MSC sees Pulau Indah smelting plant as game changer

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MALAYSIA Smelting Corp Bhd (MSC) is making a strategic bet on its new international smelting plant in Pulau Indah near Klang, Selangor.

According to chief executive officer Datuk Patrick Yong, the Pulau Indah facility represents a huge game changer for the global tin mining and smelting group, which is also the world's third largest tin metal supplier.

"The new plant is an engineering feat for MSC as we will be the first in the world to convert a smelter, which was previously used for smelting lead, for the purposes of smelting tin," he adds.

MSC's total investment cost for the Pulau Indah facility is about RM130mil, of which RM50mil is for the plant purchase and RM80mil for the refurbishment work.

"This is compared to building a brand new plant, which would have cost around RM250mil for the group," Yong points out.

Equipped with cutting-edge extractive technology using the Top Submerged Lance (TSL) furnace, the Pulau Indah facility will see significant improvement in reaction and production rates.

He tells *StarBizWeek* that "with this upgrade, MSC aim to be a leader in the space of innovative extractive technology for tin as it will put us on the global map as one of the most modern and cost-efficient tin smelters in the world."

"We have started small scale testing and refinery works earlier this year and target to commence smelting works there in the second half of 2019".

"Initially, MSC will operate both its smelting plants in Butterworth, Penang and Pulau Indah, Klang in parallel until the new smelter reaches a stable and steady state, which is expected to be in 2020," explains Yong.

As an integrated tin producer, MSC's core operations comprise both upstream and downstream activities of the tin value chain through the group's international tin smelting business, and local tin mining operations under Rahman Hydraulic Tin Sdn Bhd (RHT) in Perak.

Despite a challenging business climate in 2017, MSC remained resilient and for the first time in ten years, reported a profitable set of financial results for two consecutive years.

"The current financial year FY2018 will be impacted by higher costs due to the duplication of operating expenses as MSC is running both plants in Butterworth and Pulau Indah concurrently.

"However, we expect the group's performance to gradually improve as we phase out production at the Butterworth smelter and commence production at the Pulau Indah plant," adds Yong.

Having said that, tin prices have held up well so far in 2018 at an average price of US$20,922 per tonne for the first six months of 2018, according to Kuala Lumpur Tin Market (FY2017: US$20,036 per tonne).

Smelting operations

For the next few years, Yong says MSC will focus on consolidating the group's smelting operations and executing its rationalisation measures to optimise cost and operational efficiencies.

"As such, we look forward to the completion of the technology upgrade at the Pulau Indah facility.

"Once the new smelter at Pulau Indah is fully commissioned, we expect to see improvement in terms of our yields, costs and environmental impact."

This will allow MSC to scale up its production capacity by 50% from 40,000 tonnes to 60,000 tonnes per annum using oxygen enrichment of the fuel without incurring additional capex.

The TSL furnace is also able to treat a larger volume of feed materials with increased reaction rates. There will be improvement in cost efficiencies with lower labour costs.

"We also expect to cut manpower by 40% as the TSL furnace requires a smaller number of personnel to manage the process. The usage of natural gas as fuel will also drive cost down as it is cheaper," adds Yong.

In addition, MSC intends to establish a research and development centre in Pulau Indah for the study and analysis for new

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Yong: MSC's debt level has gone down

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downstream applications and usages of tin.

On analysts' growing concern over MSC's increasing debt levels, he points out that the increase in borrowings is due to the drawdown of additional short-term trade facilities for working capital purposes as well as the commissioning of the Pulau Indah facility.

Yong further adds that "as at March 31 this year, MSC's gearing level has improved to 1.4 times from 1.6 times as at Dec 31, 2017. Our total borrowings has decreased by 6.3% to RM424.5mil due to lower utilisation of short term financing facilities.

"We believe that the group's gearing of 1.4 times is still manageable and will be supported by MSC's future prospects".

Currently, MSC is exploring new tin mine deposits within its mining leases to ensure the sustainability of tin ore supply for smelting operations.

He notes that "We plan to increase the tin ore intake from our own mines, instead of acquiring from third parties to 30% from the current 5%".

Starting last month, RHT had successfully achieved an extra 6%-7% additional output at the current site and expects this to further increase by another 15%-20% over the next few years by deploying additional equipment to supplement the existing ones.

Positive tin demand

Moving forward, MSC expects demand for tin to be positive on the back of new discoveries on tin applications in the semiconductor and battery markets.

A key growth area is the usage of tin in energy-related technologies, especially lithium-ion batteries, which can increase the energy storage capacity of the battery and enable a faster charging rate.

Meanwhile, MSC also anticipate a shortfall in tin ore supply as more governments impose stricter environmental regulations. "This increase in demand and shortfall in supply is expected to sustain and perhaps even improve tin prices further.

"Stricter environmental regulations remain a challenge for us as it leads to a constrain in global tin ore supply.

"However, we are continuously exploring new tin ore mines to ensure a continuous supply for our smelter input."

Another challenge is the volatile currency fluctuations. Although tin prices in the first quarter of 2018 rose in US dollar terms, tin prices were actually lower in ringgit terms due to the strengthening of the ringgit against the greenback.

"However, our exposure is minimal as we transact in US dollar for purchasing and selling, creating a natural hedge. The residual risks are managed by entering into forward currency contracts to mitigate against the currency fluctuations," adds Yong.

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