

COMPANY UPDATE

Press Metal Aluminium Holdings (PMAH MK)

Navigating Supply Tightness And Demand Resurgence In 2024

While aluminium demand could remain soft in the rest of 2023, inventory supply is tightening on the back of the Russian metal ban and Chinese power cuts alongside high energy prices in Europe. An inflection point could be seen in 2024 driven by a demand recovery, the ongoing supply tightness and a reversal in the US interest rate cycle. Further impetus could be coming from a meaningful VAP contribution after its gestation period in 2023. Maintain BUY. Target price: RM5.50.

WHAT'S NEW

- **Expect sequentially flattish 3Q23 results.** Press Metal Aluminium Holdings' (PMetal) 3Q23 results are scheduled to be released tentatively in end-Nov 23. We expect 3Q23 core earnings to come in in the region of RM293m-323m (-5% to +5% qoq; -10% to -1% yoy). Our assumption is based on: a) sequentially softer 3Q average LME aluminium prices of US\$2,155/tonne (vs 2Q's averaging price of US\$2,260/tonne), b) similar cost structures, and c) higher contribution from its associate, PT Bintan. As a whole, we expect PMetal to register full-year core earnings of RM1,148m-1,268m (-19% to -11% yoy) on the back of lower LME aluminium prices.
- **Yunnan's production cut sparks LME inventory tightening.** According to Shanghai Metals Market, Yunnan's aluminium smelters are set to curtail output this winter due to dwindling hydropower supply, with cuts ranging from 9% to 40%. This will result in a total reduction of about 1.15m tonnes of annualised output, impacting 5.65m tonnes of operating capacity (about 15% of China's output). We expect further tightening from the LME aluminium supply following Yunnan's production cut coupled with the ban on Russia's metal (as the world's third-largest producer) which could support spot and premium prices.
- **Meaningful contribution from VAPs in 2024 onwards.** Recall in 2Q23, there was a notable surge of demand for value added products (VAP), which resulted in a 10% qoq volume growth despite challenging market conditions. The most substantial surge in demand was witnessed for the A356 aluminium alloy, closely followed by wire rods. Looking ahead to 4Q23, the group intends to augment its wire rod capacity by an additional 48,000 MT (+44% to +56%). With the expansion plan for wire rods in motion, we anticipate VAPs to make an even stronger contribution to total revenue in 2024.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	10,994	15,692	14,937	16,001	16,304
EBITDA	1,965	2,614	2,230	2,737	2,699
Operating profit	1,534	2,038	1,766	2,253	2,196
Net profit (rep./act.)	1,030	1,418	1,208	1,592	1,580
Net profit (adj.)	1,036	1,418	1,208	1,592	1,580
EPS (sen)	12.8	17.3	14.7	19.4	19.3
PE (x)	38.1	28.2	33.1	25.1	25.3
P/B (x)	10.1	6.0	5.3	4.6	4.0
EV/EBITDA (x)	23.3	17.5	20.6	16.8	17.0
Dividend yield (%)	0.7	1.0	0.8	1.0	1.0
Net margin (%)	9.4	9.0	8.1	9.9	9.7
Net debt/(cash) to equity (%)	145.8	66.1	52.7	40.7	30.7
Interest cover (x)	12.1	11.3	9.6	13.4	15.4
ROE (%)	26.1	26.8	17.0	19.6	17.0
Consensus net profit	-	-	1,295	1,653	2,007
UOBKH/Consensus (x)	-	-	0.93	0.96	0.79

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

BUY

(Maintained)

Share Price	RM4.88
Target Price	RM5.50
Upside	+12.7%

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):	40,209.3
Market cap (US\$m):	8,443.4
3-mth avg daily t'over (US\$m):	3.5

Price Performance (%)

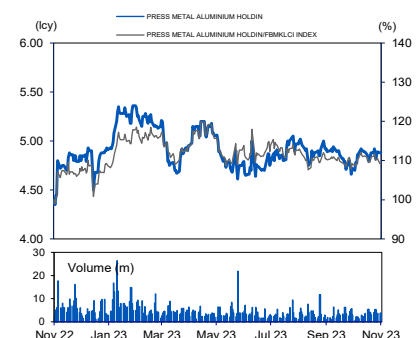
52-week high/low	RM5.36/RM4.34
1mth	3.4
3mth	(1.8)
6mth	(3.4)
1yr	11.2
YTD	0.0

Major Shareholders

Alpha Milestone Sdn Bhd	33.8
Koon Poh Weng	7.5
Koon Poh Ming	6.2

FY23 NAV/Share (RM)	0.92
FY23 Net Debt/Share (RM)	0.48

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Favourable raw material costs to support the group's margins.** Notably, there is a slight drop in alumina price (at US\$328/tonne in 3Q23 vs US\$344/tonne in 2Q23 which led to a favourable alumina-to-aluminium cost ratio of 15% in 3Q23. Note that we have already assumed a higher alumina cost ratio at 15-16% of our aluminium spot price assumption. Based on our sensitivity analysis, every US\$20/tonne increase to our assumption of US\$380/MT would reduce PMetal's earnings by RM137m, assuming no hedging is done on a fixed US\$2,400/tonne aluminium price and vice versa. Meanwhile, carbon anode prices have retraced 21% at an average of Rmb5,436/tonne in 2Q23 due to the decline in PET coke prices and continued fall in tar pitch prices. As of Aug 23, the group has locked in 30% of US\$2,300-2,350/tonne for 2023, 30% of US\$2,500/tonne for 2024 and 15% of US\$2,600/tonne for 2025.
- Win-win synergy with the strategic offtake arrangement with Glencore.** Note that PMetal and Glencore have entered into 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

- None.

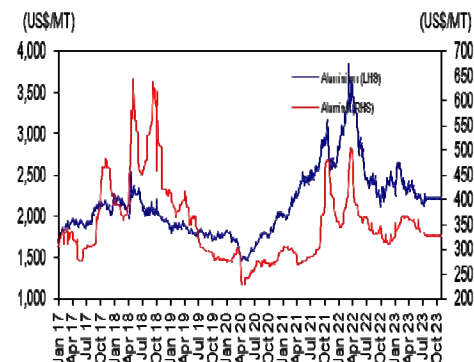
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM5.50**, still based on 28.0x 2024F PE (which is at its -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\$2,400/tonne in 2023 would increase PMetal's earnings by 16% annually, assuming alumina cost of US\$380/MT (implies around 15.5% cost ratio) and carbon anode prices of Rmb7,105/MT.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - Smelting plants use electricity generated predominantly from hydroelectric power. - 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. Social <ul style="list-style-type: none"> - Established group-wide targets in 2018 to increase women's participation in managerial positions to 30% and increased females in workforce to 20%. - In 2020, the group recorded zero work fatalities, with 24% of managerial roles held by women and 14% of workforce comprised of females. Governance <ul style="list-style-type: none"> - The company has in place an Anti-Bribery and Anti-Corruption Policy which is in line with Section 17A of the MACC Act 2009. - There were zero whistle-blowing and bribery instances in 2020.
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ALUMINIUM AND ALUMINA SPOT PRICES



Source: Bloomberg

KEY ASSUMPTIONS

Year to 31 Dec	2022	2023F	2024F	2025F
Current assumptions				
Production volume (MT p.a.)	1,080,000	1,080,000	1,080,000	1,080,000
Aluminium spot price (US\$)	2,701	2,400	2,550	2,600
All-in aluminium price (US\$)	2,828	2,530	2,700	2,755
MJP Premium	127	130	150	155
Alumina (US\$/tonne)	374	380	395	403
EBIT margin (%)	13.0	12.7	14.1	13.5
US\$/RM rate	4.40	4.50	4.50	4.50
Effective Tax Rate (%)	9.6	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\$380/tonne in 2023 would increase PMetal's earnings by RM135m, assuming that no hedging is done on a fixed US\$2,450/tonne aluminium price, and vice versa.
- Aluminium:** Every US\$100/tonne increase to our current spot aluminium price assumption of US\$2,450/tonne in 2023 would increase PMetal's earnings by 16% annually, assuming alumina cost of US\$380/MT (implies c.16% cost ratio) and carbon anode prices of Rmb7,105/MT.

Source: PMetal, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	15,692	14,937	16,001	16,304
EBITDA	2,614	2,230	2,737	2,699
Deprec. & amort.	576	464	483	502
EBIT	2,038	1,766	2,253	2,196
Associate contributions	178	169	181	185
Net interest income/(expense)	(231)	(233)	(204)	(175)
Pre-tax profit	1,971	1,702	2,230	2,206
Tax	(190)	(187)	(245)	(243)
Minorities	(363)	(307)	(393)	(383)
Net profit	1,418	1,208	1,592	1,580
Net profit (adj.)	1,418	1,208	1,592	1,580

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	2,115	1,428	1,501	1,559
Pre-tax profit	1,971	1,702	2,230	2,206
Tax	(162)	(187)	(245)	(243)
Deprec. & amort.	576	464	483	502
Associates	(178)	(169)	(181)	(185)
Working capital changes	(337)	(615)	(990)	(897)
Other operating cashflows	245	233	204	175
Investing	(685)	(300)	(300)	(300)
Capex (growth)	(665)	(300)	(300)	(300)
Investments	0	0	0	0
Proceeds from sale of assets	1	0	0	0
Others	(21)	0	0	0
Financing	(1,415)	(1,308)	(1,379)	(1,347)
Dividend payments	(493)	(314)	(414)	(411)
Issue of shares	964	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(1,486)	(600)	(600)	(600)
Others/interest paid	(401)	(394)	(365)	(337)
Net cash inflow (outflow)	15	(180)	(178)	(89)
Beginning cash & cash equivalent	459	460	280	102
Changes due to forex impact	(14)	0	0	0
Ending cash & cash equivalent	460	280	102	14

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	7,183	7,019	7,300	7,581
Other LT assets	2,573	2,903	2,781	2,644
Cash/ST investment	460	280	102	14
Other current assets	5,128	5,723	6,809	7,783
Total assets	15,344	15,925	16,992	18,021
ST debt	1,554	1,254	954	654
Other current liabilities	1,602	1,582	1,678	1,754
LT debt	3,301	3,001	2,701	2,401
Other LT liabilities	868	868	868	868
Shareholders' equity	6,649	7,543	8,721	9,891
Minority interest	1,371	1,678	2,071	2,454
Total liabilities & equity	15,344	15,925	16,992	18,021

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.7	14.9	17.1	16.6
Pre-tax margin	12.6	11.4	13.9	13.5
Net margin	9.0	8.1	9.9	9.7
ROA	9.6	7.7	9.7	9.0
ROE	26.8	17.0	19.6	17.0
Growth				
Turnover	42.7	(4.8)	7.1	1.9
EBITDA	33.1	(14.7)	22.7	(1.4)
Pre-tax profit	36.0	(13.6)	31.0	(1.1)
Net profit	37.6	(14.8)	31.8	(0.7)
Net profit (adj.)	37.0	(14.8)	31.8	(0.7)
EPS	34.9	(14.8)	31.8	(0.7)
Leverage				
Debt to total capital	37.7	31.6	25.3	19.8
Debt to equity	73.0	56.4	41.9	30.9
Net debt/(cash) to equity	66.1	52.7	40.7	30.7
Interest cover (x)	11.3	9.6	13.4	15.4

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