

19 August 2020

# Press Metal Aluminium

## Positive Price Outlook

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

The weak 2QFY20 results are well anticipated given the sharp fall in aluminium price during that period. However, we are turning positive on the stock as a quick recovery in selling prices while raw material cost remains favourable should forge into strong earnings in 2HFY20 and beyond. Together with the 42% new Samalaju Phase 3 capacity, FY21 is the key focus. Hence, we upgrade the stock to OP from MP with revised TP of RM5.95.

**2QFY20 results in line.** 2QFY20 core profit of RM73.2m matched expectations which brought 1HFY20 core earnings to RM179.1m which made up 48%/46% of house/street FY20 estimates. However, a stronger 2HFY20 is expected given the swift recovery of aluminium prices soaring above USD1,700/MT currently from USD1,500/MT three months ago and against average spot price of USD1,598/MT in 1HFY20. Meanwhile, it declared 2<sup>nd</sup> interim NDPS of 1.0 sen (ex-date: 04 Sep; payment date: 28 Sep) in 2QFY20, firming 1HFY20 NDPS to 2.0 sen which is lower than the 2.5 sen paid in 1HFY19.

**Earnings hit by lower aluminium prices.** Sequentially, 2QFY20 core profit contracted 31% to RM73.2m from RM105.9m as revenue dipped 5% to RM1.73b. This was primarily due to the fall in aluminium prices where the aluminium LME average price eased 11% further to USD1,501/MT from USD1,691/MT in 1QFY20. On the other hand, PMETAL also benefited from lower alumina and carbon anode prices. The reported average spot alumina price fell to USD246/MT or 16.4% of aluminium LME price in 2QFY20 as opposed to USD289/MT or 16.5% in the preceding quarter.

**But raw material costs were lower as well.** YoY, 2QFY20 core profit also declined 31% from RM106.5m as revenue slumped 19% as LME aluminium prices contracted sharply by 16% from USD1,794/MT while alumina also declined sharply by 38% from USD396/MT which made up 22.0% of aluminium prices in 2QFY19. As such, the greater drop in raw material prices as opposed to ASP led to a smaller magnitude YoY drop than QOQ. Meanwhile, associate income declined to RM2.3m from RM5.3m while depreciation charges jumped 14% after reclassifying JAA to JV accounting from associate income since 1QFY20. Similarly, 1HFY20 core profit decreased 18% to RM179.1m as revenue fell 17%, due to decline in aluminium prices as LME aluminium prices fell 13% to USD1,598/MT while alumina price also plummeted by 34% to USD264/MT or 16.4% of aluminium prices.

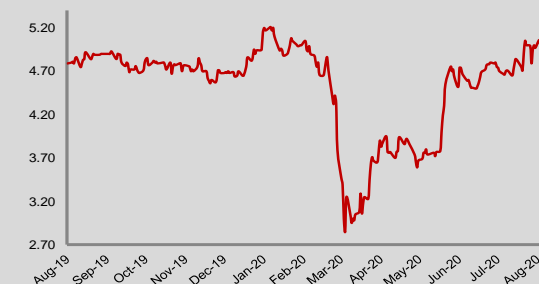
**A stronger 2HFY20 as aluminium prices recover swiftly.** This 2QFY20 should be the weakest quarter in FY20 given the swift recovery in aluminium after it plunged to as low as USD1,425/MT in early Apr as the COVID-19 pandemic disrupted business activities globally. With gradual business resumption around the globe which resulted in rising commodity prices, we believe the worst is over for the aluminium prices. As such, we raised our aluminium price assumption to USD1,730-1,830/MT for FY20-21 from USD1,700-1,830/MT with alumina-to-aluminium price ratio unchanged at 17-16.5%. Thus, our FY20/FY21 estimates are upgraded by 13%/17% and NDPS also raised proportionally based on unchanged pay-out of 40%.

**Upgrade to OP.** We turned positive on PMETAL given the strong recovery in aluminium price, and with the Samalaju Phase 3 to kick start in early 2021, FY21 will be a strong growth year. As such, we upgrade the stock to OP from MP. We are also re-basing our valuation method back to the pre-MCO level which is +0.5SD to 5-year mean at 31.5x FY21 PER. Hence, we upgraded our target price to RM5.95 from RM4.45 which was based on 3-year PBV mean of 1.37x. Risk to our upgrade is a sharp decline in aluminium prices if the recovery of the economy is prolonged.

**OUTPERFORM** ↑

Price: **RM4.98**  
Target Price: **RM5.95** ↑

### Share Price Performance



KLCI 1,577.85  
YTD KLCI chg -0.7%  
YTD stock price chg 7.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PMAL MK
Market Cap (RM m)	20,109.8
Shares Outstanding	4,038.1
52-week range (H)	5.24
52-week range (L)	2.74
3-mth avg daily vol:	3,129,765
Free Float	29%
Beta	1.4

### Major Shareholders

Alpha Milestone Sdn Bhd	23.3%
Koon Poh Keong	14.5%
Koon Poh Ming	7.2%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	8559	7209	9348
EBIT	800	761	1183
PBT	633	564	1023
Net Profit (NP)	471	425	763
Core Net Profit	497	425	763
Consensus (NP)		386	651
Earnings Rev. (%)		13.1	16.7
Core EPS (sen)	12.3	10.5	18.9
Core EPS growth (%)	-23.7	-14.5	79.6
FD Core EPS (sen)	5.0	4.2	7.6
NDPS (sen)	3.26	3.47	3.89
BV/Share (RM)	3.26	3.47	3.89
Core PER (x)	37.8	47.3	26.4
FD Core PER (x)	1.43	1.43	1.28
PBV (x)	1.42	1.43	1.28
Net Gearing (x)	0.94	0.87	0.86
Net Dividend Yield (%)	1.1	0.8	1.5



19 August 2020

## Income Statement

Y/E Dec (RM m)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
Turnover	1,730.6	1,830.0	-5%	2,133.6	-19%	3,560.6	4,304.9	-17%
EBITDA	266.7	286.0	-7%	254.2	5%	552.7	540.9	2%
Depreciation	(105.8)	(102.2)	4%	(92.5)	14%	(207.9)	(183.9)	13%
EBIT	160.9	183.9	-13%	161.7	-1%	344.7	357.0	-3%
Interest expense	(39.2)	(44.7)	-12%	(47.8)	-18%	(83.9)	(91.9)	-9%
Associates	2.3	2.2	3%	5.3	-57%	4.6	8.1	-43%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	124.9	143.6	-13%	123.5	1%	268.5	279.0	-4%
Taxation	(8.6)	(13.4)	-35%	(4.4)	97%	(22.0)	(16.6)	32%
Profit after tax	116.3	130.3	-11%	119.1	-2%	246.5	262.4	-6%
Minority interest	(26.2)	(27.7)	-5%	(16.2)	62%	(53.9)	(44.4)	21%
Net profit	90.1	102.6	-12%	102.9	-12%	192.6	218.0	-12%
Core net profit	73.2	105.9	-31%	106.5	-31%	179.1	217.1	-18%
EPS (sen)	1.8	2.6	-31%	2.6	-31%	4.4	5.4	-18%
NDPS (sen)	1.00	1.00	0%	1.25	-20%	2.00	2.50	-20%
NTA/share (RM)	0.81	0.79	3%	0.80	2%	0.81	0.80	2%
EBITDA margin	15%	16%		12%		16%	13%	
EBIT margin	9%	10%		8%		10%	8%	
Pretax margin	7%	8%		6%		8%	6%	
Effective tax rate	7%	9%		4%		8%	6%	
<b>USD/MT</b>								
LME Cash Price	1,501.0	1,690.8	-11%	1,794.0	-16%	1,598.2	1,828.8	-13%
MJP Premium For P1020	85.0	83.0	2%	105.0	-21%	84.0	95.0	-12%
<b>All-In Aluminium Price</b>	<b>1,583.0</b>	<b>1,773.8</b>	<b>-11%</b>	<b>1,899.0</b>	<b>-17%</b>	<b>1,680.7</b>	<b>1,923.8</b>	<b>-13%</b>
MYR: USD	4.32	4.18		4.15		4.25	4.12	

Source: Company

## Segment Breakdown

Y/E Dec (RM m)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
<b>Turnover</b>								
Smelting & Extrusion	1,711.1	1,812.0	-6%	2,104.5	-19%	3,523.1	4,256.0	-17%
Contracting & Others	19.4	18.0	8%	29.1	-33%	37.4	48.9	-23%
<b>Group Turnover</b>	<b>1,730.6</b>	<b>1,830.0</b>	<b>-5%</b>	<b>2,133.6</b>	<b>-19%</b>	<b>3,560.6</b>	<b>4,304.9</b>	<b>-17%</b>
<b>Segment Results</b>								
Smelting & Extrusion	178.5	196.4	-9%	168.0	6%	374.9	367.2	2%
Contracting & Others	(17.6)	(12.5)	41%	(6.3)	181%	(30.1)	(10.1)	198%
<b>Group EBIT</b>	<b>160.9</b>	<b>183.9</b>	<b>-13%</b>	<b>161.7</b>	<b>-1%</b>	<b>344.7</b>	<b>357.0</b>	<b>-3%</b>
<b>EBIT Margin</b>								
Smelting & Extrusion	10.4%	10.8%		8%		11%	9%	
Contracting & Others	-90.8%	-69.5%		-22%		-81%	-21%	
<b>Group EBIT</b>	<b>9%</b>	<b>10%</b>		<b>8%</b>		<b>10%</b>	<b>8%</b>	

Source: Company

19 August 2020

### Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap	Compliant	FYE	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.	Price (RM)	
ANN JOO RESOURCES BHD	0.680	366.9	Y	12/2020	-10.4%	12.4%	-146.9%	-121.7%	N.A.	N.A.	N.A.	0.3	0.3	-5.1%	0.0%	0.550	UP
PRESS METAL ALUMINUM HOLDINGS BHD	4.98	20,109.8	Y	12/2020	-15.8%	29.7%	-14.5%	79.5%	29.6	35.4	21.9	5.5	5.2	11.6%	0.8%	5.95	OP
UNITED U-LI CORPORATION BHD	0.395	86.0	Y	12/2020	-5.3%	3.0%	-80.0%	66.7%	N.A.	197.5	197.5	0.3	0.3	0.1%	0.0%	0.250	UP
WHITE HORSE BHD	0.600	136.6	Y	12/2020	-5.4%	3.9%	-182.8%	-177.4%	N.A.	N.A.	N.A.	0.2	0.2	-8.6%	0.0%	0.740	MP
<b>Simple Average</b>					<b>-9.2%</b>	<b>12.2%</b>	<b>-106.0%</b>	<b>-38.2%</b>	<b>29.6</b>	<b>116.5</b>	<b>109.7</b>	<b>1.6</b>	<b>1.5</b>	<b>-0.5%</b>	<b>0.2%</b>		

Source: Bloomberg, Kenanga Research

*This section is intentionally left blank*

19 August 2020

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

