

30 November 2018 | Briefing Note

Cahaya Mata Sarawak Berhad *Leveraging on its strong fundamentals*

Maintain BUY

Unchanged Target Price (TP): RM4.13

INVESTMENT HIGHLIGHTS

- The results announced for 3QFY18 denotes positive tone on the prospect of CMS
- Growth in revenue primarily steered by construction/road segment, which staged +53.44yoy growth
- We reckon CMS will continue to operate on the strong fundamentals it developed.
- Moving forward, optimism on CMS prospect is fuelled by Sarawak infrastructure narrative
- Maintain BUY call on the stock with a TP of RM4.13

To recall, the results announced for 3QFY18 denotes positive tone on the prospect of CMS. Cumulatively, its 9MFY18 earnings grew strongly by +39.6% to RM208.6m. We understand that the growth was driven by considerably higher recognition of revenue from the construction works of Pan Borneo Highway, the Miri-Marudi road and the Sarawak Museum project.

Following the results, we attended an analyst briefing held by CMS. The management shared some insights and clarity on CMS direction moving forward while addressing the concerns investors have on the company, stemmed from the changing industry landscape post GE14. Below, we highlight the key takeaways from the meeting.

CMS will continue to operate on the strong fundamentals it developed. According to management, further growth is on the horizon as it continues to crystallize their strength in core segments namely cement, construction and its strategic investments entities. We opine the cement business of CMS is expected to benefit from its position as the only cement player in Sarawak. Despite reporting -14.3%yoy lower PBT for 9MFY18 at RM70.4m, the results were deemed positive in comparison to its peers in Peninsular Malaysia. To note, the encouraging performance of CMS's cement business was underpinned by the value chain advantage it entails, owning one of the only two limestone reserves in the whole of Sarawak. While the entry of competition is not confined, CMS's control on the supply materials certainly put a high barrier for new entries to yield value accretive investments in similar business segment. In the near term, the cement business is expected to record better results as it ramps up production to cater for the demand from Pan Borneo Highway ("PBH") project.

RETURN STATS	
Price (29 Nov 2018)	RM3.34
Target Price	RM4.13
Expected Share Price Return	+23.6%
Expected Dividend Yield	+2.2%
Expected Total Return	+25.8%

STOCK INFO	
KLCI	1,696.34
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)	3,576.76
Price over NA	1.45
52-wk price Range	RM1.74-RM4.42
Beta (against KLCI)	1.70
3-mth Avg Daily Vol	0.75m
3-mth Avg Daily Value	RM2.33m
Major Shareholders (%)	
Majaharta S/B	12.59
EPF	11.12
Lejla Taib	10.37
Abdul Rahman Taib	9.8

Updates on Pan Borneo Highway (PBH). The whole of PBH project has progressed by 24%, which management considered as behind schedule. Evidently, we opine it was not a surprise given the recent change in federal administration. The blanket exercise to review on-going mega projects has unfortunately put major works into delay. On that note, we opine the recent proclamation of PBH continuation will allow the construction works to pick up pace immediately. Positively, we have seen some traction in progress, which was apparent on CMS improved revenue by +53.4% in the construction/work division. Concurrently, management is expecting some cost reductions on the project at approximately RM600.0m, which was deemed manageable given the enormous work packages valued at RM16.5b. We recall that the sum comprised 11 work packages, awarded to 11 listed companies from Peninsular Malaysia and Sarawak.

Construction segment likely to benefit from new projects. A slew of positive news on Sarawak infrastructure plans will provide positive boost on the state's construction outlook. Further progress of PBH will benefit CMS in the form of sustainable earnings accretion in the near term. Additionally, the potential new projects in Sarawak are likely to expand its tender book size should the long-drawn out state development materialized. Should tender rounds commence soon, we opine CMS is in the position to benefit given its extensive value chain and strong presence advantage in the state.

Capacity expansion already taking place. CMS recently announced its acquisition of 56% equity interest in Borneo Granite Sdn Bhd through its 51% owned subsidiary company named as CMS Resources Sdn Bhd (CMSR). CMSR owned two subsidiaries which operate quarries that produce microtonalite, granite and limestone for use in heavy engineering, road and building construction. The company has an aggregate rated capacity of 3.15 million MT a year, making it one of the State's largest producers of stone aggregates. Following the acquisition by CMS, the group's quarry operations are set to expand further on the back of increased production capacity. We opine the acquisition move as strategic and timely, as CMS prepares to meet the peak demand of stones materials for PBH between 2019 and 2021. Moving ahead, the operation is well placed to benefit from the pending implementation of the coastal road and the second trunk road project by the State Government.

Our view. Altogether, we are encouraged to see that the group's operations are progressing well, denoting positive tone on production demand and construction progress. 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.

Impact to earnings. Our forecast on earnings were already revised, post 3QFY18 results.

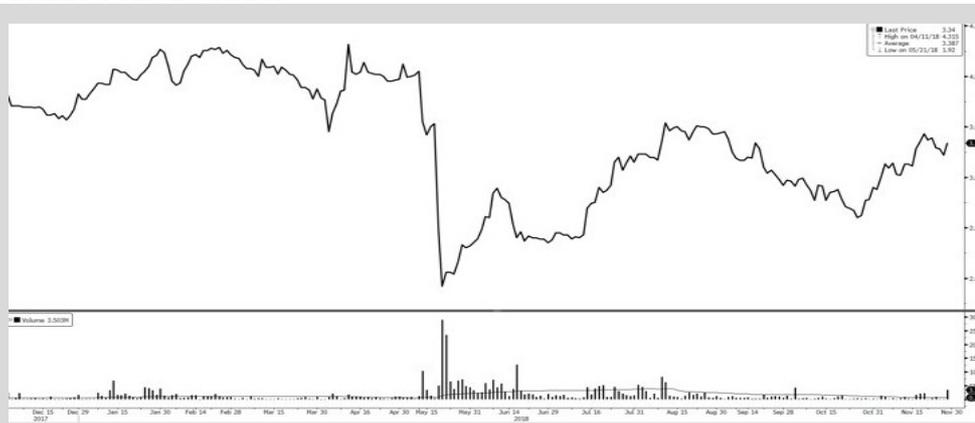
Recommendation. All things considered, we recommend a **BUY** call on the stock with a **TP** of **RM4.13**, as we ascribe blended PER multiples between the range of 10-12x for construction, roadworks and cement divisions. 

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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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.