

## Malaysia Smelting Corporation Bhd

### Recovery In Sight

#### Summary

- **1Q24 results recap; 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 our previous and consensus estimates, we believe the earnings will be back loaded with the elevated tin prices throughout the 1H2024.
- **Tin prices in 1H24...** Tin price has rebounded significantly and stayed resilient in 1H24. The average tin price was traded at USD24,666 during 4Q23, and it has increased to average tin price of USD26,397 (+7.0% QoQ) and USD32,325 (+22.5% QoQ) in 1Q24 and 2Q24, respectively.



- **...supply remains tight.** Supply of the metal, which is used in electronics, has been hit by the disruptions in Indonesia and Myanmar, where there are still uncertainty when Myanmar will resume their production.
- **Tin outlook.** We opine that the demand will be coming from the global improved semiconductor sales, where the sales rose 19.3% YoY and 4.1% MoM, based on the stats from Semiconductor Industry Association, driven by the electronic goods demand. Currently, 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 greener environment.

### Valuation & Recommendation

- **Forecast unchanged.** We keep our forecast unchanged as we believe the earnings may recover into 2H24.
- **Upgrade to Buy, with unchanged TP of RM3.40** as the share price has retraced from RM3.38 range towards the recent low point of RM2.48. Our TP is based on an assigned P/E of 15.0x 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 21.4x 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.

#### Company Update

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#### BUY (from Hold)

Share price	RM2.76
Target price	RM3.40
Previous TP	RM3.40
Capital upside	23.2%
Dividend return	2.5%
Total return	25.7%

#### 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)	1159.2
52W High/Low	3.47 / 1.95
Est. Free float (%)	44.9
Beta (x)	1.2
3-mth avg vol ('000)	1376.6
Shariah compliant	Yes

#### Major shareholders

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

#### Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-2.5	7.4	24.3
Relative	-2.1	4.0	6.3

#### 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)	13.6	12.2	11.7

#### Relative performance chart



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- **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.

## 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
<b>Profit before tax</b>	<b>158.4</b>	<b>143.6</b>	<b>128.6</b>	<b>132.1</b>	<b>136.9</b>	<b>Assets</b>	<b>1,314.9</b>	<b>1,305.9</b>	<b>1,391.6</b>	<b>1,325.1</b>	<b>1,417.6</b>
Tax	(39.9)	(42.2)	(31.4)	(31.7)	(32.9)	Debts	456.3	337.9	359.8	360.6	377.6
<b>Net profit</b>	<b>118.5</b>	<b>101.4</b>	<b>97.2</b>	<b>100.4</b>	<b>104.0</b>	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
<b>Core earnings</b>	<b>118.1</b>	<b>98.3</b>	<b>85.1</b>	<b>95.4</b>	<b>99.0</b>	<b>Liabilities</b>	<b>734.2</b>	<b>528.4</b>	<b>575.2</b>	<b>504.2</b>	<b>527.4</b>
Exceptional items	-	-	-	-	-	Shareholder's equity	580.4	719.2	754.1	820.9	890.2
<b>Reported earnings</b>	<b>118.1</b>	<b>98.3</b>	<b>85.1</b>	<b>95.4</b>	<b>99.0</b>	<b>Equity</b>	<b>580.6</b>	<b>777.5</b>	<b>816.5</b>	<b>820.9</b>	<b>890.2</b>
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	<b>Core EPS (sen)</b>	<b>28.1</b>	<b>23.4</b>	<b>20.3</b>	<b>22.7</b>	<b>23.6</b>
Depreciation & amortisation	12.0	10.7	12.9	13.5	13.6	P/E (x)	9.8	11.8	13.6	12.2	11.7
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%	2.5%	5.1%	2.5%	2.6%
<b>Operating cash flow</b>	<b>12.4</b>	<b>243.6</b>	<b>167.8</b>	<b>79.9</b>	<b>87.7</b>	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%
<b>Investing cash flow</b>	<b>(1.3)</b>	<b>15.7</b>	<b>(8.4)</b>	<b>(2.0)</b>	<b>(2.0)</b>	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%
<b>Financing cash flow</b>	<b>82.7</b>	<b>(230.5)</b>	<b>(45.4)</b>	<b>(8.6)</b>	<b>(9.7)</b>	<b>Net gearing</b>	<b>0.57</b>	<b>0.26</b>	<b>0.13</b>	<b>0.03</b>	<b>CASH</b>
<b>Net cash flow</b>	<b>93.8</b>	<b>28.8</b>	<b>114.1</b>	<b>69.3</b>	<b>76.0</b>						
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						
<b>Ending cash</b>	<b>122.6</b>	<b>152.3</b>	<b>264.2</b>	<b>333.6</b>	<b>409.5</b>						

Source: Malacca Securities

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As of **Tuesday, 09 Jul, 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

<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	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
<b>TRADING SELL</b>	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
<b>NOT RATED</b>	No recommendation is assigned



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