

27 February 2019

## Press Metal Aluminium

### Within Expectations

By Lavis Chong | [lavis.chong@kenanga.com.my](mailto:lavis.chong@kenanga.com.my)

PMETAL's FY18 CNP\* of RM617m (+0.9% YoY) came within consensus at 95% and our forecast at 97%. A 1.5 sen dividend brought full-year dividend to 6.5 sen, in line with expectation. Going into FY19, we believe earnings would pick up on moderating raw material prices and better product mix. Fine-tune FY19E CNP by 0.1% to RM805m due to housekeeping reasons; while introducing FY20E CNP of RM855m. Maintain MARKET PERFORM with an unchanged TP of RM4.00.

**Within expectations.** Press Metal Aluminium Holdings Berhad (PMETAL)'s FY18 Core Net Profit (CNP\*) of RM617m (+0.9% YoY) came in within consensus estimate at 95% and our forecast at 97%. We have excluded a net insurance claim of RM33m (after tax and minority interests), an earn-out payment of RM25m and an unrealised forex gain of RM6m. An interim dividend of 1.5 sen was announced, bringing full-year dividends to 6.5 sen, in line with our 7.0 sen expectation.

**Higher raw material cost.** YoY, FY18 CNP was flat despite revenue growing 12% likely due to the weaker USD/MYR (-6% to 4.04 in FY18 from 4.30 in FY17) and higher alumina costs. The average alumina price trended 38% higher to USD463/MT in FY18, outpacing a 7% increase in the average all-in aluminium price (including premium for delivery to main Japanese ports) to USD2,225/MT. Thanks to the group's practice to hedge >60% of its alumina requirements one year ahead, CNP margin eroded only by 0.8 ppt to 6.7%. Raw material aside, the group also registered a higher effective tax rate of 10% vs. 8% in FY17. **QoQ**, despite a 1% dip in the average all-in aluminium price to USD2,069/MT, 4Q18 CNP improved 3% as the average alumina price in 4Q18 edged 12% lower at USD466/MT. In addition, the average USD/MYR appreciated by 2% to 4.17 in 4Q18 vs. 4.09 in 3Q18. The quarter also saw a lower effective tax rate of 8% vs. 14% in 3Q18.

**Better product mix and JAA to lift earnings.** Going into FY19, we believe earnings would pick up on moderating raw material prices and better product mix. The group expanded billet capacity by 60k MT (to 240k MT) and wire rod capacity by 50k MT (to 200k MT) in October 2018, which should lift the sales composition of high-value products to 60-70% in FY19 from 40-50% in FY18. Billets and wire rods command a mark-up/premium of USD120-150/MT and generate additional profit of USD60-80/MT. As such, we believe the new capacities would underpin profit margins and improve earnings by c.5% in FY19. In addition, the completion of Japan Alumina Associates (JAA) acquisition by end-1Q19 should provide a 9-month earnings contribution to the group in FY19, improving earnings by c.3% after considering financing costs. We also believe alumina prices would moderate from the current level of USD405/MT (vs. our assumption of USD370/MT for FY19) in the likely case that Norsk Hydro's Alunorte plant fully restarts its production facility, lowering PMETAL's feedstock costs.

**Fine-tune FY19E CNP by 0.1% to RM805m** due to housekeeping reasons; and introduce FY20E CNP of RM855m.

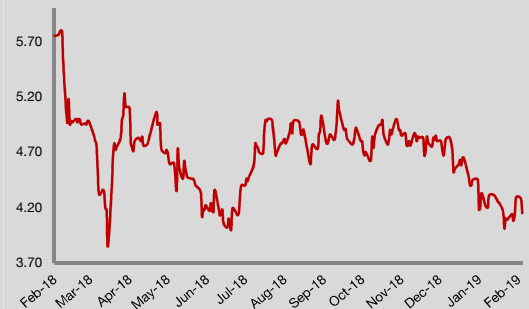
**Maintain MARKET PERFORM with an unchanged TP of RM4.00**, based on an unchanged Fwd. PER of 19.4x (implying +1.0 SD) applied to FY19E EPS of 20.6 sen. The Fwd. PER reflects earnings growth of 27% assuming aluminium ASP of USD2,000/MT in FY19. We continue to like PMETAL for its long-term positive operating outlook and earnings growth potential. However, we believe most of the positives have been priced-in at this juncture.

**Risks to our call** include sharp rises/falls in aluminium prices and raw material prices as well as major plant disruptions/closure.

## MARKET PERFORM ↔

Price : RM4.15  
Target Price : RM4.00 ↔

### Share Price Performance



KLCI	1,719.00
YTD KLCI chg	1.7%
YTD stock price chg	-14.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PMAH MK Equity
Market Cap (RM m)	16,441.9
Issued shares	3,961.9
52-week range (H)	5.80
52-week range (L)	3.80
3-mth avg daily vol:	1,968,051
Free Float	51%
Beta	1.5

### Major Shareholders

Alpha Milestone Sdn	22.3%
Koon Poh Keong	17.1%
Koon Poh Ming	9.4%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	9,159	8,717	8,792
EBIT	1,053	1,409	1,474
PBT	875	1,260	1,337
<b>Net Profit (NP)</b>	<b>630</b>	<b>805</b>	<b>855</b>
<b>Core NP</b>	<b>617</b>	<b>805</b>	<b>855</b>
Consensus (CNP)	N.A.	756	778
Earnings Revision	N.A.	-0.1%	N.A.
Core EPS (sen)	16.5	21.5	22.9
Core EPS gwth (%)	2.4%	30.6%	6.2%
FD Core EPS (sen)	15.7	20.6	21.8
NDPS (sen)	6.5	7.0	7.5
BV/Share (RM)	0.87	1.01	1.17
Core PER	25.2	19.3	18.1
FD Core PER	26.4	20.2	19.0
Price/BV (x)	4.8	4.1	3.6
Net Gearing (x)	0.9	0.3	0.1
Net Dvd Yield (%)	1.6	1.7	1.8

\* PMETAL's FY18 CNP excludes unrealised forex loss of RM6m, a net insurance claim of RM33m (after tax and minority interests), and an earn-out payment of RM25m.

27 February 2019

Results Highlights								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Y/E : Dec (RM mn)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
<b>Turnover</b>	<b>2,245.7</b>	<b>2,373.9</b>	<b>-5.4%</b>	<b>2,144.2</b>	<b>4.7%</b>	<b>9,158.5</b>	<b>8,176.1</b>	<b>12.0%</b>
EBITDA	337.8	384.8	-12.2%	341.8	-1.2%	1,442.1	1,396.5	3.3%
EBIT	244.5	286.7	-14.7%	248.5	-1.6%	1,052.7	995.3	5.8%
Net interest expense	-43.3	-46.7	-7.3%	-48.7	-11.1%	-180.6	-189.4	-4.6%
Income from Associates	0.7	1.2	-39.7%	0.9	-17.3%	2.7	2.9	-6.2%
<b>Pretax profit</b>	<b>201.9</b>	<b>241.2</b>	<b>-16.3%</b>	<b>200.7</b>	<b>0.6%</b>	<b>874.7</b>	<b>808.8</b>	<b>8.2%</b>
Taxation	-16.7	-32.9	-49.3%	-12.0	38.8%	-89.6	-62.3	43.9%
Minority interest	-28.8	-45.7	-37.0%	-38.5	-25.1%	-155.1	-153.1	1.4%
Profit after tax	156.4	162.5	-3.7%	150.2	4.1%	630.0	593.4	6.2%
<b>Core Net Profit (NP)</b>	<b>152.4</b>	<b>148.0</b>	<b>3.0%</b>	<b>169.2</b>	<b>-9.9%</b>	<b>616.7</b>	<b>611.3</b>	<b>0.9%</b>
Core EPS (sen)	3.9	3.7	4.1%	4.2	-8.3%	16.2	15.9	1.9%
Adjusted DPS (sen)	1.5	2.0	-25.0%	1.5	0.0%	6.5	6.0	8.3%
EBITDA margin	15.0%	16.2%		15.9%		15.7%	17.1%	
EBIT margin	10.9%	12.1%		11.6%		11.5%	12.2%	
Pretax margin	9.0%	10.2%		9.4%		9.6%	9.9%	
PAT margin	7.0%	6.8%		7.0%		6.9%	7.3%	
CNP margin	6.8%	6.2%		7.9%		6.7%	7.5%	
Effective tax rate	8.3%	13.7%		6.0%		10.2%	7.7%	

Source: Company, Kenanga Research

Segment Information								
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Y/E : Dec (RM mn)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
<b>Segment Revenue</b>								
Smelting & extrusion	2,205.1	2,361.4	-6.6%	2,115.9	4.2%	9,101.2	8,085.2	12.6%
Others	15.3	12.4	23.2%	28.2	-56.2%	57.4	90.9	-32.7%
<b>Group Revenue</b>	<b>2,220.4</b>	<b>2,373.9</b>	<b>-6.5%</b>	<b>2,144.2</b>	<b>3.2%</b>	<b>9,158.5</b>	<b>8,176.1</b>	<b>12.1%</b>
<b>Segment EBIT</b>								
Smelting & extrusion	267.4	292.4	-8.6%	261.6	2.2%	1,090.8	1,008.6	8.2%
Others	-22.9	-5.8	295.7%	-13.1	74.7%	-38.2	-13.3	N.M.
<b>Group EBIT</b>	<b>244.5</b>	<b>286.7</b>	<b>-14.7%</b>	<b>248.5</b>	<b>-1.6%</b>	<b>1,052.7</b>	<b>995.3</b>	<b>4.9%</b>

Source: Company, Kenanga Research

27 February 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
<b>BUILDING MATERIALS UNDER COVERAGE</b>																	
ANN JOO RESOURCES BHD	1.52	818.9	Y	12/2019	-1.8%	0.9%	-31.2%	6.7%	6.4	9.3	8.7	0.6	0.6	6.5%	3.9%	1.25	UP
LAFARGE MALAYSIA BHD	1.87	1,588.9	Y	12/2018	-19.2%	7.3%	-67.2%	-132.7%	N.A.	N.A.	N.A.	0.6	0.6	-12.4%	0.0%	1.85	UP
PRESS METAL ALUMINIUM HOLDINGS BHD	4.15	16,441.9	Y	12/2019	-4.8%	0.9%	30.6%	6.2%	25.2	19.3	18.1	4.8	4.1	22.9%	1.7%	4.00	MP
UNITED U-LI CORP BHD	0.560	122.0	Y	12/2018	8.8%	8.8%	-62.6%	145.5%	6.1	16.3	6.6	0.4	0.4	2.6%	0.9%	0.505	UP
WHITE HORSE BHD	1.35	308.3	Y	12/2018	-4.9%	-0.6%	-19.3%	-50.2%	N.A.	N.A.	N.A.	0.4	0.4	-0.6%	0.0%	1.20	UP
<b>Simple Average</b>					<b>-4.4%</b>	<b>3.5%</b>	<b>-30.0%</b>	<b>-4.9%</b>	<b>13.0</b>	<b>15.2</b>	<b>11.4</b>	<b>1.4</b>	<b>1.2</b>	<b>3.8%</b>	<b>2.2%</b>		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

27 February 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research