Investment Idea

P.A. Resources Bhd

All stars aligned for better earnings growth

By Rakuten Trade Research Team

BUY

Price: **RM0.38**
Target price: **RM0.50**

P.A. Resources Bhd's (PA, 7225) 9MFY24 achieved 92% of our FY24 full year's forecasted earnings. As such, we upgraded our FY24/FY25/FY26 earnings projections by 29%/4%/3.5%, due to (i) its near-term capacity ramp-up; (ii) ASP upward revision; (iii) launch of new products with better margins. BUY with a TP of RM0.50 based on 13x PER over FY25 EPS of 3.9sen, justified by the management's execution track record and earnings growth potential.

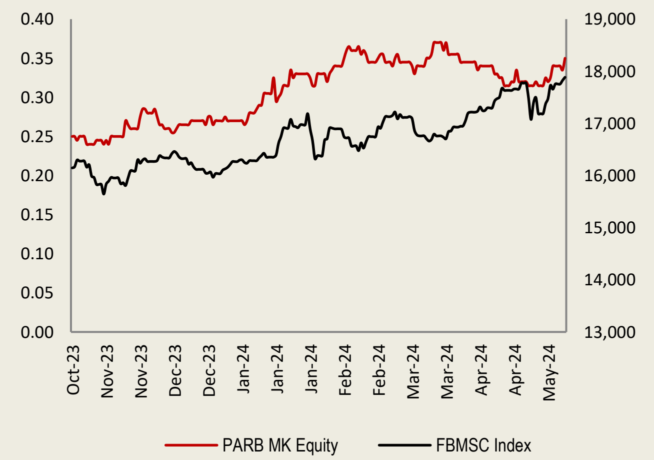
In the near term, PA's earnings growth outlook will be driven by (i) the recent completion of its extrusion capacity expansion plan; (ii) upward revision in average selling prices ("ASP"); (iii) successful launching of a new product. PA has since ramped up its capacity to 3,200MT/month since Apr-CY24 from 2,800 – 3,000MT/month. From the recent spike of LME Aluminum prices in April by 13% MoM, we anticipate an upward price revision by Jul-CY24 (1QFY25) onwards. Meanwhile, PA has successfully launched a new product (mainly used for the palm oil industry) that is expected to deliver better margins. As a result, PA should deliver commendable earnings growth over the next few quarters.

Looking ahead, we are optimistic on the (i) new plant expansion that will more than double the group's capacity within 12 – 18 months upon the completion of land title transfer; (ii) upgrading of an existing fabrication line. Phase 1 of the plant expansion will add 2,000 – 2,500MT, while the total plant capacity across the different phases will eventually lift the group's extrusion capacity to 7,000 – 10,000MT. As for the automated fabrication line upgrade, this will enable PA to enjoy cost savings and recoup its investment within 1.5 years. Underpinned by these initiatives, PA should deliver multi-year earnings growth in a sustainable manner, especially with recent productive business discussions with reputable multinational solar companies.

Leveraging on PA's impressive execution track record and long-term capacity expansion plans, we see PA as a potential beneficiary of the current anti-dumping measures and First Solar's robust backlog of 78.3GW until CY30. As such, we deem PA's current valuation of 9.8x FY25 PER as a decent value proposition.

Technically Speaking

Resistance level	RM0.395
Support level	RM0.355



KLCI	1,603.2
YTD FBM KLCI change	10.2%
YTD FBM SC Index change	14.0%
YTD stock price change	40.7%

Stock Information

Market Cap (RM'm)	568.3
Issued Shares (m)	1,495.4
52-week range (H)	0.395
52-week range (L)	0.23
Shariah Compliant	Y

Major Shareholders

Interlink Matirx	7.6%
Lau Kuan Kam	4.3%
Lee Vui Han	3.7%

Summary Earnings Table

FY Jun (RM'm)	2023A	2024F	2025F	2026F
Revenue	461.5	567.7	789.0	867.9
EBIT	41.5	60.3	76.5	84.5
Pretax profit	44.4	59.8	76.0	84.0
Net profit	31.4	45.5	57.8	63.8
Core net profit	**31.4**	**45.5**	**57.8**	**63.8**
Consensus	N.A.	N.A.	N.A.	N.A.
Core EPS (sen)	2.1	3.0	3.9	4.3
EPS growth (%)	-27.9%	44.9%	27.1%	10.4%
DPS (sen)	0.5	0.9	1.2	1.3
PER (x)	14.5	12.5	9.8	8.9
BV/Share (RM)	0.19	0.20	0.23	0.26
ROE (%)	12.5%	15.7%	18.0%	17.6%
Div. Yield (%)	1.6%	2.4%	3.1%	3.4%

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:
The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

Published:

Kenny Yee Shen Pin
Head of Research