

05 July 2023

# Building Material

## Preference for Non-Ferrous Metal Players

**OVERWEIGHT**



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We reiterate **OVERWEIGHT** on the sector with preference for non-ferrous metal players. The supply constraints of aluminium, ferrosilicon (FeSi) and silicomanganese (SiMn) will persist due to the decommissioning of highly polluting plants and Western sanctions against Russian aluminium, providing support to prices. However, steel prices are likely to remain in the doldrums in the absence of significant stimulus and a soft property market in China. Our sector top picks are aluminium smelter **PMETAL** (OP; TP: RM5.74) and ferroalloy smelter **OMH** (OP; TP: RM2.95) given their significant cost advantages over their international peers with their main source of energy coming from hydropower, which in turn also make them low-carbon metal players with an added ESG appeal to investors.

**Stable price outlook for non-ferrous metals.** We expect prices of aluminium, FeSi and SiMn to stabilise at the current levels. While China has taken steps to stabilise its property market, the demand for aluminium has yet to pick up significantly. We also gathered that aluminium smelters in China have not increased their production despite China's reopening and the easing in fuel cost. Meanwhile, supply constraints will persist with the decommissioning of fossil fuel-powered smelters (especially coal) due to strict environmental requirements coupled with Western sanctions against Russian aluminium, providing support to aluminium prices. YTD, LME aluminium prices averaged at USD2,347/MT, which is slightly 1% lower than USD2,364/MT in 2HCY22. Meanwhile, YTD, FeSi and SiMn prices averaged at USD1,045/MT and USD1,577/MT, which are 2% and 6% lower than USD1,063/MT and USD1,682/MT registered in 2HCY22, respectively. Hence, aluminium smelter **PMETAL** and FeSi and SiMn producer **OMH** should be able to deliver decent profits.

**Lack of catalyst to drive steel prices higher.** On the other hand, steel prices are likely to remain in the doldrums in the absence of significant stimulus and a soft property market in China. We gathered that the roll-out of large-scale infrastructure projects and a more meaningful pickup in the property sector in China are more likely to materialise towards the later part of 2023. In May, the local long steel price declined to c.RM2,911/tonne (-7% MoM) while local flat steel price declined to RM3,670/tonne (-6% MoM) amidst the slow demand recovery and excess production in China. As such, local steel players including **ANNJOO** (UP; TP: RM0.75), and **ULICORP** (MP; TP: RM1.15) will still not be able to significantly raise selling prices to boost margins. Meanwhile, **ENGTEX** (OP; TP: RM0.58) is well-positioned to benefit from the revival of water projects as the unity government initiates public infrastructure roll-outs. While the company holds dominant market positions in manufacturing pipes for water projects, it's important to note that a significant portion of its revenue still comes from low-margin generic steel products.

**Maintain OVERWEIGHT on the sector.** Our sector top picks are:

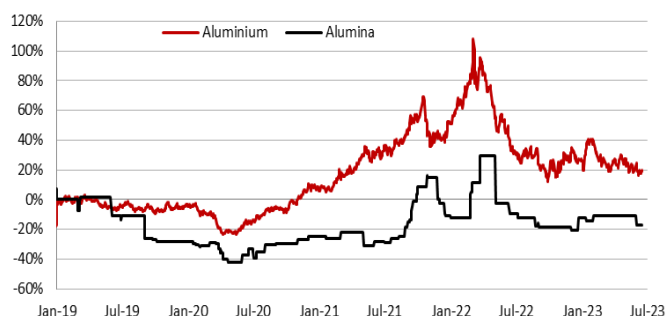
- **PMETAL** given: (i) its structural cost advantage over international peers given its access to low-cost hydro-power, secured under four long-term PPA contracts ending between 2023 and 2040, (ii) its strongly secured alumina supply with stakes in two alumina miners, i.e., Japan Alumina Associate (40%) and PT Bintan (25%) which supply 80% of its requirements, and (iii) its green investment appeal as a clean energy source producer.
- **OMH** given: (i) its structural cost advantage over international peers given its access to low-cost hydro-power under a 20-year contract ending 2033, (ii) its strong growth prospects underpinned by plans to expand its capacity by 30%-36% to 610,000-640,000 metric tonnes per annum over the medium term, and (iii) its appeal to investor given its clean energy source.

**Aluminium Prices**



Source: Bloomberg, Kenanga Research

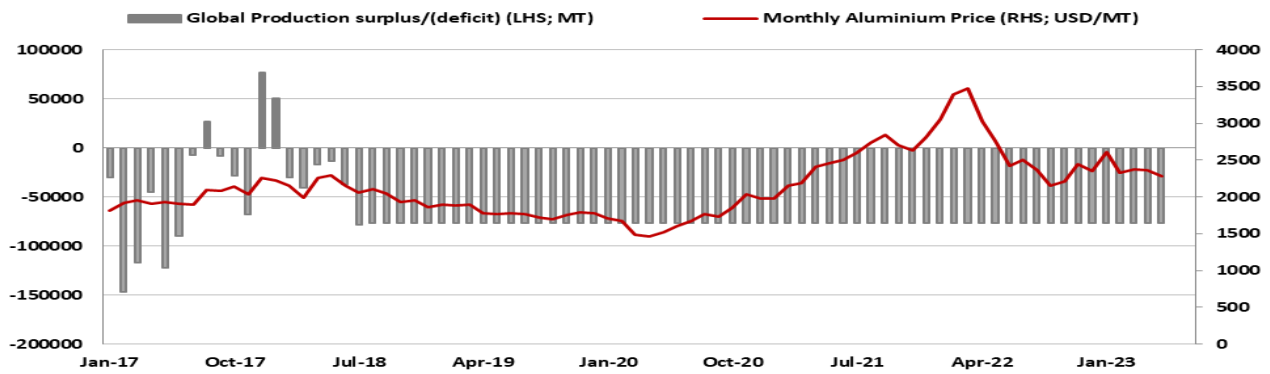
**Aluminium vs. Alumina Prices – % Movement**



Source: Bloomberg, Kenanga Research

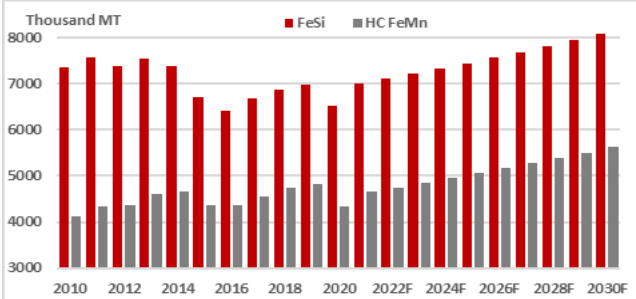
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## Global Production Surplus/Deficit vs. Monthly Aluminium Price



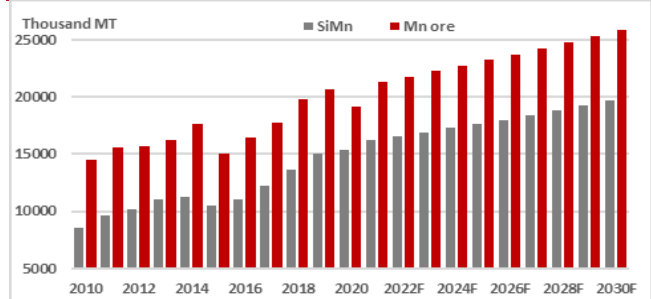
Source: Bloomberg, Kenanga Research

## Global Consumption of FeSi and HC FeMn (2010-2030)



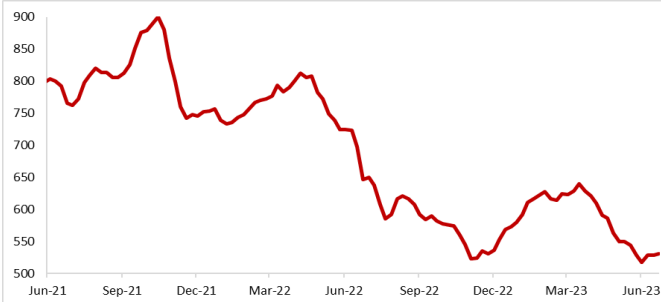
Source: AlloyConsult/World Steel Association

## Global Consumption of SiMn and Mn Ore (2010-2030)



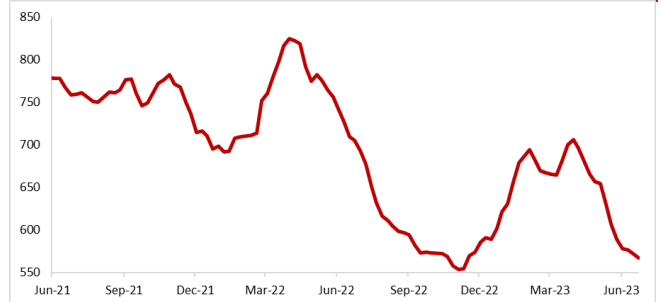
Source: AlloyConsult/World Steel Association

## China Rebar Steel Prices



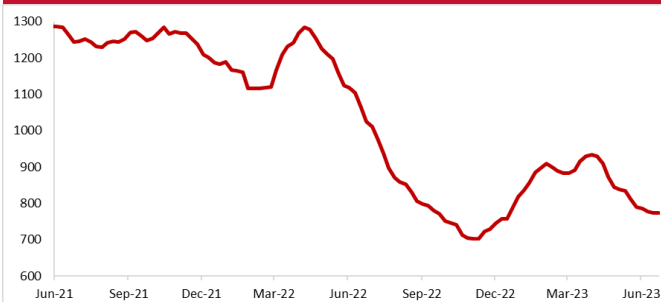
Source: Bloomberg, Kenanga Research

## Malaysia Rebar Steel Prices



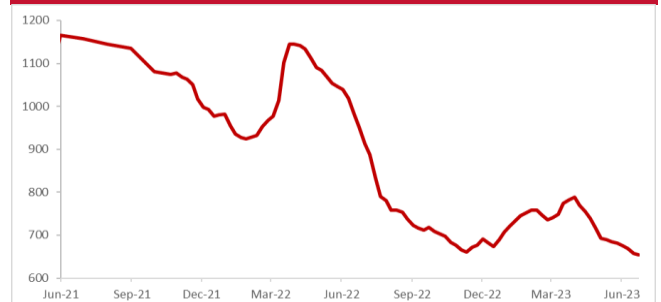
Source: Bloomberg, Kenanga Research

## Malaysia Cold Rolled Coil Prices



Source: Bloomberg, Kenanga Research

## Malaysia Hot Rolled Coil Prices



Source: Bloomberg, Kenanga Research

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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.
<b>Stocks Under Coverage</b>																	
ANN JOO RESOURCES BHD	UP	1.05	0.750	-28.6%	589.4	Y	12/2023	2.1	7.2	-92.8%	248.3%	50.0	14.6	0.5	1.0%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.600	0.580	-3.3%	264.8	Y	12/2023	5.0	8.2	-33.8%	64.2%	12.0	7.3	0.3	2.6%	0.8	1.3%
OM HOLDINGS LTD	OP	1.50	2.95	96.7%	1,107.9	Y	12/2023	46.8	42.0	16.8%	-10.4%	2.6	2.9	0.6	18.7%	6.6	4.4%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.87	5.74	17.9%	40,126.9	Y	12/2023	15.2	18.6	-12.5%	22.6%	26.5	24.5	5.4	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	MP	1.00	1.15	15.0%	217.8	Y	12/2023	11.7	14.4	-30.9%	23.1%	8.5	6.9	0.6	7.1%	5.0	5.0%
<b>Sector Aggregate</b>					<b>42,306.9</b>					<b>1.2%</b>	<b>17.9%</b>	<b>25.5</b>	<b>21.7</b>	<b>3.6</b>	<b>14.1%</b>		<b>2.4%</b>

Source: 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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