

27 August 2018 | 6MFY18 Results Review

Cahaya Mata Sarawak Berhad

Good Results But Don't Jump the Gun

Maintain BUY

Adjusted Target Price (TP): RM4.13
(From RM4.62)

INVESTMENT HIGHLIGHTS

- **Results met expectation...**
- **...but recovery is too early to tell**
- **Hence, adjustment is necessary to avoid undue optimism**
- **Overall, maintain BUY with an adjusted TP of RM4.13**


6MFY18 earnings met our expectations. CMSB's 6MFY18 PATAMI met ours and went above consensus' expectations at RM130.6m (+57%YoY) compared to the preceding period. Its earnings matched 46.0% of ours and 49.0% consensus' of full year forecast respectively. Results were in-line with our estimation of an increased contribution from OM Materials due to full operating capacity of 16 furnaces from improved demand of iron ore and alloy prices as a result of industrial growth in India, Japan and China. Notably, the demand from China was influenced by government policies to reduce pollution hence requiring higher grade iron ore and new supply of ferrosilicon due to factory closures.

But key segments recovery is still too early to tell. Apart from that, the construction material and roadworks segments showed recovery by registering; a) RM200.5m (+10.5%YoY) and b) RM265.2m (+66.7%YoY) respectively. We would like to see earnings improvements extending to 4Q18 to assure that progress billings from Pan Borneo does not stumble.

Adjustment is needed to reduce any hard landings. Despite the positive newsflow, we believe it is necessary to adjust the valuation for CMSB to incorporate current government policies of reducing infrastructure expenditure and bracing for commodity-related cyclicity. We change our valuation methodology to mitigate any blips in earnings for FYE19/FYE20. The certainty of our DCF assumptions will be negatively impacted if hiccups in Pan Borneo Highway's progress billings occur. Hence, we apply price-to-earnings ratio instead. Secondly, we are tapering the revenue forecasts for; i) FYE19 from RM1.9bn to RM1.7bn (-10.0%) and ii) FYE20 from RM1.95bn to RM1.75bn (-10.0%). As a result, our earnings assumptions shifts by <10.0%; i) FYE19 from RM281.3m to RM257.7m and FYE20 from RM290.0m to RM261.0m. The modest trim in our forecast is to moderate any undue optimism from segments which is non-core to CMSB's business and as a reminder of its price-to-book multiple which has soared to 1.56x.

RETURN STATS	
Price (24 Aug 2018)	RM3.50
Target Price	RM4.13
Expected Share Price Return	+18.0%
Expected Dividend Yield	+3.5%
Expected Total Return	+21.5%

STOCK INFO	
KLCI	1,808.59
Bursa / Bloomberg	2852/ CMS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1074
Par Value (RM)	1.00
Market cap. (RM'm)	3749.71
Price over NA	1.57
52-wk price Range	RM1.74-RM4.42
Beta (against KLCI)	1.61
3-mth Avg Daily Vol	2.87m
3-mth Avg Daily Value	RM7.90m
Major Shareholders (%)	
Majaharta S/B	12.58
EPF	10.79
Lejla Taib	10.36
LTH	9.69

Recommendation. Consequently, we maintain our BUY recommendation with an adjusted SOP-based TP of **RM4.13** per share. We assigned lower PER ratios between the ranges of 10-12 for segments of construction, roadworks and cements which makes 76.2% of its equity value to illustrate our defensive stance. 

INVESTMENT STATISTICS

FYE DEC (RM m)	2014	2015	2016	2017	2018F	2019F
Revenue	1651.7	1765.1	1660.0	1606.0	1713.7	1755.0
Op. Profit	284.0	309.0	325.4	281.3	359.6	360.5
Net Profit	208.8	246.1	259.0	215.3	257.7	261.0
EPS (Sen)	0.2	0.2	0.1	0.2	0.2	0.2
EPS (Gr)(%)	1.2	9.4	-38.2	42.8	5.3	0.0
PER	20.5	18.7	30.3	17.5	14.6	14.4
Div	3.5	3.5	3.5	3.5	3.5	3.5

Source: MIDFR

SOP VALUATION

Business Division	Valuation Method	Stake (%)	PER (X)	Equity Value (MYR'm)
Construction Materials	PER	100	12	1392.00
Cement	PER	100	10	1015.00
Construction and Road Works	PER	51	12	974.40
Total Construction Related Segment				3381.40
K&N Kenanga	PER		12	80
OM Sarawak	PER	25	8	90
Sacofa	PER	50	12	600
KKB Eng. Bhd	PER		10	95
Property	RNAV (60% Discount)	100		187.2
Total Equity Value				4433.60
Share Base				1074
Share Price (MYR)				4.13

Source: MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

6MFY18 RESULTS SUMMARY

	2Q18	1Q18	2Q17	YoY Chg	QoQ Chg	6M18	6M17	YoY Chg
Revenue	395.2	354.9	342.5	15.4%	11.4%	750.2	650.2	15.4%
Other income	2.6	3.3	9.5	-72.6%	-21.2%	6.0	12.1	-50.4%
Finance cost	-7.6	-7.6	-5.4	40.7%	0.0%	-15.2	-7.6	100%
Operating profit	86.6	27.1	87.7	-1.3%	219.6%	113.8	127.5	-10.7%
Share results of associates	38.8	36.1	-3.3	-1275.8%	7.5%	74.8	-7.4	-1110.8%
Pre-tax profit	118.9	56.9	88.0	35.1%	109.0%	175.9	132.9	32.4%
Taxation	-18.5	-13.4	-19.8	-6.6%	38.1%	-31.9	-32.6	-2.1%
PATAMI	91.6	38.9	57.4	59.6%	135.5%	130.6	83.2	57.0%
FD EPS (sen)	8.53	3.6	5.35	59.4%	135.0%	12.2	7.8	56.9%
	2Q18	1Q18	2Q17	+/- ppts	+/- ppts	3M17	3M16	+/- ppts
Operating margin	21.9%	7.6%	25.6%	-3.7	14.3	15.2%	19.6%	-4.4
Pre-tax margin	30.1%	16.0%	25.7%	4.4	14.1	23.4%	20.4%	3.0
PATAMI margin	23.2%	11.0%	16.8%	6.4	12.2	17.4%	12.8%	4.6
Effective tax rate	15.6%	23.6%	22.5%	-6.9	-8.0	18.1%	24.5%	-6.4
<u>Segmental breakdown</u>								
	2Q18	1Q18	2Q17	YoY Chg	QoQ Chg	6M18	6M17	YoY Chg
Revenue								
Cement	130.4	131.8	119	15.4%	199.8%	262.2	242.1	8.3%
Construction Materials	106.6	93.9	110.9	-3.9%	13.5%	200.5	182.1	10.1%
Construction/Road	153.8	111.3	80.3	91.5%	38.2%	265.2	159.1	66.7%
Property Development	28.0	26.2	47.6	-41.2%	6.9%	54.3	89.5	-39.3%
Strategic Investments	2.3	2.5	2.7	-14.8%	-8.0%	4.80	5.50	-12.7%
Others	18.3	16.9	14.2	28.9%	8.3%	35.2	27.9	26.2%
Inter-Seg Eliminations	-44.4	-27.80	-32.20	37.9%	59.7%	-72.2	-56.3	28.2%
TOTAL	395.2	354.9	342.5	15.4%	11.4%	750.2	650.2	15.4%
	2Q18	1Q18	2Q17	YoY Chg	QoQ Chg	6M18	6M17	YoY Chg
Operating Profit								
Cement	32.6	6.5	32.5	401.5%	0.3%	39.1	47.0	-16.8%
Construction Materials	14.2	9.1	21.0	56.0%	-32.4%	23.4	29.4	-20.4%
Construction/Road	26.6	18.1	18.2	47.0%	46.2%	44.7	36.1	23.8%
Property Development	9.20	2.0	15.1	360.0%	-39.1%	11.3	23.5	-51.9%
Others	3.1	-3.5	-1.60	-188.6%	-293.8%	-0.39	-5.7	-93.2%
Tax Expense	-18.50	-13.40	-19.80	38.1%	-6.6%	-31.9	-32.6	-2.1%
TOTAL	100.4	43.5	68.1	130.8%	47.4%	143.9	100.2	43.6%
	2Q18	1Q18	2Q17	+/- ppts	+/- ppts	6M18	6M17	+/- ppts
OP Margin								
Cement	8.2%	4.9%	9.5%	3.3	-1.2	14.9%	19.4%	-4.5
Construction Materials	13.3%	9.7%	18.9%	3.6	-5.6	11.7%	16.1%	-4.5
Construction/Road	17.3%	16.3%	22.7%	1.0	-5.4	16.9%	22.7%	-5.8

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +15% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.