

COVERAGE INITIATION

<13 NOVEMBER 2018>

Perusahaan Sadur Timah Malaysia (PERSTIMA) Bhd

Bursa / Bloomberg Code: PER:MK
Stock is Shariah-compliant.

Price : RM5.10

Market Capitalisation : RM506.5 mIn

Listing : Main Market

Sector : Manufacturing

Recommendation : HOLD

Key Stock Statistics (FYE Mar)	FY18	FY19E	FY20E
EPS (sen)	21.3	53.9	60.1
P/E (x)	16.5	9.5	8.5
Net dividend/share (sen)	30.0	40.0	40.0
Book value/share		3.89	
Shares outstanding (m)		99.3	
52-week Hi-Low (RM)		3.45 - 8.15	
Major Shareholders:	%		
Versalite Sdn Bhd		32.9	
JFE Shoji Trade Corporation		14.0	
JFE Steel Corporation		11.2	
Mitsui & Co Ltd		9.5	

Per Share Data (FYE Mar)	FY18	FY19E	FY20E
Book value (RM)	3.8	4.1	4.6
FCFE (RM)	0.6	0.6	0.4
Earnings (sen)	21.3	53.9	60.1
Net dividend (sen)	30.0	40.0	40.0
Payout ratio	94%	74%	67%
P/E (x)	16.5	9.5	8.5
P/FCFE (x)	5.6	8.0	11.6
P/Book value (x)	0.9	1.2	1.1
Net dividend yield	8.5%	7.8%	7.8%
ROE	5.6%	13.2%	13.1%
Net gearing (x)		net cash	net cash

1. Investment Highlights / Summary

- **Sole premier producer and supplier of high quality tinplate in Malaysia for both the domestic and export market.** Perstima operates in Malaysia and Vietnam and dominate in these 2 markets.
- **Positive signs of earnings recovery from FY18.** Although FY18 was a weak year, Perstima is demonstrating a positive comeback with promising performance improvement in the latest 2 financial quarters. This was mainly because of improvement in selling prices and sales volume that is expected to continue contributing positively to FY19's earnings.
- **Downside mitigated by strong balance sheet.** Perstima is in a net cash position of RM104.0m or RM1.05 per share. Moreover, its dividend yield is an attractive 7.8%.
- **Risks.** Stiff competition from Chinese producers and shifting consumer preferences and substitution to new packaging materials.
- **Initiate coverage with Hold call and a fair value of RM5.40,** based on a 10 year historical P/E of 10.0x on FY19E EPS. While it lacks re-rating catalysts due to intense competition, the share price should be cushioned by an attractive dividend yield.

2. Background

Corporate profile. Perusahaan Sadur Timah Malaysia Berhad (Perstima) is sole premier producer and supplier of high quality tinplate in Malaysia for both the domestic and export market. Perstima started as three-nation joint venture involving Malaysia, Singapore and Japan. One of main shareholders, JFE Steel Corporation in Japan is the one of the largest steel mills in the world. Tinplate and TFS manufacturing technology of both Malaysia and Vietnam operations were supported by JFE Steel Corporation.

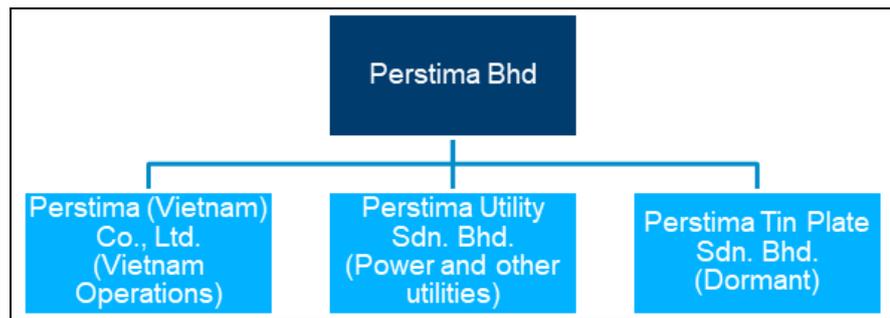
Perstima has operations in Malaysia and Vietnam, with dominant market shares. According to the management, the group has >60% market share in Malaysia and >80% in Vietnam. Perstima's production capacity is as below:

- Malaysia Operations: Plant in Johor undertake the manufacturing of tinplates with an installed production capacity of 200,000 MT/annum
 - The plant is strategically located in Pasir Gudang Industrial Estate Johor, Malaysia to take advantage of the excellent logistic support from Pasir Gudang Sea Port.
 - About 60% of the production is for local market with about 20% exported to the Asia Pacific and the Middle East.
- Vietnam Operations: Equipped with a Halogen type Continuous Electrolytic Line producing both tinplate and tin-free steel with a capacity of 120,000 MT/annum.
 - Recently completed the revamp of its pre-treatment and electrical facilities at its Vietnam plant.

Figure 1. Company History

Year	Company milestone
1979	Perusahaan Sadur Timah Malaysia (PERSTIMA) Berhad was established on 16th August 1979
1982	Commenced commercial production on 2nd April 1982, it's now having a total production capacity of 200,000 MT per annum. The plant which is located in Pasir Gudang Industrial Estate Johor, Malaysia enjoys excellent logistic support by virtue of its nearest to the seaport (Pasir Gudang Port)
1995	Accredited with ISO 9002
2001	Accredited with ISO 9001
2002	Expanded into Vietnam by establishing PERSTIMA (VIETNAM) Co. Ltd., as the first tinplate manufacturer in Vietnam, producing prime grade tinplate. <ul style="list-style-type: none"> - 100% owned by PERSTIMA Berhad - Located in Vietnam Singapore Industrial Park (VSIP) in Binh Dong District
2003	PERSTIMA (VIETNAM) Co. Ltd. has started their commercial production in October 2003 and has been equipped with a Halogen type Continuous Electrolytic Line with a rated capacity of 100,000 MT/annum
2005	Accredited with ISO 14001. With the ISO accreditations, customers are assured of the highest quality on the products and services
2011	The Company introduced the running of COGEN (Combine Generator)
2012	Used MSA (Methane Sulphuric Acid) which is the latest technology in electro-tinning

Figure 2. Corporate Structure

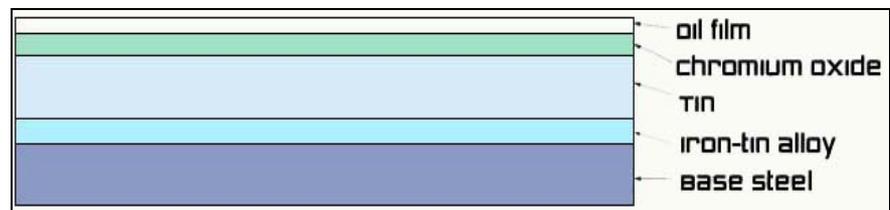


Source: Company

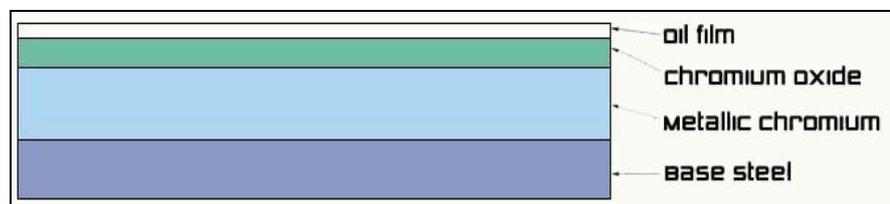
Perstima produces 2 products, mainly tinsplates and tin free steel.

Figure 3. Products and Services:

Tinplate



Tin Free Steel (TFS)



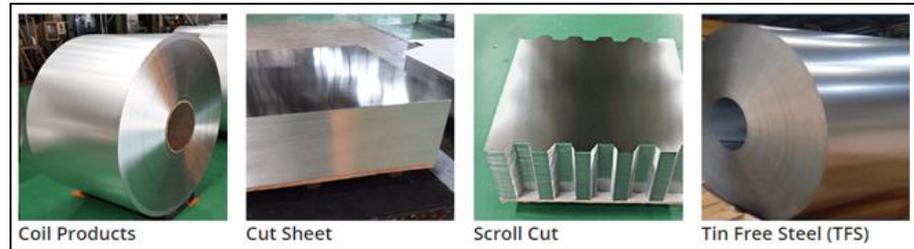
Source: Company

Tinplate has an attractive surface finish and features excellent corrosion resistance, formability, paint ability, lacquer ability, printability, and strength, solder ability, weld ability and lastly, is beautiful in appearance. Tinplate is widely used in a broad range of applications such as food cans (dry food, edible oil, pineapple, milk powder, coffee, cereal, etc), confectionary cans

(biscuits, candies, cookies, chocolate, mooncake, etc) non-carbonated cans, ornament containers, crowns and screw caps, aerosol cans as well as electrical parts and other general cans.

TFS has excellent paint adhesion properties that far surpass those of Tinplate. The high-temperature baking causes neither discoloration nor deterioration in material properties. As it has excellent corrosion resistance after painting, it is generally used with both surface painted. Its application includes Draw Redraw (DRD) cans, adhesive bonded cans, and crown cap.

Perstima’s products are available in the following forms:

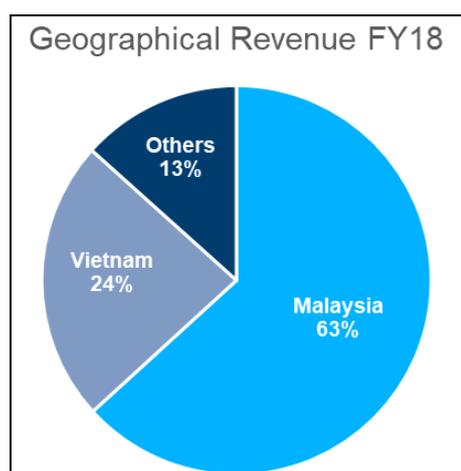


Source: Company

Figure 4. Senior Management. Only the profile of its managing director is publicly available.

Senior Management	Profile
<p><u>Hiraoko Yano</u> Managing Director</p>	<ul style="list-style-type: none"> ▪ Aged 55, Japanese. ▪ More than 20 years of industry relevant experience since 1987, including holding senior positions in Kawasho Corporation and JFE Shoji Trade Corporation. ▪ First appointed as Managing Director on 1 April 2017

Customers and Market. Most of Perstima’s customers are in the food and beverage (F&B) industry, with a small exposure to those in industrial products like aerosol and battery. Perstima has significant customer concentration risk with the top 2 customers from the F&B industry contributing to 36.3% of total revenue in FY18 (36.0% in FY17). They have a long-standing customer relationship of more than 20 years. Perstima’s customers are concentrated in Malaysia and Vietnam, with a small portion of exports to other countries like Indonesia, Taiwan, Bangladesh, Middle East and etc. Some of their large customers include Kian Joo, Can-One and F&N.

Figure 5. Geographical Revenue

Source: Company

Figure 6. SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Established track record in tinplate and tin free steel production. ▪ Dominant market share in Malaysia and Vietnam where the company has its' production base. ▪ Close and longstanding working relationship with customers (20 years or more) ▪ Strong shareholder support to provide consistent supply in raw materials and ensure continuation in company operations. ▪ Strong balance sheet with net cash position. 	<ul style="list-style-type: none"> ▪ Limited disclosure by management on key financial information about the company. ▪ Limited growth potential given saturation in the markets it operates in.
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Growth in Indochina and Indonesia markets. 	<ul style="list-style-type: none"> ▪ Competition from foreign players. The Chinese peer (Guangnan (Holdings) Limited) appears to have caught up in terms of production technology with greater economies of scale, offering significant price pressure and competition to Perstima. ▪ Limited pricing power. ▪ Substitution of tin packaging by alternatives like aluminum, plastic, polyethylene terephthalate and paper. Improving logistics technologies and changing consumer preferences also promotes shift from conventional tin packaging.

Competitors. Perstima is the only tinplate producer in Malaysia. Based on our research, there are 2 companies in China which are large players in tinplate manufacturing. Both companies are subsidiaries of Guangnan (Holdings) Limited, a conglomerate listed in Hong Kong involved in tinplating, fresh and live foodstuff and property leasing. The management disclosed that there has been price competition with the China players but did not disclose the names of their direct competitors.

Figure 7. Zhongshan Zhongyue Tinplate Industrial Co., Ltd.

Year	Company milestone
2005	Self-develop special tin-free steel production line with output of 80,000 MT/annum with in-house intellectual property
2006	<p>Commenced to a black plate production line with an annual production capacity of 150,000 MT/annum production capacity</p> <ul style="list-style-type: none"> - Production commenced in March 2007 to provide a steady supply of raw materials for the production of tinplates. - This is the first self-designed and manufactured black plate production line in China. - The completion of this project will substantially quicken the steps for producing blackplate (material for tinplate) domestically and also will promote the product mix and innovation in China metal package industry.

Source: Company

- Total production capacity
 - Tinplates/TFS : 220,000MT/annum
 - Coated/printed tinplate/tin-free steel : 20,000 MT/annum
 - Black plate (cold-rolled steel plate) : 150,000 MT/annum

Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co. Ltd. Guangan Holdings Ltd holds a 66% interest in the JV alliance with its strategic partner, POSCO Co. Ltd. holding the remaining 34% interest (Posco Korea is the one of largest steelmaker in the world by production output). They have a total production capacity for tinplates of 470,000 MT/annum.

3. Investment Risks

Competition. Fierce competition from Chinese competitors with good economies of scale and larger production capacity.

Fluctuations in foreign exchange rate. As most of the raw materials are imported, volatility in ringgit will have a direct impact on cost of raw materials which are mainly imported from Japan and Korea.

Alternative packaging solutions and changing consumer preferences. Tin face strong substitution risk from alternatives like aluminum, plastic, polyethylene terephthalate and paper, which is also largely driven by changing consumer preferences. Better logistics and packaging technology also promote the shift from conventional tin packaging.

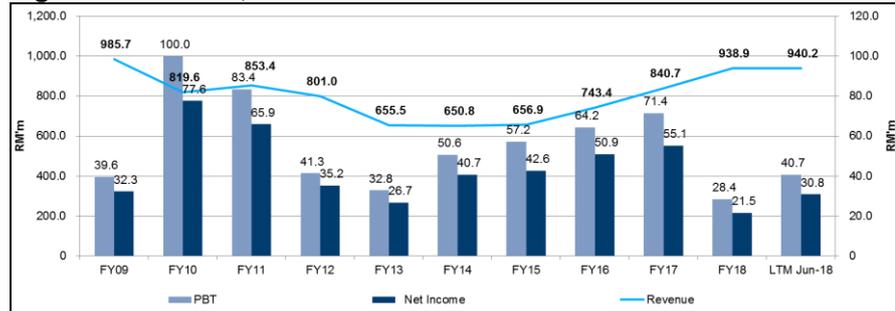
Expiry of anti-dumping duties imposed by the Malaysian government. Anti-dumping duties on electrolytic tinplates imported from China and South Korea (up to 9.78%) will expire by November 2018. To date, there has been no new announcement on the extension of such anti-dumping duties on MITI's website and this may open up to heightened price competition from other foreign players.

4. Financial Highlights

Consistently profitable but cyclical. Although Perstima has been consistently profitable over the last 10 years, it went through three distinct cycles. Net profit plunged 61% in FY18 affected by higher costs amidst stiff

competition from imports, limiting its pricing power.

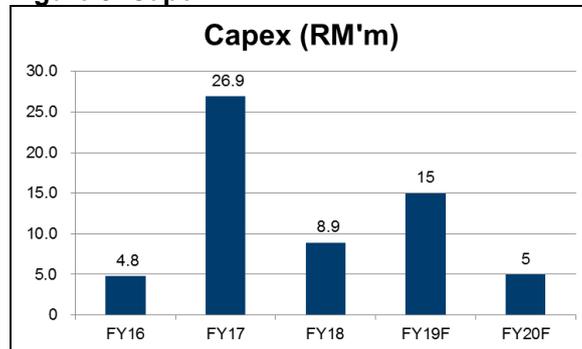
Figure 8. Revenue, PBT and net income trends



Source: ZJ Research

Capex. Perstima spent RM17m in FY17 for its Vietnam plant enhancement and has plans for a minor improvement to the Malaysian plant estimated to take place in FY19, subject to board approval. Except for years with plant enhancements, free cash flow to equity is estimated to be around RM40m per annum or a yield of almost 9%. We gather that there are no major capex planned given the ample capacity.

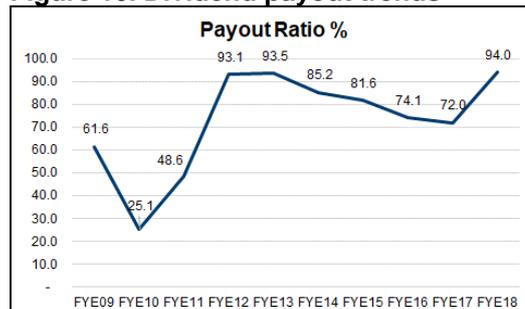
Figure 9. Capex



Source: ZJ Research

Dividend policy. The company does not have a dividend policy. The Board takes into consideration factors such as the Group's earnings, capital requirements, general financial condition, its distributable reserves and other factors considered relevant for the dividend payout. Since FY12, the group has paid out between 72% and 94% of its earnings.

Figure 10. Dividend payout trends



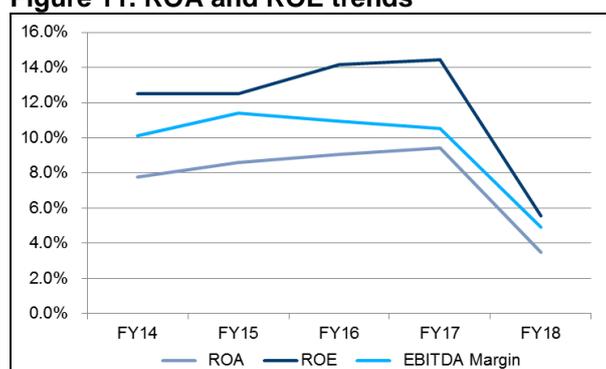
Source: Perstima, ZJ Research

Cost structure. While the company does not break down its costs, raw materials is estimated to be at least 40% of total cost of goods sold based

on the purchase of raw materials from JFE Shoji Trade Corporation, a related party transaction with a substantial shareholder of the Company. According to management, the company also procures its' tin mill black plates, which is a major cost component, from Korea and other cost components include labour and utilities. Perstima is less affected by potential increase in electricity costs as it generates its' own power for the Malaysian plant.

The company's ROA and ROE has been largely unchanged since 2014 except for a sharp dip in FY18, due to lower EBITDA margins, as illustrated in Figure 11 below.

Figure 11. ROA and ROE trends



Source: ZJ Research

5. Earnings Outlook

Signs of earnings recovery in the short term. Perstima is experiencing a comeback from a weak FY18 with promising improvements in the latest 2 quarters. In Q4 FY18 and Q1 FY19, the company's net profit rose to RM12.9m and RM12.1m from under RM4.0m between Q1 and Q3 FY18. This was due to higher selling prices since Q4 2018 and higher sales volume in Q1 2019. We expect the good performance to continue in the short term.

Long-term growth remains challenging. Through consistent development of in-house capacities, Perstima's competitors have caught up in terms of technology and achieved economies of scale with larger production capacities. Some of the peers also has the advantage of cheaper energy cost. Coupled with shifting consumer preferences and substitution to new packaging materials, long term earnings growth remains challenging.

Recently, Perstima has announced plans to set up a new plant for the manufacturing of tinsplate and tin-free steel in the Philippines, subject to the approval of the authorities in the Philippines. There is currently no existing tinsplate and tin-free steel manufacturer in the Philippines. This could potentially take Perstima to the next growth trajectory.

6. Valuation and Recommendation

Fair value of RM5.40. We initiate coverage on Perstima with a **HOLD**

recommendation with a fair value of RM5.40, based on 10x FY19 EPS, which it's the 10-year average P/E of the stock.

We believe it faces long term challenges from imported products and anemic demand given the emergence of new packaging products. Unless it penetrates new markets, we believe the share price reflects its current fundamentals and outlook. Another key consideration for Perstima is the poor earnings visibility given the fluctuating costs and competition. That said, its fairly attractive dividend yield, estimated at over 8%, and strong net cash balance sheet should provide a cushion for share price.

Figure 12. P/E and P/B Band (x)



Source: ZJ Research

P&L Summary

FYE Mar (RM'm)	FY17	FY18	FY19E	FY20E
Revenue	840.7	938.9	1030.1	1130.2
<i>Growth %</i>	13.1%	11.7%	9.7%	9.7%
EBITDA	81.7	44.5	83.8	91.8
<i>EBITDA margin</i>	9.7%	4.7%	8.1%	8.1%
Depreciation & amortisation	(20.9)	(21.0)	(20.9)	(20.9)
EBIT	60.8	23.5	63.0	71.0
- Net interest income (expenses)	2.8	1.6	2.8	2.8
- Other operating income	7.7	3.4	3.4	3.4
PBT	71.4	28.5	69.2	77.2
Tax expenses	(16.3)	(7.3)	(15.8)	(17.6)
<i>Effective tax rate</i>	22.8%	25.7%	22.8%	22.8%
Minority Interest	0	0	0	0
Net Profit	55.1	21.2	53.5	59.7
<i>Growth %</i>	8.2%	-61.6%	152.3%	11.6%
<i>Margin</i>	6.6%	2.3%	5.2%	5.3%

Source: Company, ZJ Research

Balance Sheet

FYE Mar (RM'm)	FY17	FY18	FY19E	FY20E
Assets				
Cash/near cash	91.0	118.3	141.4	145.0
Accounts receivable	81.1	102.7	108.5	119.0
Inventories	199.3	157.3	170.7	187.3
Other current assets	14.7	10.5	6.1	6.6
Total current assets	386.1	388.8	426.7	458.0
Net fixed assets	94.7	77.1	69.4	89.4
Other long-term assets	5.2	5.4	3.8	5.0
Total long-term assets	99.9	82.5	73.2	94.3
Total assets	486.0	471.3	499.9	552.3
Liabilities & Shareholder's Equity				
Accounts payable	29.1	36.5	33.6	36.9
Borrowings	23.8	34.4	34.4	34.4
Other short-term liabilities	33.0	18.3	21.3	18.0
Total current liabilities	85.9	89.3	89.3	89.3
Other long-term liabilities	2.9	5.9	4.0	4.0
Total long-term liabilities	2.9	5.9	4.0	4.0
Total liabilities	88.8	95.2	93.3	93.3
Minority interest	0.0	0.0	0.0	0.0
Share capital	99.3	99.3	99.3	99.3
Retained earnings	301.6	303.3	317.1	337.0
Total Equity	397.3	376.2	406.6	458.9
Total liabilities & equity	486.0	471.3	499.9	552.3

Source: Company, ZJ Research

Cashflow Statement

FYE Mar (RM'm)	FY17	FY18	FY19E	FY20E
Net profit	55.1	21.2	53.5	59.7
Depreciation & amortisation	20.9	21.0	20.9	20.9
Other non-cash adjustments	(1.4)	(3.3)	18.7	8.2
Changes in working capital	(86.2)	21.7	(22.1)	(23.9)
Cash from operations	(11.6)	60.6	70.9	64.8
Capital expenditures	(27.7)	(2.3)	(11.6)	(25.0)
Other investing activities	3.1	(5.9)	(0.5)	(0.5)
Cash from investing activities	(24.5)	(8.2)	(12.1)	(25.5)
Dividends paid	(39.7)	(19.9)	(39.7)	(39.7)
Change in borrowings	19.5	10.6	4.3	4.3
Change in capital stocks	0.0	0.0	0.0	0.0
Other financing activities	(0.3)	(1.3)	(0.3)	(0.3)
Cash from financing activities	(20.4)	(10.5)	(35.7)	(35.7)
Net changes in cash	(56.6)	41.8	23.1	3.7

Source: Company, ZJ Research

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RATING GUIDE

BUY	Price appreciation expected to exceed 15% within the next 12 months
SELL	Price depreciation expected to exceed 15% within the next 12 months
HOLD	Price movement expected to be between -15% and +15% over the next 12 months from current level

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