

Press Metal Aluminium

3QFY21 Below But Still A Record Quarter

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3QFY21 was another record quarter with core profit rising 15% QoQ to RM285.4m on soaring aluminium prices. But, the results missed forecast on higher-than-expected operating costs as logistic and raw material costs spiked. Nonetheless, we remain upbeat on its earnings prospects given aluminium prices are expected to stay high in the near term while its fully commissioned P3 Plant will lead volume growth. Thus, it remains an OP with revised TP of RM6.96.

3QFY21 below expectation... 3QFY21 is another record quarter with core profit rising 15% QoQ to RM285.4m but came below expectation as operating costs accelerated faster than expected that capped its earnings jump. 9MFY21 core profit of RM753.4m only made up 61%/66% of house/street's FY21 estimates. Meanwhile, it declared 3rd interim NDPS of 1.0 sen (ex-date: 14 Dec; payment date: 31 Dec), meeting expectations, bringing YTD 9MFY21 NDPS to 2.75 sen vs. 1.50 sen paid in 9MFY20.

... as cost accelerated... Although revenue jumped RM246.9m or 9% QoQ to RM2.89b, 3QFY21 core profit which rose RM37.9m (or 15% only) to RM285.4m largely due to the fast acceleration of operating costs arising from elevated logistic cost as well raw material costs namely alumina (spot price +11%) and carbon anode (spot price +7%) while the MCO lockdown reduced workforce that affected operating efficiency. This led to operating margin falling to 14% from 15%. The average LME aluminium spot price rose 10% to USD2,646/MT in 3QFY21. Meanwhile, its P3 Plant was fully commissioned in Oct which helped to increase production volume. Higher associate income of RM20.3m from RM8.0 was largely due to: (i) higher earnings from PMB Tech and (ii) maiden earnings from PT Bintan.

... but still a record earnings. YoY, 3QFY21 and 9MFY21 core profit leapt 127% and 147% to RM285.4m and RM753.4m with revenue surging 55% and 41%, respectively, thanks to the skyrocketing aluminium prices coupled with new capacity kicking in from P3 Plant since last December. Over the year, the average aluminium spot price jumped 55% and 46% to USD2,646/MT in 3QFY21 and USD2,381/MT in 9MFY21 respectively. However, average alumina spot price only rose 19% and 15% for the same period to USD326/MT and USD309/MT which made up 12.3% and 13.1% of the aluminium spot prices as opposed to the normalised range of 16-17%. Nonetheless, carbon anode spot price soared 62% and 49% to CNY4,350/MT and CNY3,989/MT, respectively.

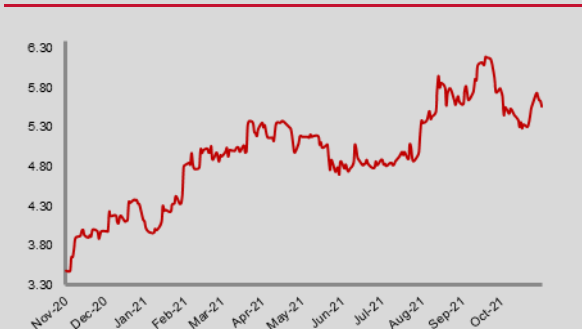
Earnings prospect remain promising. Current aluminium price remains solid at above USD2,600/MT level with QTD average of USD2,789/MT and YTD average of USD2,456/MT against our FY21/FY22 assumption of USD2,050-2,100/MT. Post 3QFY21 results, we raised aluminium price assumption to USD2,100-2,400/MT with higher operating cost assumptions as well (refer to page 3 for detailed table). This led to FY21E CNP cut by 10.3% but FY22E CNP is raised by 3.5%. On the other hand, our forecasts did not factor in the IRB's additional assessment amounting to RM106.1m that was imposed on PM Bintulu on 25 Nov for the years of assessments from 2014 to 2019. PMETAL will appeal the Notice of Additional Assessment.

OUTPERFORM maintained. Although 3QFY21 results came below our expectation, we remain upbeat on its earnings prospect given the elevated aluminium prices coupled with the new 42% additional capacity expansion from P3 Plant. As such, we continue to rate the stock an OP with a higher TP of RM6.96 from RM6.50 based on unchanged +0.5SD to 5-year FY22 rolling mean of 33x PER from 32x PER. **Key risks** to our recommendation are sharp falls in aluminium prices, an escalation of raw material prices as well as major plant disruptions/closure.

OUTPERFORM ↔

Price: RM5.57
Target Price: RM6.96 ↑

Share Price Performance



KLCI	1,512.22
YTD KLCI chg	-7.1%
YTD stock price chg	32.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PMAH MK
Market Cap (RM m)	44,984.5
Shares Outstanding	8,076.2
52-week range (H)	6.29
52-week range (L)	3.50
3-mth avg daily vol:	8,285,067
Free Float	38%
Beta	1.3

Major Shareholders

Alpha Milestone Sdn Bhd	22.3%
Koon Poh Keong	14.5%
Koon Poh Ming	6.8%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	7539	10519	12883
EBIT	780	1572	2280
PBT	650	1498	2300
Net Profit (NP)	457	1112	1703
Core Net Profit	445	1112	1703
Consensus (NP)		1142	1997
Earnings Rev. (%)		-10.3	+3.5
Core EPS (sen)	5.5	13.8	21.1
Core EPS growth (%)	-10.8	149.7	53.1
NDPS (sen)	2.1	5.5	8.4
BV/Share (RM)	0.51	0.56	0.69
NTA/Share (RM)	0.50	0.56	0.68
PER (x)	76.0	40.4	26.4
PBV (x)	8.27	9.89	8.07
P/NTA (x)	8.40	10.03	8.17
Net Gearing (x)	1.03	0.69	0.53
Net Dividend Yield (%)	0.5	1.0	1.5



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Income Statement								
Y/E Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
Turnover	2,886.8	2,639.9	9%	1,862.1	55%	7,628.4	5,422.6	41%
EBITDA	525.9	499.0	5%	311.3	69%	1,445.9	864.0	67%
Depreciation	-113.6	-90.7	25%	-101.6	12%	-301.5	-309.6	-3%
EBIT	412.3	408.3	1%	209.7	97%	1,144.4	554.4	106%
Interest expense	-39.9	-40.3	-1%	-39.7	1%	-120.5	-123.5	-2%
Associates	20.3	8.0	154%	1.4	1397%	31.1	5.9	425%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	394.0	376.8	5%	172.9	128%	1,059.0	441.4	140%
Taxation	-22.8	-39.7	-43%	-19.3	18%	-92.1	-41.3	123%
Profit after tax	371.2	337.1	10%	153.6	142%	966.9	400.2	142%
Minority interest	-87.9	-81.5	8%	-31.7	177%	-222.3	-85.6	160%
Net profit	283.3	255.6	11%	122.0	132%	744.6	314.6	137%
Core net profit	285.4	247.5	15%	126.0	127%	753.4	305.0	147%
EPS (sen)	3.5	3.1	15%	1.6	127%	9.3	3.8	147%
NDPS (sen)	1.00	1.00	0%	0.50	100%	2.75	1.50	83%
NTA/share (RM)	0.42	0.43	-4%	0.46	-9%	0.42	0.46	-9%
EBITDA margin	18%	19%		17%		19%	16%	
EBIT margin	14%	15%		11%		15%	10%	
Pretax margin	14%	14%		9%		14%	8%	
Core net margin	10%	9%		7%		10%	6%	
Effective tax rate	6%	11%		11%		9%	9%	
Spot Price								
Aluminium (USD/MT)	2,646	2,401	10%	1,706	55%	2,381	1,633	46%
Alumina (USD/MT)	326	295	11%	274	19%	309	268	15%
Carbon Anode (CNY/MT)	4,350	4,049	7%	2,690	62%	3,989	2,671	49%

Source: Company/Bloomberg

Segment Breakdown								
Y/E Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
Turnover								
Smelting	2,368.1	2,110.6	12%	1,387.5	71%	6,107.5	4,161.2	47%
Extrusion	403.7	436.7	-8%	386.6	4%	1,228.4	998.0	23%
Refinery	106.9	87.4	22%	74.6	43%	260.9	212.8	23%
Contracting & Others	8.1	5.3	54%	13.3	-39%	31.5	50.8	-38%
Group Turnover	2,886.8	2,639.9	9%	1,862.1	55%	7,628.4	5,422.6	41%
Segment Results								
Smelting	408.8	384.7	6%	198.9	105%	1,076.0	551.3	95%
Extrusion	-1.8	5.3	-133%	21.1	-108%	27.9	24.9	12%
Refinery	17.8	16.8	6%	5.5	225%	48.8	24.1	102%
Contracting & Others	-12.5	1.5	-929%	-15.8	-21%	-8.3	-45.9	-82%
Group EBIT	412.3	408.3	1%	209.7	97%	1,144.4	554.4	106%
EBIT Margin								
Smelting	17.3%	18.2%		14%		18%	13%	
Extrusion	-0.4%	1.2%		5%		2%	2%	
Refinery	17%	19%		7%		19%	11%	
Contracting & Others	-154%	29%		-119%		-26%	-91%	
Group EBIT	14%	15%		11%		15%	10%	

Source: Company

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Key Assumptions

	Old		New	
	FY21	FY22	FY21	FY22
Aluminium (USD/MT)	2,050	2,100	2,100	2,400
Alumina (USD/MT)	338	346	347	396
Alumina Price % to Aluminium Prices	16.5	16.5	16.5	16.5
Carbon Anode (CNY/MT)	3,100	3,100	4,200	4,500
Smelting Capacity (MT)	1,080	1,080	1,080	1,080
Smelting Utilisation (%)	89.6	97.9	89.6	97.9
Logistic Cost Per MT	18	18	30	50
USD/MYR	4.20	4.20	4.20	4.20
CNY/MYR	0.60	0.60	0.65	0.65

Source: Kenanga Research

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	1.93	1,047.5	Y	12/2021	49.1%	2.6%	385.2%	-41.2%	N.A.	4.6	7.8	0.9	0.9	22.7%	5.4%	2.20	MP
PRESS METAL ALUMINUM HOLDINGS BHD	5.57	44,984.5	Y	12/2021	39.5%	22.5%	149.7%	53.1%	33.1	39.6	24.5	11.0	9.9	25.7%	0.4%	6.96	OP
UNITED U-LI CORPORATION BHD	1.32	287.5	Y	12/2021	26.9%	12.1%	637.5%	-1.7%	50.8	7.0	7.1	1.0	1.0	14.3%	4.2%	1.85	OP
Simple Average					38.5%	12.4%	390.8%	3.4%	41.9	17.1	13.2	4.3	3.9	20.9%	3.3%		

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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