

SECTOR UPDATE

**Building Materials – Malaysia**

Rocky Start Entering 2023

Hard commodity prices remain volatile due to weak sentiment from the fear of a global recession. However, prices of hard commodities such as aluminium, ferroalloy and tin have gradually rebounded on the back of China's economic reopening, which has helped to stimulate demand. Continued supply disruption and the energy crisis also put further pressure on the ongoing shortage due to the global decarbonisation agenda. **Maintain OVERWEIGHT. Top pick: Press Metal.**

WHAT'S NEW

- Embracing volatility.** After rebounding following China's reopening in Dec 22, commodity prices have retraced amid the weak economic environment. Market sentiment is still expected to remain volatile in the near term given that a commodity rally will add to the ongoing inflationary pressures, which central bankers are trying to get under control. Commodities-related players' 4Q22 earnings were mixed, with the tin segment's results coming in above expectations while aluminium and ferroalloy players' results were largely within expectations. Exported building materials index climbed higher ytd, led by tin (21%), aluminium (2%), and ferroalloy (6%) as compared to FBMKLCI's languid performance of -4.5% ytd. We expect the upcoming 1Q23 results to be flattish qoq as commodity prices have slightly eased after rebounding in Dec 22 due to China's economic recovery.
- Ferroalloy: Still not out of the woods.** In 1Q23, prices of ferrosilicon (FeSi) and manganese (Mn) alloy stayed range-bound at around US\$1,663/mt (+2% qoq) and US\$1,101/mt (+1% qoq). The prices were pressured mainly due to: a) the fear of recession, b) soft demand from steel mills, and c) elevated global power costs and weak sentiment in the current rising rates environment. According to World Steel Association, world crude steel production in Jan 23 and Feb 23 declined by around 3% yoy. This is largely due to the ongoing slowdown in global steel production, especially in China and Europe. However, we expect prices to improve on the back of the steel recovery in China as it is the largest player, consuming and producing 60-70% of global ferroalloy.
- 2023 a good start for LME aluminium prices.** 2022 was a roller coaster ride for aluminium prices, reaching an all-time high at US\$3,985/mt in Mar 22 before ending the year at US\$2,380/mt (2022 average: US\$2,700/mt). The extreme volatility was a result of supply disruption from the Russia-Ukraine war (for high prices) while the other side of the pendulum stemmed from the frail sentiment following global economy slowdown. Following China's reopening, aluminium prices were marching towards the US\$2,650/mt level before retracing recently to the US\$2,335/mt level on the back of the correction of energy prices. Besides global structural demand, supply tightness is still stemming from supply disruption caused by the Russia-Ukraine war, power curtailment in China and elevated energy prices in Europe, supporting prices. As of Feb 23, Press Metal (PMetal) has hedged 35% of US\$2,400-2,500/mt for 2023 and 30% of US\$2,400/mt for 2024.

ACTION

- Maintain OVERWEIGHT** as we expect the favourable structural supply-demand to support the lofty commodity prices as China gradually lifts its lockdown. We favour the ferroalloy, tin and aluminium segments as they are poised to benefit from: a) elevated ASPs, b) improved production, and c) healthy demand. Amid the global power crisis, we prefer the hydroelectric-powered smelters as they stand ahead of their global peers given their access to the eco-friendly low-cost hydropower in Sarawak. **Top pick: PMetal.**

PEER COMPARISON

Company	Tickers	Rec	Share Price 10 Apr 23 (RM)	Target Price (RM)	Market Cap (RM)	PE		P/B		ROE	
						FY23F (x)	FY24F (x)	FY23F (x)	FY24F (x)	FY23F (%)	FY24F (%)
Press Metal	PMAH MK	BUY	4.98	6.10	42,846	24.1	22.6	5.4	4.6	24.2	21.8
Malaysia Smelting Corp	SMELT MK	BUY	1.87	2.69	882	7.1	5.2	1.0	0.9	14.3	18.0
OM Holdings	OMH MK	BUY	2.18	3.53	1,515	5.3	4.1	0.6	0.5	20.2	18.4

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Maintained)

TOP SECTOR PICKS

Company	Rec	Share Price 10 Apr 23 (RM)	Target Price (RM)
Press Metal	BUY	4.98	6.10

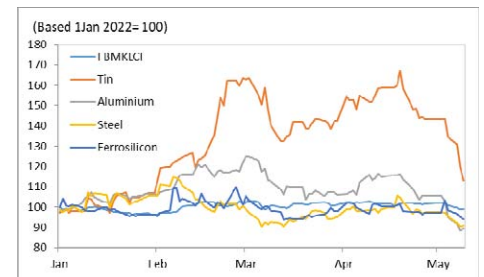
Source: UOB Kay Hian

KEY ASSUMPTIONS

	Current	2022	2023F
<b>Ferroalloy (US\$/mt)</b>			
ASP - FeSi Alloy	1,663	1,900	1,700
ASP - Mn Alloy	1,101	1,400	1,300
<b>Tin (US\$/mt)</b>			
ASP	25,000	30,000	25,000
<b>Aluminium (US\$/mt)</b>			
ASP - Aluminium	2,335	2,500	2,600

Source: UOB Kay Hian

EXPORTED BUILDING MATERIALS INDEX



Source: Bloomberg, UOB Kay Hian

IMPACT OF CHINA'S REOPENING

	Price	Remarks
FeSi Alloy	+5%	China consumes and produces about 60-70% of global ferroalloy.
Mn Alloy	+3%	
Tin	+43%	China consumes >50% of global tin. It is a net importer and the biggest market for tin-based solders.
Aluminium	+15%	China is the world's largest refined aluminium consumer (consumes two-thirds of volume).

Source: UOB Kay Hian

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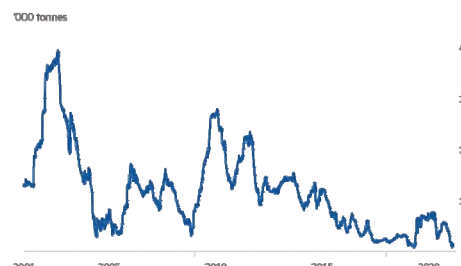
### • Our preferred picks:

- a) Press Metal (PMAH MK/BUY/Target: RM6.10).** PMetal is a prime beneficiary of strong aluminium prices backed by structural supply shortage and robust demand. Preference for low carbon and greener aluminium lends further strength to current prices. Our target price is based on 28.0x 2023F PE (which is at its -0.5SD to its five-year forward PE mean). Should prices remain elevated, based on our analysis, every US\$100/mt increase to our current spot aluminium price assumption of US\$2,600/mt in 2023 would increase PMetal's earnings by 9% annually.
- b) Malaysia Smelting Corp (SMELT MK/BUY/Target: RM2.69).** The ramp-up in production at MSC's new eco-friendly smelter will support earnings, supported by the improved tin prices. Our target price is based on 9x 2023F PE (close to -1SD to its five-year mean PE). Based on our analysis, every US\$2,000/mt change in our tin price assumptions would affect earnings by about 10% a year.
- c) OM Holdings (OMH MK/BUY/Target: RM3.53).** As the world's lowest cost quartile manganese smelter, OMH is in a sweet spot to benefit from elevated ferroalloy prices backed by structurally favourable supply-demand dynamics. Its use of low-cost eco-friendly hydropower, tax benefits and long-term earnings visibility via its capacity expansion and diversification plan, puts it ahead of its global peers. Our target price implies 8x 2023F PE (five-year mean: 15x)

### ESSENTIALS

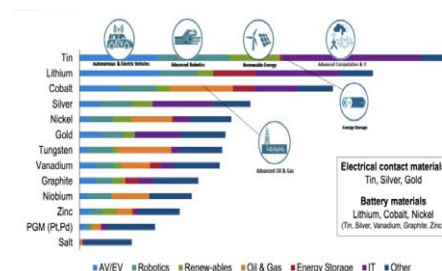
- Recovery of tin prices.** Due to China's reopening, tin prices have surged to US\$32,000/mt before retracing to around US\$25,000/mt currently (still up 50% from its bottom last year). Note that China consumes >50% of global tin. Minsur, the second largest tin producer globally, has suspended its operations following the recent protests in Peru. Indonesia (the world's largest tin exporter) is also preparing a policy on a planned ban on processed tin exports by 2024. These factors put further constraints on the global tin supply and help to support tin prices. Inventories at warehouses continue to decline with LME stocks decreasing to around 1,881mt in Apr 23 (-37% qoq). The last time the stocks were at this level was when the tin price was >US\$30,000/mt.
- Global tin production on track for recovery.** In 2022, global refined tin production reached 380,400mt (+0.3% yoy). Yunnan Tin remained as the world's largest producer of refined tin, followed by Minsur, PT Timah and MSC. Recall that around 90% of global production was halted in 3Q22 as a reaction to low demand and declining prices, which partially helped to boost the prices. Minsur, which suspended its operations in Jan 23, has resumed mining activities in Mar 23. However, EM Vinto, the eighth largest tin producer globally, has entered force majeure, as it struggles with sourcing coal from Peru and debt issues. This could impact production of up to 200mt of tin/week. In the long run, the electronics market will continue to grow at a rapid pace (EV and solar) on the back of decarbonisation agenda, which will support the demand and prices for tin.
- New expanded capacity in Sarawak.** OMH has converted one of its FeSi furnaces to produce silicon metal (MetSi). The furnace has entered the hot commissioning and performance testing phase. Once completed, it will be ramped up to its capacity of 10,500-12,250 mt/year. OMH currently operates with 10 out of 16 furnaces (five FeSi, four Mn alloy and one silicon metal). Four furnaces have completed maintenance so far while the other eight furnaces will undergo the maintenance in phases throughout 2023, to minimise disruptions to production.
- Still favourable alumina-to-aluminium price ratio amid price normalisation, but carbon anode prices remain elevated.** Following the price speculation activities stemming from the Russia-Ukraine war, alumina prices touched US\$500/mt but have normalised to an average of US\$318/mt in 4Q22. It is still at a favourable alumina-to-aluminium cost ratio of 13.6% in 4Q22. Note that we have assumed a higher alumina cost ratio at 15-16% of our aluminium spot price assumption. Based on our analysis, every US\$20/mt increase would reduce PMetal's earnings by RM132m, assuming no hedging is done on a fixed US\$2,600/mt aluminium price and vice versa. Meanwhile, carbon anode prices remain elevated at an average of Rmb7,726/mt in 3Q22.

### TIN INVENTORIES IN LME WAREHOUSES



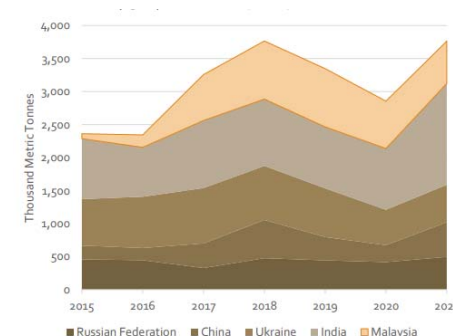
Source: LME

### METALS MOST IMPACTED BY NEW TECHNOLOGIES



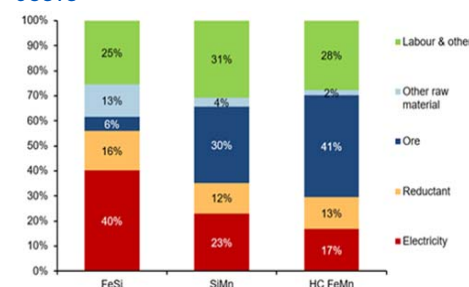
Source: MIT, Rio Tinto

### TOP MANGANESE ALLOY PRODUCING COUNTRIES



Source: OMH

### BREAKDOWN OF FERROALLOY PRODUCTION COSTS



Source: OMH

### TOP 10 REFINED TIN PRODUCERS IN 2022

Order	Company	2021	2022
1	Yunnan Tin (China)	82,000	77,100
2	Minsur* (Peru)	31,800	32,700
3	Yunnan Chengfeng (China)	17,000	20,600
4	PT Timah (Indonesia)	26,500	19,800
5	Malaysia Smelting Corp (Malaysia)	16,400	18,800
6	Guangxi China Tin (China)	9,200	10,900
7	Jiangxi New Nanshan (China)	11,600	10,800
8	EM Vinto (Bolivia)	12,100	10,300
9	Thaisarco (Thailand)	12,100	9,500
10	Aurubis Beerse (Belgium)	9,800	8,200

Source: ITA

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