

Cahaya Mata Sarawak (2852)

The Forgotten Child



Stock Highlights

Natural monopoly due to market forces. We believe concerns over potential new cement players in Sarawak are overblown. CMS' key cement division has long enjoyed being a natural monopoly in Sarawak due to the high barriers of entry. This is mainly because the overall cement demand in Sarawak is not large enough to support a two-player market, especially now with CMS committing to build a second clinker plant to triple its capacity from 0.9 MT/pa to 2.8 MT/pa eventually (100% self-sufficient). Any new entrants would also be deterred by the geographical challenges in Sarawak (suitable plant location, distribution network, etc.).

Dispute resolution with SESCO a near-term catalyst. The ongoing dispute with Sarawak Energy (SESCO) has had a negative impact on sentiment and earnings for CMS. Since May 2023, SESCO has cut electricity supply to CMS' phosphate plant, leading to no revenue generation but incurring losses from commissioning costs and inventory write-downs. The phosphates division recorded RM19m losses in 1Q24, compared to the RM38m net profit reported by the group. Arbitration proceedings are scheduled to begin hearings next month on 26-29 August.

Deeply undervalued. Based on consensus forecast, CMS is currently trading at an undemanding valuation of 7.6x FY24 P/E (ex-net cash of RM527m) and 0.45x FY24 P/B. Its valuation has been heavily discounted largely due to perceived political risks, which we believe were partly misunderstood especially for its key cement division. In our view, a favourable dispute resolution with SESCO will drive further earnings upside, while a potential increase in stake held by the Sarawak state government (who currently owns 5.7% via SEDC) could help to significantly narrow the "political risks" discount.

Testing RM1.50 resistance. CMS has performed strongly since April, rising from a low of RM0.91 to a high of RM1.50. The stock formed a significant W pattern starting since November 2021, indicating an upcoming potential breakout. Consolidation activities have also been seen within the range of RM1.36-1.50 recently. A break above the resistance level of RM1.50 could drive the stock to the next resistance level at RM1.78. Stop loss at RM1.32.

Technical

Resistance 1 (RM)	1.50
Resistance 2 (RM)	1.78
Support 1 (RM)	1.36
Support 2 (RM)	1.32
MACD	Positive
RSI	Neutral

Stock Information

Last Close (RM)	1.43
Market cap (RM m)	1,536.5
52-week Range (RM)	0.91-1.50

Financial Highlights

FYE Dec	FY21	FY22	FY23	1QFY24
Revenue (RM m)	801.2	998.6	1,185.9	277.4
Core PAT (RM m)	220.1	89.4	113.3	38.2
Core EPS (sen)	20.5	8.3	10.5	3.6
DPS (sen)	2.0	3.0	2.0	-
BV/share (RM)	2.80	3.00	3.07	3.14
P/E (x)	7.0	17.2	13.6	13.9
P/B (x)	0.5	0.5	0.5	0.5

Source: Bloomberg, Mercury Securities

Company Profile

Cahaya Mata Sarawak Berhad is a Sarawak-based conglomerate with key businesses in cement manufacturing, road maintenance, property development, and oil and gas.

Glossary of commonly use technical terms

Moving Average (MA)	An indicator frequently used in technical analysis showing the average value of a security's price over a set period.
Moving Average Convergence Divergence (MACD)	A trend-following momentum indicator that shows the relationship between two moving averages of prices. The MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A 9-day EMA of the MACD, called the "signal line", is then plotted on top of the MACD, functioning as a trigger for buy and sell signals.
Stochastic	A technical momentum indicator that compares a security's closing price to its price range over a given time period. The indicator's sensitivity to market movements can be reduced by adjusting the time period or by taking a moving average of the result.
Average True Range (ATR)	A measure of volatility whereby the indicator is the greatest of the following: <ul style="list-style-type: none">- current high less the current low;- the absolute value of the current high less the previous close;- the absolute value of the current low less the previous close;
Bollinger Band	A band plotted 2 standard deviations away from a simple moving average.
On-Balance Volume (OBV)	A method used in technical analysis to detect momentum, the calculation of which relates volume to price change. OBV provides a running total of volume and shows whether this volume is flowing in or out of a given security.
Support	The price level which, historically, a stock has had difficulty falling below. It is thought of as the level at which a lot of buyers tend to enter the stock.
Resistance	The price at which a stock or market can trade, but not exceed, for a certain period of time. Often referred to as "resistance level".
Reversal	A change in the direction of a price trend. On a price chart, reversals undergo a recognizable change in the price structure. An uptrend, which is a series of higher highs and higher lows, reverses into a downtrend by changing to a series of lower highs and lower lows. A downtrend, which is a series of lower highs and lower lows, reverses into an uptrend by changing to a series of higher highs and higher lows.
Divergence	When the price of an asset and an indicator, index or other related asset move in opposite directions.
Overbought	In technical analysis, this term describes a situation in which the price of a security has risen to such a degree – usually on high volume – that an oscillator has reached its upper bound. This is generally interpreted as a sign that the price of the asset is becoming overvalued and may experience a pullback.
Oversold	A situation in technical analysis where the price of an asset has fallen to such a degree – usually on high volume – that oscillator has reached a lower bound. This is generally interpreted as a sign that the price of the asset is becoming undervalued and may represent a buying opportunity for investors

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