

Stock Digest

Tuesday, 07 Jun, 2022

Malaysia Smelting Corporation Bhd

Tin mining expansion

Summary

- Malaysia Smelting Corporation Bhd's (MSC) wholly owned subsidiary, Rahman Hydraulic Tin Sdn Bhd (RHT) has proposed to acquire the entire equity stake in Asas Baiduri Sdn Bhd (ABSB). The proposed acquisition will see RHT issuing 272,250 new ordinary shares and of that, 250,000 new ordinary shares in RHT, representing 20.0% stake in the enlarged share capital of RHT will be sold to ABSB. Following the completion of the corporate exercise, RHT will cease to be wholly owned subsidiary of MSC and instead will be 80.0% owned by the latter with the remainder to be held by ABSB.
- The proposed acquisition of ABSB will enable RHT to (i) construct additional tailings ponds or storage and waste rock storage on ABSB's land, (ii) expand existing mining pit in Hulu Perak further eastward so that RHT will be able to mine additional tin resources within its own land and (iii) mine the tin resources within ABSB's land. The proposed acquisition is expected to be completed by 3Q22.
- We gather that ABSB is principally engaged in the business of mining and related activities. The company has been granted a mining lease over a parcel of land (which is adjacent to RHT land) measuring approximately 568.4-ha for a lease period of 21 years, commencing from 8th June 2012 until 7th June 2033.
- Upon completion of the proposed acquisition, RHT is expected to expand its current mine pit eastward to ABSB Land, which in turn is expected to allow RHT to mine additional resources with inferred tin resources of 2,690 tonnes. The move will beef up RHT's contribution of 3,428 tonnes of gross tin ores in FY21 (representing more than 10.0% of the raw material) to the tin smelting activities.
- Although tin prices have softened in recent months, we reckon that tin prices to remain above the pre-pandemic levels on the back of (i) robust demand in industrial usage such as electric vehicles (EV), solar panels and electronic devices, (ii) supply chain disruptions due to port congestions and (iii) persistently high inflationary pressure in commodity prices due to unresolved Russia-Ukraine tension. We re-affirmed our expectations that tin prices to average around USD30,000/MT over the foreseeable future.

Valuation & Recommendation

- Although there would be a dilution effect from the divestment of 20.0% stake in RHT, we expect a net positive earnings impact from boost of the tin mining business segment. Therefore, we raised our earnings forecast by 5.0-18.0% to RM 174.9m, RM203.0m and RM208.3m for FY22f-FY24f.
- We retained our **BUY** recommendation on MSC, but with a lower unchanged target price of RM4.83 (from RM5.36) as we assigned a lower PER of 10.0x (from 13.0x) to its revised FY23f EPS of 48.3 sen. The downward revision in target PER is to reflect the softening tin prices which we cut our assumption to USD30,000/MT (from USD35,000MT) in both FY23f and FY24f.

Company Update

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BUY

Share price	RM3.63
Target price	RM4.83
Previous TP	RM5.36
Capital upside	33.2%
Dividend return	3.0%
Total return	36.2%

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)	1,524.0
52W High/Low	5.46 / 1.74
Est. Free float	44.9
Beta	1.1
3-mth avg vol ('000)	1,450.2
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 (%)

	1M	3M	12M
Hist. return			
Absolute	-16.9	-27.8	62.2
Relative	-15.5	-24.7	73.3

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	118.1	174.9	203.0
EPS (sen)	28.1	41.7	48.3
P/E (x)	12.9	8.7	7.5

Relative performance chart



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- We believe that the proposed acquisition will be earnings accretive over the long run, in view of the elevated tin prices and will solidify MSC position as one of the largest tin producers in the world. We also continue to favor MSC that position as the world's largest custom toll smelter.
- 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)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	813.4	1,076.6	1,599.8	2,050.8	2,130.9	Cash	37.5	122.6	180.1	286.3	358.0
EBITDA	60.0	181.4	272.0	338.4	346.3	Receivables	25.6	11.8	21.9	28.1	40.9
EBIT	42.8	169.3	256.8	322.6	329.4	Inventories	604.1	789.9	917.2	1,175.7	1,221.6
Net finance income/ (cost)	(14.8)	(15.4)	(17.1)	(16.0)	(14.9)	PPE	216.6	216.9	225.7	240.7	255.8
Associates & JV	(4.3)	4.4	4.0	5.1	5.3	Others	110.7	173.8	170.5	209.1	245.9
Profit before tax	24.2	158.4	243.7	311.7	319.9	Assets	994.5	1,314.9	1,515.4	1,939.8	2,122.2
Tax	9.5	39.9	63.4	81.0	83.2	Debts	410.4	460.7	449.2	438.0	427.0
Net profit	14.7	118.5	180.4	230.7	236.7	Payables	133.1	188.4	213.4	197.8	263.9
Minority interest	(0.5)	0.4	5.4	27.7	28.4	Others	57.7	85.1	81.9	376.3	341.5
Core earnings	15.2	118.1	174.9	203.0	208.3	Liabilities	601.2	734.2	744.5	1,012.1	1,032.5
Exceptional items	-	-	-	-	-	Shareholder's equity	364.5	371.7	522.9	655.9	812.7
Reported earnings	15.2	118.1	174.9	203.0	208.3	Minority interest	(0.2)	0.2	57.5	57.5	57.5
						Equity	393.3	580.6	770.9	927.7	1,089.8
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	24.2	158.4	243.7	311.7	319.9	Core EPS (sen)	3.6	28.1	41.7	48.3	49.6
Depreciation & amortisation	17.1	12.0	15.2	15.8	16.8	P/E (x)	100.5	12.9	8.7	7.5	7.3
Changes in working capital	(137.5)	(92.7)	160.4	261.0	136.5	DPS (sen)	2.0	7.0	10.0	11.0	11.0
Share of JV profits	-	-	-	-	-	Dividend yield	0.6%	1.9%	2.8%	3.0%	3.0%
Taxation	(5.1)	(8.1)	(9.0)	(14.3)	(17.9)	BVPS (RM)	0.94	1.38	1.84	2.21	2.59
Others	15.5	(16.5)	(20.0)	(20.0)	(20.0)	P/B (x)	3.9	2.6	2.0	1.6	1.4
Operating cash flow	(106.4)	12.4	249.3	468.6	303.2	EBITDA margin	7.4%	16.8%	17.0%	16.5%	16.3%
Net capex	(14.7)	(8.7)	0.3	8.8	15.0	EBIT margin	5.3%	15.7%	16.1%	15.7%	15.5%
Others	(1.1)	(0.5)	-	-	-	PBT margin	3.0%	14.7%	15.2%	15.2%	15.0%
Investing cash flow	(15.8)	(9.2)	0.3	8.8	15.0	PAT margin	1.8%	11.0%	11.3%	11.2%	11.1%
Changes in borrowings	131.4	49.5	(50.0)	(125.0)	(100.0)	Core PAT margin	1.9%	11.0%	10.9%	9.9%	9.8%
Issuance of shares	-	-	-	-	-	ROE	3.9%	20.3%	22.7%	21.9%	19.1%
Dividends paid	(8.0)	(4.0)	(42.0)	(46.2)	(46.2)	ROA	1.5%	9.0%	11.5%	10.5%	9.8%
Others	-	37.2	(100.0)	(200.0)	(100.0)	Net gearing	94.8%	58.2%	34.9%	16.4%	6.3%
Financing cash flow	123.4	82.7	(192.0)	(371.2)	(246.2)						
Net cash flow	1.1	85.8	57.6	106.2	72.0						
Forex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)						
Others	-	-	-	-	-						
Beginning cash	35.7	36.8	122.6	180.1	286.3						
Ending cash	36.8	122.6	180.1	286.3	358.0						