

1 April 2014
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12-month upside potential

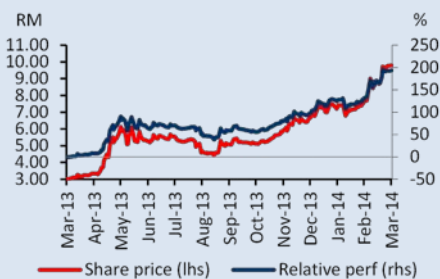
Target price	9.25
Current price (as at 31 Mar)	9.80
Capital upside (%)	-5.6
Net dividends (%)	2.5
Total return (%)	-3.1

Key stock information

Syariah-compliant?	Yes
Market Cap (RM m)	3,334.8
Shares outstanding (m)	340.3
Free float (%)	32.0
52-week high / low (RM)	9.80 / 3.01
3-mth avg volume ('000)	717.1
3-mth avg turnover (RM m)	5.6

Share price performance

	1M	3M	6M
Absolute (%)	30.3	42.6	93.3
Relative (%)	29.1	44.0	84.9

Share price chart

Cahaya Mata Sarawak
Building Materials
Bloomberg Ticker: CMS MK | Bursa Code: 2852
Strong Buy

Share split and bonus issue

CMS has proposed a 1-into-2 share split that will be followed by a 1-for-2 bonus issue. We view this move positively for CMS as it could attract more retail participation in the stock, potentially improving liquidity. On a separate note, CMS is said to be looking to take over Sacofa, a tower infrastructure and telecom service provider in Sarawak. We do not rule out this possibility as management has previously indicated potential new acquisitions. Depending on the pricing, we are generally positive on this deal as both core businesses are quite similar i.e. highly cashflow generative and linked to development in Sarawak. Given the recent run-up in share price, our Strong Buy call and SOP-based TP of RM9.25 for CMS are now under review.

Share split and bonus issue

- CMS has proposed a 1-into-2 share split that will be followed by a 1-for-2 bonus issue.
- The share split, which involves subdivision of every 1 existing share into 2 shares, will increase the ordinary shares of CMS from 340.3m to 680.6m.
- Subsequently, CMS proposed to carry out a bonus issue which entails 340.3m bonus shares on the basis of 1 bonus share for every 2 sub-divided CMS shares. This will further enlarge CMS' number of ordinary shares to 1.02bn.
- We view this move positively for CMS as it could attract more retail participation in the stock, potentially improving liquidity as its daily average trading volume is typically very thin.

Potential acquisition of Sacofa?

- On a separate note, it was reported in the news yesterday that CMS is looking to take over state-controlled Sacofa Sdn Bhd, a tower infrastructure and telecom service provider in Sarawak. We do not rule out this possibility as management has previously indicated that they might consider potential new acquisitions or investments in SCORE.
- Based on our findings, apart from 610 telco towers, Sacofa also owns: (1) a 1,800km of on-land fibre optic trunk network spanning major cities in Sarawak; and (2) a 950km submarine cable system linking Mersing and Kuching.
- Depending on the acquisition price, we are generally positive on this deal as the core business of Sacofa is actually quite similar to CMS' core businesses i.e. (1) they are mainly based and linked to the development in Sarawak; and (2) cashflow generation is very strong.
- Sacofa recorded a net profit of RM62.8m for the financial year ended 31 Dec 2012. Assuming the same level of profitability and if the deal materialise, this could potentially bump up our earnings forecast for CMS by a whopping 27% in FY15.

Impact on estimates

- No changes to our earnings forecasts.

Valuation and recommendation

- We are putting our Strong Buy call and SOP-based target price of RM9.25 for CMS under review, as the recent run-up in its share price has zoomed past our TP.
- There are upside bias to our TP as we actually have yet to fully account the value of CMS' 20%-stake in OM Sarawak into our SOP calculation. We have been very conservative in valuing OM Sarawak at a moderate P/E of 8.0x, despite all the competitive advantages that the plant possesses. Furthermore, FY14 earnings are not truly reflective of OM Sarawak earnings potential as the plant only starts operation in July.



Figure 1 : Key financial data

FYE 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	1,012.6	1,203.6	1,417.5	1,377.1	1,400.3
EBITDA (RM m)	218.2	287.2	377.1	350.1	372.3
EBIT (RM m)	183.4	234.3	292.8	290.1	302.7
Pretax profit (RM m)	178.7	226.9	295.3	302.6	338.6
Reported net profit (RM m)	120.0	135.7	175.4	200.5	230.3
Core net profit (RM m)	120.0	119.2	152.9	200.5	230.3
EPS (sen)	36.4	41.4	52.7	60.3	69.3
Core EPS (sen)	36.4	35.9	46.0	60.3	69.3
Alliance / Consensus (%)				100.3	95.3
Core EPS growth (%)	82.4	(1.5)	28.3	29.0	14.9
P/E (x)	26.9	27.3	21.3	16.2	14.1
EV/EBITDA (x)	12.8	9.8	7.2	7.7	7.2
ROE (%)	8.5	9.2	10.8	11.7	12.6
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Net DPS (sen)	11.3	12.8	15.8	24.1	34.6
Net dividend yield (%)	1.1	1.3	1.6	2.5	3.5
BV/share (RM)	4.86	4.56	4.88	5.97	6.42
P/B (x)	2.0	2.1	2.0	1.6	1.5

Source: Alliance Research, Bloomberg

Figure 3 : Sum-of-parts valuation for CMS

Business division	Valuation Method	Multiple (x)	Valuation (RM m)	Per CMS share	Description
Cement	P/E	15.0	1,503	4.52	Discount to our target FY14 P/E for Lafarge
Construction material	P/E	10.0	177	0.53	Pegged to 10x FY14 P/E
Road maintenance	P/E	9.0	525	1.58	Pegged to 9x FY14 P/E, in line with Protasco
Property	Book value		117	0.35	Estimated end-2012 book value, less MI
Samalaju development	P/E	8.0	102	0.31	Conservative 8x FY14 P/E
OM Sarawak	P/E	8.0	62	0.19	Conservative 8x FY14 P/E
Total value of business divisions			2,486.2	7.48	
25% stake in K&N Kenanga			116.2	0.35	Market value
20% stake in KKB Engineering			139.7	0.42	Market value
Net cash / (net debt)			567.4	1.71	End-FY14 forecast
Investment securities			107.4	0.32	End-FY14 forecast
SOP				10.28	
20% holding co discount				<u>(1.03)</u>	
Target Price				9.25	Implied valuation of 12.6x FY14 P/E and 1.6x FY14 P/B

Source: Alliance Research, Bloomberg



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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Published & printed by:

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