

29 November 2023

Press Metal Aluminium

Supply Constraints to Support Prices

By Teh Kian Yeong | tehky@kenanga.com.my

PMETAL's 9MFY23 results met our forecast but disappointed the market. Its 9MFY23 core net profit fell 22% YoY due to a weak ASP, worsened by input costs that were sticky to the downside, crimping margins. We believe aluminium prices will hold up given the supply constraints globally. We maintain our forecasts, TP of RM5.00 and MARKET PERFORM call.

PMETAL's 9MFY23 core net profit came in within our expectations at 73% of our full-year forecast but disappointed the market at only 70% of the full-year consensus estimate.

It declared a 3rd interim NDPS of 1.75 sen (ex-date: 15 Dec; payment date: 29 Dec), tallying 9MFY23 NDPS to 5.25 sen which is higher than the 5.0 sen paid in 9MFY22.

YoY. Its 9MFY23 revenue declined 13% due to the weakening of ASP as average LME aluminium spot price fell 20% to USD2,274/MT on average in 9MFY23 as opposed to USD2,853/MT. Its core profit contracted by a larger 22% to RM910.4m as the spot prices of input alumina only fell 12% over the same period. Meanwhile, its share of associate incomes fell 18% due to lower ASP, partly mitigated by the full commissioning of PT Bintan's entire 2m MT capacity per annum in 2QFY23.

QoQ. Its 3QFY23 turnover fell 8% due to lower ASP as the average LME aluminium spot price dipped 5% to USD2,155/MT from USD2,260/MT. Nonetheless, its core profit rose 4% largely due to higher associate incomes (+82% or RM28.5m) with PT Bintan operating at its full 2m MT capacity per annum.

Forecasts. Maintained. We keep our aluminium price assumptions at USD2,350/MT-USD2,450/MT in FY23-24, with a long-term assumption of USD2,200/MT.

We also keep our DCF-derived TP of RM5.00 WACC: 8.7%; TG: 2%). Our TP reflect a 5% premium to its DCF valuation of RM4.76, by virtue of its 4-star ESG rating as appraised by us (see Page 4).

Outlook. We acknowledged 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, there is improved sign of recovering from the solar sector, EVs and transmission infrastructure in China.

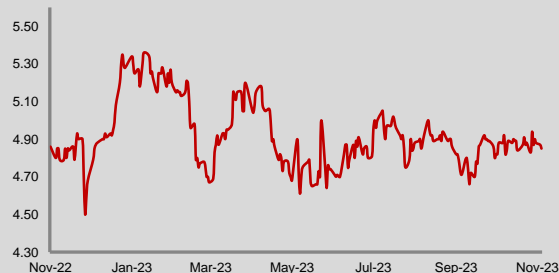
Meanwhile, on the supply side, more stringent "green" requirements, especially in China, will see the permanent shutdown of smelters powered by fossil fuels (especially coal), further tightening the global aluminium supply. Also, the Western countries will continue to avoid Russian aluminium that makes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

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.

MARKET PERFORM ↔

Price: **RM4.85**
Target Price: **RM5.00** ↔

Share Price Performance



KLCI 1,448.02
YTD KLCI chg -3.2%
YTD stock price chg -0.6%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker PMAH MK Equity
Market Cap (RM m) 39,962.1
Shares Outstanding 8,239.6
52-week range (H) 5.40
52-week range (L) 4.45
3-mth avg daily vol: 3,490,658
Free Float 39%
Beta 1.7

Major Shareholders

Alpha Milestone Sdn Bhd 33.8%
Koon Ming Poh 6.2%
Koon Weng Poh 5.7%

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)	-	1306	1678
Earnings Rev. (%)	-	-	-
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	31.9	26.0
PBV (x)	6.05	5.40	4.80
P/NTA (x)	6.11	5.45	4.84
Net Gearing (x)	0.64	0.51	0.30
Net Dividend Yield (%)	1.4	1.3	1.5

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However, the upside to its earnings is capped by subdued aluminium prices against a backdrop of a weak global economy. Maintain **MARKET PERFORM**.

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 closures.

Income Statement								
FYE Dec (RM m)	3Q FY23	2Q FY23	Q-o-Q Chg	3Q FY22	Y-o-Y Chg	9M FY23	9M FY22	Y-o-Y Chg
Turnover	3,440.6	3,758.2	-8%	3,845.2	-11%	10,270.5	11,773.7	-13%
EBITDA	586.2	588.0	0%	611.9	-4%	1,759.6	2,082.9	-16%
Depreciation	-188.8	-159.9	18%	-144.1	31%	-497.0	-424.2	17%
EBIT	397.4	428.0	-7%	467.9	-15%	1,262.6	1,658.6	-24%
Interest expense	-61.8	-55.4	11%	-57.6	7%	-180.2	-178.1	1%
Associates	63.3	34.8	82%	35.5	78%	112.0	136.1	-18%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	403.3	412.3	-2%	449.5	-10%	1,208.4	1,624.4	-26%
Taxation	-22.4	-30.8	-27%	-57.3	-61%	-90.7	-186.1	-51%
Profit after tax	380.9	381.5	0%	392.2	-3%	1,117.8	1,438.3	-22%
Minority interest	-74.8	-75.7	-1%	-76.4	-2%	-223.9	-292.3	-23%
Net profit	306.1	305.8	0%	315.8	-3%	893.9	1,146.0	-22%
Core net profit	318.3	307.3	4%	325.1	-2%	910.4	1,165.9	-22%
EPS (sen)	3.9	3.7	4%	3.9	-2%	11.0	14.1	-22%
NDPS (sen)	1.75	1.75	0%	1.75	0%	5.25	5.00	5%
NTA/share (RM)	0.80	0.79	1%	0.70	13%	0.80	0.70	13%
EBITDA margin	17%	16%		16%		17%	18%	
EBIT margin	12%	11%		12%		12%	14%	
Pretax margin	12%	11%		12%		12%	14%	
Core net margin	9%	8%		8%		9%	10%	
Effective tax rate	6%	7%		13%		8%	11%	
Spot Price								
Aluminium (USD/MT)	2,155	2,260	-5%	2,354	-8%	2,274	2,853	-20%
Alumina (USD/MT)	335	352	-5%	352	-5%	348	397	-12%
Carbon Anode (CNY/MT)	3,345	4,598	-27%	7,135	-53%	4,680	6,465	-28%

Source: Company/Bloomberg

Segment Breakdown								
FYE Dec (RM m)	3Q FY23	2Q FY23	Q-o-Q Chg	3Q FY22	Y-o-Y Chg	9M FY23	9M FY22	Y-o-Y Chg
Turnover								
Smelting	2,861.0	3,154.6	-9%	3,210.3	-11%	8,640.3	9,722.0	-11%
Extrusion	489.4	488.0	0%	553.2	-12%	1,396.9	1,764.1	-21%
Refinery	90.2	115.5	-22%	69.7	29%	230.7	256.8	-10%
Contracting & Others	0.1	0.2	-53%	11.9	-99%	2.6	30.9	-92%
Group Turnover	3,440.6	3,758.2	-8%	3,845.2	-11%	10,270.5	11,773.7	-13%
Segment Results								
Smelting	357.1	411.4	-13%	431.0	-17%	1,181.7	1,513.1	-22%
Extrusion	31.5	26.0	21%	34.6	-9%	86.2	113.4	-24%
Refinery	4.9	5.1	-4%	0.4	987%	10.5	30.3	-65%
Contracting & Others	4.0	-14.4	-127%	1.7	127%	-15.9	1.8	-999%
Group EBIT	397.4	428.0	-7%	467.9	-15%	1,262.6	1,658.6	-24%
EBIT Margin								
Smelting	12.5%	13.0%		13%		14%	16%	
Extrusion	6.4%	5.3%		6%		6%	6%	
Refinery	5%	4%		1%		5%	12%	
Contracting & Others	4665%	-7983%		15%		-621%	6%	
Group EBIT	12%	11%		12%		12%	14%	

Source: Company

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.				
Stocks Under Coverage																	
ANN JOO RESOURCES BHD	UP	1.07	0.730	-31.8%	600.7	N	12/2023	(1.2)	4.5	-104.4%	257.1%	N.A.	24.0	0.5	-0.6%	0.0	0.0%
ENGTEX GROUP BHD	MP	0.685	0.580	-15.3%	302.3	Y	12/2023	5.0	5.5	-33.8%	10.2%	13.8	12.5	0.4	1.4%	0.8	1.1%
OM HOLDINGS LTD	OP	1.55	2.07	33.5%	1,144.9	Y	12/2023	20.6	32.8	-49.2%	59.1%	7.5	4.7	0.6	8.6%	6.6	4.3%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	4.85	5.00	3.1%	39,962.1	Y	12/2023	15.2	18.6	-12.5%	22.6%	31.9	26.0	5.4	17.8%	6.1	1.4%
UNITED U-LI CORPORATION BHD	OP	1.47	2.18	48.3%	320.2	Y	12/2023	21.2	27.3	25.2%	28.6%	6.9	5.4	0.8	12.6%	6.0	4.1%
Sector Aggregate					42,330.2					-10.7%	28.7%	28.9	22.5	3.7	12.7%		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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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 E-mail: research@kenanga.com.my

