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The rise and rise of tin prices

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BY **SUPRIYA SURENDRAN**

One of the oldest commodities, tin is enjoying a revival in popularity at the moment.

Over the past seven months, the commodity has gained 22%, with average monthly prices shifting from US$15,110 per tonne in May to US$18,433 in November, according to data from the Kuala Lumpur Tin Market.

As at last Thursday, it was trading at US$19,430 per tonne.

International Tin Association market analyst James Willoughby says demand recovery for tin in recent months has been driving up prices.

"This recovery has been primarily in China, although we are beginning to hear more positive news out of Europe as well," he tells *The Edge*.

Earlier, the Covid-19 pandemic had caused the closure of smelters in Asia and South America, but production has now resumed and at above-normal levels to catch up with annual targets.

"Initially, global demand for tin declined sharply as consumers, particularly in Europe, were unable to shop for new electronics, cars and houses — the central pillars of the tin market. In our annual survey of tin consumers, which takes place in the second quarter, it was estimated that global tin demand would decline by around 6%.

"However, the work-from-home movement in Europe and the US, particularly, has seen consumers purchasing more electronics in order to get online. Furthermore, being unable to travel and spending more time at home, consumers became more interested in improving their home electronics, including white goods. This is a major solder-using area, and in China, [demand] has been growing by more than 20% in recent months.

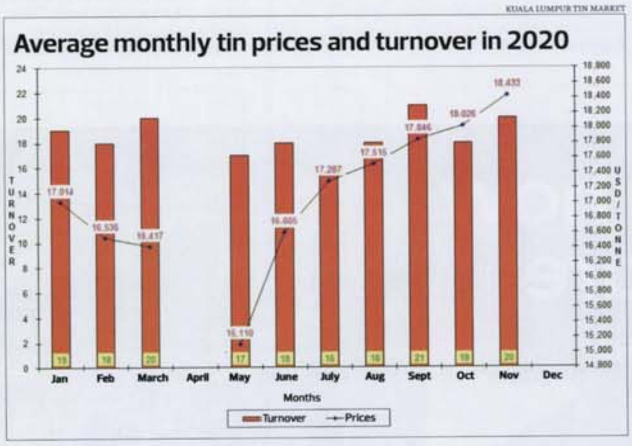
"While these positives won't completely recover the lost demand this year, we do expect them to carry into 2021," Willoughby says.

He adds that China remains the world's largest consumer of tin, and that demand for the commodity is expected to decline by less than 1% this year because of resurgent demand in the second half of the year.

SAM FONG/THE EDGE

"We are optimistic that 2021 will be a better year for MSC as we ramp up our smelting production at Pulau Indah, and increase our tin mining production at our Rahman Hydraulic Tin mine and our new tin mine at Sungai Lembing, Pahang." — Yong

KUALA LUMPUR TIN MARKET



Impact on companies

Malaysia Smelting Corp Bhd (MSC), the third largest refined tin producer in the world, says the rise in tin prices will positively impact its tin mining segment. Its subsidiary, Rahman Hydraulic Tin Sdn Bhd, owns and operates the country's largest hard rock open-pit mine, located at Pengkalan Hulu in Perak.

The tin ore is extracted from the earth, then processed into tin concentrates to be utilised as raw material to support its smelting operations.

"Our tin smelting division will also benefit with increased supply of tin concentrates as more tin mines around the world will start mining due to high tin prices," MSC CEO Datuk Dr Patrick Yong tells *The Edge*.

Tin smelting activities are performed at the group's facility in Butterworth, Penang, which has been operational since 1902. The group is in the midst of relocating its full smelting operations from Butterworth to Pulau Indah, Klang.

"We are already carrying out partial small-scale smelting activities at the Pulau Indah smelter and have commenced operations for refining and smelting activities using the rotary furnace.

"We are still fine-tuning and undergoing

control calibrations of the Top Submerged Lance (TSL) furnace and expect the TSL furnace to commence smelting operations by 1Q2021 albeit at approximately 25% capacity before being ramped up gradually to higher capacity by the end of 2021," says Yong.

Once all functions at the Pulau Indah smelter are running at a steady state, it may take up to a year for MSC to gradually phase out production at its Butterworth smelter, he adds.

"Although running both smelters would increase operating costs, this will give confidence to our customers on the security of supply. We are optimistic that 2021 will be a better year for MSC as we ramp up our smelting production at Pulau Indah, and increase our tin mining production at our Rahman Hydraulic Tin mine and our new tin mine at Sungai Lembing, Pahang."

MSC has increased daily average production of its tin ore at the Rahman Hydraulic Tin mine from approximately 8,000kg to around 10,500kg. Mining activities at its new Sungai Lembing mine have also started recently, with average production of 100kg to 200kg per day.

The closure of its mining and smelting operations due to the government-imposed Movement Control Order (MCO) in March led to disruptions to its operations.

This had impacted MSC's financial performance in the first and second quarters of its financial year ending Dec 31, 2020.

However, with the resumption of economic activities following the Conditional MCO, the group restarted its tin mining and smelting activities at full capacity, resulting in a third-quarter net profit of RM12.54 million against a cumulative net loss of RM12.29 million for the first two quarters. Revenue for the quarter amounted to RM230.83 million.

Over the past month, MSC shares have gained 49%, and last Thursday's close of RM1.04 gave it a market capitalisation of RM416 million.

Rising tin prices have also had an impact on Johore Tin Bhd, which derives 25% of its revenue from tin manufacturing.

"Tin is one of the main packaging types of Johore Tin, thus solely from an input cost perspective, there will be an increase in material costs. However, looking at the pricing mechanism of Johore Tin, they are generally able to pass through the cost, albeit, with a few months' lag.

"Besides that, they have also optimised their tin production through strategic consolidation of their facility, which has helped support profitability," says TA Securities equity research analyst Jeff Lye.

However, tin manufacturing is not the group's core competency as the bulk of its revenue is derived from the food and beverage segment — principally, the manufacture and sale of milk and other related dairy products.

Year to date, Johore Tin's share price has appreciated 11%. It closed at RM1.92 last Thursday, which translates into a market capitalisation of RM590.5 million.

As for beverage manufacturer and distributor Fraser & Neave Holdings Bhd (F&N), which uses tin plates for its canned milk business, there will be some cost pressure with rising tin prices.

"Our policy is to hedge some of our raw material requirements ahead and this will help to mitigate some of the impact. Furthermore, we have innovated and introduced the pouch as a packaging format to reduce our dependence on tin cans, although this is a smaller format at this moment," a company spokesperson says in an email response to *The Edge*.

On whether this would translate into higher selling prices for F&N's canned products, the spokesperson says, "As with any business, we need to manage every cost pressure and watch our bottom line. We will only implement a price increase as a last resort as we are very mindful that our consumers may be facing economic difficulties in this period."

Year to date, F&N shares have decreased 7% to RM32.46 as at last Thursday, giving it a market capitalisation of RM11.9 billion.