

Press Metal Aluminium (PMAH MK)

Expecting no major earnings surprise in 3Q23

Earnings lowered; D/G to HOLD

Post-transfer of Press Metal Aluminium coverage, we cut our FY23-25E net profit forecasts by -18%/-5%/-15% with average aluminium spot price assumptions of USD2,200/2,300/2,350/tonne respectively. Following the negative EPS revision, we downgrade Press Metal to HOLD with a lower TP of MYR4.90 (from BUY with a TP of MYR5.40 previously).

Expecting no major earnings surprise in 3Q23

Press Metal's 3Q23 result is tentatively scheduled for release at the end of Nov 2023. We expect core earnings for the quarter to come in around MYR300m-350m (2Q23: MYR305.8m), barring any unforeseen swings in cost structure. This is estimated from a marginally lower LME aluminium spot price average of USD2,203/tonne in 3Q23 (vs. USD2,283/tonne in 2Q23; and USD2,357/tonne in 3Q22), but offset by slightly higher associate earnings from 25%-owned PT Bintan, due to higher alumina sales volume from its Phase 2 alumina expansion project (additional 1m tonnes which fully commissioned in mid-2Q23). Our 3Q23 core net profit estimate implies 9M23 cumulative earnings of MYR889m-MYR939m i.e. 74-78% of our revised FY23E full-year forecast but lower than consensus' MYR1,335m.

Aluminium outlook to remain challenging

Bloomberg Intelligence (BI) expects aluminium demand growth to remain unexciting at +1%/3%/2% for 2023-2025E respectively. Growth will be primarily driven by the global GHG emission reduction drive which will boost EV penetration and light-weighting across all vehicle intensities, compensating for lacklustre demand from the global construction sector. BI also forecasts the global aluminium market to swing into a small surplus (where global supply exceeds global demand) of <0.5m tonnes annually for 2023-2025E. Bloomberg expects aluminium prices to average at USD2,100-2,300/tonne in 2024-2025E (vs. our forecast of USD2,300-2,350).

TP lowered to MYR4.90

Our TP of MYR4.90 pegs on an FY24E PER of 25x, being -1.5SD to its 5-year (1-year forward) PER mean of 32x, largely reflecting our expectation of more subdued spot aluminium prices into the foreseeable future.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	10,995	15,683	12,785	13,490	13,569
EBITDA	1,963	2,594	2,083	2,435	2,406
Core net profit	1,008	1,415	1,205	1,607	1,646
Core EPS (sen)	12.2	17.2	14.6	19.5	20.0
Core EPS growth (%)	127.3	40.4	(14.8)	33.4	2.4
Net DPS (sen)	3.8	6.8	5.8	7.7	7.9
Core P/E (x)	47.2	28.4	33.2	24.9	24.3
P/BV (x)	12.3	6.1	5.4	4.8	4.3
Net dividend yield (%)	0.6	1.4	1.2	1.6	1.6
ROAE (%)	25.5	26.8	17.2	20.5	18.6
ROAA (%)	7.7	9.6	7.8	9.8	9.4
EV/EBITDA (x)	27.7	17.7	21.2	17.9	17.9
Net gearing (%) (incl perps)	115.8	53.1	27.0	14.7	3.9
Consensus net profit	-	-	1,340	1,886	2,125
MIBG vs. Consensus (%)	-	-	(10.0)	(14.8)	(22.5)

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HOLD

[Prior:BUY]

Share Price MYR 4.86
12m Price Target MYR 4.90 (+2%)
Previous Price Target MYR 5.40

Company Description

Press Metal is a local integrated aluminium producer with an extensive global market reach.

Statistics

52w high/low (MYR)	5.36/4.32
3m avg turnover (USDm)	3.2
Free float (%)	39.0
Issued shares (m)	8,240
Market capitalisation	MYR40.0B
	USD8.4B

Major shareholders:

Paul Koon Pte Ltd.	33.8%
KOON POH MING	6.2%
KOON POH WENG	5.7%

Price Performance



— Press Metal - (LHS, MYR) — Press Metal / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	0	1	10
Relative to index (%)	1	(1)	11

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Risk Rating & Score ¹	29.2 (Medium)
Score Momentum ²	-0.8
Last Updated	13 Apr 2023
Controversy Score ³ (Updated: 14 Mar 2023)	1

Business Model & Industry Issues

- Press Metal produces aluminium products and by-products. Being both an energy and material-intensive manufacturer, Press Metal is susceptible to environmental issues. Press Metal’s memberships include Aluminium Stewardship Initiative and United Nations Global Compact, and it is aligned with TCFD and SASB frameworks.
- The largest risk is the massive financing required to build and expand its smelting and extrusion plants and upstream acquisitions of material extraction, which tend to be detrimental to the environment.
- Disclosures on its ESG practices have been commendable, and it has set near-term and long-term sustainability targets such as: i) reducing Scope 1&2 emissions by 15% by 2025 (from 2020 baseline); ii) setting a Net-Zero Carbon Emission by 2050; iii) Reduce water withdrawal intensity by 5% by 2023 from 2016 baseline. Press Metal also provides a visible ESG roadmap. Its heavy reliance on hydropower for its smelting facility also provides additional ESG advantage through a much lower carbon footprint, versus its global peers, which tend to be fossil fuel-powered.
- Press Metal’s MSCI ESG Rating was recently upgraded to BBB from BB. Achieving its carbon footprint reduction and other waste targets could further improve Press Metal’s ESG profile over its competitors.

Material E issues

- A member of the Aluminium Stewardship Initiative and United Nations Global Compact, and it is part of the BMCC Climate Action Pledge to raise awareness and implement climate-related initiatives.
- FY22 GHG emissions: 10.9 mTCO_{2e} (FY21: 9.3 mTCO_{2e}).
- FY22 Total Air Emissions:
 - SO_x: 7.4kT (FY21: 6.0kT)
 - NO_x: 5.6kT (FY21: 5.3kT)
 - Particulate Matter: 313.4kT (FY21: 204.6kT)
- FY22 Energy Intensity: 44.7GJ/tonne (FY21: 44.4GJ/tonne).
- FY22 total solar energy generated: 45.9 kGJ (FY21: 38.4kGJ).
- FY22 total waste generated: 181.1 kT (FY21: 141.2 kT).
- FY22 water consumption: 2.1 million m³ (FY21: 2.3 million m³).

Key G metrics and issues

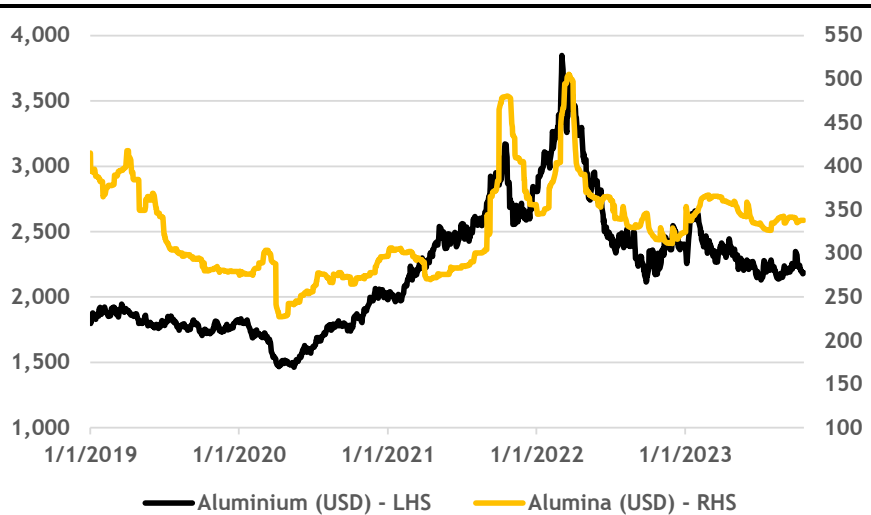
- Press Metal has 10 board members, of whom 4 are independent non-executive directors, and 3 are female directors.
- 4 directors sit on each of the audit, nomination and risk management committees, while 3 directors sit on the remuneration committee.
- The total remuneration for the directors in FY22 was MYR10.3m, which represented 0.7% of the group’s FY22 headline PATAMI.
- KPMG PLT was the auditor for Press Metal in FY22 and has been the auditor for the company since 1999.
- There were neither significant related-party transactions, operational issues nor any reprimands from the regulators or any other bodies.

Material S issues

- FY22 Workforce Gender Diversity - Females represented 13.5% of total workforce (FY21: 12.4%).
- FY22 Managerial Role Gender Diversity - Females represented 26.7% (FY21: 28.2%).
- FY22 Loss Time Injury Rate: 3.3 (FY21: 4.3).
- FY22 Fatal Accidents: 2 (FY21: 0).
- FY22 Average Training Hours: 49.2 (FY21: 8.5).

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Figure 1: Aluminium and Alumina Price Chart (2019 - Current)



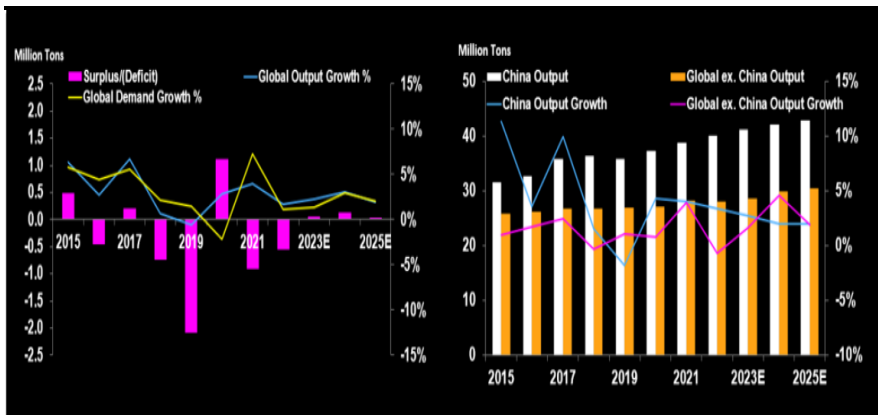
Source: Bloomberg, Maybank IBG Research

Figure 2: Press Metal's 1-year forward P/E band



Source: Bloomberg, Maybank IBG Research

Figure 3: Bloomberg Intelligence aluminium supply/demand surplus forecast



Source: Bloomberg Intelligence

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	42.0	30.7	33.2	24.9	24.3
Core P/E (x)	47.2	28.4	33.2	24.9	24.3
P/BV (x)	12.3	6.1	5.4	4.8	4.3
P/NTA (x)	12.3	6.1	5.4	4.8	4.3
Net dividend yield (%)	0.6	1.4	1.2	1.6	1.6
FCF yield (%)	nm	3.5	5.7	3.8	4.3
EV/EBITDA (x)	27.7	17.7	21.2	17.9	17.9
EV/EBIT (x)	35.6	22.8	28.2	22.8	22.8

INCOME STATEMENT (MYR m)

Revenue	10,995.2	15,682.9	12,785.4	13,490.0	13,569.0
EBITDA	1,962.9	2,593.8	2,083.4	2,435.3	2,406.1
Depreciation	(437.4)	(584.3)	(520.0)	(520.0)	(520.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,525.6	2,009.5	1,563.4	1,915.3	1,886.1
Net interest income / (exp)	(165.0)	(232.1)	(170.2)	(106.9)	(32.2)
Associates & JV	82.2	174.4	248.8	385.8	393.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,442.8	1,951.8	1,642.0	2,194.2	2,247.4
Income tax	(147.7)	(185.3)	(147.8)	(197.5)	(202.3)
Minorities	(293.3)	(359.8)	(288.8)	(389.3)	(399.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,001.9	1,406.8	1,205.4	1,607.4	1,646.1
Core net profit	1,008.3	1,415.2	1,205.4	1,607.4	1,646.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	458.5	604.0	2,122.1	2,727.1	3,494.7
Accounts receivable	1,731.2	1,987.9	1,620.6	1,709.9	1,719.9
Inventory	2,733.5	2,794.1	2,277.9	2,403.4	2,417.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	7,108.9	7,164.9	6,750.8	6,666.7	6,582.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,341.7	1,543.6	1,792.4	2,178.2	2,571.7
Other assets	837.1	1,221.8	1,221.8	1,221.8	1,221.8
Total assets	14,210.9	15,316.3	15,785.5	16,907.2	18,008.3
ST interest bearing debt	2,583.0	1,553.2	1,403.2	1,253.2	1,103.2
Accounts payable	1,390.6	1,344.4	1,096.0	1,156.4	1,163.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	3,573.2	3,301.0	3,151.0	3,001.0	2,851.0
Other liabilities	1,744.0	1,112.0	1,112.0	1,112.0	1,112.0
Total Liabilities	9,291.1	7,310.9	6,762.5	6,522.9	6,229.7
Shareholders Equity	3,872.6	6,637.0	7,365.9	8,337.7	9,333.1
Minority Interest	1,047.3	1,368.3	1,657.1	2,046.5	2,445.5
Total shareholder equity	4,919.9	8,005.4	9,023.0	10,384.2	11,778.6
Total liabilities and equity	14,210.9	15,316.3	15,785.5	16,907.2	18,008.3

CASH FLOW (MYR m)

Pretax profit	1,442.8	1,951.8	1,642.0	2,194.2	2,247.4
Depreciation & amortisation	437.4	584.3	520.0	520.0	520.0
Adj net interest (income)/exp	165.0	232.1	0.0	0.0	0.0
Change in working capital	(1,538.0)	(394.3)	635.1	(154.4)	(17.3)
Cash taxes paid	(31.7)	(158.9)	(147.8)	(197.5)	(202.3)
Other operating cash flow	(67.6)	(156.6)	(248.8)	(385.8)	(393.5)
Cash flow from operations	407.9	2,058.2	2,464.6	2,040.6	2,218.4
Capex	(1,049.3)	(657.5)	(170.0)	(500.0)	(500.0)
Free cash flow	(641.4)	1,400.7	2,294.6	1,540.6	1,718.4
Dividends paid	(313.0)	(492.7)	(476.5)	(635.5)	(650.8)
Equity raised / (purchased)	0.0	970.6	0.0	0.0	0.0
Perpetual securities	600.0	0.0	0.0	0.0	0.0
Change in Debt	397.5	(1,322.3)	(300.0)	(300.0)	(300.0)
Other invest/financing cash flow	(226.6)	(559.6)	0.0	0.0	0.0
Effect of exch rate changes	65.5	17.8	0.0	0.0	0.0
Net cash flow	(118.0)	14.5	1,518.0	605.1	767.6

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	47.1	42.6	(18.5)	5.5	0.6
EBITDA growth	64.2	32.1	(19.7)	16.9	(1.2)
EBIT growth	94.2	31.7	(22.2)	22.5	(1.5)
Pretax growth	120.4	35.3	(15.9)	33.6	2.4
Reported net profit growth	117.9	40.4	(14.3)	33.4	2.4
Core net profit growth	131.9	40.4	(14.8)	33.4	2.4
Profitability ratios (%)					
EBITDA margin	17.9	16.5	16.3	18.1	17.7
EBIT margin	13.9	12.8	12.2	14.2	13.9
Pretax profit margin	13.1	12.4	12.8	16.3	16.6
Payout ratio	30.8	39.5	39.5	39.5	39.5
DuPont analysis					
Net profit margin (%)	9.1	9.0	9.4	11.9	12.1
Revenue/Assets (x)	0.8	1.0	0.8	0.8	0.8
Assets/Equity (x)	3.7	2.3	2.1	2.0	1.9
ROAE (%)	25.5	26.8	17.2	20.5	18.6
ROAA (%)	7.7	9.6	7.8	9.8	9.4
Liquidity & Efficiency					
Cash conversion cycle	83.1	82.0	96.6	85.4	86.9
Days receivable outstanding	45.6	42.7	50.8	44.4	45.5
Days inventory outstanding	86.6	77.7	88.3	79.0	79.8
Days payables outstanding	49.0	38.5	42.5	38.0	38.4
Dividend cover (x)	3.2	2.5	2.5	2.5	2.5
Current ratio (x)	1.1	1.8	2.3	2.6	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	2.1	2.3	2.6	2.9
Net gearing (%) (incl perps)	115.8	53.1	27.0	14.7	3.9
Net gearing (%) (excl. perps)	115.8	53.1	27.0	14.7	3.9
Net interest cover (x)	9.2	8.7	9.2	17.9	58.6
Debt/EBITDA (x)	3.1	1.9	2.2	1.7	1.6
Capex/revenue (%)	9.5	4.2	1.3	3.7	3.7
Net debt/ (net cash)	5,697.7	4,250.2	2,432.1	1,527.0	459.5

Source: Company; Maybank IBG Research

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Historical recommendations and target price: Press Metal Aluminium (PMAH MK)



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