

## COMPANY RESULTS

### Press Metal Aluminium Holdings (PMAH MK)

1Q23: A Soft Start To The Year; Negated By A Better Cost Structure

Results came in below expectations. Cut 2023-24 earnings by 22%/15% to account for lower all-in aluminium price assumptions. While LME aluminium prices could remain soft with the subdued economic environment, improving cost structure with a stronger US dollar could buffer for the shortfall. Every US\$100/tonne increase to our conservative LME aluminium price assumption of US\$2,450/tonne could increase PMetal's earnings by 16% in 2023. Maintain BUY. Target price: RM5.50.

#### 1Q23 RESULTS

Year to 31 Dec (RMm)	1Q23	qoq % chg	yoy % chg	3M23	yoy % chg
Revenue	3,071.7	(21.6)	(21.7)	3,071.7	(21.7)
EBITDA	585.5	13.1	(22.1)	585.5	(22.1)
EBIT	437.2	19.5	(28.9)	437.2	(28.9)
PBT	392.8	13.4	(35.5)	392.8	(35.5)
Net profit	282.0	3.6	(33.0)	282.0	(33.0)
Core net profit	284.8	7.1	(32.9)	284.8	(32.9)
Margins		qoq ppt chg	yoy ppt chg		yoy ppt chg
EBIT	14.2	4.9	(1.5)	12.9	(1.5)
PBT	12.8	3.9	(2.7)	12.6	(2.7)
Core net profit	9.3	2.5	(1.6)	9.1	(1.6)

Source: Press Metal Aluminium Holdings, UOB Kay Hian

#### RESULTS

- Below expectations.** Press Metal Aluminium (PMetal) reported 1Q23 core net profit of RM284.8m (+7.1% qoq, -33% yoy), which accounted for 16% of our and consensus' full-year estimates respectively. The negative deviations were due to the lower-than-expected LME aluminium prices alongside lower contribution from associate earnings. That said, a commendable core net profit of 9.3% (+2.5ppt qoq) was achieved due to lower material and freight costs. Meanwhile, net gearing improved further to 0.53x. A first interim single-tier DPS of 1.75 sen was declared, which represents a 51% payout ratio.
- 1Q23 sales dropped 22% yoy** due to lower all-in aluminium prices on lower demand (LME aluminium prices: US\$2,401/tonne in 1Q23 vs US\$3,261/tonne in 1Q22), which was also reflected by its main Japanese ports (MJP) premium at US\$78/tonne in 1Q23 (-51% yoy; -10% qoq). Core net profit fell by a wider quantum (-33% yoy) mainly due to lower associate contributions (mainly PTBINTAN). While sales dropped 22% qoq on lower smelting volume sold, core net profit rose 7% qoq on lower carbon anode price and freight costs.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	10,994	15,692	15,225	16,001	16,304
EBITDA	1,965	2,614	2,396	2,737	2,699
Operating profit	1,534	2,038	1,931	2,253	2,196
Net profit (rep./act.)	1,030	1,418	1,329	1,592	1,580
Net profit (adj.)	1,036	1,418	1,329	1,592	1,580
EPS (sen)	12.8	17.3	16.2	19.4	19.3
PE (x)	36.9	27.3	29.2	24.4	24.5
P/B (x)	9.8	5.8	5.1	4.4	3.9
EV/EBITDA (x)	22.7	17.1	18.6	16.3	16.5
Dividend yield (%)	0.7	1.1	0.9	1.1	1.1
Net margin (%)	9.4	9.0	8.7	9.9	9.7
Net debt/(cash) to equity (%)	145.8	66.1	51.3	39.0	29.3
Interest cover (x)	12.1	11.3	10.3	13.4	15.4
ROE (%)	26.1	26.8	18.6	19.4	16.8
Consensus net profit	-	-	1,751	1,907	2,267
UOBKH/Consensus (x)	-	-	0.76	0.83	0.70

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

## BUY

(Maintained)

Share Price	RM4.73
Target Price	RM5.50
Upside	+16.3%
(Previous TP)	RM6.10)

#### 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):	38,973.4
Market cap (US\$m):	8,467.9
3-mth avg daily t'over (US\$m):	4.4
Price Performance (%)	

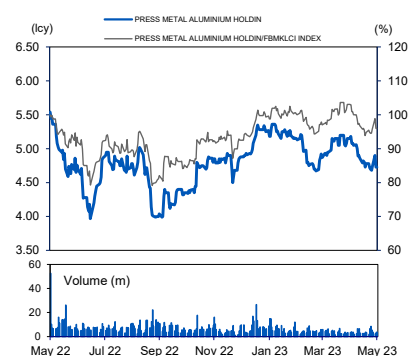
52-week high/low RM5.54/RM3.97

1mth	3mth	6mth	1yr	YTD
(8.2)	(8.3)	(2.5)	(14.0)	(3.1)

#### Major Shareholders

	%
Alpha Milestone Sdn Bhd	33.8
Koon Poh Weng	7.5
Koon Poh Ming	6.2
FY23 NAV/Share (RM)	0.93
FY23 Net Debt/Share (RM)	0.48

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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## STOCK IMPACT

- **Softer LME aluminium prices a reflection of cautious sentiment.** 2022 was a rollercoaster ride for LME aluminium, with prices reaching an all-time high at US\$3,985/tonne in Mar 22 before ending the year at US\$2,380/tonne (2022 average: US\$2,700/tonne). 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 the global economic slowdown. While LME aluminium prices were hovering at the US\$2,650/tonne level in Jan 23, the price has retraced to the current level of US\$2,237/tonne mainly due to slowdown in industrial and manufacturing activities while real estate and consumer goods reflected greater-than-expected contraction.

That said, the likelihood of the rate hike cycle ending, alongside ongoing supply tightness, could form a tailwind for the suppressed LME aluminium prices. As of May 23, the group has hedged 35% of US\$2,400-2,500/tonne for 2023, 30% of US\$2,400/tonne for 2024 and 15% of US\$2,600/tonne for 2025.

- **Favourable raw material costs to support group's margins.** Despite a slight rise in alumina prices (1Q23: US\$360/tonne, 4Q22: US\$318/tonne), alumina-to-aluminium cost ratio was still favourable at 15% in 1Q23. 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\$2,450/tonne aluminium price and vice versa. Meanwhile, carbon anode prices have retraced 14% at an average of Rmb6,866/tonne in 1Q23 due to lower PET coke prices.
- **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 value-added products that PMetal can cross sell to Glencore alongside a long-term partnership that stabilises demand-supply for both sides.

## EARNINGS REVISION/RISK

- We cut our 2023-24 earnings by 22%/15% to account for lower all-in aluminium prices (-US\$150/tonne respective to US\$2,450-2,550/tonne for 2023-24).

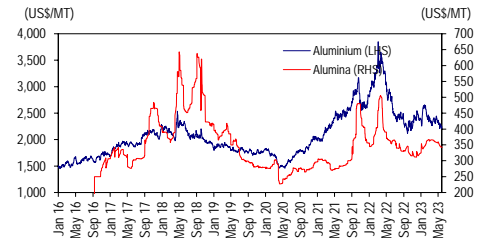
## VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM5.50**, based on a rollover 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\$2,450/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)

<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> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Established group-wide targets in FY18 to increase women's participation in managerial positions to 30% and increased females in workforce to 20%.</li> <li>- In FY20, the group recorded zero work fatalities, with 24% of managerial roles held by women and 14% of workforce comprised of females.</li> </ul> </li> <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 FY20.</li> </ul> </li> </ul>
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## ALUMINIUM AND ALUMINA SPOT PRICES



Source: Bloomberg

## KEY ASSUMPTIONS

Year to 31 Dec	2022	2023F	2024F	2025F
<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\$)	2,701	2,450	2,550	2,600
All-in aluminium price (US\$)	2,828	2,580	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
- **Aluminium:** Every US\$100/tonne increase to our current spot aluminium price assumption of US\$2

Source: PMetal, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	15,692	15,225	16,001	16,304
EBITDA	2,614	2,396	2,737	2,699
Deprec. & amort.	576	464	483	502
EBIT	2,038	1,931	2,253	2,196
Associate contributions	178	173	181	185
Net interest income/(expense)	(231)	(233)	(204)	(175)
Pre-tax profit	1,971	1,871	2,230	2,206
Tax	(190)	(206)	(245)	(243)
Minorities	(363)	(336)	(393)	(383)
Net profit	1,418	1,329	1,592	1,580
Net profit (adj.)	1,418	1,329	1,592	1,580

**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	2,906	2,785	2,647
Cash/ST investment	460	342	218	129
Other current assets	5,128	5,789	6,809	7,783
<b>Total assets</b>	<b>15,344</b>	<b>16,056</b>	<b>17,111</b>	<b>18,139</b>
ST debt	1,554	1,254	954	654
Other current liabilities	1,602	1,594	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	7,632	8,810	9,980
Minority interest	1,371	1,707	2,101	2,483
<b>Total liabilities &amp; equity</b>	<b>15,344</b>	<b>16,056</b>	<b>17,111</b>	<b>18,139</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	2,115	1,522	1,554	1,559
Pre-tax profit	1,971	1,871	2,230	2,206
Tax	(162)	(206)	(245)	(243)
Deprec. & amort.	576	464	483	502
Associates	(178)	(173)	(181)	(185)
Working capital changes	(337)	(668)	(937)	(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)	(1,340)	(1,379)	(1,347)
Dividend payments	(493)	(345)	(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	(118)	(125)	(89)
Beginning cash & cash equivalent	459	460	342	218
Changes due to forex impact	(14)	0	0	0
Ending cash & cash equivalent	460	342	218	129

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	16.7	15.7	17.1	16.6
Pre-tax margin	12.6	12.3	13.9	13.5
Net margin	9.0	8.7	9.9	9.7
ROA	9.6	8.5	9.6	9.0
ROE	26.8	18.6	19.4	16.8
<b>Growth</b>				
Turnover	42.7	(3.0)	5.1	1.9
EBITDA	33.1	(8.4)	14.2	(1.4)
Pre-tax profit	36.0	(5.1)	19.2	(1.1)
Net profit	37.6	(6.3)	19.8	(0.7)
Net profit (adj.)	37.0	(6.3)	19.8	(0.7)
EPS	34.9	(6.3)	19.8	(0.7)
<b>Leverage</b>				
Debt to total capital	37.7	31.3	25.1	19.7
Debt to equity	73.0	55.7	41.5	30.6
Net debt/(cash) to equity	66.1	51.3	39.0	29.3
Interest cover (x)	11.3	10.3	13.4	15.4

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