

COMPANY RESULTS

Malaysia Smelting Corporation (SMELT MK)

4Q21: All-Time High Earnings Mark A New Phase For MSC

4Q21 results beat our expectations mainly due to record-high tin prices that continue to remain elevated as global demand outstrips supply. MSC is on track for a more meaningful recovery growth entering 2022, supported by improved production output and better cost savings from the new eco-friendly smelting plant. We expect tin prices to stay firm in the long run, albeit not at the current high, as structural supply issues may persist. Downgrade to HOLD. Target price: RM4.45.

4Q21 RESULTS

Year to 31 Dec (RMm)	4Q21	3Q21	qoq % chg	yoy % chg	2021	yoy % chg
Revenue	255.1	218.5	16.7	9.7	1,076.6	32.4
Sale of Tin	248.6	214.0	16.2	12.7	1,047.5	37.6
Smelting Revenue	3.8	4.3	(11.1)	(61.0)	20.1	(45.1)
Sale of By-Products	2.3	1.3	70.4	57.2	7.3	(43.0)
Mining	104.4	79.3	31.6	105.3	303.7	89.3
EBIT	88.5	41.3	114.6	190.5	169.7	269.9
Tin Smelting	17.6	9.9	78.9	(21.3)	31.9	75.3
Tin Mining	58.2	39.0	49.2	355.8	146.6	335.6
Associates & JV	1.0	1.0	6.1	126.8	4.4	212.2
PBT	85.2	38.9	119.3	286.3	158.4	514.2
Net Profit	64.1	28.9	121.4	304.0	118.1	633.2
Core Net Profit	64.3	29.2	119.9	275.3	119.9	592.3
Margins (%)						
EBIT	34.7	18.9	15.8	21.6	15.8	10.1
Core Net Profit	25.2	13.4	11.8	18.4	11.0	9.0

Source: MSC, UOB Kay Hian

RESULTS

- Above expectations.** MSC reported a higher core net profit of RM64.3m (+119% qoq, +275% yoy) on the back of 4Q21 revenue of RM255.1m (+16% qoq, +9% yoy). This brought its cumulative 2021 core net profit to RM119.9m (+592% yoy), which is above our full-year estimate, forming 134% of our forecast. The all-time high earnings can be largely attributed to higher tin prices in 4Q21 of about US\$38,000/mt (+11.7% qoq, +106.8% yoy). MSC also declared a first and final single-tier dividend of RM0.07 per share, representing a payout of 25%.
- Expect stronger earnings ahead.** MSC achieved explosive earnings despite its smelting production dropping 26% yoy to 16,400mt. With the lift of force majeure, production recovery and higher tin prices in 2022, we can expect stronger results going forward.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net Turnover	813.4	1,076.6	2,115.0	2,122.5	2,183.1
EBITDA	64.1	181.7	315.9	298.7	281.5
Operating Profit	46.9	169.7	300.7	283.8	266.9
Net Profit (Reported/Actual)	15.2	118.1	183.0	172.9	163.1
Net Profit (Adjusted)	15.5	121.2	183.0	172.9	163.1
EPS (sen)	3.9	28.8	43.6	41.2	38.8
PE (x)	76.7	14.1	9.4	9.9	10.5
P/B (x)	2.9	3.3	2.6	2.2	1.9
EV/EBITDA (x)	23.8	10.7	6.3	6.1	6.7
Dividend Yield (%)	0.3	1.7	2.6	2.4	2.3
Net Margin (%)	1.9	11.3	8.7	8.1	7.5
Net Debt/(Cash) to Equity (%)	93.5	69.3	59.6	47.1	32.5
Interest Cover (x)	2.9	5.4	6.9	8.2	11.4
ROE (%)	3.9	23.4	27.9	22.0	17.9

Source: MSC, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	RM4.08
Target Price	RM4.45
Upside	+9.1%
(Previous TP)	RM3.83

COMPANY DESCRIPTION

Malaysia Smelting Corporation is a leading integrated producer of tin metal and tin-based products and a global leader in custom tin smelting. The company is also involved in tin mining.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SMELT MK
Shares issued (m):	420
Market cap (RMm):	1,700
Market cap (US\$m):	406
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

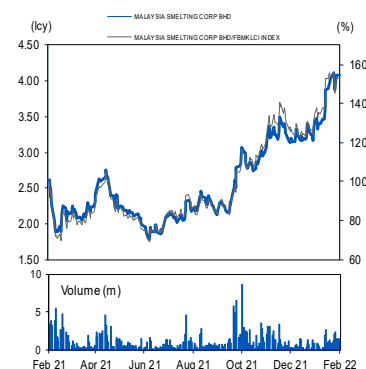
52-week high/low	RM4.16/RM1.74			
1mth	3mth	6mth	1yr	YTD
28.2	35.9	76.1	41.6	28.2

Major Shareholders

The Straits Trading Company Ltd	52.2
Neoh Choo Ee & Company SB	1.6
Lim Khoon	1.0

FY22 NAV/Share (RM)	0.8
FY22 Net Debt/Share (RM)	0.6

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Mining to lead the earnings growth.** MSC's mine managed to increase its average daily mining output to 11mt/day (from 8mt/day) in 2021 as it explored new deposits and utilised new technology. MSC will continue to boost its mining output to 12mt/day by 2022. In addition, MSC commenced mining activities at Sungai Lembing, Pahang last year with minimal average production of 100-200kg/day. In the next 1-2 years, the mine is expected to gradually produce over 1,000mt/year. MSC is also in the midst of finalising some potential JVs to expand its mining activities in the area surrounding RHT, which will further increase its mining output. However, since mining exploration is a time-consuming activity, we expect the earnings contribution will only be generated in the next 4-5 years.
- Margins improvement from the new smelting plant.** Smelting's margin improved qoq from around 4% to 7% in 4Q21, partly due to utilisation of the new plant. The eco-friendly plant at Pulau Indah is now fully operational as evidenced by our recent ground checks. It boasts production costs that are at least 20% lower than the old ones in Penang as it has better efficiency via its single-stage smelting (vs multistage smelting process used previously). The plant also has a 50% higher production capacity (60,000mt) while requiring >40% less manpower. MSC has also commenced the smelting of about 7,258mt tin intermediates at its Butterworth smelter in 3Q21, which will take about two years to complete. This will help to gradually boost its smelting earnings going forward.
- Prolonged rally in tin prices to boost earnings in 2022.** As of 18 Feb 22, tin prices continue to surge to new highs (over 100% yoy) to US\$44,150/mt. In China, the temporary shutdown of some smelters for maintenance and the disruption of tin ore imports from Myanmar further disrupted China's refined tin output. In Indonesia, there have been delays to private smelter export licenses by the government that fueled speculation and pushed prices higher. Although global production in 2021 improved 11% yoy to 378,400mt, tin deficit is still expected to rise 24% yoy in 2022. As such, while prices may ease gradually in 2022 as supply improves, we believe prices will remain higher than the historical average of around US\$18,000/mt. The spike in production cost due to inflationary pressure and power crisis amid the decarbonisation agenda will lend further strength to tin prices.

EARNINGS REVISION/RISK

- Raise 2022-23 net profit forecasts.** We raise our 2022-23 net profit forecasts by 21% and 15% to reflect better margins and we increase our tin price assumptions from US\$34,000 and US\$30,000 to US\$36,000 and US\$32,000 per mt respectively, reflecting the prolonged rally in tin prices. We also introduced our 2024 forecast with price assumption of US\$30,000/mt. Based on our sensitivity analysis, every US\$2,000/mt rise in our tin price assumptions would boost earnings by about 12% a year.

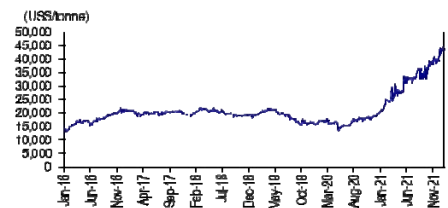
VALUATION/RECOMMENDATION

- Downgrade to HOLD despite higher target price of RM4.45,** as share price rally almost reflected the intrinsic value. Our target price implies 10x 2022F PE (five-year mean PE). If tin prices remain at the current high of US\$44,000/mt in 2022, it could result in a 10% upside to our target price at RM4.89 (8x 2022F PE). Our blue-sky earnings suggest a potentially higher target price of RM5.37 (8x 2022F PE), -1SD to its five-year PE mean.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental <ul style="list-style-type: none"> MSC is in the midst of finalising the award for upgrading the mini hydro plant at RHT mine that is currently generating 0.75MW to 5.00MW. MSC's new eco-friendly plant uses 1.26MWp solar PV panels and a waste heat recovery function. This will help to reduce carbon emissions by at least 1,000mt/year.
Social <ul style="list-style-type: none"> MSC contributes to the local economic growth by creating job and economic opportunities for the locals. In 2020, 76% of its total workforce were locals.
Governance <ul style="list-style-type: none"> MSC's board comprises of a majority of independent directors (four out of six independent non-executive directors), coming from various background and industries.

TIN PRICES



Source: Bloomberg, UOB Kay Hian

KEY ASSUMPTIONS

Year to 31 Dec	2022F	2023F	2024F
Production (mt)			
- Mining	3,232	3,512	4,052
- Smelting	27,404	30,823	33,733
ASP - Tin (US\$/mt)	36,000	32,000	30,000

Source: UOB Kay Hian

BLUE-SKY SCENARIO

2022F	Original	Blue-Sky
Production (mt)		
- Mining	3,232	4,052
- Smelting	27,404	41,490
ASP - Tin (US\$/mt)	36,000	38,000

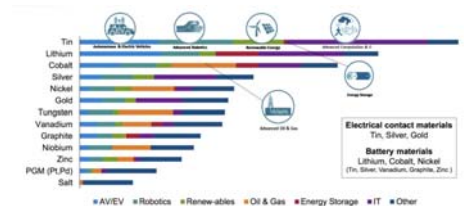
Source: UOB Kay Hian

TOP REFINED TIN PRODUCERS IN 2021

Order	Company	2020	2021	YOY Change (%)
1	Yunnan Tin (China)	74,800	82,000	9.6%
2	Minsur* (Peru)	25,075	31,843	27.0%
3	PT Timah (Indonesia)	45,700	26,500	-42.0%
4	Yunnan Chengfeng (China)	16,500	17,000	3.0%
5	Malaysia Smelting Corp (Malaysia)	22,400	16,400	-26.8%
6	Thaisarco (Thailand)	11,300	12,100	7.1%
7	EM Vinto (Bolivia)	7,100	12,100	70.4%
8	Jiangxi New Nanshan (China)	10,100	11,600	14.9%
9	Aurubis Beerse (Belgium)	9,000	9,800	8.9%
10	Guangxi China Tin (China)	10,100	9,200	-8.9%

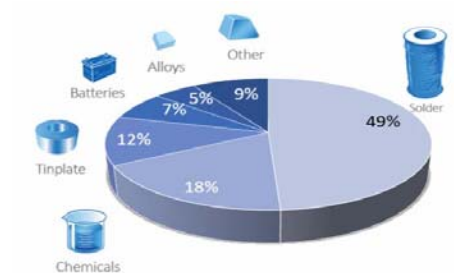
Source: ITA

METALS MOST IMPACTED BY NEW TECHNOLOGIES



Source: MIT

TIN APPLICATIONS BY USAGE IN 2020



Source: ITA, MSC

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,077	2,115	2,122	2,183
EBITDA	182	316	299	282
Deprec. & amort.	(12)	(16)	(15)	(15)
EBIT	170	301	284	267
Associate contributions	4	1	1	1
Net interest income/(expense)	(16)	(16)	(15)	(14)
Pre-tax profit	158	285	269	254
Tax	(40)	(100)	(94)	(89)
Minorities	0	-	-	-
Net profit	118	183	173	163
Net profit (adj.)	121	183	173	163

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	13	173	138	78
Pre-tax profit	158	285	269	254
Tax	(8)	(100)	(94)	(89)
Deprec. & amort.	10	14	13	13
Working capital changes	(119)	(26)	(51)	(100)
Other operating cashflows	(29)	-	-	-
Investing	(9)	(10)	(10)	(10)
Capex (growth)	(10)	(10)	(10)	(10)
Investments	0	-	-	-
Proceeds from Sale of Assets	-	-	-	-
Others	(0)	-	-	-
Financing	83	(60)	(82)	(80)
Dividend payments	(4)	(45)	(42)	(40)
Issue of shares	37	-	-	-
Proceeds from borrowings	51	(10)	(30)	(30)
Loan repayment	(1)	(5)	(10)	(10)
Others/interest paid	-	1	2	3
Net cash inflow (outflow)	86	103	45	(12)
Beginning cash & cash equivalent	37	123	226	271
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	123	226	271	260

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	138	213	209	204
Other LT assets	197	117	118	119
Cash/ST investment	123	226	271	260
Other current assets	857	959	1,011	1,118
Total assets	1,314	1,515	1,609	1,701
ST debt	416	406	376	346
Other current liabilities	218	294	295	302
LT debt	40	35	25	15
Other LT liabilities	59	59	59	59
Shareholders' equity	580	721	853	978
Minority interest	0	0	0	0
Total liabilities & equity	1,314	1,515	1,609	1,701

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	16.9	15.0	14.1	12.9
Pre-tax margin	14.7	13.5	12.7	11.6
Net margin	11.3	8.8	8.2	7.6
ROA	9.2	12.2	10.9	9.7
ROE	20.9	25.7	20.5	16.9
Growth				
Turnover	32.4	96.5	0.4	2.9
EBITDA	183.7	74.0	(5.4)	(5.7)
Pre-tax profit	554.8	80.1	(5.6)	(5.7)
Net profit	703.8	53.0	(5.6)	(5.7)
Net profit (adj.)	703.8	53.0	(5.6)	(5.7)
EPS	665.6	53.0	(5.6)	(5.7)
Leverage				
Debt to total capital	(34.7)	(29.1)	(24.9)	(21.2)
Debt to equity	(78.6)	(61.2)	(47.0)	(36.9)
Net debt/(cash) to equity	57.5	29.9	15.2	10.4
Interest cover (x)	10.8	18.3	18.4	19.1

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