

COMPANY UPDATE

Press Metal Aluminium Holdings (PMAH MK)

Still Benefitting From Favourable Supply-Demand Dynamics

LME aluminium prices are still hovering at a 13-year high amid the ongoing twin supply-demand shock. Besides systemic catalysts leading to favourable price and cost dynamics, the fully operational smelting capacity is set to supercharge a two-year net profit CAGR of +43% from 2021 even after the record year. The recent 2% private placement exercise with RM971m being raised is expected to be completed by 2Q22. No change to earnings forecasts. Maintain BUY. Target price: RM7.50.

WHAT'S NEW

- LME aluminium prices still at 13-year high, way above our 2022 assumptions.** After a rollercoaster ride in 4Q21 with prices hovering at US\$2,490-3,180/tonne, LME aluminium prices touched an all-time high at US\$3,985/tonne before retreating to the current level of US\$3,443/tonne (ytd average: US\$3,263/tonne). That said, it is still at a 13-year high, way above our conservative assumption of US\$2,500/tonne in 2022. Besides favourable structural demand globally from low carbon emission, electric vehicles (EV), renewable energy (RE) and infrastructure, LME aluminium prices are also elevated by supply tightness from partial plant shutdowns, power rationing in China as well as supply disruption caused by the Russia-Ukraine war. Riding on such favourable trends, Press Metal Aluminium Holdings (PMetal) has hedged 60% of its aluminium sales volume at US\$2,400/tonne for 2022 and 35% of US\$2,500/tonne for 2023 (update as of Mar 22).
- Still favourable alumina-to-aluminium price ratio despite higher alumina prices.** Following the supply disruption caused by the Russia-Ukraine war, alumina prices touched US\$500/tonne before moderating to US\$432/tonne. That said, it is still near a favourable alumina-to-aluminium cost ratio at 12.6% (even at US\$500/tonne, it is still at 12.5% ratio). 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 would reduce PMetal's earnings by RM132m, assuming no hedging is done on a fixed US\$2,500/tonne aluminium price and vice versa.
- Leveraging on its decent equity structure to finance growth.** PMetal has fixed the issue price of 163.4m placement shares at RM5.94/share, which is expected to raise RM970.6m for the purpose of capex/working capital/repayment (21%/67%/12%). The meaningful proceeds will allow the group to upscale its operations with a mere 2% dilution, showing positive leveraging on its decent equity structure. On capex, we gather that RM100m will be spent to increase extrusion capacity of aluminium battery case for EV which could lead to better margins progressively. Meanwhile, we believe that it is crucial for the group to build up a high level of inventory as the current twin supply-demand shock and global decarbonisation continue to benefit Green Alu smelters with additional capacities.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	7,476	10,994	14,774	15,365	15,902
EBITDA	1,260	1,965	3,533	3,767	3,945
Operating profit	848	1,534	3,087	3,317	3,490
Net profit (rep./act.)	460	1,030	2,086	2,276	2,424
Net profit (adj.)	498	1,036	2,086	2,276	2,424
EPS (sen)	6.2	12.8	25.8	28.2	30.0
PE (x)	101.3	48.7	24.2	22.1	20.8
P/B (x)	12.6	12.9	7.9	6.2	5.1
EV/EBITDA (x)	44.2	28.3	15.8	14.8	14.1
Dividend yield (%)	0.3	0.5	1.1	1.2	1.3
Net margin (%)	6.2	9.4	14.1	14.8	15.2
Net debt/(cash) to equity (%)	105.4	145.8	57.7	16.2	(12.4)
Interest cover (x)	7.3	12.1	11.9	13.7	15.4
ROE (%)	12.0	26.1	40.5	31.5	27.0
Consensus net profit	-	-	2,161	2,504	2,478
UOBKH/Consensus (x)	-	-	0.97	0.91	0.98

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

BUY

(Maintained)

Share Price	RM6.24
Target Price	RM7.50
Upside	+20.2%

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):	8,076.2
Market cap (RMm):	50,395.6
Market cap (US\$m):	11,958.5
3-mth avg daily t'over (US\$m):	17.5

Price Performance (%)

52-week high/low RM7.22/RM4.71

1mth	3mth	6mth	1yr	YTD
(13.6)	9.5	5.4	23.6	8.0

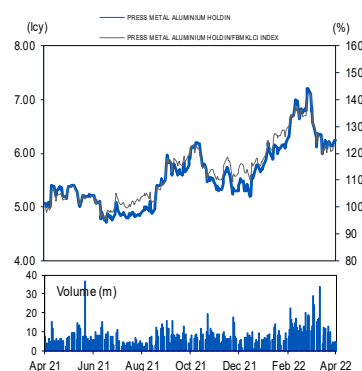
Major Shareholders

	%
Alpha Milestone Sdn Bhd	34.8
Koon Poh Ming	6.8
Koon Poh Weng	6.3

FY22 NAV/Share (RM) 0.79

FY22 Net Debt/Share (RM) 0.46

PRICE CHART



Source: Bloomberg

ANALYST(S)

Desmond Chong

+603 2147 1980

desmondchong@uobkayhian.com

STOCK IMPACT

- Favourable supply-demand dynamics and hedging to catalyse two-year net profit CAGR of 43% from its peak year.** We believe that aluminium supply will remain tight at least for the next two years on the back of: a) shrinking output from China on the restriction of smelters' power usage and tonnage production by 2024, b) global decarbonisation drives to hinder support of coal-based smelter projects (China: 88), and c) scarcity of hydropower sources at strategic locations and high investment capex for hydro-based smelters (at only 25% globally), aside from the short-term disruptions from Guinea, China and Russia. Meanwhile, demand dynamics remain favourable, premised on all-clean energy applications like EV, RE packaging, power transmission and construction. Riding on the high, the group has hedged 60% of its aluminium sales volume at US\$2,400/tonne for 2022 and 35% of US\$2,500/tonne for 2023 (update as of Mar 22), vs current LME spot price of US\$3,443/tonne.
- Clear roadmap for ESG sustainability.** Beyond the usage of clean energy (hydropower) for its operations and registration of Green Aluminium products, the group has committed to achieve 15% and 30% greenhouse gases (GHG) reduction by 2025 and 2030, as compared to the 2020 baseline. Beyond that, PMetal commits to achieve carbon neutrality by 2050 and 10% water withdrawal reduction by 2030 as compared to the 2016 baseline. With these standards in place, we believe PMetal's investability is further solidified and makes PMetal a preferred ESG investing target.

EARNINGS REVISION/RISK

- We make no changes to our earnings as we believe that the 2% dilution from the private placement could be offset by the earnings contribution from new extrusion capacity of aluminium battery case for EVs.

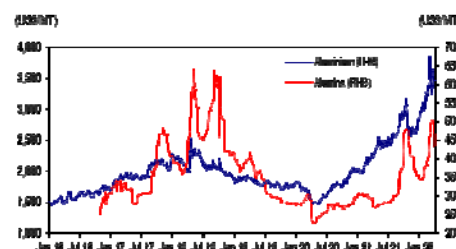
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM7.50**, still based on 29.0x 2022F PE (which is at its -0.5SD below its five-year forward PE mean). Should aluminium prices remain elevated, based on our sensitivity analysis, every US\$100/tonne increase to our current spot aluminium price assumption of US\$2,500/tonne in 2022 would increase PMetal's earnings by 9% annually, assuming alumina cost of US\$388/MT (implies around 15.5% cost ratio) and carbon anode prices of Rmb4,625/MT. Assuming a similar PE being ascribed on LME aluminium price assumption of US\$2,600/tonne in 2022, this could mean a 10% upside to our target price of RM7.50, at RM8.30.

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 FY18 to increase women's participation in managerial positions to 30% and increase females in workforce to 20%. - In FY20, 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 the Section 17A of the MACC Act 2009. - There were zero whistle-blowing and bribery instances in 2020.

LME ALUMINIUM AND ALUMINA SPOT PRICES



Source: Bloomberg

KEY ASSUMPTIONS

Year to 31 Dec	2020	2021	2022F	2023F
Current assumptions				
Production volume (MT p.a.)	760,000	893,333	1,080,000	1,080,000
Aluminium spot price (US\$)	1,732	2,475	2,500	2,600
All-in aluminium price (US\$)	1,852	2,615	2,650	2,750
MJP Premium	120	140	150	150
Alumina (US\$/tonne)	277	371	388	403
EBIT margin (%)	11.3	14.0	20.9	21.6
US\$/RM rate	4.20	4.15	4.20	4.20
Effective Tax Rate (%)	10.3	8.0	9.0	9.0

Source: PMetal, UOB Kay Hian

SENSITIVITY ANALYSIS

<p>Alumina: Every US\$20/tonne reduction from our alumina assumption of US\$388/tonne in 2022 would increase PMetal's earnings by RM132m, assuming that no hedging is done on a fixed US\$2,500/tonne aluminium price, and vice versa.</p> <p>Aluminium: Every US\$100/tonne increase to our current spot aluminium price assumption of US\$2,500/tonne in 2022 would increase PMetal's earnings by 9% annually, assuming alumina cost of US\$388/MT (implies c.16% cost ratio) and carbon anode prices of Rmb4,625/MT.</p>

Source: PMetal, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	10,994	14,774	15,365	15,902
EBITDA	1,965	3,533	3,767	3,945
Deprec. & amort.	431	445	450	455
EBIT	1,534	3,087	3,317	3,490
Associate contributions	82	111	115	119
Net interest income/(expense)	(162)	(296)	(276)	(256)
Pre-tax profit	1,449	2,902	3,156	3,353
Tax	(116)	(261)	(284)	(302)
Minorities	(302)	(555)	(596)	(627)
Net profit	1,030	2,086	2,276	2,424
Net profit (adj.)	1,036	2,086	2,276	2,424

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	7,084	5,902	5,552	5,197
Other LT assets	2,104	2,865	2,980	3,099
Cash/ST investment	459	2,062	4,023	6,133
Other current assets	4,570	5,743	5,930	6,110
Total assets	14,217	16,572	18,485	20,539
ST debt	2,585	2,385	2,185	1,985
Other current liabilities	1,967	2,292	2,345	2,398
LT debt	3,582	3,362	3,142	2,922
Other LT liabilities	1,153	574	574	574
Shareholders' equity	3,915	6,389	8,073	9,867
Minority interest	1,015	1,570	2,165	2,793
Total liabilities & equity	14,217	16,572	18,485	20,539

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	381	2,424	3,349	3,516
Pre-tax profit	1,449	2,902	3,156	3,353
Tax	(33)	(261)	(284)	(302)
Deprec. & amort.	431	445	450	455
Associates	(82)	(111)	(115)	(119)
Working capital changes	(1,553)	(847)	(134)	(127)
Other operating cashflows	170	296	276	256
Investing	(1,231)	(100)	(100)	(100)
Capex (growth)	(1,001)	(100)	(100)	(100)
Investments	0	0	0	0
Proceeds from sale of assets	4	0	0	0
Others	(234)	0	0	0
Financing	697	(722)	(1,288)	(1,306)
Dividend payments	(273)	(542)	(592)	(630)
Issue of shares	0	931	0	0
Proceeds from borrowings	1,223	0	0	0
Loan repayment	0	(814)	(420)	(420)
Others/interest paid	(254)	(296)	(276)	(256)
Net cash inflow (outflow)	(153)	1,603	1,961	2,110
Beginning cash & cash equivalent	692	459	2,062	4,023
Changes due to forex impact	(80)	0	0	0
Ending cash & cash equivalent	459	2,062	4,023	6,133

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	17.9	23.9	24.5	24.8
Pre-tax margin	13.2	19.6	20.5	21.1
Net margin	9.4	14.1	14.8	15.2
ROA	7.9	13.6	13.0	12.4
ROE	26.1	40.5	31.5	27.0
Growth				
Turnover	47.1	34.4	4.0	3.5
EBITDA	56.0	79.8	6.6	4.7
Pre-tax profit	121.3	100.3	8.8	6.3
Net profit	124.1	102.4	9.1	6.5
Net profit (adj.)	108.1	101.4	9.1	6.5
EPS	108.1	101.4	9.1	6.5
Leverage				
Debt to total capital	55.6	41.9	34.2	27.9
Debt to equity	157.5	89.9	66.0	49.7
Net debt/(cash) to equity	145.8	57.7	16.2	(12.4)
Interest cover (x)	12.1	11.9	13.7	15.4

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