



Cahaya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

Maintain BUY

New Clinker Line to Triple Production Capacity

Unchanged Target Price: RM1.50

KEY INVESTMENT HIGHLIGHTS

- **New clinker costing RM750m to be built, expected completion in 3 years**
- **Expected to triple clinker production capacity from 0.9m metric tonnes currently to 2.8m metric tonnes**
- **Gearing up for expected rise in cement demand from Sarawak developments and Nusantara**
- **Maintain BUY with unchanged TP of RM1.50**

Building new clinker line. Cahya Mata Sarawak Berhad (CMSB) is building a new clinker line at its integrated complex in Mambong, Kuching, which will cost the group RM750m. We view that this is in line with the group's long-term goal to reduce its reliance on imported clinker that will enable it to better manage its operating costs and improve margins.

Triple the production. Assuming that construction works for the new plant kicks off in July, it is expected to be completed in 36 months, by Jun-25. The new line has a daily production capacity of 6,000 metric tonnes or 1.9m metric tonnes annually. We estimate that this will enable CMSB to triple its yearly clinker production capacity from 900K metric tonnes currently to a total of 2.8m metric tonnes.

Clinker usage. Clinker is the main raw material for the manufacturing of cement. Depending on the type of cement produced, clinker comprises about 60% to 90% of the raw materials used. Meanwhile, the main raw materials that go into clinker production are limestone (78%), sandstone (11%), shale (10%) and iron ore (1%).

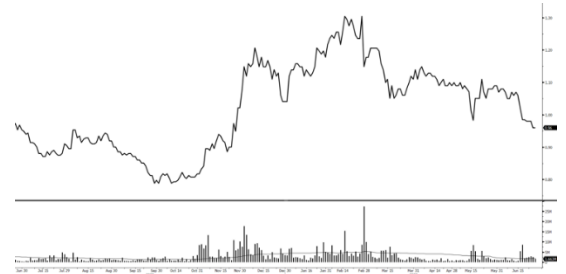
A case of ramping up demand or reducing clinker imports. Our view is that two scenarios are at play here. One, CMSB is ramping up its cement production to meet the expected rise in demand for cement in view of the [development plans in store for Sarawak](#) and as it taps on new markets, especially Nusantara. The other scenario is that the group is trying to do away with imported clinker as much as possible. During our trip to Sarawak recently where we visited the integrated plant in Mambong, management guided that CMSB's cement plants have the capacity to produce 2.75m metric tonnes of cement annually and the plant utilisation is only about 54.5%, sufficient to meet Sarawak's demand of 1.5m to 1.6m metric tonnes annually.

Gearing up for Nusantara? The Bandung Institute of Technology projected a demand of 21m tonnes per annum over the next 20 years for the construction of Nusantara as the new capital. While Indonesia has an excess capacity of more than 50m metric tonnes per annum, we note that most of the production facilities are concentrated in Java. Within Kalimantan, the annual cement production is about 9m metric tonnes with some spare capacity. We view the geographical and logistical advantage favours CMSB, being the sole cement manufacturer of Sarawak.

RETURN STATISTICS

Price @ 27 th June 2023 (RM)	0.96
Expected share price return (%)	+56.25
Expected dividend yield (%)	2.00
Expected total return (%)	+58.25

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-13.5	-12.5
3 months	-15.8	-10.5
12 months	-4.0	0.7

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	1,187.5	1,211.3	1,367.7
Operating Profit	124.2	163.2	123.2
Profit Before Tax	214.2	252.5	300.9
Core net profit	171.4	195.3	240.7
Core EPS (sen)	16.0	21.5	18.7
DPS (sen)	3.0	3.0	3.0
Dividend Yield	2.0%	2.0%	2.0%

KEY STATISTICS


FBM KLCI	1,396.91
Issue shares (m)	1073.98
Estimated free float (%)	56.64
Market Capitalisation (RM'm)	1,031.21
52-wk price range	RM0.80-RM1.36
3-mth average daily volume (m)	1.84
3-mth average daily value (RM'm)	1.98
Top Shareholders (%)	
Majaharta Sdn Bhd	12.55
Leija Taib	10.33
Lembaga Tabung Haji	7.46

Analyst

Royce Tan Seng Hooi
royce.tan@midf.com.my

Earnings estimates. We are making no changes to our earnings estimates.

Target price: Our target price is kept unchanged at RM1.50 as we peg a forward PE of 8x based on 1SD below its five-year mean to the FY24F EPS of 18.7 sen.

Maintain BUY. We remain positive on CMSB's earnings outlook in FY23 and we are optimistic on its medium to long term prospects, especially with the development projects that have been planned for the state and also Indonesia upcoming new capital in Nusantara. Recall that Budget 2023 saw RM5.6b allocated for Sarawak's development expenditure, on top of RM2.5b for public amenities in Sabah and Sarawak. The Federal Government is also expediting the Pan Borneo Highway and the Sarawak-Sabah Link Road. All these, on top of a RM100b capital injection into the state by 2030 would see strong contract flows over the coming years, where CMSB stands to benefit as the sole cement manufacturer in the state. All factors considered, we reiterate our **BUY** recommendation on **CMSB**. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	814.6	1009.0	1,187.5	1,211.3	1,367.7
Gross profit	145.3	188.0	290.9	296.7	288.6
Operating profit	62.1	259.5	124.2	163.2	123.2
Finance costs	-28.3	(18.40)	(23.8)	(24.2)	(27.4)
Profit before tax	234.6	412.3	214.2	252.5	300.9
Tax	-29.9	-110.7	(42.8)	(57.2)	(60.2)
Net profit	204.2	298.1	171.4	195.3	240.7
Core net profit	172.1	118.7	171.4	195.3	240.7

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1,342.3	1,420.0	1,462.6	1,506.5	1,551.7
Intangible assets	0.6	2.4	3.0	3.5	3.5
Non-current assets	3,119.6	2,867.5	2,953.5	3,042.1	3,133.4
Cash	545.7	965.3	772.2	787.7	803.4
Trade debtors	191.0	250.5	255.5	260.6	265.8
Current assets	1,729.9	2,046.0	2,107.4	2,170.6	2,235.7
Trade creditors	615.9	688.2	702.0	716.0	730.3
Short-term debt	625.1	282.0	286.2	286.2	286.2
Current liabilities	1,260.1	1,050.6	1,103.1	1,158.3	1,216.2
Long-term debt	273.4	255.8	255.8	255.8	255.8
Non-current liabilities	357.0	374.7	382.2	389.8	397.6
Share capital	867.9	867.9	867.9	867.9	867.9
Retained earnings	2,122.9	2,399.6	2,571.0	2,766.3	3,007.0
Equity	3,232.4	3,488.8	3,488.8	3,488.8	3,488.8

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	234.6	412.3	214.2	252.5	300.9
Depreciation & amortisation	63.0	63.5	64.1	64.8	65.43
Changes in working capital	132.6	-64.4	-19.3	-5.8	-5.8
Operating cash flow	220.7	9.7	115.4	139.3	144.9
Capital expenditure	-88.8	-43.7	-78.7	-82.6	-86.7
Investing cash flow	25	823.5	247.1	247.1	247.1
Debt raised/(repaid)	36.7	-376.5	-125	-125	-
Dividends paid	-35.5	-23.5	-23.5	-23.5	-23.5
Financing cash flow	16.7	-410.5	-150	-150	-30
Net cash flow	262.4	422.8	212.5	236.4	362
Beginning cash flow	277.2	540.7	962.7	1,175.2	1,411.6
Ending cash flow	540.7	962.7	1,175.2	1,411.6	1,773.6

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology