performing divisions. 2Q20 pretax margins fell to 4% from 14% in 2Q19.

Construction and road maintenance division. This division posted a lower pretax profit of RM5m in 2Q20, bringing 1H20 pretax profit to RM11m (-67% y-o-y). The decline was



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mainly attributed to lower contribution from road maintenance. Recall that the road length maintained by CMS has been reduced by half starting January this year on the back of the new concession with the state government.

Associates did well: 2Q20 associates' contributions to CMS' earnings improved by 78% y-o-y and 74% q-o-q to RM19m due to improvements for Kenanga, KKB Engineering and Sacofa. While we are not privy to the numbers, we suspect that OM Sarawak may have still shown stable numbers given that volume would have picked up with the opening of steel plants in China although ferrosilicon and manganese prices have been quite flattish q-o-q.

Outlook

3Q20 to also show weakness. While we think 3Q20 should show a sequential improvement, the numbers will still be impacted by the closure of its Mambung grinding and clinker plant due to Covid-19 infections in mid- to late-July 2020. We understand this has since been resolved and the plant has reopened.

Gradual recovery seen for OM Sarawak. The opening of steel mills in China will entail a gradual recovery in demand for OM Sarawak. It has since invested AUD20m to install a sinter plant which will further lower manganese alloy production cost while it is also proceeding with Phase 2. Presently, the prices of both ferrosilicon and manganese have not seen a meaningful rebound in 2Q20 and also for July and August. Ferrosilicon and manganese prices are currently at the USD800-900/MT level, which is below estimated the production cost of USD1,000/MT. We also think its IPO slated for 4Q20 will likely be delayed.

Valuation & recommendation

Maintain HOLD with unchanged TP of RM1.65, based on SOP. Our TP implies 15x FY20 PE, equivalent to -1 SD of its 3-year mean. We think the stock represents one of the best proxies to an impending pick-up in infrastructure flows with an impending state election but would like to see some evidence of a pick-up in earnings momentum and construction flows before turning more positive.

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Quarterly Income Statement (RMm)

FY Dec	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	399	282	207	(48.2)	(26.8)
Cost of Goods Sold	(322)	(233)	(186)	(42.2)	(20.1)
Gross Profit	77.5	49.8	20.9	(73.0)	(58.0)
Other Oper. (Exp)/Inc	(14.2)	(26.5)	(10.0)	(29.4)	(62.1)
Operating Profit	63.3	23.3	10.9	(82.8)	(53.4)
Other Non Opg (Exp)/Inc	(3.9)	(7.1)	(3.0)	22.1	(57.8)
Associates & JV Inc	10.9	11.2	19.4	78.1	73.8
Net Interest (Exp)/Inc	(4.6)	(0.6)	(4.3)	6.3	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	65.7	26.8	23.0	(65.0)	(14.2)
Tax	(16.8)	(9.5)	(3.9)	(76.6)	(58.4)
Minority Interest	(7.5)	(0.1)	(2.4)	67.4	nm
Net Profit	41.4	17.3	16.6	(59.9)	(3.9)
Net profit bef Except.	41.4	17.3	16.6	(59.9)	(3.9)
EBITDA	88.3	49.8	47.1	(46.6)	(5.4)
Margins (%)					
Gross Margins	19.4	17.6	10.1		
Opg Profit Margins	15.8	8.3	5.2		
Net Profit Margins	10.4	6.1	8.0		

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 19	2.29	2.25	HOLD
2:	27 Nov 19	2.49	2.25	HOLD
3:	09 Dec 19	2.47	2.25	HOLD
4:	27 Feb 20	1.98	2.25	HOLD
5:	01 Jul 20	1.63	1.65	HOLD

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

Source: AllianceDBS

Analyst: Malaysian Research Team

Flash Note

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 share price catalysts within this time frame)

**Share price appreciation + dividends*

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