

14 September 2023

## Building Material

# OVERWEIGHT



### 2QCY23 Report Card: Backstopped by Weak Supply

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We maintain **OVERWEIGHT** on the sector. There was a slight improvement in earnings delivery (against our expectations) by the sector in the recently-concluded 2QCY23 results season, vs. the preceding quarter. The sector's demand outlook is clouded by economic challenges in China. However, supply constraints arising from the shutdown of polluting production capacity especially in China, sanctions on Russian metals and the stickiness of input cost to the downside should provide a backstop to prices. Our sector top picks are **PMETAL (OP; TP: RM6.00)** and **OMH (OP; TP: RM2.07)**.

**ULICORP stood out.** There was a slight improvement in earnings delivery (against our expectations) by the sector in the recently-concluded 2QCY23 results season, vs. the preceding quarter, with 20%/40%/40% of results coming above/within/below our forecasts, respectively, vs. all disappointed during the preceding quarter. Generally, the top line of all players contracted due to weaker demand and ASP. However, **ULICORP (OP; TP: RM1.22)** beat expectations on stronger margins for its cable support systems as industry consolidation during the pandemic era had reduced competition, boosting pricing power of the remaining players such as **ULICORP**.

**Weak demand cushioned by weak supply.** There has not been any significant pick-up in demand for aluminium despite China's reopening and its government's efforts to stabilise the property market. On the flip side upside, the rising environmental concerns prompting the closure of fossil fuel-powered smelters (especially coal) combined with Western sanctions against Russian aluminium are expected to keep aluminium prices firm. YTD, LME aluminium price average of USD2,280/MT which is 4% lower than 2HCY22's USD2,364/MT. Average YTD prices of ferrosilicon (FeSi) and silicomanganese (SiMn) of USD1,525/MT and USD1,010/MT are 9% and 5% lower against 2HCY22 levels of USD1,682/MT and USD1,063/MT, respectively.

The outlook for the steel sector remains bleak due to various economic challenges in China. The global demand for both long and flat steel remains subdued weighed down by the ongoing property debt crisis in China. Not helping either is the much anticipated roll-out of construction and infrastructure projects following China's reopening has not materialised. To add salt to the wound, the effect of traditional construction peak period in September and October is yet to be felt. However, there is a silver lining for steel prices which could be buoyed by potential supply constraints and stable costs of inputs such as iron ore, scrap metal and coking coal. Hence, we anticipate **ANNJOO (UP; TP: RM0.73)** and **ENGTEX (MP; TP: RM0.58)** to continue facing margin compression as steel ASP continues to fall. As for **ULICORP**, we foresee sustained demand for **ULICORP's** cable support systems that are widely used in transportation, manufacturing and healthcare sectors.

**Maintain OVERWEIGHT.** We remain positive on the aluminium sector, anticipating stable aluminium prices due to supply limitations which align well for our sector pick **PMETAL**. Similarly, **OMH** is poised to reap the benefits of a structural cost advantage over global peers thanks to its access to cost-effective hydropower through a long-term contract until 2033. However, the picture is not as bright for steel players as they grapple with muted demand in China, notably from its sluggish property market. Consequently, **ANNJOO** and **ENGTEX** will continue to experience margin pressures. Meanwhile, we foresee a steady demand and healthy margins for **ULICORP's** cable support systems over the immediate term.

Quarterly Results Performance												
	2QCY23						1QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
ANNJOO			1			1			1			1
ENGTEX			1			1			1			1
OMH		1			1							
PMETAL		1				1			1			1
ULICORP	1								1			
<b>Total</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>Total (%)</b>	<b>20</b>	<b>40</b>	<b>40</b>	<b>0</b>	<b>25</b>	<b>75</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>100</b>

Source: Kenanga Research, Bloomberg

### 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	1.15	0.730	-36.5%	645.6	Y	12/2023	(1.2)	4.5	-104.4%	257.1%	N.A.	25.6	0.5	-0.6%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.615	0.580	-5.7%	271.4	Y	12/2023	5.0	5.5	-33.8%	10.2%	12.3	7.5	0.3	1.4%	0.8	1.2%
OM HOLDINGS LTD	OP	1.57	2.07	31.8%	1,159.6	Y	12/2023	20.6	32.8	-49.2%	59.1%	2.7	3.1	0.7	8.6%	6.6	4.2%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.92	6.00	22.0%	40,538.9	Y	12/2023	15.2	18.6	-12.5%	22.6%	26.7	24.7	5.5	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	OP	1.52	1.22	-19.7%	331.1	Y	12/2023	13.7	15.2	-19.2%	11.4%	11.1	10.0	0.9	8.3%	5.0	3.3%
<b>Sector Aggregate</b>					<b>42,946.6</b>					<b>-11.7%</b>	<b>28.3%</b>	<b>29.6</b>	<b>23.1</b>	<b>3.7</b>	<b>12.5%</b>		<b>2.0%</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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