Short-term pain, long-term gain for MSC

BY LIEW JIA TENG

CEO Datuk Dr Patrick Yong Mian Thong may be bullish about Malaysia Smelting Corp Bhd's long-term prospects but he warns that its financials will remain weak in the next two years. That is because it is relocating its sole smelting plant in Butterworth, Penang, to Pulau Indah in Selangor.

Over the last decade, the century-old tin mining and smelting group reported five years of losses, totalling nearly RM300 million, and five years of profits, amounting to RM200 million. It suffered losses in 2008, 2010, 2012, 2014 and 2015, and made a profit in 2009, 2011, 2013, 2016 and 2017. In contrast, it enjoyed 14 straight years of profitability after it was listed on Bursa Malaysia in 1994.

"The main challenge for us is to run two smelters in parallel, with only one generating revenue. This doubling of operating expenses will affect our bottom line, assuming that our revenue remains the same," Yong tells *The Edge*.

"There is no gain without pain. We have to expect this [higher expenditure] for the next 18 months to two years. By then, we should be able to see the pot of gold at the end of the rainbow," he says.

MSC is one of the world's largest integrated producers of tin metal and tin-based products, as well as a global leader in custom tin smelting.

In a move to optimise cost and operational efficiencies, the group is in the midst of upgrading its smelting technology to cutting-edge extractive technology using the top submerged lance (TSL) furnace at the new Pulau Indah smelter.

Yong: Being the CEO, I suppose I have the biggest insight into the company's businesses. If you find me buying shares, what does it say?

Small-scale testing and refinery works started early this year, but the actual smelting works will only commence in the second half of next year.

Yong says MSC will operate both smelting plants concurrently until operations at the Pulau Indah smelter stabilise sometime in 2020.

By then, the group should be able to show positive results in terms of higher recovery yields, improved operational efficiencies and lower manpower costs.

"We expect performance to gradually improve once the Pulau Indah facility is fully operational as we commence production there and phase out production at the Butterworth plant," says Yong.

The investment cost for the new smelting facility is about RM130 million — RM50 million for the purchase of the plant and RM80 million for refurbishment.

According to MSC's latest annual report, the estimated depreciation schedule for plant, equipment and vehicles is between three and 40 years.

As the TSL furnace has the capacity to treat a larger volume of feed materials with increased reaction rates, the Pulau Indah plant will allow MSC to scale up its production capacity by 50%, from 40,000 tonnes to 60,000 tonnes a year.

MSC is a subsidiary of The Straits Trading Co Ltd (STC) of Singapore and is dual-listed on the Main Market of Bursa Malaysia and the Mainboard of Singapore Exchange.

STC is a member of the Tecity Group, which was founded by the late Tan Sri Dr Tan Chin Tuan, a philanthropist and banker who nurtured Oversea-Chinese Banking Corp Ltd (OCBC) into one of the world's soundest banks in the 1980s.

STC was co-founded in 1887 by Scottish businessman James Sword and German entrepreneur Herman Muhlinghaus to smelt tin. Its operations were eventually carried out by MSC.

"Today, very few people know about tin smelting. This is not something that you can start today, stop tomorrow, and then restart production the day after tomorrow as you like. If the equipment is not being used, it will start to rust. It is a very high-barrier-to-entry and labour-intensive business," Yong explains.

It is interesting to note that MSC is setting up a research and development (R&D) centre in Pulau Indah to study and analyse new applications and uses of tin.

"Tin can is known as tin can because the metal is used to line cans for food and beverages. But today, modern technology has found many other uses for tin. You will be surprised to find it in plastics, solar panels, semiconductors, jewellery, cosmetics and medicines," says Yong.

However, it is the automotive and battery industries that will boost the demand for tin in the years to come.

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CEO mopping up shares

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Yong points out that the modern lithium-battery can be charged very quickly by using tin as an additive.

With many experts predicting that the combustion engine is reaching the end of the road and that electric vehicles will become the future of road transport, the demand for batteries will support the tin industry.

"When that day comes, I will be very surprised if tin does not become a glorious industry," says Yong.

"Not to mention, we will be seeing more robotics, electronics, modern communications and artificial intelligence in the future. Think about it — without tin, you can't join one component to another. Even if you can, it is going to be very costly."

It is worth noting that Yong, 66, who was appointed CEO on Oct 7, 2016, has been mopping up MSC shares over the past two months.

"The easiest way for laymen to know whether it is worthwhile to buy a stock or not is to pay attention to whether the CEO is buying it or not. Obviously, I have been continuously buying shares in small volumes. Whatever little that I can afford, I just pick them up," says Yong, who was CEO of Yokohama Industries Bhd from 2010 to 2015.

Bursa Malaysia filings show that he bought 20,000 shares in October, and 48,800 shares in November. He now owns 258,800 MSC shares.

"Being the CEO, I suppose I have the biggest insight into the company's businesses. If you find me buying shares, what does it say? Personally, I have a lot of confidence in this company. The industry's prospects and business outlook are tremendous," he says confidently.

Year to date, MSC's share price has dropped 15% to close at 71 sen last Friday, giving it a market capitalisation of RM284 million.

For the nine months ended Sept 30, 2018 (9MFY2018), MSC saw its net profit decline 36% to RM18.7 million from RM29.3 million a year ago, mainly due to higher operating expenses and production costs. Earnings were also impacted by the appreciation of the ringgit against the greenback, which offset the higher tin prices in US dollar terms.

On the Kuala Lumpur Tin Market (KLTM), average tin prices were marginally higher at US$20,380 per tonne in 9MFY2018, as compared with US$20,128 per tonne in 9MFY2017. E

SUMMARIES

CEO Datuk Dr Patrick Yong Man Thong maybe bullish about Malaysia Smelting Corp Bhd's long-term prospects but he warns that its financials will remain weak in the next two years. That is because it is relocating its sole smelting plant in Butterworth,Penang,to Pulau Indah in Selangor.Over the last decade, the century-old tin

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