

Malaysia Smelting Corporation Bhd

Started FY24 Within Expectation

Summary

- Broadly in-line.** Malaysia Smelting Corporation Bhd's (MSC) recorded 1QFY24 core net profit of RM18.3m (+66% QoQ, -48% YoY). Although the core PATMI amounting to 19% and 17% of ours and consensus estimates of RM95.4m and RM110.5m, respectively, we deem it is broadly within expectation as earnings could be back loaded following the recent rally in tin prices.
- QoQ/YTD.** In 1Q24, revenue dropped 10% to RM362.5m due to lower sales quantity of refined tin and lower smelting revenue, but the core PATMI jumped 66% to RM18.3m as higher average tin price of RM124.9k/MT (4Q23: RM116k/MT) was observed during the quarter. Also, the smelting arm recorded a net profit of RM9.9m due to favourable tin price movements and forex gains.
- YoY.** Revenue saw an increase of 7% as compared to 1Q23 due to higher average tin price. However, core PATMI plunged -48% mainly due to the absence of sale of refined tin derived from the processed tin intermediates and sale of by-products, and lower smelting revenue. Meanwhile, the tin mining segment recorded softer profit due to lower tin production quantity.
- Outlook.** MSC will be relocating entire smelting operations from Butterworth (will be decommissioned by 2025) to Pulau Indah and the group anticipates cost savings of up to 30% due to higher efficiency from lower operational and manpower costs, and its energy saving initiatives. Meanwhile, the subsidised tin ore supply disruption at Wa State, Myanmar, coupled with the Indonesian Government lifting restrictions on their tin export may bode well for the group.
- Tin price outlook.** We believe the LME 3-month Forward Tin price have turned more positive, trading above USD33k/MT at this moment after hovering sideways during Aug-Dec 2023. We expect the tin prices to have limited downside risk with the support from surging demand in EV and E&E industries as well as the rising adoption of solar energy on the path towards a greener environment.

Valuation & Recommendation

- Forecast unchanged.** As the core PATMI came in broadly in-line with our expectation, we keep our forecast unchanged.
- Upgrade to HOLD, with higher TP of RM3.40.** We upgrade to HOLD (from Sell) and revised the TP higher to RM3.40 (from RM1.82). Our TP is based on an assigned P/E of 15.0x (revised from 8.0x) pegged to its FY24f EPS of 22.7 sen. The 15x P/E is justified at a 30% discount to its 5Y average P/E 21.3x as we are in a commodity upcycle phase with rising investments in the EV, Solar and E&E and the recent China recovery. The ongoing supply constraints of tin ore in Indonesia and Myanmar and the highly correlated MSC price with tin price despite earnings volatility may drive the P/E elevated going forward.
- Risks to our recommendation** include the (i) volatility in the tin prices - which affect ASP and margins and (ii) forex fluctuation risk - given that the tin prices are traded in USD and MSC purchased most of their raw material from other miners.

Results Note – 1QFY24

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HOLD (from Sell)

Share price	RM3.20
Target price	RM3.41
Previous TP	RM1.82
Capital upside	6.4%
Dividend return	2.1%
Total return	8.5%

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)	1344.0
52W High/Low	3.47 / 1.91
Est. Free float (%)	44.9
Beta (x)	1.5
3-mth avg vol ('000)	1143.1
Shariah compliant	Yes

Major shareholders

Straits Trading Co Ltd	26.8
Straits Trading Amg	16.6
Sword Investments Pvt Ltd	5.1

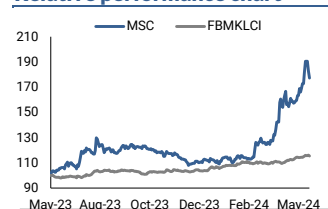
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	14.7	55.3	65.8
Relative	11.6	49.5	43.6

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	85.1	95.4	99.0
EPS (sen)	20.3	22.7	23.6
P/E (x)	15.8	14.1	13.6

Relative performance chart



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Quarterly Performance

FYE Dec (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	340.1	404.6	362.5	-10%	7%
EBIT	56.3	18.6	31.4	62%	-42%
PBT	51.6	42.2	27.5	92%	-47%
PAT	38.1	31.5	20.3	64%	-47%
Core PATMI	35.4	11.0	18.3	66%	-48%
Core EPS (sen)	8.4	2.6	4.4	66%	-48%
EBIT margin (%)	15%	4%	8%		
Core PATMI margin (%)	10%	3%	5%		

Source: Malacca Securities

Financial Highlights

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	1,076.6	1,503.6	1,435.7	1,426.0	1,491.9	Cash	122.6	152.3	264.2	333.6	409.5
EBITDA	181.4	171.6	153.2	161.4	166.7	Receivables	12.3	32.2	9.9	21.5	22.5
EBIT	169.3	160.9	140.3	147.9	153.1	Inventories	789.9	570.7	595.2	576.3	603.4
Net finance income/ (cost)	(15.4)	(16.8)	(12.3)	(15.8)	(16.3)	PPE	138.2	155.9	171.4	159.9	148.3
Associates & JV	4.4	(0.5)	0.7	-	-	Others	251.9	394.7	350.9	233.9	233.9
Profit before tax	158.4	143.6	128.6	132.1	136.9	Assets	1,314.9	1,305.9	1,391.6	1,325.1	1,417.6
Tax	(39.9)	(42.2)	(31.4)	(31.7)	(32.9)	Debts	456.3	337.9	359.8	360.6	377.6
Net profit	118.5	101.4	97.2	100.4	104.0	Payables	188.4	111.2	127.7	131.7	137.9
Minority interest	(0.4)	(3.1)	(12.2)	(5.0)	(5.0)	Others	89.5	79.3	87.7	11.9	11.9
Core earnings	118.1	98.3	85.1	95.4	99.0	Liabilities	734.2	528.4	575.2	504.2	527.4
Exceptional items	-	-	-	-	-	Shareholder's equity	580.4	719.2	754.1	820.9	890.2
Reported earnings	118.1	98.3	85.1	95.4	99.0	Equity	580.6	777.5	816.5	820.9	890.2
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	158.4	143.6	128.6	132.1	136.9	Core EPS (sen)	28.1	23.4	20.3	22.7	23.6
Depreciation & amortisation	12.0	10.7	12.9	13.5	13.6	P/E (x)	11.4	13.7	15.8	14.1	13.6
Changes in working capital	(116.0)	122.1	14.3	11.4	(21.9)	EV/EBITDA (x)	4.4	4.6	5.2	4.9	4.8
Taxation	(39.9)	(42.2)	(31.4)	(31.7)	(32.9)	DPS (sen)	1.0	7.0	14.0	6.8	7.1
Others	2.3	8.9	44.1	(45.3)	(8.0)	Dividend yield	0.3%	2.2%	4.4%	2.1%	2.2%
Operating cash flow	12.4	243.6	167.8	79.9	87.7	BVPS (RM)	1.38	1.71	1.80	1.95	2.12
Net capex	(8.7)	(24.9)	(2.0)	(2.0)	(2.0)	P/B (x)	2.3	1.9	1.8	1.6	1.5
Others	7.4	40.6	(6.4)	-	-	EBITDA margin	16.8%	11.4%	10.7%	11.3%	11.2%
Investing cash flow	(1.3)	15.7	(8.4)	(2.0)	(2.0)	EBIT margin	15.7%	10.7%	9.8%	10.4%	10.3%
Changes in borrowings	51.7	(118.4)	21.9	20.0	20.0	PBT margin	14.7%	9.6%	9.0%	9.3%	9.2%
Issuance of shares	72.9	(19.7)	8.7	-	-	Net margin	11.0%	6.5%	5.9%	6.7%	6.6%
Dividends paid	(4.0)	(29.4)	(58.8)	(28.6)	(29.7)	ROE	24.2%	15.1%	11.5%	12.1%	11.6%
Others	(37.9)	(63.0)	(17.2)	-	-	ROA	10.2%	7.5%	6.3%	7.0%	7.2%
Financing cash flow	82.7	(230.5)	(45.4)	(8.6)	(9.7)	Net gearing	0.57	0.26	0.13	0.03	CASH
Net cash flow	93.8	28.8	114.1	69.3	76.0						
Forex	(0.0)	(0.2)	(1.1)	-	-						
Others	(8.6)	1.1	(1.1)	-	-						
Beginning cash	37.5	122.6	152.3	264.2	333.6						
Ending cash	122.6	152.3	264.2	333.6	409.5						

Source: Malacca Securities

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As of **Monday, 27 May, 2024**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(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



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