

CAPITAL

SGX RESEARCH SERIES: 10 IN 10

Lithium-ion batteries of EVs will drive future growth for Malaysia Smelting Corp

BY CANDACE LI



Under CEO Patrick Yong, MSC has found new market for tin, which is increasingly used in making batteries for electric vehicles

Founded in 1887, Malaysia Smelting Corporation (MSC) group is an integrated producer of tin metal and tin-based products, involved in the upstream and downstream sector of the tin industry through tin mining and custom tin smelting. Rahman Hydraulic Tin (RHT), a wholly-owned subsidiary of MSC, operates the largest open-pit eluvial tin mine in the country. Over the years, MSC has grown to become a modern tin producer with one of the smallest carbon footprints in the industry.

What are Malaysia Smelting Corporation's main business segments?

We have two main business segments. Tin smelting involves the production of tin from concentrates and tin-bearing materials into refined tin and alloys. The other is tin mining which involves exploration and the extraction of tin ore in the form of cassiterites (the main ore of tin) and further concentration up to a very high grade of 75%.

In FY2019, our profit before tax from tin mining more than doubled to RM89.5 million (\$29.4 million) from RM38.1 million a year ago, mitigated by a loss before tax of RM39.0 million from tin smelting, to bring MSC's overall FY2019 profit before tax to RM47.4 million. This is comparable to FY2018 profit before tax of RM49.8 million.

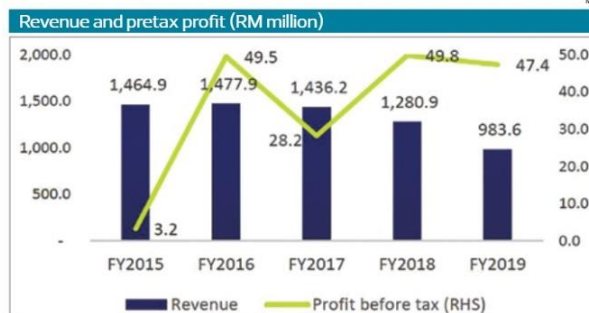
You expect to relocate to your new smelter at Pulau Indah, Port Klang, this year. What are some operational benefits that MSC will reap from this?

Our new Pulau Indah smelter is a brownfield project that involves re-engineering a lead smelter into one of tin smelting. We believe that it is capable of being one of the lowest-cost smelting facilities in the world with the new state-of-the-art top lance submerged furnace, which allows smelting of tin in a single-stage process compared to dated reverberatory furnaces currently employed in Butterworth. This will lower costs and increase plant capacity by 50%. The smelter's strategic location near the port and the London Metal Exchange warehouse will also serve to reduce our transportation and distribution costs.

What is MSC's strategy to further grow its resources business?

We are increasing overall mining productivity and daily mining output at our RHT mine in Klian Intan, Perak. We have recently discovered new tin ore bodies (approximately 22,300 tonnes of tin metal) at the existing mine and are conducting analysis for a new mine pit design so as to ensure safe and economically viable mining of the new resource.

RHT had recently leased two parcels of land adjacent to its existing mining leases in Klian Intan, measuring 100 acres (40.5ha) and 323



acres. These will be used for waste dumping and further tin ore extrusion from discards, freeing up space within the existing mine and improving overall productivity.

Infrastructure work at a processing plant in Sungai Lembing, Pahang, is now complete, enabling us to start mining outside of Klian Intan. We are also exploring potential joint ventures to expand our tin mining activities.

Can you tell us more about the new mining leases that RHT obtained? How much upside will these leases bring to the group's tin mining business?

With the new leases, RHT enjoys a longer mining period of up to Nov 11, 2034, within an area of more than 700ha. We believe that this will strengthen MSC's future earnings as we raise our daily mining output and overall productivity. Our RHT tin mine in Klian Intan is Malaysia's largest hard-rock open pit tin mine. It has been in operation for 112 years since 1907 and remains a significant contributor to Malaysia's tin production today.

There have been talks by the government of Malaysia on plans to revive the tin industry, back to the 1980s period when Malaysia was the largest tin producer in the world. What are your views on this?

We believe this is a move in the right direction as Malaysia is still rich with tin deposits and this can bring about positive economic value and benefits to the country. As the largest tin miner in Malaysia, we hope to promote mining activities in a cost effective and environmentally friendly way, which in turn can provide sustainable resources for our smelting business.

MSC, together with The Straits Trading Company, had expressed intentions to unlock the value of the jointly owned land in Butterworth, Penang, in 2018. How are your plans progressing?

In 2019, we started the redevelopment of this land into a mixed-use development. The combined land space at Butterworth amounts to 40.1 acres. We see great redevelopment potential in this sizeable parcel of land as it is freehold and located in close proximity to Penang Sentral, the key transportation hub in Penang.

What has MSC been (or will be) doing to minimise the environmental impact of mining?

We aim to be a sustainable global integrated tin producer and encourage the use of renewable energy whenever possible. Our current mines at RHT in Klian Intan runs partially on electricity generated from an on-site hydroelectric plant. The hydroelectric plant will be upgraded to increase generation capacity of 1MW.

Our new facility at Pulau Indah will be more cost and energy efficient too.

Our new furnace will be powered by natural gas, and the smelter is also equipped with photovoltaic panels, with the national grid supplying a large portion of our power needs.

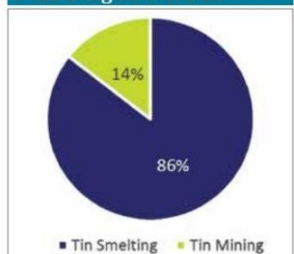
We also plan to recycle waste heat from the furnace in the future, which will further reduce the emission of greenhouse gases (GHG) from our facilities.

We will be publishing the GHG emission rate with each ton of tin produced, so as to encourage the use of MSC's products in support of sustainability and climate control.

| SGX Code: NFW | BBG: SMELT SP | RIC: MYSC.SI |
|------------------------------|---------------|--------------|
| Market cap on April 27 (\$m) | | 80.7 |
| Price on April 27 (\$) | | 0.199 |
| 52 wk high/low (\$) | | 1.010-0.440 |
| 12m ADTV (\$) | | 8.478 |
| Shares outstanding (m) | | 400.0 |
| Float | | 33.1% |
| P/E | | 7.4 |
| P/B | | 0.7 |
| Dividend Yield | | 3.2% |

SOURCE: THOMSON REUTERS APRIL 27, 2020

FY2019 segment revenue



Note: Revenue by segments before elimination and adjustments

What is your outlook for 2020? How has it been shaped by recent events?

We expect demand for tin solder to be adversely impacted in 1HFY2020, with the Covid-19 pandemic affecting China, the world's largest manufacturing and electronic hub. This is further worsened by recent declines in tin prices and a build-up in tin inventories due to global trade tensions that started in 2019.

Furthermore, due to the Movement Control Order (MCO) imposed in Malaysia to combat the spread of Covid-19, our tin smelting and tin mining operations were temporarily interrupted. We expect this to affect our production figures in 2020.

We intend to run both the Butterworth plant and the new plant in Pulau Indah in parallel during the transition period, until customer satisfaction and confidence levels are met. This will naturally increase overheads for the time being, but we expect our financial performance to gradually improve as we phase out production at Butterworth.

We will also continue to focus on our ongoing strategic initiatives to enhance our competitiveness and facilitate long-term growth.

Notwithstanding the current operating environment, are there any new or emerging trends which you believe will drive demand for tin in the near future?

Tin is increasingly used in lithium-ion batteries for electric vehicles as it enhances energy storage capacity significantly while improving the charging rate of the battery. We expect this to eventually drive demand for tin across the chemical, automotive, industrial and even medical sectors in the years to come.

We also expect the move towards zero-emission vehicles by car manufacturers alone will bring about an extra demand of 50,000 tons of tin by 2030. ■

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