

COMPANY UPDATE

**Press Metal Aluminium Holdings (PMAH MK)**

Favourable Aluminium Supply-demand Dynamics Amid Near-term Cost Pressures

While we expect sequentially stronger 2Q24 results, PMETAL might face short-term headwinds from rising alumina prices in 3Q24. Nevertheless, this will be negated by a stronger VAP contribution, driven by the group's aggressive expansion and relatively lower carbon anode prices. We believe there could be more upside, underpinned by a demand recovery, structural supply tightness and a reversal in the US interest rate cycle. Maintain BUY. Target price: RM7.00.

WHAT'S NEW

- **Expect sequentially stronger 2Q24 results.** Press Metal Aluminium Holdings' (PMetal) 2Q24 results are tentatively scheduled to be released in end-Aug 24. We expect 2Q24 core earnings to come in at RM500m-550m (+19-31% qoq; +63-79% yoy) on the back of: a) sequentially stronger 2Q average LME aluminium prices of US\$2,530/tonne (vs 1Q's average price of US\$2,200/tonne), b) similar cost structures, and c) higher contribution from its associate PT Bitan due to rising alumina prices.
- **Alumina price hike since May expected to ease in 2H24.** Prices for Alumina, which is an essential raw material for producing aluminium (at a 2:1 ratio), have increased by 45% ytd mainly due to: a) Alcoa Corporation curtailing production at its Kwinana Alumina Refinery (annual capacity of 2.2m tonnes) due to refinery inefficiency, and b) Rio Tinto Group's suspension of alumina shipments from its Queensland refineries (annual capacity of 3.7m tonnes) due to regional gas shortages. However, we expect alumina prices to ease gradually in 4Q24 as Rio Tinto is anticipated to resume production from its Queensland refineries in 2H24. Additionally, Bloomberg reports that Chinese alumina producers are increasing output to capitalise on high alumina prices, which should further ease prices. Based on our sensitivity analysis, every US\$20/tonne increase to our 2024 alumina assumption of US\$416/MT would reduce PMetal's earnings by RM139m.
- **Ongoing favourable structural aluminium supply-demand dynamics.** While aluminium production has increased with the resumption of smelting in China's Yunnan province (15% of China's output) driven by the end of the drought season, we still expect ongoing structural supply tightness due to the ban on Russian-produced metals (which make up 6-7% of global aluminium production) and the increase in US tariffs on Chinese aluminium imports from 7.5% to 25.0%. With global construction activities expected to recover to pre-COVID-19 levels following the anticipated Fed rate cut in Sep 24 alongside with China's ongoing green policies and initiatives, aluminium demand is expected to rise.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	15,683	13,803	15,825	16,537	17,220
EBITDA	2,607	2,352	2,624	2,859	3,047
Operating profit	2,023	1,685	2,624	2,859	3,047
Net profit (rep./act.)	1,407	1,214	1,872	2,074	2,243
Net profit (adj.)	1,420	1,230	1,872	2,074	2,243
EPS (sen)	17.3	15.0	22.8	25.3	27.4
PE (x)	32.1	37.1	24.3	22.0	20.3
P/B (x)	6.9	6.6	5.5	4.6	4.0
EV/EBITDA (x)	19.1	21.2	19.0	17.4	16.4
Dividend yield (%)	0.9	1.3	1.1	1.2	1.3
Net margin (%)	9.0	8.8	11.8	12.5	13.0
Net debt/(cash) to equity (%)	66.1	45.8	25.2	10.8	(3.6)
Interest cover (x)	11.2	10.8	12.4	15.7	19.8
ROE (%)	26.6	17.9	24.6	22.9	21.0
Consensus net profit	-	-	1,894	2,114	2,256
UOBKH/Consensus (x)	-	-	0.99	0.98	0.99

Source: Press Metal Aluminium Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.56
Target Price	RM7.00
Upside	+25.9%

COMPANY DESCRIPTION

Principally involved in the manufacture and trading of primary aluminium and other aluminium-based products.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	PMAH MK
Shares issued (m):	8,239.6
Market cap (RMm):	45,812.3
Market cap (US\$m):	9,776.8
3-mth avg daily t'over (US\$m):	12.0

Price Performance (%)

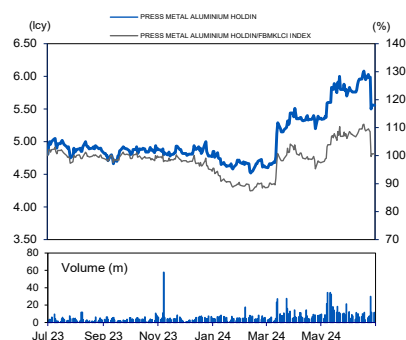
52-week high/low	RM6.08/RM4.52			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.8)	2.2	16.3	14.6	15.6

Major Shareholders

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

FY23 NAV/Share (RM)	1.01
FY23 Net Debt/Share (RM)	0.26

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Meaningful VAP contribution from 2024 onwards.** Recall that in 1Q24, there was a notable surge in demand for value-added products (VAP), which resulted in VAP volume growing to 46% of their total sales (from 41% in 4Q23). The most substantial surge in demand was witnessed for the foundry alloy and wire rod segments. The current total VAP capacity stands at 61% of their total smelting capacity. Moving forward, the group intends to augment its VAP capacity by 100,000MT. With the expansion plan in motion, we anticipate VAP volume to reach 50% of their total sales volume by end-24.
- High alumina prices offset by lower carbon anode prices to continue supporting the group's margins.** Notably, there was an increase in alumina prices (at US\$427/tonne in 2Q24 vs US\$367/tonne in 1Q24), which led to an alumina-to-aluminium cost ratio of 16.9% in 2Q24. The high alumina prices in 2Q24 were driven by limited production capacity due to force majeure at refineries operated by both Alcoa and Rio Tinto. Based on our sensitivity analysis, every US\$20/tonne increase to our assumption of US\$390/MT would reduce PMetal's earnings by RM138m, assuming no hedging is done on a fixed US\$2,600/tonne aluminium price and vice versa. Meanwhile, carbon anode prices are still maintained at lower level of approximately Rmb4,600/MT on average in 2Q24. As of end-May 24, the group has hedged 30% of its aluminium prices at US\$2,600/tonne for 2024, 30% at US\$2,650-2,700/tonne for 2025 and 25% at US\$2,700-2,750/tonne for 2026.
- Win-win synergy with the strategic offtake arrangement with Glencore.** Note that PMetal and Glencore have entered a 10-year alumina supply and aluminium offtake arrangement (follow market prices) on 8 Sep 22. Glencore, a Swiss MNC commodity trading and mining company, is one of the largest globally diversified natural resource companies and the world's largest aluminium trader with footprints in over 35 countries. While such an arrangement supports Glencore's strategy to increase the supply of green aluminium to the global market, the synergistic spillover to PMetal would be the green aluminium premium as well as the VAPs that PMetal can cross-sell to Glencore alongside a long-term partnership that stabilises demand-supply for both sides.

EARNINGS REVISION/RISK

- We maintain our 2024/25/26 aluminum assumption at US\$2,500/tonne, US\$2,600/tonne and US\$2,700/tonne respectively (vs Bloomberg consensus of US\$2,400/tonne, US\$2,500/tonne and US\$2,600/tonne).

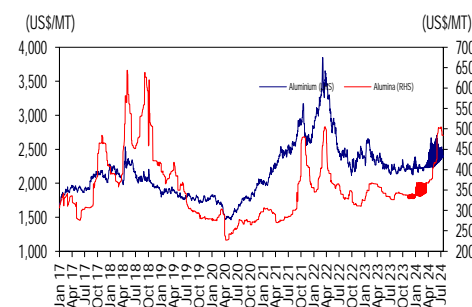
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM7.00**, based on 28.0x 2025F PE (which is at -0.5SD below its five-year forward PE mean). Should aluminium prices swing from our conservative forecast, based on our sensitivity analysis, every US\$100/tonne increase to our current spot aluminium price assumption of US\$2,600/tonne in 2025 would increase PMetal's earnings by 13% annually, assuming alumina cost of US\$390/MT (implies around 15.5% cost ratio) and carbon anode prices of Rmb6,500/MT.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>- Smelting plants use electricity generated predominantly from hydroelectric power.</li> <li>- To achieve: a) 15/30% GHG reduction by 2025/30 from 2020, b) carbon neutrality by 2050, and c) 10% water withdrawal reduction by 2030 from 2016.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li> <b>Social</b> <ul style="list-style-type: none"> <li>- Established group-wide targets in 2018 to increase women's participation in managerial positions to 30% and females in workforce to 20%.</li> <li>- In 2020, the group recorded zero work fatalities, with 24% of managerial roles held by women and 14% of workforce comprised of females.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>- The company has in place an Anti-Bribery and Anti-Corruption Policy which is in line with Section 17A of the MACC Act 2009.</li> <li>- There were zero whistle-blowing and bribery instances in 2020.</li> </ul> </li> </ul>

ALUMINIUM AND ALUMINA SPOT PRICES



Source: Bloomberg

KEY ASSUMPTIONS

Year to 31 Dec	2023	2024F	2025F	2026F
<b>Current assumptions</b>				
Production volume (MT p.a.)	1,080,000	1,080,000	1,080,000	1,080,000
Aluminium spot price (US\$)	2,253	2,500	2,600	2,700
All-in aluminium price (US\$)	2,347	2,620	2,730	2,840
MJP Premium	94	120	130	140
Alumina (US\$/tonne)	341	416	390	405
EBIT margin (%)	16.6	17.3	17.7	16.6
US\$/RM rate	4.50	4.50	4.50	4.50
Effective Tax Rate (%)	7.9	11.0	11.0	11.0

Source: PMetal, UOB Kay Hian

SENSITIVITY ANALYSIS

- Alumina:** Every US\$20/tonne reduction from our alumina assumption of US\$390/tonne in 2025 would increase PMetal's earnings by RM138m, assuming that no hedging is done on a fixed US\$2,600/tonne aluminium price, and vice versa.
- Aluminium:** Every US\$100/tonne increase to our current spot aluminium price assumption of US\$2,600/tonne in 2025 would increase PMetal's earnings by 13% annually, assuming alumina cost of US\$390/MT (implies around 16% cost ratio) and carbon anode prices of Rmb6,500/MT.

Source: PMetal, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	13,803	15,825	16,537	17,220
EBITDA	2,352	2,624	2,859	3,047
Deprec. & amort.	667	0	0	0
EBIT	1,685	2,624	2,859	3,047
Associate contributions	180	207	216	225
Net interest income/(expense)	(218)	(211)	(182)	(154)
<b>Pre-tax profit</b>	<b>1,632</b>	<b>2,619</b>	<b>2,893</b>	<b>3,120</b>
Tax	(115)	(288)	(318)	(343)
Minorities	(303)	(459)	(501)	(534)
<b>Net profit</b>	<b>1,214</b>	<b>1,872</b>	<b>2,074</b>	<b>2,243</b>
Net profit (adj.)	1,230	1,872	2,074	2,243

### CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>2,740</b>	<b>2,477</b>	<b>2,452</b>	<b>2,907</b>
Pre-tax profit	1,632	2,619	2,893	3,120
Tax	(123)	(288)	(318)	(343)
Deprec. & amort.	667	512	525	536
Associates	(180)	(207)	(216)	(225)
Working capital changes	511	(371)	(613)	(335)
Other operating cashflows	233	211	182	154
<b>Investing</b>	<b>(638)</b>	<b>(700)</b>	<b>(700)</b>	<b>(699)</b>
Capex (growth)	(702)	(700)	(700)	(700)
Investments	15	0	0	0
Proceeds from sale of assets	4	0	0	0
Others	45	0	0	1
<b>Financing</b>	<b>(1,491)</b>	<b>(1,298)</b>	<b>(1,322)</b>	<b>(1,337)</b>
Dividend payments	577	(487)	(539)	(583)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(975)	(600)	(600)	(600)
Others/interest paid	(1,093)	(211)	(182)	(154)
<b>Net cash inflow (outflow)</b>	<b>611</b>	<b>479</b>	<b>431</b>	<b>871</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>460</b>	<b>1,228</b>	<b>1,707</b>	<b>2,137</b>
Changes due to forex impact	157	0	0	1
<b>Ending cash &amp; cash equivalent</b>	<b>1,228</b>	<b>1,707</b>	<b>2,137</b>	<b>3,009</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	7,219	7,407	7,582	7,746
Other LT assets	2,481	2,688	2,904	3,126
Cash/ST investment	1,228	1,707	2,137	3,009
Other current assets	4,392	4,795	5,454	5,644
<b>Total assets</b>	<b>15,320</b>	<b>16,597</b>	<b>18,078</b>	<b>19,525</b>
ST debt	781	481	181	(119)
Other current liabilities	1,408	1,440	1,486	1,339
LT debt	3,618	3,318	3,018	2,718
Other LT liabilities	1,130	1,130	1,130	1,130
Shareholders' equity	6,920	8,305	9,840	11,500
Minority interest	1,464	1,923	2,423	2,957
<b>Total liabilities &amp; equity</b>	<b>15,320</b>	<b>16,597</b>	<b>18,078</b>	<b>19,525</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	17.0	16.6	17.3	17.7
Pre-tax margin	11.8	16.6	17.5	18.1
Net margin	8.8	11.8	12.5	13.0
ROA	7.9	11.7	12.0	11.9
ROE	17.9	24.6	22.9	21.0
<b>Growth</b>				
Turnover	(12.0)	14.6	4.5	4.1
EBITDA	(9.8)	11.5	9.0	6.6
Pre-tax profit	(16.4)	60.5	10.4	7.8
Net profit	(13.7)	54.2	10.8	8.1
Net profit (adj.)	(13.4)	52.2	10.8	8.1
EPS	(13.4)	52.2	10.8	8.1
<b>Leverage</b>				
Debt to total capital	34.4	27.1	20.7	15.2
Debt to equity	63.6	45.7	32.5	22.6
Net debt/(cash) to equity	45.8	25.2	10.8	(3.6)
Interest cover (x)	10.8	12.4	15.7	19.8

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