

30 May 2019

Press Metal Aluminium

Better 2H Envisaged

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We came away from PMETAL's 1Q19 results briefing reassured that its long-term outlook remains promising despite near-term challenges. 2Q19 earnings are expected to remain weak as 1Q19 alumina costs spill over. However, alumina prices are expected to drop further as supply expands in 2H19. As such, recovery is more likely to be seen in 2H19. No changes in FY19-20E CNPs of RM685-810m. Maintain MP with TP of RM4.50.

Bottom fishing. Alumina prices recently retraced to c.USD370/MT level as Alunorte's production restrictions were lifted, while Al Taweelah alumina refinery with 2m MT/year capacity (c.3% of ex-China alumina supplies) has also commenced operations in April. Nevertheless, the group has yet to lock in its alumina requirements for the rest of FY19 in anticipation of further drop in alumina prices. We are supportive of the stance, as we believe the two events above would increase global alumina supply in 2H19 when plant utilisation of the refineries picks up. This should, consequently, ease upward pressure on PMETAL's 2H19 alumina costs.

2Q19 earnings to remain weak; recovery expected in 2H19. Despite the recent drop in alumina prices, PMETAL will likely continue facing cost pressure in 2Q19 as some orders/shipments of alumina from 1Q19 spill over to this quarter. Therefore, we expect earnings to remain weak in 2Q19, perhaps at a level comparable to or slightly better than 1Q19 but potentially with a double-digit decline in a YoY comparison. Nevertheless, we expect earnings to recover in 2H19 on potentially cheaper alumina as mentioned above.

Aluminium prices have likely bottomed. On the other hand, management expects aluminium prices to remain muted in the near term on slower economic outlook in China. However, aluminium prices are unlikely to sustain at the current levels for the long run as the likes of Alba, Alcoa and Century Aluminium have already dived into losses with such weak prices. If the weak prices prolong, we could begin to see production shutdowns by smaller aluminium smelters, resulting in reduced aluminium supply in the global market. During the briefing, management also shared the consensus estimates for China and global ex-China's aluminium supply and demand, computed based on various third-party market research firms. The consensus figures show that the global aluminium market is likely to run into a net deficit of 0.8m MT in 2019, lending some support to aluminium prices.

Better product mix and JAA to lift earnings. We believe the group's sales composition of high-value products will increase to 60-70% in FY19 from 40-50% in FY18 after expanding billet capacity by 60k MT (to 240k MT) and wire rod capacity by 50k MT (to 200k MT) in October 2018. Billets and wire rods command a mark-up/premium of USD120-150/MT and generate additional profit of USD60-80/MT. As such, we believe the new capacities would underpin profit margins and improve earnings by c.5% in FY19. In addition, the completion of Japan Alumina Associates (JAA) acquisition in end-Feb 2019 should provide a 10-month earnings contribution to the group in FY19, improving earnings by c.3% after considering financing costs.

No changes in FY19-20E CNPs of RM685-810m as updates are consistent with expectations.

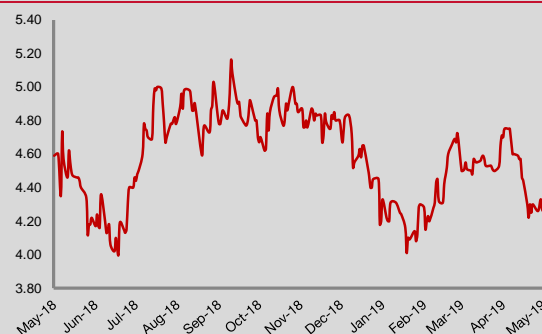
Maintain MARKET PERFORM with an unchanged Target Price of RM4.50, based on FY20E PER of 21.8x, implying -0.5SD valuation basis. Despite its long-term positive operating outlook and earnings growth potential, volatility in the aluminium and alumina markets could continue to disrupt earnings' visibility in the near term.

Risks to our call include sharp rises/falls in aluminium prices and raw material prices as well as major plant disruptions/closure.

MARKET PERFORM ↔

Price : RM4.45
Target Price : RM4.50 ↔

Share Price Performance



KLCI 1,623.67
YTD KLCI chg -4.0%
YTD stock price chg -7.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PMAH MK EQUITY
Market Cap (RM m)	17,906.7
Shares outstanding	4,024.0
52-week range (H)	5.20
52-week range (L)	3.93
3-mth avg daily vol:	1,667,152
Free Float	53%
Beta	1.6

Major Shareholders

Alpha Milestone Sdn Bhd	23.4%
Dato' Koon Poh Keong	14.5%
Koon Poh Ming	9.2%

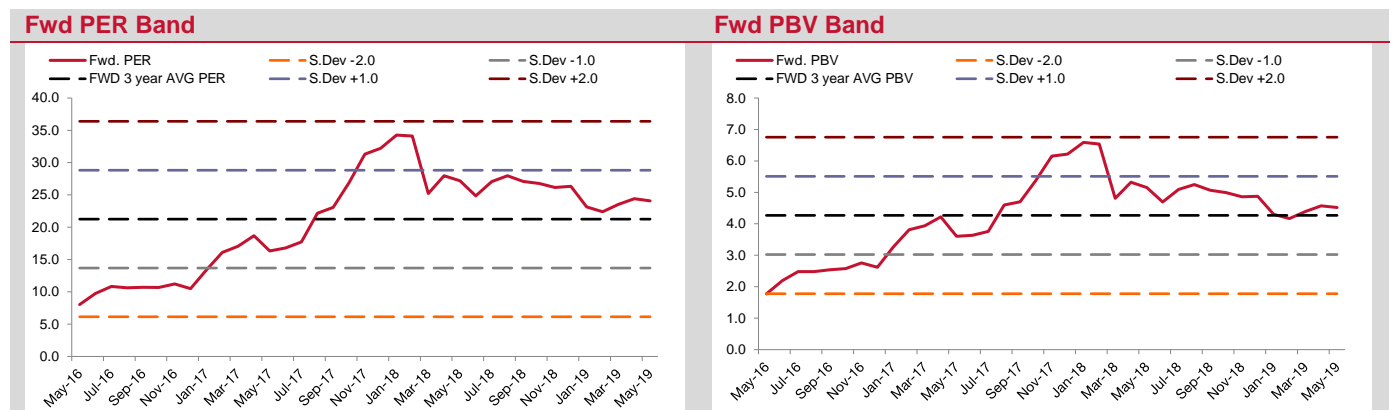
Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	9,159	9,310	9,466
EBIT	1,053	1,224	1,386
PBT	875	1,076	1,249
Net Profit (NP)	630	685	810
Core NP	626	685	810
Consensus (CNP)	N.A.	667	725
Earnings Revision	0%	0%	0%
Core EPS (sen)	16.7	18.3	21.7
Core EPS gwth (%)	3.9%	9.6%	18.2%
FD Core EPS (sen)	16.0	17.5	20.7
NDPS (sen)	6.5	6.0	7.0
BV/Share (RM)	0.87	0.99	1.14
Core PER	26.6	24.3	20.5
FD Core PER	27.9	25.4	21.5
Price/BV (x)	5.1	4.5	3.9
Net Gearing (x)	0.8	0.4	0.2
Net Dvd Yield (%)	1.5	1.3	1.6

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	6,649	8,176	9,159	9,310	9,466	Growth (%)					
EBITDA	1,190	1,396	1,345	1,607	1,782	Revenue	53.9	23.0	12.0	1.7	1.7
Depreciation	362	401	389	383	396	EBITDA	104.1	17.3	(3.6)	19.5	10.8
Operating Profit	828	995	1,053	1,224	1,386	Operating Profit	154.3	20.2	5.8	16.3	13.2
Financial Costs	156	189	127	151	140	Pre-tax Income	190.9	19.8	8.2	23.0	16.1
Associate	3	3	3	3	3	Core Net Income	85.3	40.0	3.9	9.6	18.2
PBT	675	809	875	1,076	1,249	Profitability (%)					
Taxation	69	62	90	161	175	EBITDA Margin	17.9	17.1	14.7	17.3	18.8
Minority Interest	122	153	155	229	264	Operating Margin	12.5	12.2	11.5	13.2	14.6
Net Profit	484	593	630	685	810	PBT Margin	10.1	9.9	9.6	11.6	13.2
Core Net Profit	430	602	626	685	810	Core Net Margin	6.5	7.4	6.8	7.4	8.6
						Effective Tax Rate	10.2	7.7	10.2	15.0	14.0
						ROE	19.5	26.5	19.3	18.5	19.1
						ROA	5.6	7.6	7.6	7.4	8.4
						DuPont Analysis					
						Net Margin (%)	6.5	7.4	6.8	7.4	8.6
						Assets T/over (x)	0.9	1.0	1.1	1.0	1.0
						Leverage Factor(x)	3.5	3.5	2.5	2.5	2.3
						ROE (%)	19.5	26.5	19.3	18.5	19.1
						Leverage					
						Debt/Asset (x)	0.4	0.4	0.4	0.4	0.3
						Debt/Equity (x)	1.5	1.4	0.9	0.9	0.7
						Net Cash/(Debt)	(3,005)	(2,865)	(2,745)	(3,189)	(2,528)
						Net Debt/Equity (x)	1.4	1.3	0.8	0.9	0.6
						Valuations					
						EPS (sen)	12.9	15.9	16.9	18.3	21.7
						Core EPS (sen)	11.5	15.2	16.7	18.3	21.7
						FD Core EPS (sen)	11.0	15.4	16.0	17.5	20.7
						NDPS (sen)	8.5	6.0	6.5	6.0	7.0
						BVPS (RM)	0.59	0.61	0.87	0.99	1.14
						PER (x)	34.4	28.0	26.4	24.3	20.5
						Core PER (x)	38.7	29.4	26.6	24.3	20.5
						FD Core PER (x)	40.5	29.0	27.9	25.4	21.5
						Net Div. Yield (%)	1.9	1.3	1.5	1.3	1.6
						P/BV (x)	7.5	7.3	5.1	4.5	3.9
						EV/EBITDA (x)	16.7	14.1	14.5	12.4	10.9

Source: Kenanga Research



Source: Bloomberg, Kenanga Research



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Peer Comparison

Name	Last Price	Market	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				Cap (RM'm)	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BUILDING MATERIALS UNDER COVERAGE																		
ANN JOO RESOURCES BHD	1.39	748.8	Y	12/2019	-19.4%	12.5%	-91.1%	27.0%	5.8	65.3	51.4	0.6	0.6	0.9%	0.0%	1.15	UP	
PRESS METAL ALUMINIUM HOLDINGS BHD	4.45	17,906.7	Y	12/2019	1.7%	1.7%	9.6%	18.2%	26.6	24.3	20.5	5.1	4.5	19.7%	1.3%	4.50	MP	
UNITED U-LI CORP BHD	0.610	132.9	Y	12/2019	-21.6%	-9.6%	-41.4%	147.1%	6.8	10.2	5.5	0.5	0.5	0.6%	0.5%	0.450	MP	
WHITE HORSE BHD	1.17	267.0	Y	12/2019	-1.0%	6.0%	-257.6%	657.1%	N.A.	N.A.	188.7	0.4	0.4	-1.4%	0.0%	1.15	MP	
Simple Average					-10.1%	2.6%	-95.1%	212.4%	13.1	33.3	66.6	1.6	1.5	5.0%	0.5%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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