

Press Metal Aluminium

No China Reopening Boost

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PMETAL's 1QFY23 results disappointed on weaker-than-expected ASP realised. China's reopening has not significantly boosted demand for aluminium. However, the permanent shutdown of smelters powered by fossil fuels coupled with Western sanctions on Russia will keep global aluminium supply in check. We cut FY23-24F earnings forecasts by 26% and 19%, respectively, reduce our TP by 9% to RM5.74 (from RM6.30) but maintain our OUTPERFORM call.

1QFY23 core profit of RM284.8m disappointed, coming in at only 16% each of both our full-year forecast and the full-year consensus estimate. The variance against our forecast came largely from weaker-than-expected ASP realised. Spot aluminium prices traded on London Metal Exchange (LME) averaged at USD2,401/MT in 1QFY23 vs. our full-year assumption of USD2,450/MT. It declared a first interim NDPS of 1.75 sen (ex-date: 14 Jun; payment date: 30 Jun) vs. 1.5 sen a year ago.

YoY. 1QFY23 revenue contracted 22% to RM3.07b due to the softening of ASP as average LME aluminium spot price declined 26% to USD2,401/MT from USD3,261/MT. Similarly, core profit fell 33% to RM284.8m as revenue declined. In addition, associate incomes were also lower (-73%) owing to a sharp decline of earnings contribution from 25%-owned (effective stake) alumina miner PT Bintan in Indonesia due to double whammy of lower ASP but higher input cost.

QoQ. 1QFY23 topline fell 22%, despite a higher ASP (LME spot price +3%), due to lower smelting volume sold and extrusion product prices. However, core profit rose 7% on the back of lower input costs as well as lower freight charges which declined 25% sequentially, partially offset by a 67% decline in associate incomes.

Forecasts. We cut FY23-24F earnings forecasts by 26% and 19%, respectively, as we cut: (i) aluminium price assumption to USD2,350/MT-USD2,450/MT from USD2,550/MT-USD2,600/MT previously, and (ii) associate incomes for FY23F. Our long-term aluminium price assumption is also reduced by 4% to USD2,200/MT from USD2,300/MT previously. Correspondingly, we also trimmed dividend forecasts based on an unchanged 40% payout ratio.

Consequently, we reduce our DCF-derived TP by 9% to RM5.74 (WACC: 8.6%; TG: 5%) from RM6.30. Our revised TP carries the same 5% premium by virtue of its 4-star ESG rating as appraised by us (see Page 4).

Outlook. We acknowledge that contrary to expectations, China's reopening has not significantly boosted the demand for aluminium. While the Chinese government has introduced various measures to stabilise the property market, a meaningful recovery is still not quite on the horizon. Similarly, the roll-out of construction and infrastructure projects in China has not been as robust as anticipated.

However, on the supply side, more stringent "green" requirements, especially in China, will see the permanent shutdown of smelters powered by fossil fuels (especially coal), further tightening the global aluminium supply. Also, the Western countries will continue to avoid Russian aluminium that makes up c.6% of world aluminium production. All these factors should keep aluminium prices stable.

OUTPERFORM ↔

Price: RM4.73
Target Price: RM5.74 ↓

Share Price Performance



KLCI 1,396.91
YTD KLCI chg -6.6%
YTD stock price chg -3.1%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker PMAH MK Equity
Market Cap (RM m) 38,973.4
Shares Outstanding 8,239.6
52-week range (H) 5.56
52-week range (L) 3.90
3-mth avg daily vol: 4,120,977
Free Float 37%
Beta 1.7

Major Shareholders

Alpha Milestone Sdn Bhd 33.8%
Koon Weng Poh 7.5%
Koon Ming Poh 6.2%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	15692	15130	15636
EBIT	2024	1796	2064
PBT	1971	1726	2119
Net Profit (NP)	1418	1253	1536
Core Net Profit	1432	1253	1536
Consensus (NP)	-	1751	1907
Earnings Rev. (%)	-	-28.8	-18.7
Core EPS (sen)	17.4	15.2	18.6
Core EPS growth (%)	41.8	-12.5	22.6
NDPS (sen)	6.8	6.1	7.5
BV/Share (RM)	0.81	0.90	1.01
NTA/Share (RM)	0.80	0.89	1.00
PER (x)	28.1	31.1	25.4
PBV (x)	6.05	5.27	4.68
P/NTA (x)	6.11	5.31	4.72
Net Gearing (x)	0.64	0.51	0.30
Net Dividend Yield (%)	1.4	1.3	1.6

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We continue to like PMETAL for its: (i) structural cost advantage over international peers given its access to low-cost hydro-power secured under four long-term PPA contracts ending between 2023 and 2040, (ii) strongly secured alumina supply with stakes in two alumina miners, i.e., Japan Alumina Associate (40%) and PT Bintan (25%) which supply 80% of its requirements, and (iii) green investment appeal as a clean energy source producer. Maintain **OUTPERFORM**.

Risks to our call include: (i) a global recession resulting in a sharp fall in the demand for aluminium, hurting prices, (ii) escalation in the cost of key inputs such as alumina and carbon anode, and (iii) major plant disruptions or plant closure.

Income Statement

FYE Dec (RM m)	1Q FY23	4Q FY22	Q-o-Q Chg	1Q FY22	Y-o-Y Chg	3M FY23	3M FY22	Y-o-Y Chg
Turnover	3,071.7	3,918.4	-22%	3,920.8	-22%	3,071.7	3,920.8	-22%
EBITDA	585.5	517.7	13%	751.1	-22%	585.5	751.1	-22%
Depreciation	-148.3	-151.9	-2%	-136.0	9%	-148.3	-136.0	9%
EBIT	437.2	365.8	20%	615.1	-29%	437.2	615.1	-29%
Interest expense	-62.9	-63.6	-1%	-60.5	4%	-62.9	-60.5	4%
Associates	13.9	41.8	-67%	52.2	-73%	13.9	52.2	-73%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	392.8	346.5	13%	608.7	-35%	392.8	608.7	-35%
Taxation	-37.4	-4.1	813%	-66.5	-44%	-37.4	-66.5	-44%
Profit after tax	355.4	342.4	4%	542.2	-34%	355.4	542.2	-34%
Minority interest	-73.4	-70.2	5%	-121.1	-39%	-73.4	-121.1	-39%
Net profit	282.0	272.2	4%	421.0	-33%	282.0	421.0	-33%
Core net profit	284.8	266.0	7%	424.5	-33%	284.8	424.5	-33%
EPS (sen)	3.5	3.2	7%	5.2	-33%	3.5	5.2	-33%
NDPS (sen)	1.75	1.75	0%	1.50	17%	1.75	1.50	17%
NTA/share (RM)	0.82	0.80	3%	0.38	114%	0.82	0.38	114%
EBITDA margin	19%	13%		19%		19%	19%	
EBIT margin	14%	9%		16%		14%	16%	
Pretax margin	13%	9%		16%		13%	16%	
Core net margin	9%	7%		11%		9%	11%	
Effective tax rate	10%	1%		11%		10%	11%	
Spot Price								
Aluminium (USD/MT)	2,401	2,335	3%	3,261	-26%	2,401	3,261	-26%
Alumina (USD/MT)	358	331	8%	401	-11%	358	401	-11%
Carbon Anode (CNY/MT)	6,097	7,021	-13%	5,136	19%	6,097	5,136	19%

Source: Company/Bloomberg

Segment Breakdown

FYE Dec (RM m)	1Q FY23	4Q FY22	Q-o-Q Chg	1Q FY22	Y-o-Y Chg	3M FY23	3M FY22	Y-o-Y Chg
Turnover								
Smelting	2,624.8	3,288.9	-20%	3,254.5	-19%	2,624.8	3,254.5	-19%
Extrusion	419.5	500.5	-16%	590.9	-29%	419.5	590.9	-29%
Refinery	25.1	115.6	-78%	67.3	-63%	25.1	67.3	-63%
Contracting & Others	2.3	13.3	-83%	8.1	-72%	2.3	8.1	-72%
Group Turnover	3,071.7	3,918.4	-22%	3,920.8	-22%	3,071.7	3,920.8	-22%
Segment Results								
Smelting	413.2	350.4	18%	576.1	-28%	413.2	576.1	-28%
Extrusion	28.7	11.8	143%	38.8	-26%	28.7	38.8	-26%
Refinery	0.6	3.6	-84%	7.5	-92%	0.6	7.5	-92%
Contracting & Others	-5.4	0.0	N/A	-7.2	-25%	-5.4	-7.2	-25%
Group EBIT	437.2	365.8	20%	615.1	-29%	437.2	615.1	-29%
EBIT Margin								
Smelting	15.7%	10.7%		18%		16%	18%	
Extrusion	6.9%	2.4%		7%		7%	7%	
Refinery	2%	3%		11%		2%	11%	
Contracting & Others	-237%	N/A		-89%		-237%	-89%	
Group EBIT	14%	9%		16%		14%	16%	

Source: Company

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANN JOO RESOURCES BHD	UP	1.02	0.750	-26.47%	572.6	Y	12/2023	2.1	7.2	-92.8%	248.3%	48.6	14.2	0.5	1.0%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.595	0.570	-4.20%	257.5	Y	12/2023	5.0	8.2	-33.8%	64.2%	11.9	7.3	0.3	2.6%	0.8	1.3%
OM HOLDINGS LTD	OP	1.82	2.95	62.09%	1,344.3	Y	12/2023	46.8	42.0	16.8%	-10.4%	3.2	3.6	0.7	18.7%	6.6	3.6%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.73	5.74	21.35%	38,973.4	Y	12/2023	15.2	18.6	-12.5%	22.6%	25.7	23.8	5.3	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	MP	1.05	1.15	9.52%	228.7	Y	12/2023	11.7	14.4	-30.9%	23.1%	9.0	7.3	0.6	7.1%	5.0	4.8%
Sector Aggregate					41,376.4							25.0	21.2	3.5	14.1%		2.2%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	★	
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★	★	★
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★	★	
	Legal & Regulatory Compliance	★	★	★		
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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