

13 February 2018 | Corporate Update

## Cahaya Mata Sarawak Berhad

### Avoided Lockstep Fall and Swinging Back High

#### INVESTMENT HIGHLIGHTS

- Share price avoided the recent lockstep fall
- CMSB efficient and resilient operations
- Baleh Dam project commencing
- Maintain BUY with TP of RM4.62 per share

**Share price didn't fall in lockstep.** Despite the recent rout in US markets, CMSB's share price didn't compress further in a lockstep. Its current fundamental and the expected growth story in Sarawak paint a good guidance on its operational efficiency and its share price momentum unveils an attractive position for entry. The two (2) key appealing points for CMSB are as follows;

**1. The operational efficiency is a saving grace to the CMSB's revenue cycle.** The revenue suffered a glitch in the 1QFY17 through lower billings recognition and lower demand for construction materials. The swift pickup in 2QFY17 enables CMSB support its quarterly revenue of at least RM370.0m which we estimate as minimal revenue to meet our target quarterly earnings of RM68.5m. The management has succeeded in maintaining its operational margin above 18.0% since 1QFY16 with the exception of 1QFY17 where operating margin shrunk to 10.9% due to reduction of road length maintenance higher, low occupancy from the hotel operations in Samalaju and lower sales from construction materials division due to lack sluggish start of Pan-Borneo. In upcoming quarters, we opine that CMSB will be able to maintain its operating margin between the range of 18.0% - 20.0% due its reduction in clinker cost and expected pickup in building materials. (Figures 1 and 2)

**2. Baleh Dam project commencing.** Another growth narrative looming is the demand for cement as Baleh Dam in Kapit is expected to start its construction in June, 2018. It is a 188m high concrete rockfill dam which is estimated to require c.500m cubic metre of concrete or 1.2m tonnes of concrete minimally. We estimate that the impact to contribution is c.RM400m of to CMSB's over 7 years or RM21.4m quarterly and RM57m annually.

**Valuation.** We reaffirm our **BUY** recommendation with an SOP derived target price of RM4.62 per share. We continue to favour CMSB as our top-pick as the growth narrative is attractive and its fundamentals are resilient.

**Maintain BUY**  
**Unchanged Target Price (TP:RM4.62)**

RETURN STATS	
Price (12 February 2018)	RM4.20
Target Price	RM4.62
Expected Share Price Return	9.0%
Expected Dividend Yield	+3.5%
<b>Expected Total Return</b>	<b>+12.5%</b>

STOCK INFO	
KLCI	1830.17
Bursa / Bloomberg	2852
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1074
Par Value (RM)	1.00
Market cap. (RM'm)	4512
Price over NA	2.03
52-wk price Range	RM3.3-RM4.7
Beta (against KLCI)	1.03x
3-mth Avg Daily Vol	1.18m
3-mth Avg Daily Value	RM4.71m
Major Shareholders (%)	
Majaharta S/B	12.54
EPF	11.26
Taib Lejla	10.33
LTH	9.09

## SOP VALUATION

Business Division	Valuation Method	Stake (%)	WACC(%)	PER (X)	Equity Value (MYR'm)
Construction Materials	DCF	100	8.0		
Cement	DCF	100	8.0		
Construction and Road Works	DCF	51	8.0		
<b>Total Construction Related Segment</b>					<b>3661.00</b>
K&N Kenanga	DCF		8.0		80
OM Sarawak	PER	25		8	90
Sacofa	PER	50		15	850
KKB Eng. Bhd	PER			10	95
Property	RNAV (60% Discount)	100			187.2
Total Equity Value					4963.20
Share Base					1074
<b>Share Price (MYR)</b>					<b>4.62</b>

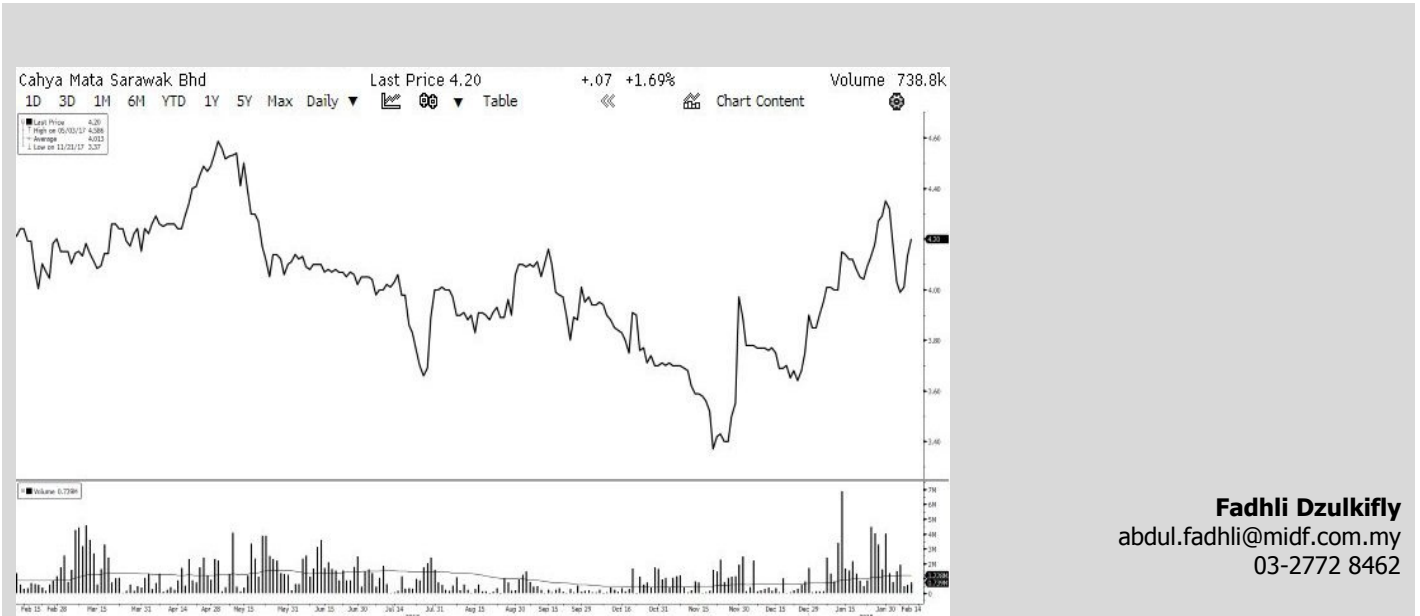
Source: MIDFR

## INVESTMENT STATISTICS

FYE DEC (RM m)	2014	2015	2016F	2017F	2018F	2019F
Revenue	1651.7	1765.1	1660	1857.7	1904.2	1950
Operating profit	284	309	325.4	342.5	359.6	360.5
Net Profit	208.8	246.1	259.0	272.6	286.3	290.0
EPS (Sen)	0.21	0.23	0.14	0.18	0.19	0.19
EPS (Growth)(%)	1.2	9.4	-38	25.0	5.3	0.0
PER	19.7	18.0	29.2	23.3	22.2	22.1
Div	3.5	3.5	3.5	3.5	3.5	3.5

Source: MIDFR

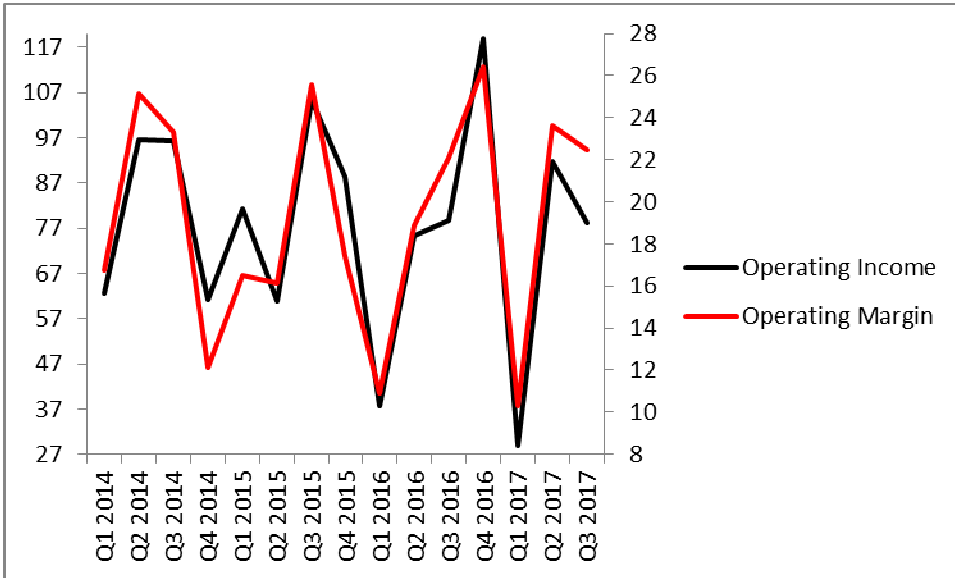
## DAILY PRICE CHART



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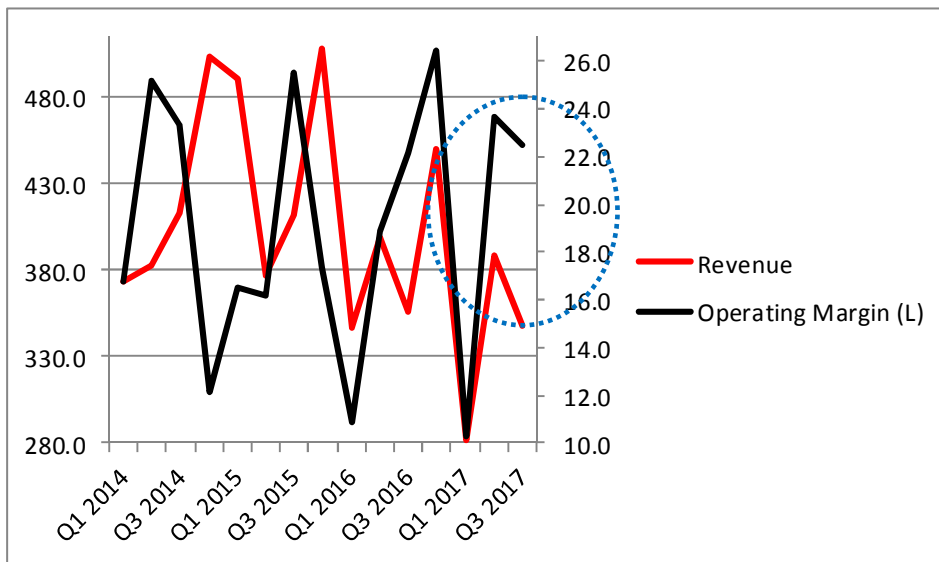
Source: MIDFR

**FIGURE 1: IMPRESSIVE OPERATIONAL EFFICIENCY**



Source: Bloomberg, MIDFR

**FIGURE 2: CMSB's RESILIENT OPERATING MARGIN**



Source: Bloomberg, 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 +10% 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.