

Stock Digest

Thursday, 19 May, 2022

Malaysia Smelting Corporation Bhd

Driven by record high tin prices

Summary

- Malaysia Smelting Corporation Bhd's (MSC) 1QFY22 net profit leapt 190.9% YoY to RM64.3m, mainly spurred by the higher average tin prices. Revenue for the quarter improved 30.3% YoY to RM359.5m.
- The reported earnings make up to 38.7% of our forecasted net profit of RM166.1m and 33.0% of consensus forecasted net profit at RM195.0m. We reckon that the figures to be in line as earnings may have hit an inflection point. This is premised to expectations over tapering of average tin prices in subsequent quarters, which we are already experiencing since early March 2022.
- Segment wise, the tin smelting pre-tax profit jumped 153.4% YoY to RM37.0m, on higher profit margins from sale of refined tin from the processed tin intermediates and higher average tin prices. Meanwhile, the tin mining segment pre-tax profit gained soared 138.8% YoY to RM62.8m, on higher average tin prices.
- Moving forward, MSC remains committed to improve their daily mining output level through further automation process as well as deploying new machineries to ramp up production efficiency. The move may see MSC hitting a production of 12 tonnes/day (from 11.5 tonnes/day at present).
- In 1Q22, Pulau Indah smelting plant is operating at 75.0% capacity (unchanged from end-2021). We expect gradual ramp-up in production for the aforementioned plant to hit full capacity by end-2022. Upon full production, their Butterworth plant operations will be re-located to Pulau Indah and the move is expected to generate cost saving of close to 30.0% per annum.
- We note that average tin prices in 1Q22 stood at USD43,432.06/MT (+11.5% QoQ). While tin prices have retreated from the all-time high of USD50,050/MT recorded on 8th March 2022 due to the suspension of nickel trading at the London Metal Exchange (LME), we expect prices to stay above US\$30,000/MT in subsequent quarters as demands is expected to remain stable, while supply of tin remains tight.
- According to International Tin Association (ITA), global refined tin production increased by 11.0% YoY to 378,400MT in 2021. Despite that, inventory levels remain relatively low; implying that additional supply on stream are well absorb by the robust demand.

Quarterly performance					
FYE Mar (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Revenue	275.9	255.1	359.5	40.9	30.3
EBITDA	37.2	90.5	97.2	7.5	161.1
PBT	30.2	85.2	90.2	5.9	198.5
PAT	22.1	64.6	64.3	(0.4)	190.9
Core PATMI	22.1	64.1	64.3	0.4	190.9
Reported PATMI	22.1	64.1	64.3	0.4	190.9
Core EPS (sen)	0.6	1.9	1.9	0.4	190.9
EBITDA margin (%)	13.5	35.5	27.0		
PBT margin (%)	11.0	33.4	25.1		
Core PATMI margin (%)	8.0	25.1	17.9		

Results Note – 1QFY22

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BUY (from Hold)

Share price	RM3.78
Target price	RM5.36
Previous TP	RM5.36
Capital upside	41.7%
Dividend return	2.9%
Total return	44.6%

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)	1,587.6
52W High/Low	5.46 / 1.74
Est. Free float	44.9
Beta	1.0
3-mth avg vol ('000)	1,836.6
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	-26.7	-7.4	57.7
Absolute	-25.5	-4.5	60.5
Relative			

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	118.1	166.1	173.0
EPS (sen)	28.1	39.6	41.2
P/E (x)	13.4	9.6	9.2

Relative performance chart



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Valuation & Recommendation

- Given that the reported earnings deemed to be within our expectations, we are keeping our forecasted numbers for now. Nevertheless, we upgrade MSC to **BUY** (from Hold) with an unchanged target price of RM5.36. Our target price is based on the assigned target PER of 13.0x to its FY22f EPS of 41.2 sen.
- We think that recent weakness in share price offers decent entry point for further upsides for over the longer-term investment horizon.
- 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)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	813.4	1,076.6	1,495.3	1,594.2	1,686.3	Cash	37.5	122.6	164.4	163.2	207.7
EBITDA	60.0	181.4	254.2	263.0	274.0	Receivables	25.6	11.8	20.5	21.8	32.3
EBIT	42.8	169.3	239.0	247.3	257.8	Inventories	604.1	789.9	829.6	884.4	935.5
Net finance income/ (cost)	(14.8)	(15.4)	(17.1)	(16.5)	(15.9)	PPE	216.6	216.9	224.1	232.4	241.4
Associates & JV	(4.3)	4.4	3.7	4.0	4.2	Others	110.7	173.8	166.3	190.8	223.7
Profit before tax	24.2	158.4	225.6	234.8	246.1	Assets	994.5	1,314.9	1,404.8	1,492.7	1,640.6
Tax	9.5	39.9	58.7	61.1	64.0	Debts	410.4	460.7	449.2	438.0	427.0
Net profit	14.7	118.5	167.0	173.8	182.1	Payables	133.1	188.4	207.5	181.0	199.5
Minority interest	(0.5)	0.4	0.8	0.7	0.3	Others	57.7	85.1	43.1	41.8	46.6
Core earnings	15.2	118.1	166.1	173.0	181.8	Liabilities	601.2	734.2	699.8	660.8	673.1
Exceptional items	-	-	-	-	-	Shareholder's equity	364.5	371.7	522.9	647.1	773.9
Reported earnings	15.2	118.1	166.1	173.0	181.8	Minority interest	(0.2)	0.2	0.5	0.5	0.5
						Equity	393.3	580.6	705.1	831.9	967.5
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	24.2	158.4	225.6	234.8	246.1	Core EPS (sen)	3.6	28.1	39.6	41.2	43.3
Depreciation & amortisation	17.1	12.0	15.2	15.7	16.3	P/E (x)	104.7	13.4	9.6	9.2	8.7
Changes in working capital	(137.5)	(92.7)	62.7	32.4	90.1	DPS (sen)	2.0	7.0	10.0	11.0	11.0
Share of JV profits	-	-	-	-	-	Dividend yield	0.5%	1.9%	2.6%	2.9%	2.9%
Taxation	(5.1)	(8.1)	(8.2)	(8.2)	(10.4)	BVPS (RM)	0.94	1.38	1.68	1.98	2.30
Others	15.5	(16.5)	(20.0)	(20.0)	(20.0)	P/B (x)	4.0	2.7	2.3	1.9	1.6
Operating cash flow	(106.4)	12.4	133.5	162.9	182.5	EBITDA margin	7.4%	16.8%	17.0%	16.5%	16.3%
Net capex	(14.7)	(8.7)	0.3	7.2	8.2	EBIT margin	5.3%	15.7%	16.0%	15.5%	15.3%
Others	(1.1)	(0.5)	-	-	-	PBT margin	3.0%	14.7%	15.1%	14.7%	14.6%
Investing cash flow	(15.8)	(9.2)	0.3	7.2	8.2	PAT margin	1.8%	11.0%	11.2%	10.9%	10.8%
Changes in borrowings	131.4	49.5	(50.0)	(125.0)	(100.0)	Core PAT margin	1.9%	11.0%	11.1%	10.9%	10.8%
Issuance of shares	-	-	-	-	-	ROE	3.9%	20.3%	23.6%	20.8%	18.8%
Dividends paid	(8.0)	(4.0)	(42.0)	(46.2)	(46.2)	ROA	1.5%	9.0%	11.8%	11.6%	11.1%
Others	-	37.2	-	-	-	Net gearing	94.8%	58.2%	40.4%	33.0%	22.7%
Financing cash flow	123.4	82.7	(92.0)	(171.2)	(146.2)						
Net cash flow	1.1	85.8	41.8	(1.1)	44.5						
Forex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)						
Others	-	-	-	-	-						
Beginning cash	35.7	36.8	122.6	164.4	163.2						
Ending cash	36.8	122.6	164.4	163.2	207.7						