

29 November 2018 | 9MFY18 Results Review

Cahaya Mata Sarawak Berhad

Strong presence in Sarawak expected to offer advantage

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings came within expectations, accounting for 80.9% and 76.0% of ours and consensus yearly estimates.**
- **Growth in revenue primarily steered by construction/road segment, which staged +53.44yoy growth**
- **Moving forward, optimism on CMS prospect will be fuelled by Sarawak infrastructure narrative**
- **Maintain BUY call on the stock with a TP of RM4.13**

Broadly in-line. In 3QFY18, CMS grew its revenue by +30.2%yoy to RM465.2m. Likewise, PATAMI followed suit to register RM78.0m which was +23.4%yoy higher in comparison to the same period last year. Accordingly, the group's quarterly result brought its 9MFY18 PATAMI +39.6%yoy higher at RM208.6 which is within expectations, accounting for 80.9% and 76.0% of ours and consensus yearly estimates.

The biggest improvement in income by construction division...

Almost all of the group's divisions reported higher revenue in 3QFY18, with the biggest jump seen in the construction/road segment. The construction/road segment staged +53.4%yoy growth to arrive at RM142.2m of revenue in the quarter. Cumulatively for 9MFY18, the group posted a total of RM407.4m in revenue, growing by +61.8%yoy from the same period last year. We should highlight that the momentum logged YTD was attributable to better recognition of revenue from the construction works of Pan Borneo Highway, the Miri-Marudi road rehabilitation and the Sarawak Museum projects. Importantly, the revenue translated to RM66.5m (+21.0%yoy) PBT in the 9MFY18 period.

...but weighed down by PBT of cement division.

Despite the healthy growth of revenue in 9MFY18, we take note of the slowdown realized in the group's segmental PBT. The situation was mostly apparent in the cement division, which accounted for 33.7% of the group's total income YTD. Whilst the revenue increased by +9.0%yoy in 9MFY18, its PBT however dropped -14.0%yoy to RM70.4m. Notably, the decline stemmed from repair costs from the planned maintenance shutdown exercise done at its clinker plant in 1QFY18 and 3QFY18.

Maintain BUY

Unchanged Target Price (TP): RM4.13

RETURN STATS

Price (28 Nov 2018)	RM3.22
Target Price	RM4.13
Expected Share Price Return	+28.3%
Expected Dividend Yield	+3.5%
Expected Total Return	+31.8%


STOCK INFO

KLCI	1,686.55
Bursa / Bloomberg	2852/ CMS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1070.9
Par Value (RM)	1.00
Market cap. (RM'm)	3448.25
Price over NA	1.44
52-wk price Range	RM1.74-RM4.42
Beta (against KLCI)	1.70
3-mth Avg Daily Vol	0.74m
3-mth Avg Daily Value	RM2.32m
Major Shareholders (%)	
Majaharta S/B	12.59
EPF	11.12
Lejla Taib	10.37
Abdul Rahman Taib	9.8

Margin compression in Cement and CM divisions. The contraction in margin was a result of expanded cost expenses in key segments, namely Cement and Construction Materials and Trading Division (CM). Besides incurring additional costs from repairs (in Cement division), further margin compression was attributable to increase in bitumen and diesel prices, coupled with lower production volume in CM division. Consequently, we saw margin contracted by -4.8pptsyoy and -3.5pptsyoy for Cement and CM divisions respectively, in 9MFY18.

Impact to earnings. Since earnings came in within estimates, we do not make any adjustments to our numbers.

Our view. We are encouraged to see that the group is able to grow revenue in most divisions, denoting positive tone on production demand and construction progress. Whilst the margin compression observed pose risk to earnings, we are not ruling out the possibility of margin improving should the business environment turns favourable. Moving forward, we see the future development of Sarawak will provide strong narrative to the long-term sustainability of CMS, which has significant presence in the state. Accordingly, we believe the state's development plan funded by RM9.1b budget allocations will be able to fuel further optimism on the state's construction outlook. Some of the major infrastructure projects being planned in Sarawak include the Coastal Road, Second Link Road and State's Water Grid.

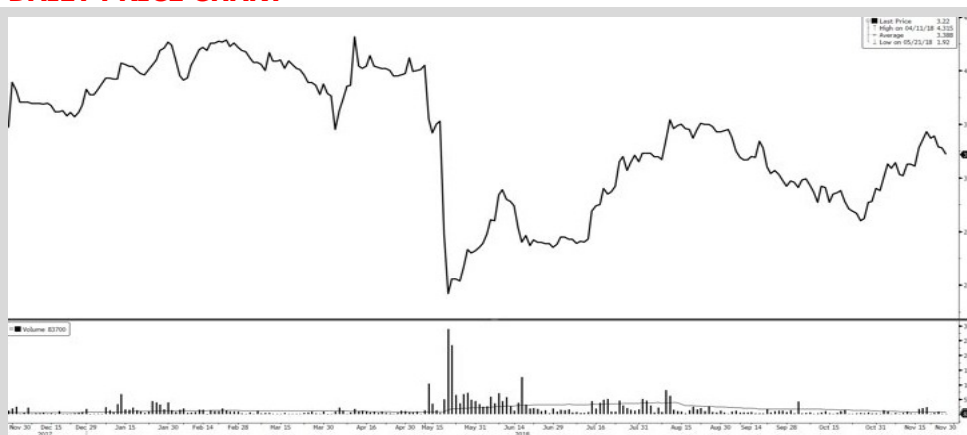
Recommendation. We recommend a **BUY** call on the stock with a **TP** of **RM4.13**, as we ascribe blended PER multiples between the ranges of 10-12x for segments of construction, roadworks and cements. 

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
Operating 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)	19.5	23.0	24.2	20.1	24.1	24.4
EPS (Growth)(%)	1.2	9.4	-38.2	42.8	5.3	0.0
PER	20.5	18.7	30.3	16.0	13.4	13.2
Div (sen)	8.5	4.5	6.3	8.0	7.0	7.0
Div Yield (%)	2.6	1.4	2.0	2.5	2.2	2.2

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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9MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	3Q18	3Q17	2Q18	YoY Chg	QoQ Chg	9M18	9M17	YoY Chg
Revenue	465.17	357.4	395.3	30.2%	17.7%	1,215.4	1,018.5	19.3%
Cost of sales	-362.13	-263.7	-298.0	37.3%	21.5%	-968.2	-772.3	25.4%
Gross profit	103.0	93.7	97.3	10.0%	5.9%	247.3	246.2	0.4%
Other income	10.02	2.6	2.7	288.1%	276.5%	16.0	14.8	8.1%
Administrative expenses	-11.77	-10.2	-12.2	15.4%	-3.1%	-37.4	-33.7	11.0%
Selling and marketing exp	-3.69	-3.0	-3.8	25.0%	-2.5%	-11.9	-10.4	14.2%
Other expenses	-0.61	-3.0	2.7	-79.6%	-122.6%	-3.2	-8.7	-63.0%
Operating Profit	97.0	80.1	86.7	21.0%	11.9%	210.8	208.2	1.3%
Finance cost	-7.76	-8.0	-7.7	-2.8%	1.3%	-23.1	-15.7	47.3%
Share results of associates	24.32	20.1	38.8	20.9%	-37.4%	99.2	12.6	685.7%
Share results of JVs	-0.24	5.3	1.1	-104.5%	-121.1%	2.3	25.9	-91.1%
Pre-tax profit	113.3	97.6	119.0	16.1%	-4.8%	289.2	231.0	25.2%
Taxation	-21.21	-26.4	-18.6	-19.7%	14.3%	-53.2	-59.2	-10.2%
NCI	-14.08	-7.9	-8.8	77.2%	60.1%	-27.5	-22.4	22.8%
PATAMI	78.0	63.2	91.6	23.4%	-14.9%	208.6	149.4	39.6%
FD EPS (sen)	7.29	5.89	8.53	23.8%	-14.5%	19.5	13.9	39.8%
	3Q18	3Q17	2Q18	+/- ppts	+/- ppts	9M18	9M17	+/- ppts
Operating margin	20.8%	22.4%	21.9%	-1.6	-1.1	17.3%	20.4%	-3.1
Pre-tax margin	24.4%	27.3%	30.1%	-2.9	-5.7	23.8%	22.7%	1.1
PATAMI margin	16.8%	17.7%	23.2%	-0.9	-6.4	17.2%	14.7%	2.5
Effective tax rate	18.7%	27.1%	15.6%	-8.4	3.1	18.4%	25.6%	-7.3

Segmental breakdown								
Revenue	3Q18	3Q17	2Q18	YoY Chg	QoQ Chg	9M18	9M17	YoY Chg
Cement	147.161	132.2	130.468	11.3%	12.8%	409.5	374.4	9.4%
Construction Materials	150.9	124.0	106.6	21.7%	41.6%	351.5	306.1	14.8%
Construction/Road	142.2	92.7	153.9	53.4%	-7.6%	407.4	251.8	61.8%
Property Development	51.1	27.1	28.1	88.4%	81.8%	105.4	116.7	-9.6%
Strategic Investments	2.4	2.8	2.3	-13.8%	4.1%	7.25	8.32	-12.9%
Others	17.7	16.0	18.3	11.1%	-3.4%	53.0	43.9	20.6%
Inter-Segment Eliminations	-46.3	-37.35	-44.43	24.0%	4.2%	-118.6	-93.7	26.6%
TOTAL	465.2	357.4	395.3	30.2%	17.7%	1,215.4	1,007.6	20.6%
Operating Profit	3Q18	3Q17	2Q18	YoY Chg	QoQ Chg	9M18	9M17	YoY Chg
Cement	31.2	35.1	32.6	-11.2%	-4.4%	70.4	82.2	-14.3%
Construction Materials	24.0	22.6	14.2	5.9%	68.5%	47.4	52.1	-9.1%
Construction/Road	21.8	19.0	26.6	14.5%	-18.3%	66.5	55.1	20.7%
Property Development	17.74	5.2	9.3	244.2%	90.8%	29.0	28.7	1.1%
Strategic Investments	-0.30	0.1	-0.4	-588.5%	-26.6%	-1.3	6.5	-119.6%
Others	5.5	-1.7	3.13	-427.5%	75.4%	5.11	-7.4	-169.1%
TOTAL	99.9	80.3	85.5	24.3%	16.8%	217.1	217.3	-0.1%
OP Margin	3Q18	3Q17	2Q18	+/- ppts	+/- ppts	9M18	9M17	+/- ppts
Cement	21.2%	26.6%	25.0%	-5.4	-3.8	17.2%	21.9%	-4.8
Construction Materials	15.9%	18.3%	13.3%	-2.4	2.5	13.5%	17.0%	-3.5
Construction/Road	15.3%	20.5%	17.3%	-5.2	-2.0	16.3%	21.9%	-5.6

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.