

23 February 2022

Malaysia Smelting Corp

Riding On the Commodity Rally

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INVESTMENT MERIT

MSC, the world's largest toll smelter, is riding on the current commodity rally, which saw both its earnings and share price escalating to all-time highs. Given the persistent supply-demand imbalance, the record tin prices of >USD44,000/MT are likely to stay elevated in the near future. Together with its Tin Mining unit going for secondary mining which will boost volume, and the efficient new Pulau Indah Plant, MSC is likely to see another record FY22. Trading Buy with a FV of RM5.55.

All-time high share price. After we issued a Not Rated report on Malaysia Smelting Corporation Bhd (MSC) less than six months ago, the last September, its share price had surged nearly doubling to an all-time high of RM4.69 yesterday. This was largely thanks to skyrocketing tin prices which jumped 38% to a record high of USD44,140/MT last Friday, which is also in line with other commodity rallies as supply-balance imbalance persists. In 2021, MSC's share price soared 91% as against 128% in tin prices.

Record earnings in FY21. Last Friday, MSC reported 4QFY21 net profit which surged 121% sequentially to the best ever quarterly earnings of RM64.1m from RM28.9m in 3QFY21, as tin prices grew 12% to an average of USD37,815/MT from USD33,779/MT. YoY, 4QFY21 earnings jumped 3-fold from RM14.9m as average tin price doubled from USD18,817/MT. This brought FY21 to a record net profit of RM118.1m from RM15.2m in FY20 as average tin price leapt 82% to USD31,145/MT from USD17,107/MT the year before.

Tin mining led earnings. The rising tin prices have tremendously benefited MSC especially its Tin Mining segment which saw its PAT rising 52% sequentially to RM44.1m in 4QFY21 with profit margin improving further to 42% from 37% in 3QFY21. In comparison to 4QFY20, the PAT margin was only 13%. This implied that the tin price has significant impact to MSC earnings. Going forth, MSC will also be going for secondary mining to boost volume. On the other hand, MSC also registered higher production volume as the new Pulau Indah Plant posted 75% utilisation while the Butterworth Plant was running at 67% capacity. This also helped to push MSC's earnings higher.

FY22 likely to be another record year. With supply of tin expected to remain tight, especially from Indonesia, China and Myanmar with elevated demand still rising due to usage such as in the EV segment, tin prices are expected to remain high in the near future. Based on consensus median forecast by Bloomberg, at 2022/2023 tin prices of USD34,750-32,438/MT, our FY22/FY23 profit projections will be RM176.4m/RM206.7m. On the other hand, based on forward in prices of USD43,785-43,277/MT, FY22/FY23 projection will raise further to RM246.7m/RM310.9m.

Riding on the commodity rally. We believe MSC will continue to benefit from tin price which will remain elevated in the near term given the supply-demand imbalance. Thus, MSC's share price will ride on the commodity rally wave. At 11x FY22E forward earning which is the peers' average, MSC is valued at RM4.62 based on consensus tin price forecast while at forward tin price, it is priced at RM6.48.

In view of strong price prospects, **we believe MSC should be valued at RM5.55** which is the mean of these fair values above. As such, investors who are having the view of sustainable tin prices should consider a **Trading Buy** stance.

Last Price: RM4.69

	Rating	Fair Value
Kenanga	Trading Buy	RM5.55
Consensus	N/A	N/A

Stock Information

Shariah Status	No
Stock Name	Malaysia Smelting Corp Bhd
CAT Code	5916
Industry	Commodity
Industry Sub-sector	Tin Mining & Smelting
YTD stock price chg	44.31%
Market Cap (RM m)	1,969.80
Issued shares (m)	420.00
52-week range (Hi)	4.70
52-week range (Low)	1.74
3-mth avg daily vol:	1,131,163
Free Float	44.2%
Beta	1.03
Altman's Z-score	2.54

Major Shareholders

Straits Trading Co Ltd	26.8%
Straits Trading Amalgamate	16.6%
Sword Investments Private Limited	5.1%

Financials

FY Dec (RM m)	2020A	2021E	2022E
Revenue	1,076.6	1,350.0	1,324.2
EBITDA	185.1	277.0	304.2
Profit Before Tax	158.4	238.0	264.5
Net Profit	118.1	176.4	206.7
EPS (sen)	28.1	42.0	49.2
BV/Share (RM)	1.3	1.6	2.0
PER (x)	8.5	5.7	4.8
P/B (x)	1.8	1.5	1.2
Net Gearing (x)	0.40	0.58	0.25
DPS (sen)	7.0	10.5	12.3
Div Yield (%)	2.9	4.4	5.2

Quarterly Financial

Data (RM m)	2Q21	3Q21	4Q21
Revenue	327.1	218.5	256.1
PBT/(LBT)	4.1	38.9	85.2
Net Profit	2.9	28.9	64.1
Basic EPS (sen)	0.7	6.9	15.3
Revenue Growth (QoQ)	18.6%	-33.2%	17.2%
EPS growth (QoQ)	-87%	888%	121%
Net Margin (QoQ)	0.9%	13.2%	25.0%

Peers Comparisons	PER (FY22E)	Div. Yld (%)	Mkt Cap (USD m)
Yunnan Tin (China)	14.4	N/A	6,313
PT Timah (Indonesia)	11.4	2.8	746
Minsur SA (Peru)	9.1	N/A	4,450
Average	11.5	2.8	

Daily Charting – Malaysia Smelting Corporation



Comment: After hitting a trough of RM1.74 in end-June 2021, the stock has been on an uptrend, forming higher lows and higher highs to plot an ascending channel. Recently, the stock gapped up with a long candlestick to break out from the price channel, which indicates strong buying momentum for the stock. From a technical viewpoint, while the rising MACD and Parabolic SAR indicators suggest the uptrend remains intact, a consolidation phase may set in first as the stock has entered into an overbought position (based on the prevailing RSI reading). Should the bullish momentum resume thereafter, its resistance levels can be found at RM5.29 (R1) and RM6.29 (R2). Conversely, downside support can be found at RM4.18 (S1) and RM3.68 (S2).

About the stock:

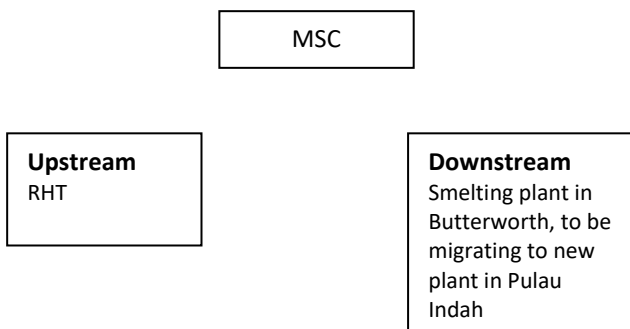
Name : Malaysia Smelting Corp Bhd
Bursa Code : MSC
CAT Code : 5916

Key Support & Resistance level

Resistance : RM5.29 (R1) RM6.29 (R2)
Support : RM4.18 (S1) RM3.68 (S2)
Outlook : Positive

Source: Kenanga Research

CORPORATE STRUCTURE



BUSINESS OVERVIEW

Started as a smelting plant in Butterworth since 1902, MSC is the world's largest toll smelter, smelting third party tin concentrates from all over the world. It is replacing its aging reverberation furnaces, upgrading its smelting technology via relocating to a new and modern plant in Pulau Indah. This will increase its smelting capacity to 60,000 MTPA from 40,000 MTPA currently. On the other hand, through RHT which was acquired in Nov 2004, MSC owns the country's largest open-pit alluvial tin mine, Rahman Hydraulic Tine Mine, located in Pangkalan Hulu, Perak.

BUSINESS SEGMENTS

MSC business are segmented into upstream tin mining through RHT and downstream smelting plant which is in the midst of migrating from Butterworth plant to new facility in Pulau Indah.

Consensus Forecast									
Export Disclaimer		Commodity Price Forecasts							
Contributor Name		Contributor Composite						Browse	
Category	Metals	As of	02/21/22	Ticker Type	Actual				
Overview		Curve Analysis							
	Spot	Q1 22	Q2 22	Q3 22	Q4 22	2022	2023	2024*	
9) Lead \$/mt	2349	2346	2347	2326	2309	2332	2269	2193	
Forecast (Median)		2300	2198	2137	2083	2150	2063	2175	
Diff (Median - Curr)		-46	-148	-189	-227	-182	-206	-18	
10) Steel-Hot R. \$/ST	1060	1124	962	950	943	995			
Forecast (Median)		1374	1238	1138	1075	1205	975	1000	
Diff (Median - Curr)		+249	+275	+187	+132	+210			
11) Tin \$/mt	44140	43559	44095	43863	43617	43785	43277		
Forecast (Median)		37000	34750	34154	33000	34750	32438	30875	
Diff (Median - Curr)		-6559	-9345	-9709	-10617	-9035	-10839		
12) Uranium \$/lb									
Forecast (Median)									
Diff (Median - Curr)									
13) Cobalt \$/lb	34.60								
Forecast (Median)		31.25	30.10	28.96	27.81	29.53	29.48	28.39	
Diff (Median - Curr)									
14) Rhodium \$/oz	18250								
Forecast (Median)									
Diff (Median - Curr)									
15) Iron Ore Fines62% Fe spot USD/MT	137.70	133.32	128.29						
Forecast (Median)		120.00	102.00	90.00	85.40	98.00	81.75	82.00	
Diff (Median - Curr)		-13.32	-26.29						

Source: Bloomberg

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