

25 February 2020

Press Metal Aluminium

FY19 Results Spot On

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4QFY19 results matched expectations with earnings inching up by 3% QoQ to RM141.9m on normalisation of alumina prices. Going forth, the recovery in aluminium price is vital while the normalisation of alumina price to 16%-17% of aluminium price level would boost profit margin. In addition, the 42% smelting capacity expansion by 2HFY20 will act as earnings catalyst going forth. We keep our OP call and TP of RM5.50 for its expansion story.

FY19 results within expectations. 4QFY19 core profit which inched up 3% sequentially to RM141.9m matched expectations, totalling FY19 core profit to RM496.6m which was on the dot of our estimate and 4% above market consensus. Meanwhile, it declared 4th interim NDPS of 1.25 sen in 4QFY19 (ex-date: 11 Mar; payment date: 30 Mar) which is the same as 3QFY19 but lower than the 1.5 sen paid in 4QFY18. This brought full-year FY19 NDPS to 5.0 sen against 6.5 sen in FY18 and our FY19 forecast of 4.9 sen.

Sequential results helped by lower raw material costs. 4QFY19 core profit rose marginally by 3% QoQ to RM141.9m from RM137.5m while revenue inched up by 1% to RM2.13b. The improved results were due to the stabilisation of alumina and carbon anode prices. The data gathered from Bloomberg showed that average alumina price fell to USD292/MT or 16.6% of aluminium LME price in 4QCY19 from USD341/MT or 19.4% in 3QCY19. On the other hand, the average aluminium market price dipped 0.5% to USD1,756/MT from USD1,765/MT in 3QCY19. As such, the slight improvement in revenue could be due to higher sales volume.

Low aluminium prices dampened YoY bottomline. On a YoY comparison, 4QFY19 and FY19 core profits contracted 12% and 24% to RM141.9m and RM496.6m, respectively, largely attributable to lower average aluminium prices which fell sharply from USD1,930/MT by 9% for 4QCY19 and by 15% to USD1,794/MT for CY19. This led to revenues contracting by 4% and 7%, respectively. However, the fall in earnings was partly mitigated by lower alumina price and percentage to aluminium price as 4QCY19's average alumina price fell to USD292/MT or 16.7% of aluminium price and CY19 average alumina price declined to USD284/MT or 16.2% from USD463/MT or 22.0% in CY18.

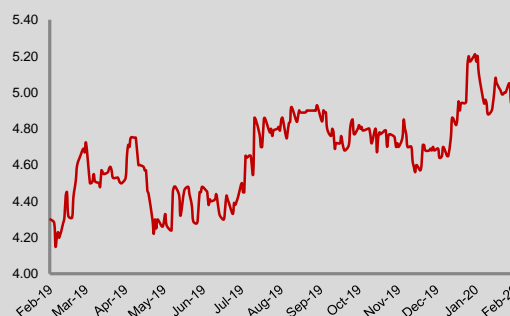
Better aluminium prices and normalising alumina price to drive earnings. While alumina prices have normalised to 16%-17% of aluminium LME price which is now at c.USD280/MT from average USD292/MT in 4QFY19, the recovery in aluminium prices should lead FY20E earnings growth higher. Nonetheless, focus should be directed to FY21 given the 42% smelting capacity expansion in Samalaju Plant 3 which is set to be commissioned end of 3QCY20 and lower logistic cost after it acquired a 25% stake in alumina producer PT Bintan for nearer supply in Indonesia as compared to its current alumina source in Australia. In addition, it looks to increase sales composition of high-value products, i.e. billet and wire rod.

OUTPERFORM maintained for its expansion story. Post-earnings review, we keep our FY20-FY21 estimates, for now. We continue to like the stock for its expansion story and the recovery of aluminium prices on top of its expected 45% YoY earnings jump, a rarity for an index stock. As such, we maintain our OUTPERFORM rating on PMETAL with target price unchanged at RM5.50 based on 24.6x FY21 PER which is 0.25SD above its 5-year mean. Key risks to our recommendation are a sharp fall in aluminium prices, an escalation of raw material prices as well as major plant disruptions/closure.

OUTPERFORM ↔

Price: RM4.88
Target Price: RM5.50 ↔

Share Price Performance



KLCI	1,490.06
YTD KLCI chg	-6.2%
YTD stock price chg	4.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PMAH MK
Market Cap (RM m)	19,706.0
Shares Outstanding	4,038.1
52-week range (H)	5.24
52-week range (L)	4.11
3-mth avg daily vol:	2,416,572
Free Float	33%
Beta	1.4

Major Shareholders

Alpha Milestone Sdn Bhd	23.3%
Koon Poh Keong	14.5%
Koon Poh Ming	9.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	8559	7679	9787
EBIT	800	1021	1366
PBT	633	833	1212
Net Profit (NP)	471	623	902
Core Net Profit	497	623	902
Consensus (NP)		645	911
Earnings Rev. (%)		-	-
Core EPS (sen)	12.3	15.4	22.3
Core EPS growth (%)	-23.7	25.5	44.8
FD Core EPS (sen)	5.0	6.2	8.9
NDPS (sen)	3.26	3.62	4.11
BV/Share (RM)	3.26	3.62	4.11
Core PER (x)	37.8	31.6	21.8
FD Core PER (x)	1.43	1.35	1.19
PBV (x)	1.34	1.35	1.19
Net Gearing (x)	0.94	0.91	0.89
Net Dividend Yield (%)	1.1	1.3	1.8

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Income Statement								
Y/E Dec (RM m)	4Q FY19	3Q FY19	Q-o-Q Chg	4Q FY18	Y-o-Y Chg	12M FY19	12M FY18	Y-o-Y Chg
Turnover	2,133.5	2,120.4	1%	2,232.0	-4%	8,558.7	9,170.1	-7%
EBITDA	319.7	301.5	6%	333.9	-4%	1,162.2	1,435.7	-19%
Depreciation	(91.5)	(86.8)	5%	(93.3)	-2%	(362.2)	(389.4)	-7%
EBIT	228.2	214.7	6%	240.6	-5%	800.0	1,046.3	-24%
Interest expense	(48.7)	(47.2)	3%	(44.6)	9%	(187.8)	(184.6)	2%
Associates	0.6	0.8	-25%	0.3	93%	9.4	2.3	308%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	184.7	168.9	9%	197.6	-7%	632.7	870.5	-27%
Taxation	(18.1)	(19.2)	-6%	(24.6)	-27%	(53.9)	(97.6)	-45%
Profit after tax	166.6	149.7	11%	173.0	-4%	578.8	772.9	-25%
Minority interest	(35.1)	(28.2)	25%	(27.6)	27%	(107.7)	(153.9)	-30%
Net profit	131.5	121.5	8%	145.4	-10%	471.0	618.9	-24%
Core net profit	141.9	137.5	3%	161.5	-12%	496.6	651.5	-24%
EPS (sen)	3.5	3.4	3%	4.0	-12%	12.3	16.1	-24%
NDPS (sen)	1.25	1.25	0%	1.50	-17%	5.00	6.50	-23%
NTA/share (RM)	0.86	0.78	11%	0.81	6%	0.86	0.81	6%
EBITDA margin	15%	14%		15%		14%	16%	
EBIT margin	11%	10%		11%		9%	11%	
Pretax margin	9%	8%		9%		7%	9%	
Effective tax rate	10%	11%		12%		9%	11%	

Source: Company

Segment Breakdown								
Y/E Dec (RM m)	4Q FY19	3Q FY19	Q-o-Q Chg	4Q FY18	Y-o-Y Chg	12M FY19	12M FY18	Y-o-Y Chg
Turnover								
Smelting & Extrusion	2,088.0	2,078.8	0%	2,205.1	-5%	8,422.8	9,101.2	-7%
Contracting & Others	45.5	41.6	9%	26.9	197%	135.9	69.0	97%
Group Turnover	2,133.5	2,120.4	1%	2,232.0	-4%	8,558.7	9,170.1	-7%
Segment Results								
Smelting & Extrusion	247.3	213.9	16%	267.4	-8%	828.4	1,090.8	-24%
Contracting & Others	(19.0)	0.8	-2545%	(26.8)	-17%	(28.4)	(44.5)	-36%
Group EBIT	228.2	214.7	6%	240.6	-7%	800.0	1,046.3	-24%
EBIT Margin								
Smelting & Extrusion	11.8%	10.3%		12%		10%	12%	
Contracting & Others	-41.9%	1.9%		-100%		-21%	-65%	
Group EBIT	11%	10%		11%		9%	11%	

Source: Company

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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	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)	
ANN JOO RESOURCES BHD	1.12	604.3	Y	12/2020	-1.6%	4.4%	-1154.5%	-110.0%	N.A.	N.A.	N.A.	0.5	0.6	-1.0%	0%	0.850	UP
PRESS METAL ALUMINUM HOLDINGS BHD	4.88	19,706.0	Y	12/2020	-10.3%	27.5%	25.4%	44.8%	29.0	34.7	21.5	5.4	4.9	16.7%	1.3%	5.50	OP
UNITED U-LI CORPORATION BHD	0.485	105.6	Y	12/2019	-21.6%	-9.6%	-157.9%	550.0%	27.9	N.A.	255.3	0.4	0.4	-0.8%	0.0%	0.400	UP
WHITE HORSE BHD	0.990	225.5	Y	12/2019	-14.7%	0.8%	-57.1%	-95.8%	N.A.	N.A.	N.A.	0.3	0.4	-6.3%	0.0%	0.950	UP
Simple Average					-14.0%	5.7%	-85.5%	-31.4%	20.5	34.7	138.4	1.6	1.5	0.0%	0.3%		

Source: Bloomberg, Kenanga Research

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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.**

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