

Press Metal Aluminium

Going Up the Value Chain

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PMETAL has inked an MoU for the intention to subscribe for a 25% stake in PT BAI. The subscription would entitle PMETAL to 250-500k MT of alumina supply, satisfying 16-33% of PMETAL's annual alumina requirements. No changes in FY19-20E CNPs of RM685-810m. Maintain MP with TP of RM4.50.

More alumina availability. Press Metal Aluminium Holdings (PMETAL) has inked a memorandum of understanding (MoU) with PT Bintan Alumina Indonesia (PT BAI), which entails a proposed share subscription by PMETAL for a 25% stake in PT BAI. We gather that PT BAI does not generate any earnings at the moment, but is in the midst of constructing a 1m MT (annual capacity) alumina refinery plant in Galang Batang, with plans for a second phase – perhaps another 1m MT capacity as implied by news sources, subject to regulatory approval. The subscription, if materialises, would entitle PMETAL to 250k MT (or 500k MT on potential full 2m MT capacity) of alumina supply, satisfying c.16% (or 33% on 2m MT capacity) of PMETAL's annual alumina requirements. Recall that the recent stake acquisition of Japan Alumina Associates (Australia) Pty. Ltd. (JAA) already entitles PMETAL to 230k MT of alumina supply – implying that one-third to half of its annual requirements inputs are sealed should the PT BAI subscription materialise.

Gearing to remain manageable. We expect the subscription consideration to fall in the range of RM1.26-1.47b (assuming construction of 2m MT plant eventually) based on valuation of USD600-700 per MT of alumina capacity and USD/MYR of 4.20. This represents a 13-25% discount to the recent stake purchase in JAA at c.USD800 per MT as JAA also owns a Bauxite facility. Based on our purchase price estimation as well as assuming the subscription is to be fully funded by debt, gearing should increase from 0.8x as at 31 Mar 2019 to 1.1x post-exercise (if any). We deem this manageable given PMETAL's excellent cash flow generation capabilities – as demonstrated by how rapidly the group pared down its gearing from 1.9x in FY13 to 0.7x in FY18.

Earnings contribution only in FY21. Management expects the plant construction to be completed by end of next year, implying that earnings contribution would only kick in from FY21 onwards. Hence, we are not overly excited by the development for the near term, although we acknowledge its long-term potential as the subscription could generate share of associates' profit of c.RM63m (or 126m on 2m-MT capacity) based on industry alumina margin of USD60/MT, representing 10-20% of PMETAL's current profit levels.

No change to FY19-20E CNP of RM685-810m as the development is only at MoU stage and, even if it materialises, there would likely be no earnings contribution before FY21.

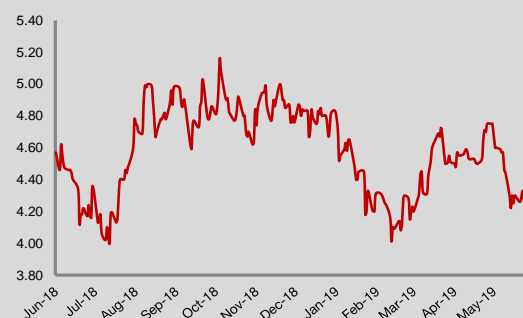
Maintain MARKET PERFORM with an unchanged Target Price of RM4.50, based on FY20E PER of 21.8x, implying -0.5SD valuation basis. Despite its long-term positive operating outlook and earnings growth potential, volatility in the aluminium and alumina markets could continue to disrupt earnings' visibility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

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

MARKET PERFORM ↔

Price : RM4.48
Target Price : RM4.50 ↔

Share Price Performance



KLCI	1,650.76
YTD KLCI chg	-2.4%
YTD stock price chg	-7.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PMAH MK EQUITY
Market Cap (RM m)	18,027.5
Shares Outstanding	4,024.0
52-week range (H)	5.20
52-week range (L)	3.93
3-mth avg daily vol:	1,681,083
Free Float	53%
Beta	1.5

Major Shareholders

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

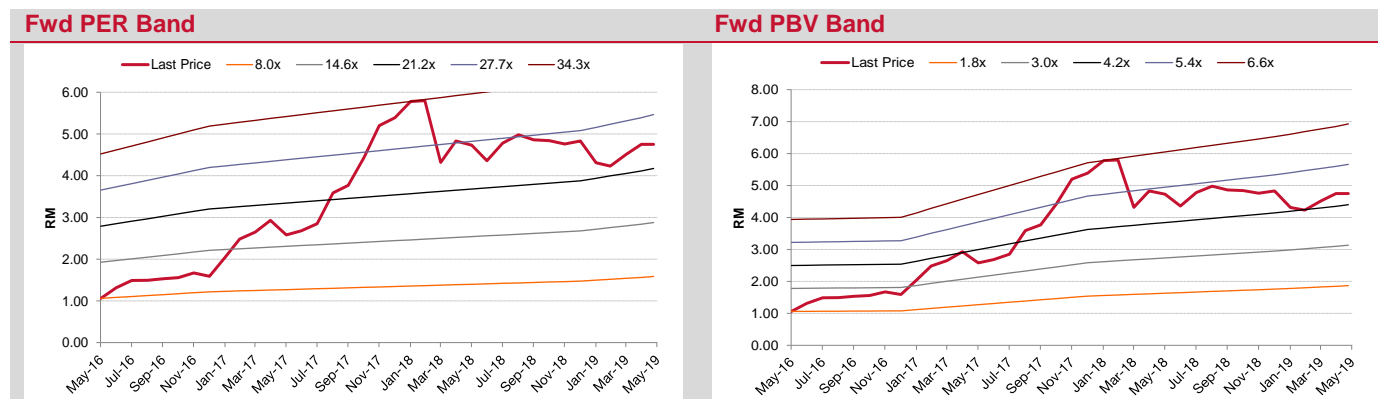
Summary Earnings Table

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.	658	722
Earnings Revision	N.A.	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	26.8	24.4	20.7
FD Core PER	28.1	25.6	21.7
Price/BV (x)	5.2	4.5	3.9
Net Gearing (x)	0.7	0.7	0.5
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)	1.1	1.0	0.7	0.7	0.5
						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	1.41	759.6	Y	12/2019	-19.4%	12.5%	-91.1%	27.0%	5.9	66.3	52.2	0.6	0.6	0.9%	0.0%	1.15	UP
PRESS METAL ALUMINIUM HOLDINGS BHD	4.48	18,027.5	Y	12/2019	1.7%	1.7%	9.6%	18.2%	26.8	24.4	20.7	5.2	4.5	19.7%	1.3%	4.50	MP
UNITED U-LI CORP BHD	0.560	122.0	Y	12/2019	-21.6%	-9.6%	-41.4%	147.1%	6.2	9.3	5.1	0.4	0.4	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%	13.0	33.3	66.7	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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