

Cahaya Mata Sarawak Berhad

(2852 | CMSB MK) Main | Construction

Maintain BUY

Sesco terminates power at phosphate plant

Unchanged Target Price: RM1.50

DEVELOPMENT

- Sesco cuts power supply to CMSB's phosphate plant in Samalaju
- Limited impact to financials as plant has yet to achieve commercialisation
- Commercialisation may be pushed back up to two years due to arbitration

OUR VIEW

- **Power termination.** Sesco Berhad, the utility arm of Sarawak Energy, has terminated electricity supply to Cahya Mata Phosphates Industries Sdn Bhd (Phosphates) at its plant in Samalaju. Phosphates filed a Notice of Motion in the Court of Appeal for a preservation order to seek for status quo on the electricity supply which was not granted, which led to the power cut yesterday afternoon.
- **Limited impact.** We expect this to have limited impact on Cahya Mata Sarawak Berhad's financials as the phosphate subsidiary has yet to commence commercial operations. It is still in the process of obtaining the necessary approvals and licenses for it to begin selling. It has about 10,000 drums of phosphorus in its inventory.
- **Delay in commercialisation.** There may be a delay in the commercialisation of Phosphates' plant in Samalaju due to the arbitration of the dispute, which may take up to two years.
- **Contingent liability.** Sesco billed CMSB RM266m for cumulative electricity consumption shortfall and payment security shortfall as of 31 December 2022. On 11 May, it issued a default notice that the PPA with Phosphates was deemed terminated and that it would terminate the electricity supply to its plant. CMSB recognised a contingent liability of RM266m in its FY22 financial statements, arising from the PPA dispute
- **Earnings estimate and TP.** We are making no changes to our forecasts for now as we await further clarity from management, which is expected to hold a briefing on this. Our TP is maintained at RM1.50, based on a forward PE of 8x to its FY24F EPS of 18.7 sen.
- **Reiterate BUY.** Our optimism in CMSB remains as its medium to long term outlook remains strong with the expected improvement in cement demand, especially with the development projects that have been planned for the state and also Indonesia's upcoming new capital in Nusantara. It is currently building a new RM750m clinker line at the integrated complex in Mambong, which will allow it to triple its clinker production capacity to 2.8m metric tonnes annually.

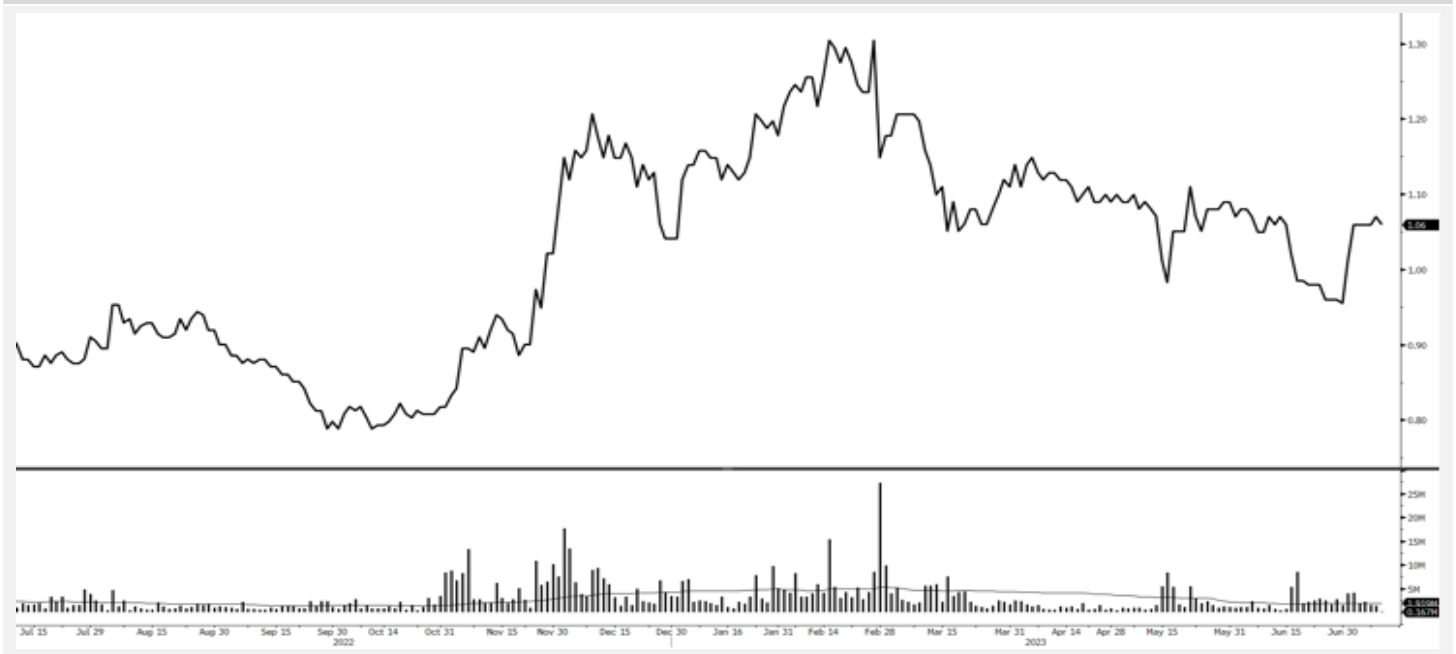


INVESTMENT STATISTICS

Annual Standardized Year end 31 Dec	2020A	2021A	2022E	2023F	2024F
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

Source: Company, MIDFR

SHARE PRICE CHART



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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