

Stock Digest

Friday, 05 Aug, 2022

Malaysia Smelting Corporation Bhd

Tapering of record high tin prices

Summary

- Malaysia Smelting Corporation Bhd's (MSC) 2QFY22 net profit soared 13.5x YoY to RM39.5m, mainly driven by the higher average tin prices and higher tin production quality. Revenue for the quarter increased 25.0% YoY to RM408.8m.
- For 1HFY22, cumulative net profit surged 314.3% YoY to RM103.8m. Revenue for the period rose 27.4% YoY to RM768.3m. The reported earnings came at 59.2% of our forecasted net profit of RM175.5m and 62.3% of consensus forecasted net profit at RM166.7m. The figures are deemed to be in line in anticipation of tapering in average tin prices would attribute to weaker performance in coming quarters.
- Segment wise, the tin smelting pre-tax loss narrowed to RM8.2m, from pre-tax loss of RM17.2m recorded in 2QFY21 that was affected by the implementation of MCO 3.0. Meanwhile, the tin mining segment pre-tax profit jumped 112.5% YoY to RM47.6m, on higher average tin prices.
- In 2Q22, Pulau Indah smelting plant is operating at 75.0% capacity (unchanged from end-1Q22), which is on target for 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.
- Despite the softer tin prices, MSC remains committed to gradually improve their daily mining output level through further automation process and deploying new machineries to ramp up production efficiency. On their ESG efforts, the upgrading of mini hydro plant which is currently generating 0.75-5.00MW will lead to zero-carbon energy to the existing mine.
- We note that average tin prices in 2Q22 fell to USD36,828.08/MT (-15.2% QoQ) and has further deteriorated in recent months. We reckon that concerns over the global recession will continue to dampen the demand outlook for industrial metals, which we have now revised our tin price assumption lower to USD30,000 and USD25,000 (from USD35,000 and USD30,000) for 2022f and 2023f respectively.
- Amid the weaker average tin prices, key players in China have slowed down their productions and have now brought forward their maintenance plans. Hence, we expect current surpluses of inventory in LME warehouses to keep in check at current levels, which recorded close to 4,000/MT in early August 2022.

Quarterly performance								
FYE Mar (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	327.1	359.5	408.8	13.7	25.0	603.0	768.3	27.4
EBITDA	9.8	97.2	61.5	(36.7)	529.9	47.0	158.7	237.8
PBT	4.1	90.2	54.6	(39.5)	1,248.0	34.3	144.9	322.6
PAT	2.9	64.3	39.4	(38.7)	1,253.9	25.0	103.7	314.6
Core PATMI	2.9	64.3	39.5	(38.7)	1,246.9	25.1	103.8	314.3
Reported PATMI	2.9	64.3	39.5	(38.7)	1,246.9	25.1	103.8	314.3
Core EPS (sen)	0.6	1.9	1.2	(38.4)	78.3	0.7	3.0	314.3
EBITDA margin (%)	3.0	27.0	15.0			7.8	20.7	
PBT margin (%)	1.2	25.1	13.4			5.7	18.9	
Core PATMI margin (%)	0.9	17.9	9.6			4.2	13.5	

Results Note – 2QFY22

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BUY

Share price	RM2.32
Target price	RM2.93
Previous TP	RM4.83
Capital upside	26.3%
Dividend return	4.7%
Total return	31.0%

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)	974.4
52W High/Low	5.46 / 1.85
Est. Free float	44.9
Beta	1.8
3-mth avg vol ('000)	1,506.7
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
Absolute	7.4	-50.1	15.1
Relative	2.6	-47.6	11.7

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	163.6	175.2	180.2
EPS (sen)	28.1	38.9	41.7
P/E (x)	8.3	6.0	5.6

Relative performance chart



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Valuation & Recommendation

- Although the reported earnings make up to 59.2% of our forecast, we trimmed our core net profit by 6.0-13.0% to RM163.6m, RM175.2m and RM180.2m for FY22f, FY23f and FY24f respectively after taking into account of the quicker and larger-than-expected pullback in tin prices.
- Nevertheless, we maintained **BUY** on MSC with a lower target price of RM2.93. Our target price is based on lower assigned target PER of 7.0x (from 10.0x) to its revised FY23f EPS of 41.7 sen. The downward revision in PER is in line with the generally weaker PER of industrial materials companies listed on Bursa Malaysia amid their softer outlook and recent share prices correction.
- 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	161.5	185.3	149.6
EBITDA	60.0	181.4	258.5	294.3	301.6	Receivables	25.6	11.8	19.7	21.2	32.1
EBIT	42.8	169.3	243.3	278.6	285.4	Inventories	604.1	789.9	884.2	953.6	1,031.6
Net finance income/ (cost)	(14.8)	(15.4)	(16.4)	(15.8)	(15.4)	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	253.3
Profit before tax	24.2	158.4	232.7	269.1	276.7	Assets	994.5	1,314.9	1,475.3	1,607.4	1,706.5
Tax	9.5	39.9	60.5	70.0	71.9	Debts	410.4	460.7	449.2	438.0	427.0
Net profit	14.7	118.5	172.2	199.1	204.8	Payables	133.1	188.4	195.3	170.4	200.6
Minority interest	(0.5)	0.4	8.6	23.9	24.6	Others	57.7	85.1	71.3	110.6	56.3
Core earnings	15.2	118.1	163.6	175.2	180.2	Liabilities	601.2	734.2	715.8	718.9	684.0
Exceptional items	-	-	-	-	-	Shareholder's equity	364.5	371.7	522.9	644.5	773.5
Reported earnings	15.2	118.1	163.6	175.2	180.2	Minority interest	(0.2)	0.2	57.5	57.5	57.5
						Equity	393.3	580.6	759.5	888.5	1,022.5
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	232.7	269.1	276.7	Core EPS (sen)	3.6	28.1	38.9	41.7	42.9
Depreciation & amortisation	17.1	12.0	15.2	15.6	16.2	P/E (x)	64.3	8.3	6.0	5.6	5.4
Changes in working capital	(137.5)	(92.7)	102.8	49.0	130.0	DPS (sen)	2.0	7.0	10.0	11.0	11.0
Share of JV profits	-	-	-	-	-	Dividend yield	0.9%	3.0%	4.3%	4.7%	4.7%
Taxation	(5.1)	(8.1)	(8.1)	(9.3)	(7.5)	BVPS (RM)	0.94	1.38	1.81	2.12	2.43
Others	15.5	(16.5)	(20.0)	(20.0)	(20.0)	P/B (x)	2.5	1.7	1.3	1.1	1.0
Operating cash flow	(106.4)	12.4	180.6	213.7	252.9	EBITDA margin	7.4%	16.8%	18.0%	19.0%	18.0%
Net capex	(14.7)	(8.7)	0.3	6.4	7.6	EBIT margin	5.3%	15.7%	16.9%	18.0%	17.0%
Others	(1.1)	(0.5)	-	-	-	PBT margin	3.0%	14.7%	16.2%	17.4%	16.5%
Investing cash flow	(15.8)	(9.2)	0.3	6.4	7.6	PAT margin	1.8%	11.0%	12.0%	12.9%	12.2%
Changes in borrowings	131.4	49.5	(50.0)	(100.0)	(150.0)	Core PAT margin	1.9%	11.0%	11.4%	11.3%	10.8%
Issuance of shares	-	-	-	-	-	ROE	3.9%	20.3%	21.5%	19.7%	17.6%
Dividends paid	(8.0)	(4.0)	(42.0)	(46.2)	(46.2)	ROA	1.5%	9.0%	11.1%	10.9%	10.6%
Others	-	37.2	(50.0)	(50.0)	(100.0)	Net gearing	94.8%	58.2%	37.9%	28.4%	27.1%
Financing cash flow	123.4	82.7	(142.0)	(196.2)	(296.2)						
Net cash flow	1.1	85.8	39.0	23.9	(35.7)						
Forex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)						
Others	-	-	-	-	-						
Beginning cash	35.7	36.8	122.6	161.5	185.3						
Ending cash	36.8	122.6	161.5	185.3	149.6						