

# Stock Digest

Monday, 22 May, 2023

## Malaysia Smelting Corporation Bhd

### Impacted by normalising of tin prices

#### Summary

- Malaysia Smelting Corporation Bhd's (MSC) 1QFY23 core net profit fell 45.0% YoY to RM35.4m, impacted by lower average tin price that negated the higher sales quantity of refined tin. Revenue for the quarter declined 5.4% YoY to RM340.1m.
- The reported earnings accounted to 34.5% of our forecasted net profit of RM102.6m and 41.6% of consensus forecasted net profit at RM85.1m. The variance was mainly due to the better-than-expected margins arising from the cost-efficiencies from the operations of Pulau Indah plant.
- Segmentally, 1QFY23 tin smelting pre-tax profit slipped 10.4% YoY to RM33.2m. Meanwhile, the tin mining segment pre-tax profit sank 62.2% YoY to RM23.7m, dragged by the decline in average tin price (-35.5% YoY) to an average of RM116,100/MT during the quarter. Nevertheless, tin price rebounded as of late by 18.3% QoQ. We note that net gearing remains fairly stable at 0.2x, whilst the group continue to operate in a net operating cash flow in 1QFY23.
- On the mining segment, MSC remains committed to gradually improve its mining efficiency, targeting an output of 11.0 tonnes/day of tin ore by end 2023. The move will be supported by additions of new machineries (delivery of new crusher and sorter to Rahman Hydraulic Tin (RHT) mine and development of additional processing plants at Sg. Lembing tin mine.
- Meanwhile, the smelting segment will undergo a transition to hit full capacity in the Pulau Indah plant, while gradually decommission of the Butterworth smelting plant tentatively by mid-2024. After raking in 19,384 actual refined tin productions in FY22, we reckon that production may surpass 20,000 in FY23f.
- We gather that tin prices have consolidated and traded between USD22,500-27,500/MT over the past 2 months. We believe that tin prices may continue to hover at current range and to average c.USD25,000/MT for 2023 as demand will be supported by the revolution of technology (electric vehicles) and rising adoption to generate environmental friendly electricity (solar PV). Current surpluses of inventory in LME at 1,580MT in mid-May 2023 (down from 3,145MT in mid-February 2023) is expected to remain supportive on current tin prices. Still, we remain cautious that the recent weakness in economic data across the globe and elevated inflationary risk may continue to cap further recovery.

#### Quarterly performance

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	359.5	391.2	340.1	(13.1)	(5.4)	359.5	340.1	(5.4)
EBITDA	97.2	44.8	58.9	31.3	(39.5)	97.2	58.9	(39.5)
PBT	90.2	38.5	51.6	34.3	(42.8)	90.2	51.6	(42.8)
PAT	64.3	27.8	38.1	36.9	(40.8)	64.3	38.1	(40.8)
Core PATMI	64.3	25.9	35.4	36.8	(45.0)	64.3	35.4	(45.0)
Reported PATMI	64.3	25.9	35.4	36.8	(45.0)	64.3	35.4	(45.0)
Core EPS (sen)	1.9	0.8	1.0	36.8	(45.0)	1.9	1.0	(45.0)
EBITDA margin (%)	27.0	11.5	17.3			27.0	17.3	
PBT margin (%)	25.1	9.8	15.2			25.1	15.2	
Core PATMI margin (%)	17.9	6.6	10.4			17.9	10.4	

#### Results Note – 1QFY23

**Kenneth Leong**  
[kennethleong@msec.com.my](mailto:kennethleong@msec.com.my)  
(603) 2201 2100

#### HOLD

Share price	RM2.02
Target price	RM1.96
Previous TP	RM1.96
Capital upside	-3.0%
Dividend return	3.5%
Total return	0.5%

#### 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)	848.4
52W High/Low	3.81 / 1.28
Est. Free float	44.9
Beta	1.5
3-mth avg vol ('000)	739.4
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	0.0	-3.8	-44.1
Relative	3.0	19.1	-43.4

#### 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)	9.1	8.3	8.1

#### Relative performance chart



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## Valuation & Recommendation

- Despite the stronger-than-expected reported numbers, we made no changes to our earnings forecast in anticipation of weaker performance in quarters when the group performs their major annual plant maintenance. Also, 3-months tin futures averaging at USD26,180 YTD is close to our expectations of c.USD25,000. A potential re-rating are in the cards, should tin prices hovers above our expectations in subsequent months.
- We re-iterate our **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 +1.0 SD of 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	922.3
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)	7.2	9.1	8.3	8.1	8.1
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	3.5%	3.5%	3.5%	4.0%	4.0%
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)	1.5	1.1	1.0	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)	(33.6)	(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						