

14 October 2022

Basic Materials | Metals

## Press Metal (PMAH MK)

### Buy (Maintained)

### Key Proxy Of Sustainable Aluminium Production

- **Reiterate BUY, with new MYR5.73 TP from MYR6.58, 37% upside and c.2% FY23F yield** We still like our sector Top Pick Press Metal for its capacity driven earnings upcycle (3-year forward earnings CAGR of 26% from 2021). This is supported by it being a key proxy of low carbon-producing aluminium smelters, global decarbonisation effort in limiting coal-based smelters, and current tight industry supply, while its proactive hedging policy should provide some ASP protection amid softness in London Metal Exchange (LME) prices. This report marks a transfer of coverage to Oong Chun Sung.
- **Tight inventory level.** LME inventory recorded 332,175 tonnes as at end-September from 939,200 tonnes at the beginning of the year – the low inventory level is likely attributed to the potential slowing down in demand (ie zero-COVID policy in China that has negatively impacted demand for aluminium) and production cut from the European region. Taking cue from August production numbers, global aluminium production recorded its fastest growth in 2022, at 3.8%. Nonetheless, we believe the current tight supply coincides with the supply cut from Eastern Europe (due to high input cost), while a potential ban on Russia's metals would continue to pose a threat towards the current tight inventory level, and in turn, be positive for aluminium prices.
- **LME aluminium prices.** LME aluminium prices plunged to a low of USD2,155/tonne from its peak of USD3,878/tonne in March, representing a 44% correction. We expect the near term softness of LME aluminium prices to be capped by the current industry tight supply despite expectations that the persistent hawkish tone by the US Federal Reserve will weigh in on LME prices in the near term.
- **ESG update.** In terms of the environmental aspect, PMAH undertook a business process lifecycle management under its environmental assessment. In 2021, its greenhouse gas (GHG) emission intensity (measure by CO<sub>2</sub> emission/tonne of aluminium produced) was 2.57 tonnes, below the global industry average of 11.5 tonnes, according to Aluminium Insider. We upgrade our "S" score given the group's commendable management of its occupational health and safety (resulting in two consecutive years of zero fatality) apart from its continuous effort in supporting work-life balance of its employees. We make no changes to our "G" score. All in, our ESG score is raised to 3.4 from 3.3.
- **Earnings revision and valuation.** We lower our spot LME aluminium price assumption for 2022 and 2023 to USD2,450 and USD2,300 from USD2,500 and USD2,550, while we expect the impact to be cushioned by the strengthening of USD/MYR. Every 1% appreciation in the USD should potentially lift our FY23F earnings by 2% We fine tune our 2022-2023 USD/MYR assumptions to 4.6 and 4.625. Our DCF-based TP of MYR5.73 incorporates a 9% ESG premium.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	7,476	10,995	14,498	14,924	14,990
Recurring net profit (MYRm)	466	1,001	1,828	1,956	2,001
Recurring net profit growth (%)	0.4	115.0	82.6	7.0	2.3
Recurring P/E (x)	72.67	33.80	18.51	17.30	16.91
P/B (x)	8.5	8.7	6.6	5.2	4.3
P/CF (x)	27.86	156.65	35.11	13.46	11.80
Dividend Yield (%)	0.5	0.8	1.6	1.7	1.8
EV/EBITDA (x)	32.01	20.43	13.13	12.29	11.47
Return on average equity (%)	12.0	25.5	40.5	33.5	27.7
Net debt to equity (%)	90.6	119.7	86.9	48.8	19.7

Source: Company data, RHB

Target Price (Return):	MYR5.73 (+37%)
Price (Market Cap):	MYR4.19 (USD7,357m)
ESG score:	3.44 (out of 4)
Avg Daily Turnover (MYR/USD)	32.2m/7.12m

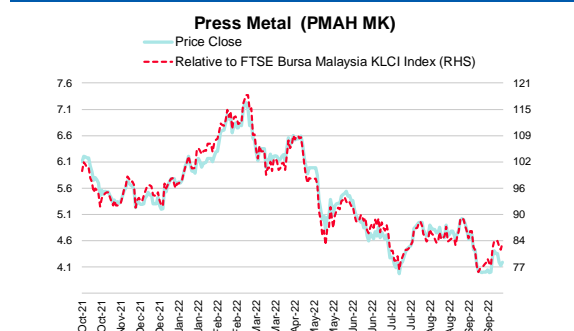
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(27.5)	(12.5)	2.7	(35.1)	(31.3)
Relative	(15.1)	(4.8)	5.4	(21.1)	(17.1)
52-wk Price low/high (MYR)				3.97 – 7.22	



Source: Bloomberg

#### Overall ESG Score: 3.44 (out of 4)

##### E: EXCELLENT

Press Metal's carbon footprint ranks amongst the best in the global aluminium industry, thanks to access to hydropower, possibly boosting its long-term upside on the burgeoning market potential for low-carbon aluminium. The group has also committed itself to carbon neutrality targets by 2050

##### S: EXCELLENT

Recorded 2 consecutive year of zero workplace injuries and fatalities, thanks to its regular OHS (occupational health and safety) training apart from the company continuing effort in striking work-life balance for all employees.

##### G: EXCELLENT

Good levels of transparency afforded by the company's reporting framework and management's regular dialogue with the market. Sustainability reporting are prepared in line with GRI Standard.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Malaysia	Recurring EPS	0.06	0.12	0.23	0.24	0.25
Basic Materials	DPS	0.02	0.03	0.07	0.07	0.07
<b>Press Metal</b>	BVPS	0.49	0.48	0.64	0.81	0.98
PMAH MK	Return on average equity (%)	12.0	25.5	40.5	33.5	27.7
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
SOP valuation (WACC 7.0%, LTg 2.5%) together with 6% ESG premium ascribed on calculated fair value	Recurring P/E (x)	72.67	33.80	18.51	17.30	16.91
	P/B (x)	8.5	8.7	6.6	5.2	4.3
	FCF Yield (%)	0.6	(2.0)	2.0	6.8	7.9
	Dividend Yield (%)	0.5	0.8	1.6	1.7	1.8
	EV/EBITDA (x)	32.01	20.43	13.13	12.29	11.47
	EV/EBIT (x)	47.05	25.81	15.62	14.62	13.64
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Press Metal's proven low-cost model helps to keep its smelters in the first quartile of the global production cost curve. Separately, the bottoming out of aluminium prices and weak MYR should directly boost bottomline.	Total turnover	7,476	10,995	14,498	14,924	14,990
	Gross profit	1,118	2,061	3,166	3,268	3,326
	EBITDA	1,191	1,927	3,014	3,100	3,163
	Depreciation and amortisation	(381)	(402)	(482)	(494)	(503)
	Operating profit	811	1,526	2,532	2,606	2,660
	Net interest	(173)	(165)	(213)	(199)	(182)
	Pre-tax profit	655	1,443	2,456	2,595	2,656
	Taxation	(68)	(148)	(189)	(184)	(188)
	Reported net profit	460	1,002	1,828	1,956	2,001
	Recurring net profit	466	1,001	1,828	1,956	2,001
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Plunge in aluminium prices and a sharp weakening of the USD may hurt profitability;	Change in working capital	190	(1,635)	(1,974)	(371)	(188)
ii. Any interruption in power supply to its smelting plant may damage machinery and disrupt operations;	Cash flow from operations	1,215	216	964	2,514	2,868
iii. COVID-19's prolonged incidence could undermine global economic growth and, consequently, primary aluminium demand.	Capex	(1,019)	(882)	(300)	(200)	(180)
	Cash flow from investing activities	(2,034)	(1,231)	(296)	(287)	(176)
	Dividends paid	(175)	(275)	(548)	(587)	(600)
	Cash flow from financing activities	880	697	(1,062)	(1,286)	(1,282)
	Cash at beginning of period	364	692	459	278	1,418
	Net change in cash	60	(318)	(394)	941	1,410
	Ending balance cash	519	433	64	1,219	2,828
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Press Metal is a Malaysian-based aluminium company with an extensive global presence. The group has a downstream extrusion operation that is integrated with its greenfield aluminium smelting plants in Mukah and Samalaju in Sarawak, which have an annual combined capacity of 1,080,000 tonnes. The group also operates aluminium extrusion plants in Malaysia and China.	Total cash and equivalents	692	459	278	1,418	3,009
	Tangible fixed assets	6,448	7,109	6,927	6,633	6,310
	Total investments	1,027	1,403	1,541	1,819	1,997
	Total assets	11,934	14,211	15,449	16,787	18,244
	Short-term debt	1,601	2,583	2,583	2,583	2,583
	Total long-term debt	3,523	3,765	3,465	2,965	2,465
	Total liabilities	7,045	9,291	8,809	8,324	7,913
	Total equity	4,890	4,920	6,640	8,464	10,331
	Total liabilities & equity	11,934	14,211	15,449	16,787	18,244
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(15.1)	47.1	31.9	2.9	0.4
	Recurrent EPS growth (%)	(0.1)	115.0	82.6	7.0	2.3
	Gross margin (%)	14.9	18.7	21.8	21.9	22.2
	Operating EBITDA margin (%)	15.9	17.5	20.8	20.8	21.1
	Net profit margin (%)	6.2	9.1	12.6	13.1	13.3
	Dividend payout ratio (%)	36.9	27.4	30.0	30.0	30.0
	Capex/sales (%)	13.6	8.0	2.1	1.3	1.2
	Interest cover (x)	4.47	8.93	11.67	12.84	14.34

Source: Company data, RHB

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Figure 1: DCF valuation

FYE Dec (MYRm)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	Terminal
<b>NOPAT</b>	<b>2,325</b>	<b>2,407</b>	<b>2,458</b>	<b>2,811</b>	<b>2,792</b>	<b>2,848</b>	<b>2,528</b>	<b>2,509</b>	<b>2,514</b>	<b>2,527</b>	
+ D&A	482	494	503	512	510	509	508	507	506	505	
- Change in NWC	(1,836)	(184)	(10)	49	(69)	(45)	(52)	(30)	(28)	(28)	
- CAPEX	(300)	(200)	(180)	(185)	(191)	(197)	(203)	(209)	(215)	(221)	
<b>Free cash flow to firm (FCFF)</b>	<b>671</b>	<b>2,517</b>	<b>2,771</b>	<b>3,186</b>	<b>3,043</b>	<b>3,116</b>	<b>2,781</b>	<b>2,777</b>	<b>2,777</b>	<b>2,782</b>	<b>59,964</b>
Discount factor	0.93	0.87	0.81	0.75	0.70	0.65	0.61	0.57	0.53	0.49	0.49
<b>PV of FCFF</b>	<b>625</b>	<b>2,183</b>	<b>2,238</b>	<b>2,396</b>	<b>2,131</b>	<b>2,032</b>	<b>1,689</b>	<b>1,571</b>	<b>1,463</b>	<b>1,365</b>	<b>29,414</b>
Risk-free	4.30%										
WACC	7.4%										
Terminal growth	2.40%										
Enterprise Value (MYR m)	47,106										
+ Cash	278										
- Debt	-6,048										
- MI	-1,486										
+ 'JV/Associates											
JAA (20x FY22F P/E)	800										
PMBT (PMAH 18% stakes)	818										
Sunstone (20x FY22F P/E)	622										
Equity Value (MYR m)	42,089										
No of shares (m)	8,076										
Intrinsic Value (MYR)	5.26										
ESG discount/premium	0.47										
<b>Target Price</b>	<b>5.73</b>										

Source: RHB

## Recommendation Chart

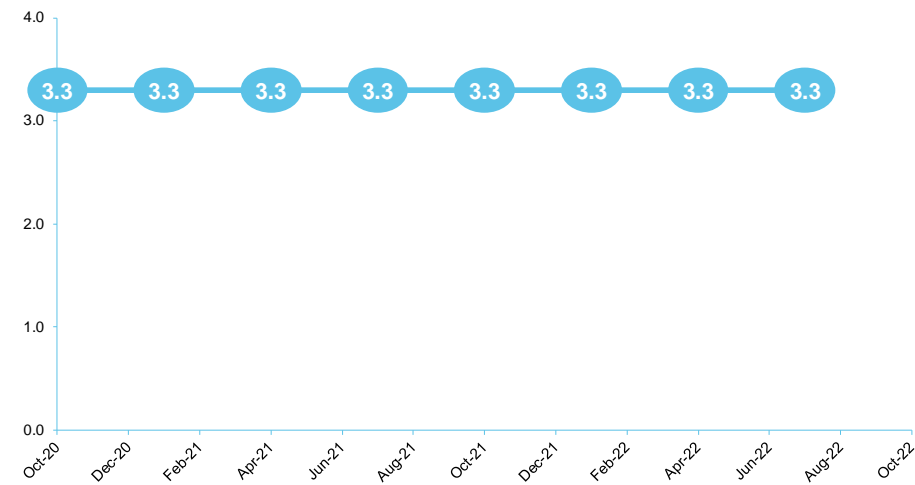


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-26	Buy	6.6	4.7
2022-07-27	Buy	7.5	4.6
2022-05-31	Buy	7.9	5.5
2022-02-28	Buy	8.3	6.8
2021-11-29	Buy	8.5	5.2
2021-10-21	Buy	8.5	5.9
2021-08-26	Buy	8.0	5.4
2021-08-25	Buy	8.0	5.2
2021-08-06	Buy	8.0	4.9
2021-05-28	Buy	8.0	5.2
2021-05-25	Buy	8.0	5.2
2021-02-25	Buy	12.3	4.8
2020-12-02	Buy	8.5	3.7
2020-11-27	Buy	8.0	3.5
2020-11-12	Buy	7.1	3.0

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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