

### SECTOR UPDATE

## Building Materials – Malaysia

Commodities Rally Continues To Gain Momentum In 4Q21

Commodity players are expected to post explosive earnings in 4Q21, led by the aluminum, ferroalloy, and tin segments, which offer an attractive trading catalyst. This is due to the unprecedented record-high prices in 4Q21, benefitting from structurally favorable supply-demand dynamics. We expect steel players to remain profitable but at lower margins while cement companies' results may also improve on the back of improved ASPs. Maintain OVERWEIGHT. Our top pick is Press Metal.

### WHAT'S NEW

- **Expect stellar performance in upcoming 4Q21 results...** We expect commodity companies to post strong 4Q21 earnings, led by the aluminum, ferroalloy and tin segments, due to the elevated prices and higher demand. Most of the commodities under our coverage continued to reach new all-time high prices in 4Q21 (see table on the right). This is mainly due to low inventories and slow supply response caused by pandemic-induced logistics disruptions, capacity resumption and decarbonisation efforts by super countries. This contributed to the struggle of meeting the stronger structural demand from robust industrial growth and a technological revolution globally.
- **...supported by record-high prices.** The unprecedented power crisis, especially in Europe, China and India, has also put further pressure on the current supply constraints, which further supported the commodities' prices. There was also gradual growth in local demand for building materials in 4Q21 due to the economic recovery, close to the pre-MCO level. Explosive earnings and valuations may have yet to be fully reflected in some of the stocks which would see multiplier effects from rising commodities prices.
- **Potential continued momentum in 2022.** If prices continue to rise, based on our sensitivity analysis, every US\$100/mt rise in our ferroalloy and aluminium price assumptions of US\$1,900 and US\$2,400 per mt in 2022 will boost OM Holdings (OMH) and Press Metal Aluminium's (PMetal) earnings by about 15% and 10% per year respectively. For PMetal, assuming a similar PE of 29.0x (-0.5SD below its five-year forward PE mean) being ascribed, this could mean a 10% upside to our target price of RM7.10 at RM7.80. For tin, every US\$2,000/mt increase in our tin price assumption of US\$32,000/mt in 2022 could raise MSC's earnings by about 12% annually. If tin price remains at its current high of about US\$40,000/mt in 2022, this could result in a 14% upside to our target price of RM3.58 to RM4.07.

### ACTION

- **Maintain OVERWEIGHT** on the sector as it is poised to see a meaningful recovery in 2022 underpinned by: a) strong ASPs, b) improved production, c) higher demand, and d) better cost rationalisation outcomes supported by the economic reopening. The sector is still trading at a relatively attractive valuation of -0.5SD below its historical five-year mean P/B. We favour the aluminum, ferroalloy and tin segments for being the prime beneficiaries of strong commodities prices backed by favourable supply-demand dynamics mainly due to the global decarbonisation trend. We expect the cement segment to experience a slow recovery in 1H22 as the rising raw materials costs may squeeze its margins. Meanwhile, steel companies may continue registering healthy profits but at lower margins as ASPs continue to ease.

### PEER COMPARISON

Company	Tickers	Rec	Share Price 6 Jan 21 (RM)	Target Price (RM)	Market Cap (RM)	PE		P/B		ROE	
						FY22F (x)	FY23F (x)	FY22F (x)	FY23F (x)	FY22F (%)	FY23F (%)
Press Metal	PMAH MK	BUY	5.67	7.10	44,984	23.1	21.1	6.7	5.7	31.5	29.0
Malaysia Smelting Corp	SMELT MK	BUY	3.20	3.58	1,344	8.1	10.2	2.1	1.7	26.3	18.0
OM Holdings	OMH MK	NR	2.84	n.a.	2,092	7.7	8.4	n.a.	n.a.	12.6	13.0
Hume Industries	HUME MK	HOLD	1.15	1.11	555	18.7	11.8	1.5	1.3	7.9	10.9
Ann Joo Resources	AJR MK	HOLD	1.78	2.01	1,086	7.7	8.2	0.7	0.8	11.1	10.2
Choo Bee Metal	CBEE MK	HOLD	1.88	2.05	250	4.7	5.2	0.4	0.5	8.1	6.8

Source: UOB Kay Hian

## OVERWEIGHT (Maintained)

### TOP SECTOR PICKS

Company	Rec	Share Price 6 Jan 21 (RM)	Target Price (RM)
Press Metal	BUY	5.67	7.10

Source: UOB Kay Hian

### KEY ASSUMPTIONS

	4Q21F	2022F
<b>Cement (RM/mt)</b>		
ASP - Bulk	250	260
<b>Steel (RM/mt)</b>		
ASP - Bars	3,200	2,700
<b>Ferroalloy (US\$/mt)</b>		
ASP - FeSi Alloy	3,600	1,900
ASP - Mn Alloy	2,000	1,400
<b>Tin (US\$/mt)</b>		
ASP	38,000	32,000
<b>Aluminum (US\$/mt)</b>		
ASP - Aluminum spot	2,800	2,400

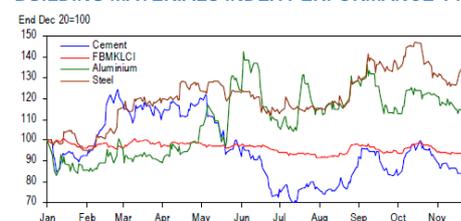
Source: UOB Kay Hian

### COMMODITY PLAYERS' FORECASTED 4Q21 RESULTS

	4Q21F PAT (RMm)	Implied 4Q Annualized PE
PMetal	404	28x
OMH	109	3x
MSC	45	6x

Source: UOB Kay Hian

### BUILDING MATERIALS INDEX PERFORMANCE YTD



Source: Bloomberg, UOB Kay Hian

### ANALYST(S)

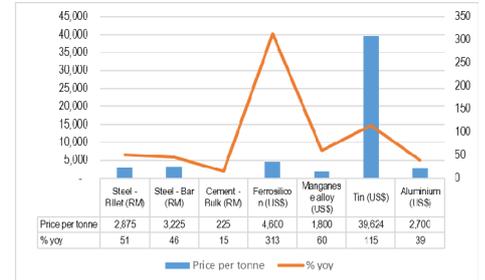
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- **Our top pick is PMetal.** It stands to be a prime beneficiary of strong aluminium prices backed by structural supply shortage and robust demand from electric vehicles (EV), renewable energy (RE) and infrastructure. In addition, the 42% additional smelting capacity is set to supercharge a two-year net profit CAGR of 205% from 2020. Preference for low carbon and greener aluminium also lends further strength to the current prices. Beyond the usage of clean energy (hydropower) in its operations and registration of green aluminium products, PMetal is committed to achieving 15% and 30% greenhouse gas reduction by 2025 and 2030.

### ESSENTIALS

- **Aluminium: Ample upside despite spot price retracement.** Following China's ramp-up of coal production, LME aluminium prices have slightly eased to about US\$2,900/mt from the all-time high of US\$3,150/mt. This is still a tad above our conservative aluminium spot price assumptions of US\$2,100-2,400/mt for 2021 and 2022 respectively. Besides a favourable structural demand globally from EV, RE and infrastructure, supply is still tight due to partial plant shutdowns amid the power crunch in China, tax implementation in Russia and political unrest in Guinea. Preference for low carbon and greener aluminium also lends further strength to the current spot prices.
- **Ferroalloy: Meaningful growth in 2022.** After reaching record-high prices in Oct 21, ferrosilicon (FeSi) and manganese (Mn) alloy have retraced to around US\$2,500/mt and US\$1,800/mt in Dec 21. Although supply was still tight, the prices were pressured by soft demand from steel mills amid frequent production restrictions in China. Some steelmakers also took a wait-and-see approach while some already had sufficient stock for 1Q22. We believe prices will ease supported by supply recovery but remain higher than the historical price of US\$1,300/mt, given that the structural supply issue may persist. We expect ferroalloy players in Malaysia to post robust earnings in 2022 backed by production recovery, strong prices and better demand, as they may fill the void left by some global players exiting the market due to the record-high electricity prices.
- **Tin: Prolonged prices to boost earnings in 2022.** In 4Q21, China closed its border with Myanmar due to the pandemic outbreak, which further disrupted China's refined tin output as it relied on Myanmar for around 90% of its tin ore imports. Indonesia also announced that it may stop the export of tin to reduce its reliance on export earnings. As these countries account for two-thirds of the world's mine production of tin-in-concentrate, these disruptions have pushed LME tin price to a new all-time high of US\$40,175/mt (+115% yoy) in November. Tin inventories in London and Shanghai's warehouses fell 85% yoy to 670mt and 1,256 mt respectively in November. With higher demand ahead, the global tin market deficit is expected to rise 24% yoy in 2022.
- **Steel: Healthy profits to remain.** We believe steel players will continue to be profitable in 1H22 but at lower margins due to easing ASPs, higher freight costs and effects from existing higher-cost raw materials inventory. In December, local steel billet and bar prices slightly declined to RM2,650/mt (-4% mom) and RM3,025/mt (-5% mom), moving in tandem with global steel prices. We believe prices have peaked and will continue trending downwards gradually, given supply recovery and China's carbon neutrality agenda. The upcoming Chinese New Year and winter season will reduce construction activities, slowing the demand for steel in China. Lockdowns in China to combat the pandemic outbreak coupled with weak sentiment of the property market, following the debt crisis of Evergrande and Kaisa, also further dampen the demand outlook.
- **Cement: Gradual recovery ahead.** Based on our channel checks, ASPs have rebounded to RM230-250/mt in 4Q21 given the ease of lockdown and rising raw materials costs as coal prices surged over 185% yoy to US\$274/mt in 4Q21. Note that cement players had a price war in 3Q21 as they competitively increased rebates to gain market share, which kept bulk cement ASPs low at around RM200/mt. We think valuations for this segment are fairly compelling as it is still trading close to -1SD to historical P/B means. Despite the near-term challenges in 1H22 due to inflationary pressure, we foresee a valuation re-rating in 2H22 as the segment benefits from further recovery in demand, easing of coal prices and stronger ASPs of over RM260/mt.

### COMMODITIES PRICES



Source: MITI, Bloomberg, UOB Kay Hian

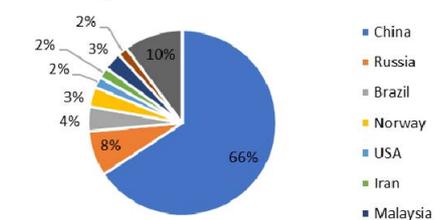
### TARGET PRICE SENSITIVITY

Target Price (RM/share)	Bear	Base	Bull
OMH	3.00	4.21	5.79
MSC	2.84	3.58	4.07
PMetal	4.70	7.10	11.10
Hume	1.06	1.11	1.79
AJR	1.53	2.01	3.15
CBEE	1.70	2.05	2.74

2022 ASPs (per tonne)	Bear	Base	Bull
FeSi (US\$)	1,200	1,900	3,500
Tin (US\$)	20,000	32,000	40,000
Aluminium (US\$)	2,000	2,400	3,000
Bulk Cement (RM)	200	250	280
Steel Bar (RM)	2,300	2,700	3,000
Flat Steel (RM)	2,500	3,000	4,000

Source: UOB Kay Hian

### TOP FERROSILICON ALLOY PRODUCING COUNTRIES



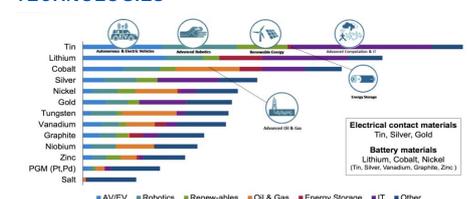
Source: AlloyConsult

### TIN INVENTORIES IN LME WAREHOUSES



Source: LME

### METALS MOST IMPACTED BY NEW TECHNOLOGIES



Source: MIT, Rio Tinto

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