

Malaysia Smelting Corporation Bhd

Better-than-expected 1H23

Summary

- Malaysia Smelting Corporation Bhd's (MSC) 2QFY23 core net profit declined 27.9% YoY to RM28.4m, dragged down by weaker contribution from the tin mining segment that was impacted by lower average tin prices. Revenue for the quarter fell 20.0% YoY to RM327.0m.
- For 1H23, cumulative net profit at RM63.9m makes up to 62.2% and 58.1% of our and consensus forecasted net profit of RM102.6m and RM110.0m respectively. The better-than-expected number was mainly due to stronger margins arising from the cost-efficiencies from the operations in Pulau Indah plant and lower effective tax rate at 25.9% vs. our expectations at 30.0%.
- Segmentally, 2QFY23 tin smelting pre-tax profit stood at RM21.6m vs. pre-tax loss of -RM8.2m recorded in the previous corresponding quarter. However, the tin mining segment pre-tax profit contracted 51.6% YoY to RM23.2m, dragged by the decline in average tin price (-26.7% YoY) to an average of RM116,500/MT during the quarter. Nevertheless, tin prices have turned stable, rising 0.3% QoQ. During the quarter, we note that the net gearing remains healthy at 0.1x, whilst the group continue to operate in a net operating cash flow.
- On the mining segment, we gather that 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 be supported by better production efficiency and lower operational cost from the state of art technology at the Pulau Indah plant. Looking ahead, the Butterworth smelting plant will be gradually decommissioned by mid-2024.
- We gather that tin prices continues to demonstrate recovery trend; trading between USD25,400-26,800/MT over the past 2 months. Going into the remainder of the year, we believe that tin prices may hover at current range and to average c.USD26,000/MT as the prospects of stronger demand will be supported by the revolution of technology (electric vehicles) and rising adoption to generate environmental friendly electricity (solar PV).

Quarterly performance								
FYE Dec (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	408.8	340.1	327.0	(3.8)	(20.0)	768.3	667.1	(13.2)
EBITDA	61.5	58.9	48.4	(17.8)	(21.3)	158.7	107.3	(32.4)
PBT	54.6	51.6	42.4	(17.8)	(22.4)	144.9	94.1	(35.1)
PAT	39.4	38.1	31.5	(17.4)	(20.2)	103.7	69.5	(33.0)
Core PATMI	39.5	35.4	28.4	(19.7)	(27.9)	103.8	63.9	(38.5)
Reported PATMI	39.5	35.4	28.4	(19.7)	(27.9)	103.8	63.9	(38.5)
Core EPS (sen)	1.2	1.0	0.8	(19.7)	(27.9)	3.0	1.9	(38.5)
EBITDA margin (%)	15.0	17.3	14.8			20.7	16.1	
PBT margin (%)	13.4	15.2	13.0			18.9	14.1	
Core PATMI margin (%)	9.6	10.4	8.7			13.5	9.6	

Results Note – 2QFY23

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HOLD

Share price	RM2.26
Target price	RM2.20
Previous TP	RM1.96
Capital upside	-2.7%
Dividend return	3.5%
Total return	0.9%

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)	949.2
52W High/Low	2.48 / 1.28
Est. Free float	44.8
Beta	1.5
3-mth avg vol ('000)	475.2
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	1.8	9.7	13.6
Relative	-3.3	8.3	13.2

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	125.6	115.4	110.3
EPS (sen)	29.9	27.5	26.3
P/E (x)	7.6	8.2	8.6

Relative performance chart



Valuation & Recommendation

- Following the stronger-than-expected reported numbers, we raised our earnings forecast by 22.4%, 10.2% and 5.4% for FY23f to FY25f, to adjust for the better-than-expected margins.
- Following the recent appreciation in share price, we re-iterate our **HOLD** recommendation on MSC with a higher target price of RM2.20. Our target price is based on an assigned target PER of 8.0x to its FY24f EPS of 27.5 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	1,495.9	1,364.9	1,335.7	Cash	122.6	152.3	183.6	213.7	234.0
EBITDA	181.4	170.7	209.4	194.5	187.0	Receivables	11.8	31.5	28.7	24.3	23.8
EBIT	169.3	160.0	196.5	180.7	172.4	Inventories	789.9	570.7	571.7	579.6	581.4
Net finance income/ (cost)	(15.4)	(15.9)	(11.0)	(10.2)	(9.5)	PPE	216.9	234.5	251.6	265.0	277.2
Associates & JV	4.4	(0.5)	(0.5)	(0.5)	(0.5)	Others	173.8	312.8	316.2	308.4	306.6
Profit before tax	158.4	143.6	185.0	169.9	162.4	Assets	1,314.9	1,301.9	1,351.8	1,391.0	1,423.0
Tax	39.9	42.1	55.5	51.0	48.7	Debts	460.7	342.8	334.2	325.9	317.7
Net profit	118.5	101.5	129.5	119.0	113.7	Payables	188.4	111.2	113.2	86.3	84.9
Minority interest	0.4	3.1	3.9	3.6	3.4	Others	85.1	70.4	30.6	23.3	64.3
Core earnings	118.1	93.7	125.6	115.4	110.3	Liabilities	734.2	524.4	478.0	435.4	466.9
Exceptional items	-	4.7	-	-	-	Shareholder's equity	371.7	522.9	681.4	777.6	859.4
Reported earnings	118.1	98.4	125.6	115.4	110.3	Minority interest	0.2	58.3	58.3	58.3	58.3
						Equity	580.6	777.5	873.8	955.6	956.1
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	185.0	169.9	162.4	Core EPS (sen)	28.1	22.3	29.9	27.5	26.3
Depreciation & amortisation	12.0	10.7	12.9	13.8	14.6	P/E (x)	8.0	10.1	7.6	8.2	8.6
Changes in working capital	(92.7)	185.9	6.4	(26.9)	(1.3)	DPS (sen)	7.0	7.0	7.0	8.0	8.0
Share of JV profits	-	-	-	-	-	Dividend yield	3.1%	3.1%	3.1%	3.5%	3.5%
Taxation	(8.1)	(7.6)	(9.2)	(10.7)	(11.7)	BVPS (RM)	1.38	1.85	2.08	2.28	2.28
Others	(16.5)	13.6	15.0	15.0	15.0	P/B (x)	1.6	1.2	1.1	1.0	1.0
Operating cash flow	12.4	244.5	69.3	71.9	65.7	EBITDA margin	16.8%	11.4%	14.0%	14.3%	14.0%
Net capex	(8.7)	(17.8)	17.6	17.0	13.5	EBIT margin	15.7%	10.6%	13.1%	13.2%	12.9%
Others	(0.5)	33.5	-	-	-	PBT margin	14.7%	9.6%	12.4%	12.5%	12.2%
Investing cash flow	(9.2)	15.7	17.6	17.0	13.5	PAT margin	11.0%	6.8%	8.7%	8.7%	8.5%
Changes in borrowings	49.5	(124.5)	(25.0)	(25.0)	(25.0)	Core PAT margin	11.0%	6.2%	8.4%	8.5%	8.3%
Issuance of shares	-	-	-	-	-	ROE	20.3%	12.0%	14.4%	12.1%	11.5%
Dividends paid	(4.0)	(29.4)	(29.4)	(33.6)	(33.6)	ROA	9.0%	7.2%	9.3%	8.3%	7.7%
Others	37.2	(77.4)	-	-	-	Net gearing	58.2%	24.5%	17.2%	11.7%	8.8%
Financing cash flow	82.7	(231.3)	(54.4)	(58.6)	(58.6)						
Net cash flow	85.8	28.8	32.6	30.3	20.5						
Forex	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)						
Others	-	-	-	-	-						
Beginning cash	36.8	122.6	151.2	183.6	213.7						
Ending cash	122.6	151.2	183.6	213.7	234.0						

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(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned
