



23 February 2022



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Malaysia Smelting Corporation Bhd (MSC, 5916)

CONTRA TRADE ONLY

3.00X
Collateral Value


Malaysia Smelting Corporation Bhd (Trading BUY with TP 5.55)

- MSC, the world's largest toll smelter, is riding on the current commodity rally. Given the persistent supply-demand imbalance, the record tin prices of >USD44,000/MT are likely to stay elevated in the near future. Together with its Tin Mining unit going for secondary mining which will boost volume, and the efficient new Pulau Indah Plant, MSC is likely to see another record FY22. Trading Buy with a TP of RM5.55.
- Its share price had surged to an all-time high of RM4.69 yesterday. This was largely thanks to skyrocketing tin prices which jumped 38% to a record high of USD44,140/MT last Friday, which is also in line with other commodity rallies as supply imbalance persists. In 2021, MSC's share price soared 91% as against 128% in tin prices.
- Last Friday, MSC reported 4QFY21 net profit which surged 121% sequentially to the best ever quarterly earnings of RM64.1m from RM28.9m in 3QFY21, as tin prices grew 12% to an average of USD37,815/MT from USD33,779/MT. YoY, 4QFY21 earnings jumped 3-fold from RM14.9m as average tin price doubled from USD18,817/MT. This brought FY21 to a record net profit of RM118.1m from RM15.2m in FY20 as average tin price leapt 82% to USD31,145/MT from USD17,107/MT the year before.
- The rising tin prices have tremendously benefited MSC especially its Tin Mining segment which saw PAT rising 52% sequentially to RM44.1m in 4QFY21 with profit margin improving further to 42% from 37% in 3QFY21. In comparison to 4QFY20, the PAT margin was only 13%. This implied that the tin price has significant impact to MSC earnings. Going forth, MSC will also be going for secondary mining to boost volume. MSC also registered higher production volume as the new Pulau Indah Plant posted 75% utilisation while the Butterworth Plant was running at 67% capacity.
- With supply of tin expected to remain tight, especially from Indonesia, China and Myanmar as demand is still rising due to usage within the EV segment, tin prices are expected to remain high in the near future. Based on consensus median forecast by Bloomberg, at 2022/2023 tin prices of USD34,750-32,438/MT, our FY22/FY23 profit projections will be RM176.4m/RM206.7m. On the other hand, based on forward in prices of USD43,785-43,277/MT, FY22/FY23 projection will rise further to RM246.7m/RM310.9m.
- We believe MSC will continue to benefit from strong tin price given the supply-demand imbalance. Thus, MSC's share price will ride on the commodity rally wave. At 11x FY22E forward earnings which is the peers' average, MSC is valued at RM4.62 based on consensus tin price forecast while at forward tin price, it is priced at RM6.48. In view of strong price prospects, we believe MSC should be valued at RM5.55 which is the mean of these fair values above. As such, investors who are having the view of sustainable tin prices should consider a Trading Buy stance.

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