

COMPANY UPDATE

Malaysia Smelting Corporation (SMELT MK)

Tin Prices Soar: Supply Tightness To Drive Prices In 2024

MSC is poised for significant growth in 2024 as LME tin prices have soared 43% ytd, mainly due to ongoing supply constraints. Additionally, earnings are supported by enhanced production output and improved margins from its new eco-friendly plant. Based on our sensitivity analysis, every US\$1,000/mt change in our tin price assumptions would affect earnings by 6%. Upgrade 2024/25/26 earnings by 16%/23%/22% respectively. Maintain BUY. Target price: RM3.60.

WHAT'S NEW

- Expect sequentially stronger 1Q24 results.** Malaysia Smelting Corporation's (MSC) 1Q24 results are scheduled to be released tentatively in mid-May. We expect 1Q24 core earnings to come in at RM27m-29m (+91% to +95% qoq; -16% to -22% yoy) on the back of: a) sequentially stronger 1Q24 average LME tin prices of US\$26,195/tonne (vs 4Q23's average price of US\$24,705/tonne), b) similar cost structures, and c) higher utilisation rate from TSL furnaces. We expect MSC to register full-year core earnings of RM1,653m-1,827m (+54% to +60% yoy) on the back of higher LME tin prices and cost saving from the closing down of Butterworth plant.
- LME tin prices on the rise since 2024 (+43% ytd), mainly driven by supply disruption.** The autonomous northeastern state of Myanmar has suspended all mining activities in the Man Maw mine area since Aug 23 to protect the remaining mining resources. It is important to note that Myanmar's Wa region contributes approximately 10% of global tin production and accounted for 73% of China's refined tin imports in 2023. Coupled with delays in the renewal of export licenses for tin exports from Indonesia (19% of global tin supply) since Feb 24, this situation is expected to create near-term supply disruptions for tin. Additionally, M23 rebels' takeover of the mineral transport route between Masisi and Goma in Apr 24 will cause delays in tin shipment as shipments are rerouted to avoid rebel-controlled areas. Note that Alphamin Resources' Bisie mine, which represented 4.5% of global tin mine production in 2023, is located approximately 180km west of Goma. All these have led to current LME tin inventory of 4,200 tonnes (-45% ytd), which can only support global consumption for about four days.
- Expect a stronger 2024,** driven by enhanced production output in both the mining and smelting segments, alongside higher LME tin prices. MSC has increased its average daily mining output to approximately 10.3mt/day (up from 9.5mt/day in 2022). With the addition of a new mining area from ABSB, MSC is poised to surpass 12-13mt/day, potentially boosting earnings by around 12% in the next 2-3 years. On the smelting side, we expect improved utilisation rates post-rebricking exercise in Aug 23.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	1,503.6	1,435.7	1,721.0	1,885.9	1,967.4
EBITDA	173.8	158.8	253.7	293.9	319.5
Operating profit	163.1	145.9	237.4	277.5	303.1
Net profit (rep./act.)	98.4	85.0	128.2	151.2	167.5
Net profit (adj.)	104.3	84.8	128.2	151.2	167.5
EPS (sen)	24.8	20.2	30.5	36.0	39.9
PE (x)	9.2	11.3	7.5	6.4	5.7
P/B (x)	1.2	1.2	1.1	0.9	0.8
EV/EBITDA (x)	6.9	7.1	4.6	3.1	1.8
Dividend yield (%)	3.1	2.5	3.8	4.4	4.9
Net margin (%)	6.9	5.9	7.4	8.0	8.5
Net debt/(cash) to equity (%)	59.6	47.1	32.5	32.5	32.5
Interest cover (x)	6.9	8.2	11.4	11.4	11.4
ROE (%)	14.5	11.3	15.7	17.0	17.3
Consensus net profit (RM m)	-	-	128.2	151.2	167.5
UOBKH/Consensus (x)	-	-	1.0	1.0	1.0

Source: Malaysia Smelting Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.01
Target Price	RM3.60
Upside	+19.6%
(Previous TP)	RM2.75)

COMPANY DESCRIPTION

Leading integrated producer of tin metal and tin-based products and a global leader in custom tin smelting. The company is also involved in tin mining.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SMELT MK
Shares issued (m):	420.0
Market cap (RMm):	1,264.2
Market cap (US\$m):	264.7
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

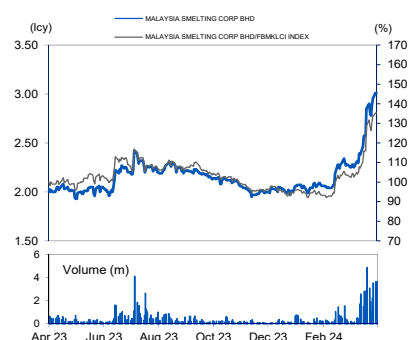
52-week high/low	RM3.01/RM1.93
1mth	32.0
3mth	49.8
6mth	39.4
1yr	48.3
YTD	48.3

Major Shareholders

The Straits Trading Company Ltd (STC)	26.8
Straits Trading Amalgamate	16.6
Sword Investments Private Limited	5.1

FY24 NAV/Share (RM)	1.91
FY24 Net Debt/Share (RM)	0.20

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ku Wei Xiang
 +603 2147 1916
 weixiang@uobkayhian.com

STOCK IMPACT

- Pulau Indah plant will help to improve its margin in 2024.** With full commission, MSC expects higher operational efficiency to boost its margin this year. As at end-Dec 23, the Pulau Indah plant had reached 100% capacity. It has 50% higher capacity, yielding an additional 20,000mt/year. The plant boasts production costs that are at least 20% lower than the old ones in Penang as it has better efficiency. Additionally, it also requires 45% lesser labour cost (from 550 to 300 employees). Higher average tin prices will help to partially offset the elevated production cost (energy, fuel, reductant, labour) amid the ongoing inflation. The intermediates now stand at around 5.2kmt and it will take about two years to complete the smelting. This will help to boost earnings going forward.
- Reducing reliance on imported ores.** The new mining technologies and the new tin resources from ABSB will help to contribute to the smelting operations, reducing reliance on imported tin ores and strengthening earnings as internal ores typically command higher margins. MSC's own tin ores from RHT typically contribute around 10% of the raw materials for its smelting activities while the other 90% comes from local artisanal miners and other countries. With the new mining technologies and the access to additional tin resources of at least 3,890mt, the contribution from internal tin ore consumption will further increase to 15-20% in next 1-2 years. With the latest tin price of US\$35,000/mt, the implied value for the combined new tin resources is around RM612.7m (US\$136.2.3m). The 3,890mt can be considered as a minimum deposit value as MSC will perform a more comprehensive valuation, which may translate to a higher value.
- Eco-friendly tin to enjoy higher demand.** There is an increasing awareness in the market regarding responsibly sourced tin, which will boost demand for "green tin". There is more demand from downstream customers for transparent ESG reporting. Based on a survey conducted by Assent, around 70% of consumers are willing to pay a "green premium" for responsibly sourced metal. This will benefit MSC as its new plant in Pulau Indah is equipped with 1.26MWp solar PV panels and a waste heat recovery function that will harness thermal energy from the furnace's flue gas to generate power. The use of natural gas and the new top submerged lance furnace will raise efficiency and reduce carbon emissions (by 1,000mt/year). To date, the solar panels have already yielded energy savings of 20%.

EARNINGS REVISION/RISK

- Upgrade 2024/25/26 earnings by 25%/23%/22% respectively,** mainly to account for higher assumption of tin prices (an increase of US\$2,000/tonne and US\$3,000/tonne to US\$29,000/tonne and US\$31,000/tonne vs Bloomberg consensus of US\$33,409/tonne and US\$35,063/tonne for 2024 and 2025 respectively).

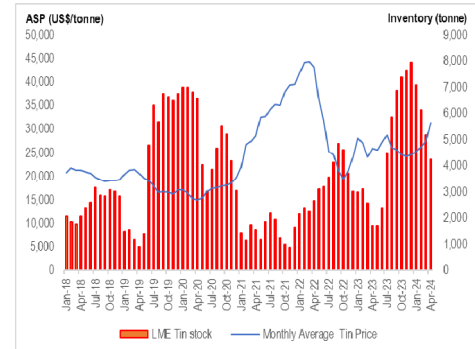
VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM3.60,** based on rolled over 10x 2025F PE (at its five-year mean PE). Based on our analysis, every US\$1,000/mt change in our tin price assumptions would affect earnings by about 6% a year in 2025.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental <ul style="list-style-type: none"> MSC is upgrading the mini hydro plant at RHT mine from 1.0MW to 5.00MW. The current 1.0MW mini hydro plant generates 19% of the Group's total energy needs.
Social <ul style="list-style-type: none"> In 2022, 93% of its total workforce were local Malaysians.
Governance <ul style="list-style-type: none"> The majority of MSC's board members are independent (four out of six board members).

TIN PRICES AND INVENTORY



Source: Bloomberg, UOB Kay Hian

KEY ASSUMPTIONS

Year to 31 Dec	2023	2024F	2025F
Production (mt)			
- Mining	2,598	2,837	3,042
- Smelting	20,722	25,531	28,275
ASP - Tin (US\$/mt)	25,900	29,000	31,000

Source: UOB Kay Hian

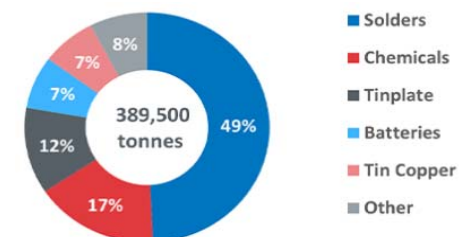
TOP REFINED TIN PRODUCERS (2023)

2023 Top 10 Refined Tin Producers

Company	2022	2023	YoY Change
1 Yunnan Tin* (China)	77,100	80,100	3.9%
2 Minsur** (Peru)	32,700	31,700	-3.1%
3 Yunnan Chengfeng (China)	20,600	21,800	5.8%
4 Malaysia Smelting Corp (Malaysia)	18,800	20,700	10.1%
5 PT Timah (Indonesia)	19,800	15,300	-22.7%
6 Guangxi China Tin (China)	10,900	12,000	10.1%
7 EM Vinto (Bolivia)	10,300	10,000	-2.9%
8 Jiangxi New Nanshan (China)	10,800	9,500	-12.0%
9 Aurubis Beerse (Belgium)	8,200	9,300	13.4%
10 Thaisarco (Thailand)	9,500	9,200	-3.2%

Source: ITA

TIN APPLICATIONS BY USAGE



Source: ITA, MSC

ABSB POTENTIAL MINING AREA



Source: MSC

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	1,436	1,721	1,886	1,967
EBITDA	159	254	294	319
Deprec. & amort.	(13)	(16)	(16)	(16)
EBIT	146	237	278	303
Total other non-operating income	(0)	-	-	1
Associate contributions	1	1	1	2
Net interest income/(expense)	(18)	(18)	(18)	(17)
Pre-tax profit	129	220	261	290
Tax	(31)	(62)	(73)	(81)
Minorities	12	30	37	41
Net profit	85	128	151	168
Net profit (adj.)	85	128	151	168

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	168	25	359	437
Pre-tax profit	129	220	261	290
Tax	(20)	(62)	(73)	(81)
Deprec. & amort.	14	14	14	14
Working capital changes	16	(148)	156	212
Other operating cashflows	29	-	1	2
Investing	(8)	(16)	(16)	(13)
Capex (growth)	(15)	(15)	(15)	(15)
Capex (maintenance)	(1)	(1)	(1)	(1)
Investments	6	-	-	1
Proceeds from sale of assets	-	-	-	1
Others	2	-	-	1
Financing	(45)	(77)	(84)	(85)
Dividend payments	(67)	(36)	(43)	(47)
Issue of shares	-	-	-	1
Proceeds from borrowings	33	(30)	(30)	(28)
Loan repayment	(11)	(11)	(11)	(11)
Others/interest paid	2	3	4	5
Net cash inflow (outflow)	114	(69)	259	339
Beginning cash & cash equivalent	151	264	195	454
Changes due to forex impact	(1)	-	-	-
Ending cash & cash equivalent	264	195	454	793

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	171	223	224	225
Other LT assets	312	291	312	331
Cash/ST investment	264	195	454	793
Other current assets	644	880	745	542
Total assets	1,392	1,589	1,736	1,892
ST debt	318	288	258	230
Other current liabilities	135	236	266	276
LT debt	42	31	20	9
Other LT liabilities	80	121	162	220
Shareholders' equity	754	816	888	967
Minority interest	62	93	129	170
Total liabilities & equity	1,392	1,585	1,723	1,871

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	11.1	14.7	15.6	16.2
Pre-tax margin	9.0	12.8	13.8	14.7
Net margin	5.9	7.4	8.0	8.5
ROA	6.1	8.1	8.7	8.9
ROE	11.3	15.7	17.0	17.3
Growth				
Turnover	(4.5)	19.9	9.6	4.3
EBITDA	(8.6)	59.8	15.8	8.7
Pre-tax profit	(10.4)	71.1	18.6	11.0
Net profit	(18.7)	51.1	18.0	10.8
Net profit (adj.)	(18.7)	51.1	18.0	10.8
EPS	(18.7)	51.1	18.0	10.8
Leverage				
Debt to total capital	(25.9)	(20.1)	(16.0)	(12.6)
Debt to equity	(47.7)	(39.1)	(31.3)	(24.7)
Net debt/(cash) to equity	12.7	15.1	(19.9)	(57.3)
Interest cover (x)	8.1	12.9	15.7	18.3

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