

PP14767/09/2012(030761)

Wednesday, Jul 27, 2016

Cahaya Mata Sarawak Berhad

“Secured RM1.36 billion Pan Borneo Highway Project”

- **Secured Phase 1 Pan Borneo Highway Project.** After two packages have been awarded to Sarawak construction firms Zecon and Hock Seng Lee in 1Q16, a joint venture (PPESW-BPSB JV) between Cahya Mata Sarawak Berhad (CMS) and Bina Puri Holdings Berhad (Bina Puri) had received a letter of award for the proposed development and upgrade works of Pan Borneo Highway for a contract sum of RM1.36 billion. The 70:30 JV is between PPES Works (Sarawak) Sdn Bhd (PPESW) and Bina Puri Sdn Bhd (BPSB).
- **From Sg Awik to Bintangor Junction.** The awarded contract is for the Phase 1 of the constructions of roads and bridges from Sg Awik to Bintangor Junction in Sarawak. Note that PPESW is 51% owned by CMS while the remaining 49% stake is owned by Sarawak Economic Development Corporation . BPSB is a wholly owned subsidiary of Bina Puri.
- **Small earnings booster.** Given the sum of awarded contract, the actual order book contribution to CMS is approximately RM485 million or RM120 million per year. Although it is not a sizable amount for CMS but we expect the mega project will also contribute earnings to the group’s other segments given its strong company profile in the state. To date, CMS is still the sole cement & clinker manufacturer in Sarawak as well as a leading manufacturer of pre-cast concrete products and ready mix supplier in the state.
- **Stands to benefit from projects won by associate KKB Engineering (KKB).** As KKB-WCT JV was recently awarded a contract worth RM1.29 billion for the development and upgrading of Pan Borneo Highway (from Sungai Arip Bridge to Bintulu Airport Junction),

HOLD (TP: RM3.70)

Current Price (RM)	RM3.61
New Target Price (RM)	RM3.70
Previous Target Price (RM)	RM5.45
Previous Recommend.	BUY
Upside To Target Price	2.5%
Dividend Yield (FY17)	3%

Stock Code

Bloomberg	CMS MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Diversified
Shariah Compliance	Yes
Issued Shares (mn)	1,074
Market Cap (RM mn)	3,975
YTD Chg In Share Price	-27%
Beta (x)	0.86
52-week Hi/Lo (RM)	6.00 3.17
3M Average Volume (shrs)	2.37
Estimated Free Float	26%

Major Shareholders

Majaharta Sdn Bhd	13%
Lejla Taib	10%
EPF	9%

CMS stands better chance to benefit from the deal by supplying construction materials to its 20%-owned associate company KKB. This, coupled with the recently secured contracts by KKB to supply steel products to Syarikat SESCO Bhd, will continue to add value to CMS's earnings profile by shoring up the share of results of associate in the coming years.

- **Change to forecast.** We maintain our earnings projection for now as the RM1.36 billion contract won by PPESW-BPSB JV came within our expectations and we believe CMS continues to remain the front runner to clinch on more contracts of Pan Borneo Highway in near future.
- **Valuation and recommendation.** CMS share price has been on the way to recovery (+17%) from its 52-week low of RM3.17 amid the disappointing 1Q16 results which we think the impact has largely factored in. To recall, net profit plunged 99% y-o-y to RM1.1 million due to inclement weather which hampered the progress of construction works and quarry production volumes. However, we continue to like CMS for having reasonably bright prospects given the strong workflow from various channels and maintain our target price of RM3.70 for now based on sum-of-part (SOP) valuation (ascribing 15% discount), implying 15x FY17 PER. The stock is still a **HOLD** underpinned by; i) full year earnings contribution from Sacofa, ii) strong construction prospects related to Pan Borneo Highway project, and iii) riding on the growth from SCORE initiative.

Table 1: Sum-of-parts (SOP) Valuation

Business division	Valuation Method	Effective stake	PER (x)	Value (RM mil)
Cement	PER	100%	22	2,039
Construction Material	PER	51%	20	577
Road Maintenance	PER	100%	12	742
Property	RNAV			469
Samalaju Development	PER	51%	9	35
Sacofa	PER	50%	10	475
Total value				4,338
K&N Kenanga		25%		90
KKB Engineering		20%		85
Net Cash (minus Inv. In Sacofa)				162
Total Equity Value				4,674
Share Base				1,074
SOTP Valuation (RM)				4.35
Discount				15%
Target Price (RM)				3.70

Source: M&A Securities

Table 2: CMS Profit and Loss (FY13-FY17F)

FYE DEC (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,417	1,674	1,788	1,752	1,862
Gross profit	351	396	413	385	447
EBITDA	375	369	400	375	439
EBIT	293	327	347	308	368
Finance cost	(5)	(4)	(4)	(7)	(8)
Associates	7	17	37	21	47
JV	0	1	2	2	2
PBT	295	341	382	324	409
Taxation	(79)	(76)	(84)	(81)	(102)
PAT	216	266	298	243	307
Minority interest	(40)	(44)	(56)	(50)	(49)
Net profit	175	221	242	193	257
EPS (sen)	18	21	22	18	24
EBITDA margin	26%	22%	22%	21%	24%
EBIT margin	21%	20%	19%	18%	20%
PBT margin	21%	20%	21%	18%	22%
Net profit margin	12%	13%	14%	11%	14%
PER (x)	13.1	18.5	22.2	18.4	13.8
P/BV (x)	1.4	2.3	2.8	1.7	1.6
Dividend (sen)	17	9	5	7	10
Dividend yield	7%	2%	1%	2%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

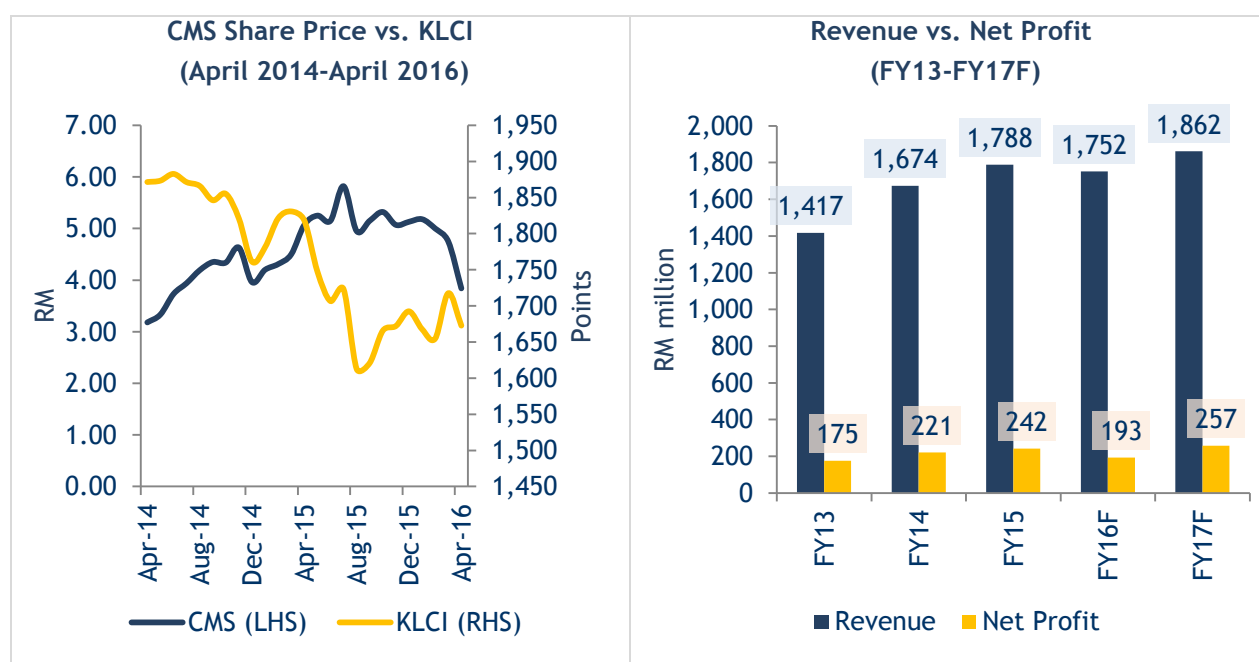
YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	491	508	347	-32%	-29%	491	347	-29%
EBIT	81	96	39	-59%	-51%	81	39	-51%
Finance costs	(1)	(1)	(2)	48%	200%	(1)	(2)	200%
Associates	14	22	(16)	-175%	-218%	14	(16)	-218%
JV	1	(1)	2	-239%	50%	1	2	50%
PBT	95	115	23	-80%	-76%	95	23	-76%
Taxation	(24)	(16)	(13)	-20%	-46%	(24)	(13)	-46%
Minorities	(14)	(21)	(9)	-58%	-35%	(14)	(9)	-35%
Net profit	57	78	1	-99%	-98%	57	1	-98%
EBIT margin	16%	19%	11%			16%	11%	
PBT margin	19%	23%	7%			19%	7%	
Net profit margin	12%	15%	0%			12%	0%	
Tax rate	25%	14%	57%			25%	57%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue								
Cement	144	157	135	-14%	-6%	144	135	-6%
Construction materials & trading	222	203	117	-43%	-47%	222	117	-47%
Construction & road maintenance	127	130	89	-31%	-29%	127	89	-29%
Property development	17	36	19	-47%	15%	17	19	15%
Samalaju development	2	8	NA	NM	NM	2	NA	NM
Strategic investments	2	2	3	38%	8%	2	3	8%
Others	8	4	9	134%	19%	8	9	19%
EBIT								
Cement	29	14	10	-31%	-67%	29	10	-67%
Construction materials & trading	30	35	17	-52%	-44%	30	17	-44%
Construction & road maintenance	25	44	18	-60%	-30%	25	18	-30%
Property development	2.7	10	3	-69%	19%	2.7	3	19%
Samalaju development	(0.7)	(3)	NA	NM	NM	(0.7)	NA	NM
Strategic investments	0.0	(0.9)	(1.0)	NM	NM	0.0	(1.0)	NM
Others	0.0	0.03	(4)	NM	NM	0.0	(4)	NM

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

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STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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