

Stock Digest

Tuesday, 22 Nov, 2022

Malaysia Smelting Corporation Bhd

Dragged down by weaker tin prices

Summary

- Malaysia Smelting Corporation Bhd's (MSC) 3QFY22 net loss stood at RM31.3m vs. a net profit of RM28.9m recorded in the previous corresponding quarter, impacted by (i) sharp decline in tin prices, (ii) higher operating expenses and (iii) one-off provision for legal case settlement of RM4.7m. Revenue for the quarter, however, climbed 57.5% YoY to RM344.1m.
- 9MFY22 cumulative net profit at RM72.5m came in only at 44.3% of our forecasted net profit of RM163.6m and 41.6% of consensus forecasted net profit at RM174.0m. The variance was mainly due to the prolonged correction in tin prices which resulted in margins erosion.
- Segment wise, 3QFY22 tin smelting pre-tax loss stood at RM61.1m, from a pre-tax profit of RM7.0m recorded in 3QFY21. Meanwhile, the tin mining segment pre-tax profit slumped 71.7% YoY to RM38.7m, dragged by lower average tin prices that fell 26.2% YoY to an average of RM104,700/MT during the quarter.
- Pulau Indah smelting plant operates at a lower utilisation rate during the quarter, impacted by the longer-than-expected furnace outage following the supply chain disruption to secure specialized fire-rated furnace bricks. Also, the elevated energy and fuel costs have impacted the bottomline margins. Nevertheless, MSC remains committed to gradually improve their daily mining output level.
- We gather that the extended normalisation of tin prices appears to found stability early-November 2022 (c.USD16,900/MT) before staging rebound above USD20,000/MT over the past week in anticipation of recovery in demand following the potential easing of Covid-19 restrictions from China. Still, we think that tin price may remain soft due to weak demand from the consumer electronics sector. For now, we have revised our tin prices projection lower to an average of USD20,000/MT for the rest of the year and an average of USD25,000/MT for 2023f.
- Moving forward, we expect current surpluses of inventory in LME at 4,430MT in early November 2022 to remain fairly stable. On a brighter note, Indonesia plans ban tin export and focus onto the expansion of refined tin output in bid to position the country as an electric vehicle manufacturing hub. Still, we think that the rising risk of recession moving in 2023, may cap the pace for any major recovery.

Quarterly performance								
FYE Mar (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	218.5	408.8	344.1	(15.8)	57.5	821.5	1,112.4	35.4
EBITDA	43.9	61.5	(32.0)	(152.0)	(172.9)	90.9	126.8	39.5
PBT	38.9	54.6	(39.7)	(172.7)	(202.2)	73.1	105.2	43.8
PAT	28.9	39.4	(30.1)	(176.2)	(204.0)	53.9	73.7	36.6
Core PATMI	28.9	39.5	(31.3)	(179.4)	(208.2)	54.0	72.5	34.2
Reported PATMI	28.9	39.5	(31.3)	(179.4)	(208.2)	54.0	72.5	34.2
Core EPS (sen)	0.8	1.2	(0.9)	(179.4)	(208.2)	1.6	2.1	34.2
EBITDA margin (%)	20.1	15.0	(9.3)			11.1	11.4	
PBT margin (%)	17.8	13.4	(11.5)			8.9	9.5	
Core PATMI margin (%)	13.2	9.6	(9.1)			6.6	6.5	

Results Note – 3QFY22

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

HOLD (from Buy)

Share price	RM1.62
Target price	RM1.60
Previous TP	RM2.93
Capital upside	-1.2%
Dividend return	3.4%
Total return	2.2%

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)	680.4
52W High/Low	5.46 / 1.28
Est. Free float	44.9
Beta	1.3
3-mth avg vol ('000)	1,172.5
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 (%)

Hist. return	1M	3M	12M
Absolute	12.5	-17.8	-46.1
Relative	8.8	-13.9	-43.0

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	118.1	87.8	95.9
EPS (sen)	28.1	20.9	22.8
P/E (x)	5.8	7.8	7.1

Relative performance chart



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2

Valuation & Recommendation

- We slashed our net profit forecasts by 40.0-44.0% for FY22f-FY24f, after taking into account of the extended period of tin prices correction and softer demand. Still, we expect a final dividend of 5.0 sen per share to be announced in 4QFY22, backed by the strong 1HFY22 performance.
- Following the earnings revision, we downgrade MSC to **HOLD** (from Buy) with a lower target price of RM1.60. Our target price is based on an assigned target PER of 7.0x to its revised FY23f EPS of 22.8 sen.
- 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	1,435.9	1,548.7	1,675.4	Cash	37.5	122.6	99.6	92.3	108.7
EBITDA	60.0	181.4	150.8	170.4	188.5	Receivables	25.6	11.8	19.7	21.2	27.5
EBIT	42.8	169.3	135.6	154.7	172.3	Inventories	604.1	789.9	884.2	887.9	924.9
Net finance income/ (cost)	(14.8)	(15.4)	(16.5)	(16.2)	(15.7)	PPE	216.6	216.9	223.2	230.9	239.8
Associates & JV	(4.3)	4.4	5.7	6.2	6.7	Others	110.7	173.8	186.8	216.4	245.0
Profit before tax	24.2	158.4	124.8	144.8	163.3	Assets	994.5	1,314.9	1,413.5	1,448.7	1,545.9
Tax	9.5	39.9	32.5	37.6	42.5	Debts	410.4	460.7	449.2	438.0	427.0
Net profit	14.7	118.5	92.4	107.1	120.8	Payables	133.1	188.4	195.3	181.2	207.3
Minority interest	(0.5)	0.4	4.6	11.2	12.7	Others	57.7	85.1	64.3	52.0	53.2
Core earnings	15.2	118.1	87.8	95.9	108.2	Liabilities	601.2	734.2	708.8	671.2	687.6
Exceptional items	-	-	-	-	-	Shareholder's equity	364.5	371.7	522.9	589.7	662.5
Reported earnings	15.2	118.1	87.8	95.9	108.2	Minority interest	(0.2)	0.2	57.5	57.5	57.5
						Equity	393.3	580.6	704.7	777.5	858.3
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	124.8	144.8	163.3	Core EPS (sen)	3.6	28.1	20.9	22.8	25.8
Depreciation & amortisation	17.1	12.0	15.2	15.6	16.2	P/E (x)	44.9	5.8	7.8	7.1	6.3
Changes in working capital	(137.5)	(92.7)	102.8	(5.9)	76.6	DPS (sen)	2.0	7.0	5.0	5.5	6.5
Share of JV profits	-	-	-	-	-	Dividend yield	1.2%	4.3%	3.1%	3.4%	4.0%
Taxation	(5.1)	(8.1)	(5.0)	(4.6)	(5.4)	BVPS (RM)	0.94	1.38	1.68	1.85	2.04
Others	15.5	(16.5)	(20.0)	(20.0)	(20.0)	P/B (x)	1.7	1.2	1.0	0.9	0.8
Operating cash flow	(106.4)	12.4	72.8	34.5	86.1	EBITDA margin	7.4%	16.8%	10.5%	11.0%	11.3%
Net capex	(14.7)	(8.7)	0.3	6.4	7.6	EBIT margin	5.3%	15.7%	9.4%	10.0%	10.3%
Others	(1.1)	(0.5)	-	-	-	PBT margin	3.0%	14.7%	8.7%	9.3%	9.7%
Investing cash flow	(15.8)	(9.2)	0.3	6.4	7.6	PAT margin	1.8%	11.0%	6.4%	6.9%	7.2%
Changes in borrowings	131.4	49.5	(25.0)	(25.0)	(25.0)	Core PAT margin	1.9%	11.0%	6.1%	6.2%	6.5%
Issuance of shares	-	-	-	-	-	ROE	3.9%	20.3%	12.5%	12.3%	12.6%
Dividends paid	(8.0)	(4.0)	(21.0)	(27.3)	(27.3)	ROA	1.5%	9.0%	6.2%	6.6%	7.0%
Others	-	37.2	(50.0)	-	(25.0)	Net gearing	94.8%	58.2%	49.6%	44.5%	37.1%
Financing cash flow	123.4	82.7	(96.0)	(48.1)	(77.3)						
Net cash flow	1.1	85.8	(22.9)	(7.3)	16.4						
Forex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)						
Others	-	-	-	-	-						
Beginning cash	35.7	36.8	122.6	99.6	92.3						
Ending cash	36.8	122.6	99.6	92.3	108.7						