



Company report

PRESS METAL

(PMAH MK EQUITY, PMET.KL)

15 Oct 2020

Minimal impact from anti-dumping duty in EU

HOLD

(Maintained)

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Rationale for report: Company update

Price	RM5.15
Fair Value	RM4.25
52-week High/Low	RM5.27/RM2.74

Key Changes

Fair value	↔
EPS	↔

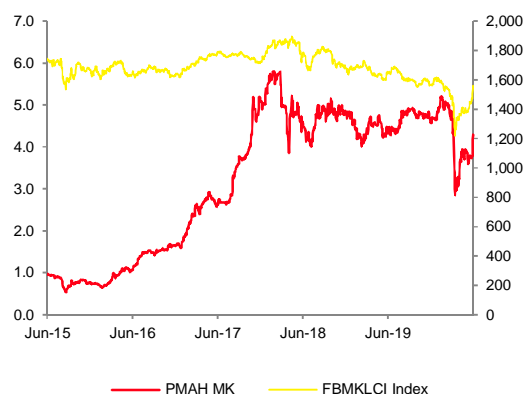
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	8,558.7	7,696.1	10,598.1	11,408.0
Core net profit (RM mil)	471.0	443.6	739.7	953.2
FD Core EPS (sen)	11.6	11.0	18.3	23.6
FD Core EPS growth (%)	(35.9)	(5.2)	66.7	28.9
Consensus Net Profit (RM mil)	-	406.3	729.0	899.2
DPS (sen)	5.0	4.4	7.3	9.4
PE (x)	44.5	46.9	28.1	21.8
EV/EBITDA (x)	13.8	17.7	13.8	12.0
Div yield (%)	1.0	0.9	1.5	1.9
ROE (%)	13.9	11.8	17.1	18.8
Net Gearing (%)	59.2	44.7	49.7	49.3

Stock and Financial Data

Shares Outstanding (million)	3,964.1
Market Cap (RM mil)	20,415.3
Book Value (RM/share)	0.89
P/BV (x)	5.8
ROE (%)	13.9
Net Gearing (%)	59.2

Major Shareholders	Alpha Milestone Sdn Bhd (21.7%) Koon Poh Keong (15.6%) Koon Poh Ming (6.7%)
Free Float	1,149.3
Avg Daily Value (RM mil)	13.9

Price performance	3mth	6mth	12mth
Absolute (%)	7.5	41.1	10.0
Relative (%)	13.2	25.4	12.3



Investment Highlights

- We maintain our HOLD recommendation, forecasts and fair value of RM4.25 on Press Metal based on an 18x FY22F EPS. While the 18x multiple is in line with our target P/E for the FBM KLCI, it is at a substantial premium to the 10x average forward P/E of key global aluminium smelters. This is to reflect Press Metal's favourable cost structure with the bulk of its energy costs (from hydro power) locked in at very competitive rates over the long term. Maintain HOLD.
- European Commission has imposed a 38.2% provisional anti-dumping duties on products of Press Metal's China-based aluminium extrusion operations (in Guangdong). The impact on Press Metal's earnings are insignificant because:
 - EU is a small market for Press Metal's extrusion products produced in China. According to Press Metal, for FY19, its extrusion product exports from China to EU contributed only about 4.6% and 2.8% of its total revenue and profits. Similarly, for 1HFY20, we estimate that extrusion product exports from China to EU contributed only about 2% and 1% of its total revenue and EBIT; and
 - Press Metal has the flexibility to realign its extrusion product exports geographically, as it also has an extrusion plant in Klang, Malaysia (that is not subject to the latest EU anti-dumping duties). We understand that in anticipation of the duties, steps have been taken to re-route exports to EU from the plant in Malaysia (from the one in China). Meanwhile, the plant in China will supply to South-East Asia region.
- We remain cautious on Press Metal's outlook as: (1) the upside to global aluminium prices is capped by a significant build-up of inventory (as aluminium production has not slowed down throughout the pandemic, while consumption takes time to recover); (2) the unusually high volatility in the cost of input alumina in recent years, more often than not resulting in severe margin squeeze to aluminium producers; and (3) the company's premium valuations vs. its much larger global peers, capping the upside to its share price.
- However, this could be partially mitigated by Press Metal's recent signing of a 15-year power purchase agreement (PPA) with Sarawak Energy Bhd for the supply of 500MW of electricity, enabling it to power an additional annual aluminium smelting capacity of 320K tonnes. This will boost its overall smelting capacity by 42% to 1.08mil tonnes by 2021 from 760K tonnes currently.

EXHIBIT 1: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	9,158.5	8,558.7	7,696.1	10,598.1	11,408.0
EBITDA	1,442.1	1,631.9	1,253.5	1,643.1	1,923.9
Depreciation/Amortisation	(389.4)	(357.4)	(362.2)	(362.2)	(362.2)
Operating income (EBIT)	1,052.7	1,274.5	891.3	1,280.9	1,561.7
Other income & associates	2.7	22.5	22.5	67.5	112.5
Net interest	(180.6)	(121.9)	(96.5)	(102.3)	(125.3)
Exceptional items	-	-	-	-	-
Pretax profit	874.7	1,175.1	725.5	1,115.1	1,395.9
Taxation	(89.6)	(85.8)	(174.1)	(267.6)	(335.0)
Minorities/pref dividends	(155.1)	(114.8)	(107.7)	(107.7)	(107.7)
Net profit	630.0	471.0	443.6	739.7	953.2
Core net profit	630.0	471.0	443.6	739.7	953.2
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	4,832.3	4,524.9	4,488.2	5,907.4	7,241.1
Intangible assets	-	-	-	-	-
Other long-term assets	206.3	228.8	524.9	592.4	705.0
Total non-current assets	5,038.6	4,753.7	5,013.1	6,499.8	7,946.1
Cash & equivalent	199.1	894.5	1,212.9	663.9	291.8
Stock	36.1	36.1	36.1	36.1	36.1
Trade debtors	10.5	10.5	10.5	10.5	10.5
Other current assets	2,827.4	2,827.4	2,827.4	2,827.4	2,827.4
Total current assets	3,073.0	3,768.5	4,086.9	3,537.9	3,165.8
Trade creditors	-	-	-	-	-
Short-term borrowings	964.1	964.1	964.1	964.1	964.1
Other current liabilities	942.7	942.7	942.7	942.7	942.7
Total current liabilities	1,906.8	1,906.8	1,906.8	1,906.8	1,906.8
Long-term borrowings	2,020.5	2,020.5	2,020.5	2,020.5	2,020.5
Other long-term liabilities	205.3	205.3	205.3	205.3	205.3
Total long-term liabilities	2,225.8	2,225.8	2,225.8	2,225.8	2,225.8
Shareholders' funds	3,236.7	3,532.5	3,963.3	4,667.9	5,464.6
Minority interests	790.9	905.7	1,052.6	1,285.8	1,561.3
BV/share (RM)	0.82	0.89	0.98	1.16	1.35
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	874.7	1,175.1	725.5	1,115.1	1,395.9
Depreciation/Amortisation	389.4	357.4	362.2	362.2	362.2
Net change in working capital	-	-	-	-	-
Others	88.3	13.6	(35.8)	(139.4)	(193.0)
Cash flow from operations	1,352.4	1,546.1	1,051.9	1,337.9	1,565.1
Capital expenditure	(296.7)	(50.0)	(323.5)	(1,823.5)	(1,823.5)
Net investments & sale of fixed assets	-	-	-	-	1.0
Others	-	-	-	-	-
Cash flow from investing	(296.7)	(50.0)	(323.5)	(1,823.5)	(1,822.5)
Debt raised/(repaid)	-	-	(273.5)	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(254.0)	(163.4)	(157.1)	(228.1)	(305.2)
Others	(475.3)	(121.9)	(96.5)	(102.3)	(125.3)
Cash flow from financing	(729.2)	(285.3)	(527.1)	(330.4)	(430.5)
Net cash flow	326.5	1,210.9	201.3	(816.0)	(687.9)
Net cash/(debt) b/f	175.4	536.5	1,232.0	1,492.5	943.5
Net cash/(debt) c/f	530.1	1,747.3	1,433.3	676.5	255.6
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	12.0	(6.5)	(10.1)	37.7	7.6
EBITDA growth (%)	3.3	13.2	(23.2)	31.1	17.1
Pretax margin (%)	9.6	13.7	9.4	10.5	12.2
Net profit margin (%)	6.9	5.5	5.8	7.0	8.4
Interest cover (x)	5.8	10.5	9.2	12.5	12.5
Effective tax rate (%)	10.2	7.3	24.0	24.0	24.0
Dividend payout (%)	30.0	29.2	39.8	37.8	34.7
Debtors turnover (days)	-	-	-	-	-
Stock turnover (days)	2	2	2	2	2
Creditors turnover (days)	-	-	-	-	-

Source: Company, AmInvestment Bank Bhd estimates

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