A. CMS' shares limit down on Friday, 18 May 2018

CMS' shares hit limit down on Friday, 18 May 2018, with shares falling 29.75% or RM1.05 to RM2.48 (4,987,900 shares traded) at which point Bursa Malaysia suspended the proprietary day trader (PDT) and intraday short selling (IDS) activities for CMS. Both activities will be enabled when the market opens on Monday, May 21, at 8.30am.

CMS' market cap, as at end of 18 May 2018, was RM2.66 billion compared to RM4.43 billion as at close of business on 8 May 2018.

Multiple reasons were attributed by research houses for the collapse of the share price. Some said it was due to CMS' links to the previous Government, some commented on the reports by Bruno Manser Funds whereas others attribute it to reaction to a statement by Democratic Action Party (DAP) on the State roads maintenance concession. There was no consensus that it is one single event, and CMS is one of many stocks that have faced severe selling pressure post the General Election.

The following, in our view, has led to the steep sell-down:

i. **Bruno Manser Fund’s offer to share information and unblocking of Sarawak Report website**

   Possible reaction to an article carried by the Star Online portal stating that the Bruno Manser Fund (BMF) is willing to share information with the new Pakatan government on the Tun Taib family as a basis for reopening of investigation.

   This followed a report on Thursday, 17 May 2018 that news portal Sarawak Report, which has been known to release anti Tun Taib family (as well as anti-CMS) related articles, has been unblocked. The Sarawak Report website was blocked by Malaysian Communications and Multimedia Commission (MCMC) in 2015. The news they publish is now widely available for the general public to access, including reports portraying CMS negatively.

ii. **Statement by DAP on Sarawak Road Maintenance Concession on Borneo Post Online Portal**

   At around 1 pm on Friday, 18 May, a report emerged on a Sarawak English language newspaper, Borneo Post’s online portal, where DAP – a member of the new Federal Government – suggested that the concession for State road maintenance in Sarawak should be awarded in an open tender format and be given to up to 10 companies to enable the State government to compare the work by different companies.
iii. General market sentiment against stocks linked to previous Federal Government and uncertainties over future policies

The Malaysian market has been volatile since it reopened on Monday, 14 May 2018, after a three-day break. Politically-linked companies, especially those who benefited from the previous Federal Government, have felt a steep decline in their share price. A number of construction companies were also impacted as the new Federal Government maintains that it plans to review mega infrastructure projects, such as the East Coast Railway Link. Furthermore, several companies have been impacted due to uncertainties surrounding their business environment e.g. abolition of toll roads.

Companies impacted in the past week include George Kent Berhad and MyEG Services Berhad, with their shares dropping by more than 60% since the market reopened on Monday. Furthermore, stock price of Gabungan AQRS Berhad, WCT Holdings Berhad and Ahmad Zaki Resources Berhad respectively also dropped by almost 40% in value during the same period.

B. Management’s internal take on the three events

The following is the Management’s take on the three events:

i. Allegations by BMF against the Tun Taib family

The allegations against the Tun Taib family by both Sarawak Report and BMF are not new and have been in the public domain for a long time. With Tun Taib’s retirement as Chief Minister in 2014 to become Governor of Sarawak, the political landscape changed and there has been less interest in Tun Taib’s family and indeed CMS. We doubt if there is any political will to prosecute Tun Taib’s family, and, even if it did take place, it’s unlikely to impinge on CMS which has since 2006 been professionally and independently managed and is visibly known within the State for working professionally, fairly and independently of the Tun Taib family.

More importantly: firstly, CMS has stepped up its compliance with sustainability and governance standards, which has been recognised since 2016 with its inclusion amongst 42 Malaysian companies in the FTSE4Good Bursa Malaysia Index. This is a globally-recognised indices launched by the FTSE Group and it measures and recognises companies across the world demonstrating strong Environmental, Social and Governance (ESG) practices.

Secondly, CMS has evolved away from the Tun Taib family control with their stake down to 33.35% and institutions recognising the potential and the professional capabilities of
CMS now holding over 35% approximately. These include EPF with 10.83%, Lembaga Tabung Haji with 9.24% and foreign institutions with 15% (as at April 2018).

Following on the above, CMS has been fully transparent and have made full disclosure of all material affairs in its operations and remains confident that any investigation would be inconsequential.

It is also of note that there is a Canadian Court ruling against BMF which can be viewed on: https://www.newswire.ca/news-releases/sakto-corporation-canadian-government-issues-final-statement-closing-case-683051081.html

ii. Statement by DAP on State road maintenance concession

The State Road Maintenance concession is a State and not Federal matter and therefore a representative of DAP, which is a component of Pakatan Harapan – the new Federal Government – can only comment without any real standing on the matter. The State Government, and not the Federal Government, will decide on the award of the road maintenance concession.

Renewal of the concession has received strong support from relevant overseeing agencies and CMS is in the final stages of concluding the new long-term concession agreement itself.

Further, the concession only covers approx. 6,000km out of the State’s roads with the balance of 14,000km being maintained by the State itself.

CMS remains confident that its concession will be renewed. It has an inventory of road maintenance equipment worth about RM100 million – much of the equipment is state-of-the-art, and the company employs over 800 Sarawakians who have acquired invaluable experience over the last 15 years. Furthermore, it has invested in an IT-based processes management and data recording software that has put it well ahead of the curve thus enabling the State and its road users to benefit considerably.

The trend now is for road maintenance concessions not to be split to compare performance, but to bulk them up to enable more effective acquisition and utilisation of resources.
iii. General market sentiment against stocks linked to previous Federal Government and uncertainties over future policies

CMS is not a high-profile recipient in recent years of new big Federal or State Government contracts. Using CMS segmented revenue reports in its audited accounts and comparing the annual construction related expenditure of the State Government, it is very clear CMS is not a major beneficiary of such expenditure and where it does participate this is typically via one of its 51:49 joint venture companies with State agency, Sarawak Economic Development Corporation. Indeed, CMS' only contracts with the Federal Government are: One of the 11 packages of the Pan Borneo Highway project and maintenance for some 200km of the State's Federal roads, which is expiring in 3Q 2018 and is not expected to be renewed at present.

C. CMS' business fundamentals remains intact

The investment community is taken aback by this abrupt drop in CMS share price. It was just on Tuesday, 15 May 2018, CMS issued its sterling set of 1Q 2018 financial results and held its briefing for the investment community on the same day, following which 4 research houses issued reports with a 'Buy' call on CMS. These were namely MIDF, Maybank, RHB and Am Investment Bank.

CMS' strategic business model remains intact. This is to be the best proxy investment for Sarawak's growth through its investments - firstly, in energy intensive industries namely, OM Sarawak and Malaysian Phosphates. These are expected to drive more than 50% of future PATNCI further reducing our dependence on the State's economic activities. Secondly, through its investments in infrastructure and infrastructure-related services, which represent its core business divisions. These, outside of the State Road concession, are not especially dependent on Government patronage as their focus remains on the supply of construction materials to contractors and the State, usually from its State joint venture companies with SEDC and not on contracts awarded either by tender or negotiation.

The consensus view, which includes that of CMS' management team, was that CMS' business fundamentals remain unchanged and the company is still on a firm growth trend despite the change in the country's leadership.

Given current uncertainties going forward as to the Federal Government’s policies, equity markets are likely, in our view, to remain volatile and edgy, but assuming the Federal Government – as we hope will be the case – keeps Malaysia growing economically with sound fiscal policies and addresses the people's other concerns, we would expect confidence in Malaysian equities to return to an even greater level. If, on the other hand, Peninsula Malaysia faces issues, Sarawak, with its strong financial reserves and stable State Government is well positioned to keep Sarawak's growth and investment plans intact. MIDF's research report even commented that the steep selling in CMSB's shares unveils an opportunity to increase exposure towards the company.
This Note is issued in good faith based on our present assessment of the situation. Please do not hesitate to contact us if you have any further enquiries.

for and on behalf of
CAHYA MATA SARAWAK BERHAD

[Signature]

DATO ISAAC LUGUN
Group Chief Executive Officer - Corporate