



**CAHYA MATA SARAWAK**

# **CAHYA MATA SARAWAK BERHAD'S 44<sup>TH</sup> ANNUAL GENERAL MEETING**

## **KUCHING | 30 APRIL 2019**

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**CAHYA MATA SARAWAK**

## **1. Questions From MSWG**



# Question 1 (a)

## **Cement Division (Pages 57-59 of the Integrated Annual Report 2018)**

**How does the Board plan to address the decline in the PBT which was affected by increases in the costs of raw materials and coal, as well as higher repair and maintenance costs for its clinker operations?**

### **OUR RESPONSE :**

As highlighted, 2 key factors impacted the Cement Division's profit margin during 2018.

Firstly, the cost of imported clinker, a major raw material for the production of cement, increased from low of US\$38 in 2017 to high of US\$54 in 2018, due to the spike in global demand. This, reflecting an almost 42% increase in cost, was driven by the reduction of clinker production in China and strong regional demand for clinker especially from Bangladesh and the Philippines. It had an impact on the Cement Division as it currently imports approximately 50% of clinker.



## OUR RESPONSE :

Secondly, during 2018, the Cement Division also incurred lower profit margin due to higher repair costs from the planned maintenance shutdown of its clinker plant. This was a critical exercise in order to ensure the long-term functionality of the plant as it was the first extensive maintenance since CMS' take over in 2007. Furthermore, the maintenance exercise was much-needed as some of the critical components of the plant, such as kiln girth gear and kiln shell, were not replaced since the plant's inception in 1997.

Going forward, the Division expects prices of imported clinker to stabilise in 2019 in view of recent price trends. The production capacity of clinker in Vietnam and Indonesia is expected to grow in 2019 as new plants are coming on stream and this is expected to stabilise prices in the region. It also appears that the import of clinker by Chinese manufacturers has plateaued.



## **OUR RESPONSE :**

The Division has also put in place strategies to manage this risk. Firstly, it has secured additional clinker supply from West Malaysia which eliminates currency exchange risks. Secondly, the Division has also expanded its sources of imported clinker including Indonesia, thereby reducing dependency on just Vietnam.

As a long-term measure, the Division is also undertaking feasibility studies on alternative materials for clinker and the expansion of its clinker production capacity at Mambong, Kuching. The Division would provide an update on this exercise in due course.

# Question 1 (a) (cont.)



## **OUR RESPONSE :**

Following the extensive maintenance shutdown in 2018, the clinker plant's performance has begun to improve. In 2019, the clinker plant is expected to undergo only routine maintenance exercise, as opposed to an extensive maintenance exercise carried out in 2018. This is expected to result in higher production output and lower unit production costs, thus improving profit margins in 2019.

Furthermore, the Division is also confident on increasing its revenue in 2019 which will be driven by the increased economic activity in Sarawak, in particular, the increased demand for cement from private sector projects, the Pan Borneo Highway project and other major infrastructure project including the Coastal Road project. The Division is confident of a 5% increase in revenue in 2019.

In view of the above, the Board and Management of CMSB remain confident on Cement Division's prospects for 2019.

# Question 1 (b)



## Cement Division

**What are the current utilisation rates for the Group's plants under the division?**

### **OUR RESPONSE :**

The combined utilisation rate for its 3 grinding plants is approximately 60% and for its clinker plant is approximately 90%.



# Question 2 (a)

## **Construction Materials & Trading Division (Pages 60-63 of the Integrated Annual Report 2018)**

**Please update on the search for potential new quarry reserve.**

### **OUR RESPONSE :**

The Division will continue to keep a look out for investment in new quarry reserve especially in the Northern Region of Sarawak. The immediate focus for the Division is to fully commission its new line of 1.3 million metric tonnes a year (MTpa) at Sibanyis Quarry and to increase and optimise the production of the newly acquired Borneo Granite to 1.0 million MTpa.



# Question 2 (b)



## Construction Materials & Trading Division

**What are the current utilisation rates for the Group's plants under the division?**

### **OUR RESPONSE :**

The combined utilisation rate for Quarry plants was 97% whereas for Premix plants was 60%. The utilisation rate for Wires' plant was 120% (includes overtime work).



## Construction Materials & Trading Division

**What is the outlook for the quarry operations, premix operations, wire operations, and trading operations in FY2019?**

### **OUR RESPONSE :**

We remain positive on our outlook for FY2019 with the ongoing implementation of the Pan Borneo Highway, the rollout of the RM11 billion Coastal Road and Second Trunk Road projects and RM4.5 billion allocated for rural development and is to be spent within the next two years. The Division's Trading operation is also poised to benefit from the rollout of RM5.17 billion Water Grid and Electricity Supply project.



# Question 3 (a)

## **Construction & Road Maintenance Division (Pages 64-67 of the Integrated Annual Report 2018)**

**Please update on the latest order book. What is the contract value being pursued by the Group currently?**

### **OUR RESPONSE :**

As at 31 March 2019, the Division's order book is RM1.47 billion whilst the contract value being pursued is RM487.06 million..



# Question 3 (b)

## Construction & Road Maintenance Division

**What are the division's specific requirements (if any) when deciding to bid for projects?**

### **OUR RESPONSE :**

As part of our strategy, the following key aspects are taken into account prior to bidding for projects:

- I. Material resources required and the ease of mobilisation of transport and manpower (in terms of distance to project site); and
- II. The complexity of the project due to design and locality.

# Question 4



**On property development division (Pages 68-75 of the Integrated Annual Report 2018), what are the Board's strategies for this Division's business amidst the challenges of a softening property market in 2019?**

## **OUR RESPONSE :**

In view of the softening market in 2019, our Property Development Division's focus is on developing landed house at affordable pricing and of good quality. Based on our market studies, there is demand for this segment of properties. As such, the Division is launching 160 units of affordable housing starting from the 3<sup>rd</sup> Quarter of 2019 (3Q 2019). The starting price of the houses is RM250,000. Furthermore, the Division has also obtained planning approval for 590 other units of affordable houses that are to be launched within the next few years.



## **OUR RESPONSE :**

During this period of a softening market, the management is also looking out for good bargains in the market including strategic landbanks and property projects.

Lastly, despite the softening property market, our Rivervale Condominium Development at Stutong, a high-end development, continues to attract buyers and has garnered 80% sales to date. We strongly believe that this is due to the strategic location and quality workmanship of our development.



## Question 5 (a)

**In FY2018, CMS has recorded its share of losses of RM546,000 of joint ventures (FY2017: share of profits of RM31.90 million).**

**What are the reasons for the share of losses reported in the Group's accounts (Page 50 of the Integrated Annual Report 2018)?**

### **OUR RESPONSE :**

The share of losses in FY2018 was mainly attributable to the Construction & Road Maintenance Division's joint-ventures which were involved in the construction of a transmission line where there were land acquisition issues and the contractor stopped work but had since resumed.

The excellent performance in FY2017 was attributable to the performance and profit sharing by the private equity management company and two private equity funds, which resulted from gains on realization of an investment. Whereas in FY2018, these three joint-ventures reported marginal profits.

## Question 5 (b)



**In terms of investment risk, are there any new measures that have been identified by CMS to manage the risk of over-reliance on joint venture partners (Page 91 of the Integrated Annual Report 2018)?**

### **OUR RESPONSE :**

One of the new steps that we have taken to address the risk of overreliance on joint-venture partners is to engage industry veterans and experts to represent us at Board and Senior Management level as we had done at MPA (Sarawak) Sdn Bhd project.





# Question 6 (a)

## **Strategic Investments – Others (Pages 88-89 of the Integrated Annual Report 2018)**

**COPE is also known for being one of the few private equity firms within ASEAN that has adopted Shariah-compliant investment principles for some of its funds.**

**What are the Shariah-compliant investment principles which COPE has adopted and what are the funds involved?**

### **OUR RESPONSE :**

COPE adopts Shariah-compliant investment principles for three of its funds under management:

- I. COPE Opportunities 2 Sdn Bhd;
- II. COPE Opportunities 3 Sdn Bhd; and
- III. COPE Opportunities IV Sdn Bhd.

The Shariah-compliant investment principles adhered to by COPE is guided by a Shariah Advisor and is based on the Screening Guidelines as adopted by the Shariah Advisory Council of Securities Commission.



# Question 6 (b)

## Strategic Investments – Others

**Following the rollout of a dynamic new brand building campaign for the school in 2018, the Group anticipates an influx in the number of students at Tunku Putra School.**

**Please brief on the new brand building campaign. Does the Board expect CMS Education Sdn Bhd's performance to turn-around in FY2019?**

### **OUR RESPONSE :**

In March 2018, Tunku Putra School announced a strategic tripartite joint-venture with HELP Education Group, a leading education provider in Malaysia, and Ibraco Berhad, a renowned property developer in Sarawak with, amongst others, strong landbanks in Southern Kuching. Together, the joint-venture company established the Tunku Putra-HELP International School with its plans to establish a new purpose-built campus located in Southern Kuching. Based on market study, this is a strategic location for an international school and will be key in attracting a larger pool of students. The construction of the new school is expected to complete by September 2019 and the first intake is set to take place in January 2020.

# Question 6 (b) (cont.)



## **OUR RESPONSE :**

Together with the school's brand building campaign for its new campus and its continuous effort towards steering academic and administrative excellence, the school expects its intake to increase to 750 students from January 2020 (from 620 students in April 2019). This will help to ensure that the school would be able to break-even starting 2020 and be profitable from 2021.

Whilst the Group does not foresee a turn-around in 2019 for CMS Education Sdn Bhd, it remains optimistic on its prospects based on the abovementioned reasons.



# Question 7

## Corporate Governance Report

**The Company in its Corporate Governance Report states that it has adopted Step Up 4.3 of Malaysian Code on Corporate Governance.**

**However, under the item of 3.6 of the Board Charter of CMS, it states that “the tenure of an Independent Director shall not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years, an Independent Director may continue to serve the Board subject to the Director’s re-designation as a Non-Independent Director. If the Board intends to retain an Independent Director beyond nine (9) years, it shall justify and seek annual shareholders’ approval. If the Board further intends to retain the Independent Director after the twelfth (12<sup>th</sup>) year, the Board shall seek annual shareholders’ approval through a two-tier voting process as set out in the Malaysian Code on Corporate Governance”.**

**This is contrary to Step Up 4.3 which does not provide for any extension of tenure beyond the 9-year tenure of Independent Directors.**

**Please take note of this.**



## **OUR RESPONSE :**

The Board takes note of MSWG's comment with regards to application of Step Up 4.3.

# Question 8



**On sustainability matters, what are the areas for improvement that CMS has identified?**

## **OUR RESPONSE :**

Firstly, CMS will continue to play a leading role to address the issue of industrial waste at Samalaju Industrial Park by working closely together with DOE, JKR and SIRIM to use certain industrial wastes as substitutes for aggregates and sand. Currently, CMS is in the final stages of testing the use of industrial sludge at the OCI plant as alternative fuel at the Mambong Clinker plant. Trial run on the use of manganese slag at the Sakura plant as substitute for aggregates is in the final stages and is awaiting approval of DOE and JKR.

Secondly, CMS will endeavour to replicate its successful engagement of the Mambong community through a concentrated CSR engagement in all other areas in the State where we are operating.



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## **2. Resolutions**



# **Declaration of first and final tax exempt (single-tier) dividend**





## **Re-election of Y Bhg Datuk Syed Ahmad Alwee Alsree as Director**



## **Re-election of Y Bhg Datu Hubert Thian Chong Hui as Director**



## **Re-election of Mr Chin Mui Khiong as Director**



## **Re-election of Y Bhg Tan Sri Abdul Rashid Bin Abdul Manaf as Group Chairman**



# Approval of Payment of Directors' fees 2017



## **Approval of Payment of Directors' remuneration (excluding Directors' fees)**



## **Re-appointment of Messrs Ernst & Young as Auditors**



# Proposed Shareholders' Mandate for RRPT





# **Proposed Shareholders' Mandate for Share Buy-Back**

*The End*



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