

# Stock Digest

Monday, 10 Apr, 2023

## Malaysia Smelting Corporation Bhd

### Site visit to Pulau Indah

#### Summary

- We attended a site visit hosted by Malaysia Smelting Corporation Bhd's (MSC) external investor relations, Capital Front at their new plant located at Pulau Indah and came away with better clarity over their current operations and future outlook. While tin mining production is expected to see improvement, the smelting segment will be boosted by the better operational efficiency from the Pulau Indah plant.
- Mining segment.** Production may see gradual improvement on the back of on-going efforts to explore new mining methodologies and additional processing plants at Sg. Lembing. Consequently, we expect MSC to deliver 11.0 tonnes/day of tin ore towards the end of 2023 (2022 production was at approximately 10.4 tonnes/day). Meanwhile, the Asas Baiduri land provides a mining pond and additional storage capacity will lift constraints on deepening of pit mine.
- Pulau Indah smelting plant** is operating at c.60.0-70% at present, whereas the Butterworth plant is operating at c.50.0%. The Pulau Indah plant uses natural gas to smelt in a single stage process will (i) provide c.30.0-40.0% of cost saving from labour, (ii) c.30.0% saving of electricity cost through the installation of solar PV panels and (iii) produces smaller carbon footprint which reinforced their position in the green segment.
- Pulau Indah operations return to the norm.** The longer-than-expected scheduled maintenance at Pulau Indah smelting plant which caused by furnace outage for a period of 3 months in 3Q22 (vs. the norm of 1 month) due to logistical issue on the delivery of fire rated bricks from China has resolved and operations were resumed since early-October 2022. In bid to prevent a re-occurrence of similar issue, MSC have opted to purchase bricks in advance to minimise the disruption in operations.
- Smelting outlook.** Moving forward, the Butterworth plant will be smelting the remainder of the tin intermediaries over the next 2-4 years as part of the group's efforts to gradually de-commission the Butterworth plant operations and solely focus on the Pulau Indah smelting plant. The latter that is equipped with a state of art technology using Top Submerged Lance (TSL) offers better production yield.
- Asset monetisation.** The re-location of Butterworth smelting plant may free up 13.9-ac of land for a mixed property development, comprising residential and commercial. We reckon that the move is timely to unlock the asset value as well as the group had been operating on the said land since 1902. Still, the aforementioned plan is at infant stage, which we have yet to incorporate into our earnings forecast.
- Tin outlook.** We opined that the recovery in tin prices may see stability over the foreseeable future (averaging c. USD25,000/MT in 2023). The said improvement against the pre-pandemic levels of between USD15,000-20,000 will be backed by the (i) robust demand in industrial usage such as electric vehicles (EV), solar panels and electronic devices, (ii) re-opening of borders at China which eventually boost consumption of tin and (iii) persistently high inflationary pressure in commodity prices due to unresolved Russia-Ukraine tension.

#### Company Update

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#### HOLD

Share price	RM1.88
Target price	RM1.96
Previous TP	RM1.96
Capital upside	4.3%
Dividend return	3.7%
Total return	8.0%

#### Company profile

Principally involved in tin mining and smelting

#### Stock information

Bursa Code	5916
Bloomberg ticker	SMELT MK
Listing market	MAIN
Share issued (m)	420.0
Market Cap (m)	789.6
52W High/Low	5.44 / 1.28
Est. Free float	44.9
Beta	1.5
3-mth avg vol ('000)	1,302.9
Shariah compliant	No

#### Major shareholders

	%
Straits Trading Co Ltd	26.8
Straits Trading Amg	16.6
Sword Investments Pvt Ltd	5.1

#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return			
Absolute	-10.0	13.9	-61.1
Relative	-9.7	18.6	-57.9

#### Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	93.7	102.6	104.7
EPS (sen)	22.3	24.4	24.9
P/E (x)	8.4	7.7	7.5

#### Relative performance chart



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## Valuation & Recommendation

- With production expected to see gradual improvement, Pulau Indah operations running at full speed ahead and tin prices has turned stable in recent months, we made no changes to our earnings forecast. We maintain **HOLD** recommendation on MSC with an unchanged target price of RM1.96. Our target price is based on an assigned target PER of 8.0x to its FY23f EPS of 24.5 sen. The assigned targeted PER is based on the historical 1-year mean average.
- Risks to our recommendation include the volatility in the tin prices which affect average selling prices and margins. Foreign exchange fluctuation risk - given that the tin prices are traded in USD and MSC purchased most of their raw material from other miners.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	1,076.6	1,503.6	1,596.4	1,461.2	1,432.2	Cash	122.6	152.3	181.5	204.3	219.8
EBITDA	181.4	170.7	175.6	179.0	179.0	Receivables	11.8	31.5	30.6	26.0	25.5
EBIT	169.3	160.0	162.7	165.0	164.2	Inventories	789.9	570.7	610.1	620.5	623.4
Net finance income/ (cost)	(15.4)	(15.9)	(11.0)	(10.3)	(9.7)	PPE	216.9	234.5	253.6	268.8	282.7
Associates & JV	4.4	(0.5)	(0.5)	(0.5)	(0.5)	Others	173.8	312.8	306.3	299.5	298.1
Profit before tax	158.4	143.6	151.2	154.2	154.0	Assets	1,314.9	1,301.9	1,382.1	1,419.2	1,449.5
Tax	39.9	42.1	45.4	46.3	46.2	Debts	460.7	342.8	334.2	325.9	317.7
Net profit	118.5	101.5	105.8	108.0	107.8	Payables	188.4	111.2	116.5	92.2	91.0
Minority interest	0.4	3.1	3.2	3.2	3.2	Others	85.1	70.4	80.7	79.2	117.9
Core earnings	118.1	93.7	102.6	104.7	104.6	Liabilities	734.2	524.4	531.3	497.3	526.6
Exceptional items	-	4.7	-	-	-	Shareholder's equity	371.7	522.9	681.4	754.6	825.7
Reported earnings	118.1	98.4	102.6	104.7	104.6	Minority interest	0.2	58.3	58.3	58.3	58.3
						Equity	580.6	777.5	850.8	921.9	922.9
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	158.4	143.6	151.2	154.2	154.0	Core EPS (sen)	28.1	22.3	24.4	24.9	24.9
Depreciation & amortisation	12.0	10.7	12.9	13.9	14.8	P/E (x)	6.7	8.4	7.7	7.5	7.5
Changes in working capital	(92.7)	185.9	38.1	(20.7)	0.2	DPS (sen)	7.0	7.0	7.0	8.0	8.0
Share of JV profits	-	-	-	-	-	Dividend yield	3.7%	3.7%	3.7%	4.3%	4.3%
Taxation	(8.1)	(7.6)	(9.1)	(10.2)	(11.0)	BVPS (RM)	1.38	1.85	2.03	2.20	2.20
Others	(16.5)	13.6	15.0	15.0	15.0	P/B (x)	1.4	1.0	0.9	0.9	0.9
Operating cash flow	12.4	244.5	67.2	62.5	59.1	EBITDA margin	16.8%	11.4%	11.0%	12.3%	12.5%
Net capex	(8.7)	(17.8)	17.6	19.0	15.3	EBIT margin	15.7%	10.6%	10.2%	11.3%	11.5%
Others	(0.5)	33.5	-	-	-	PBT margin	14.7%	9.6%	9.5%	10.6%	10.8%
Investing cash flow	(9.2)	15.7	17.6	19.0	15.3	PAT margin	11.0%	6.8%	6.6%	7.4%	7.5%
Changes in borrowings	49.5	(124.5)	(25.0)	(25.0)	(25.0)	Core PAT margin	11.0%	6.2%	6.4%	7.2%	7.3%
Issuance of shares	-	-	-	-	-	ROE	20.3%	12.0%	12.1%	11.4%	11.3%
Dividends paid	(4.0)	(29.4)	(29.4)	(33.6)	(33.6)	ROA	9.0%	7.2%	7.4%	7.4%	7.2%
Others	37.2	(77.4)	-	-	-	Net gearing	58.2%	24.5%	17.9%	13.2%	10.6%
Financing cash flow	82.7	(231.3)	(54.4)	(58.6)	(58.6)						
Net cash flow	85.8	28.8	30.4	23.0	15.7						
Forex	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)						
Others	-	-	-	-	-						
Beginning cash	36.8	122.6	151.2	181.5	204.3						
Ending cash	122.6	151.2	181.5	204.3	219.8						

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## Appendix: Site Visit



Source: MSC, MSSB Research