

### COMPANY UPDATE

## OM Holdings (OMH MK)

On Track For Recovery

OMH's production output for 2Q21 is in line with our expectation given the temporary operational halt in June. We believe the company is on track for recovery on the back of the upswing in commodity prices, amid strong demand due to economic reopening and structural supply shortage caused by the global decarbonisation trend. It is a major recovery play in 2022, as production will recover once the lockdown is lifted. Maintain BUY with a target price of RM3.27.

### WHAT'S NEW

- Expect gradual recovery in quarters ahead.** After the 5-week temporary suspension, OM Sarawak was granted approval on 5 July to resume operations under strict SOPs with additional COVID-19 precautionary measures in place. Operations have recommenced with an initial four furnaces in early-July. Production has subsequently ramped up in stages, with 12 out of 16 furnaces (six FeSi and six Mn alloy) currently in production. The remaining four furnaces are still idle and will only be restarted once manpower constraints have been alleviated. This is within our expectation as we believe OM Holdings (OMH) will continue to run with 12 furnaces for the remaining of the year and we expect the borders to be fully reopened in 2022.
- Commodity prices continue to rally.** In 2Q21, ferrosilicon (FeSi) and manganese (Mn) alloy prices jumped higher to US\$1,920/mt (32.0% qoq, 87.3% yoy) and US\$1,545/mt (20.7% qoq, 49.5% yoy) respectively. This was mainly due to the supply shortages caused by stricter emissions policies in China and temporary disruptions in India and at OM Sarawak during the quarter amid strong global demand.
- Firm prices in the long run.** We believe the prices may have peaked and will gradually ease in 2H21 on the back of supply recovery and China's plan to limit the soaring commodity prices. However, in the long run, we believe prices will remain firm, albeit not at the current high, as the global supply cannot catch up with the increasing demand. Hence, we maintain our conservative FeSi and Mn alloy ASP assumptions of US\$1,500/US\$1,300/US\$1,250 and US\$1,400/US\$1,200/US\$1,150 per mt for 2021-23 respectively.
- New supply of Mn ores secured.** After 14 months of pre-feasibility study, Element 25 (E25) has completed its first shipment of Mn concentrate (27,000mt) from its Butcherbird Manganese Project in Western Australia to OMH. Note that Butcherbird is Australia's largest onshore manganese resource. Currently, Butcherbird hosts 263m mt of resource, grading at 10% for 20.8m mt of contained manganese. E25 expects to produce 365,000 mt/year of Mn concentrate over a 40-year mine life, with an offtake agreement with OMH for the first five years. This development is in line with our expectation that OMH is able to ensure a sustainable supply of Mn ores moving forward.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net Turnover	2,976.7	2,275.4	2,612.9	3,239.9	3,440.5
EBITDA	317.0	164.1	245.5	317.4	343.6
Operating Profit	176.2	22.2	133.6	185.7	200.6
Net Profit (Reported/Actual)	164.3	15.5	117.3	167.3	189.6
Net Profit (Adjusted)	185.3	14.0	117.3	167.3	189.6
EPS (sen)	22.3	1.9	15.9	22.7	25.7
PE (x)	10.3	120.9	14.4	10.1	8.9
P/B (x)	1.4	1.5	1.3	1.2	1.1
EV/EBITDA (x)	9.8	17.7	11.4	8.6	7.3
Dividend Yield (%)	1.3	-	0.9	1.3	1.5
Net Margin (%)	6.2	0.6	4.5	5.2	5.5
Net Debt/(Cash) to Equity (%)	96.5	88.1	73.0	60.1	41.1
Interest Cover (x)	1.9	0.3	1.8	2.7	3.4
ROE (%)	13.3	1.2	9.3	11.8	11.9

Source: OMH, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM2.55
Target Price	RM3.27
Upside	+28.2%

### COMPANY DESCRIPTION

ASX-listed OM Holdings is an integrated manganese player engaged in the mining, smelting, trading and marketing of manganese ores, manganese alloys and ferrosilicon. Its smelting plants in Sarawak operate using low-cost sustainable energy – hydropower.

### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	OMH MK
Shares issued (m):	736.7
Market cap (RMm):	1,898.3
Market cap (US\$m):	449.8
3-mth avg daily t'over (US\$m):	n.a.

### Price Performance (%)

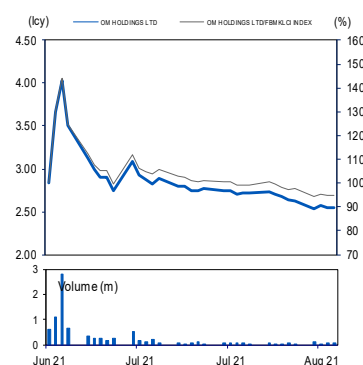
52-week high/low	RM4.03/RM2.53			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(10.1)	(10.1)	9.6	150.0	45.5

### Major Shareholders

	%
Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2

FY21 NAV/Share (RM)	2.0
FY21 Net Cash/Share (RM)	(1.3)

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Smelting (Malaysia).** The production volumes of FeSi and Mn alloy fell to 23,057mt (-40.0% qoq, -47.8% yoy) and 37,691mt (-34.0% qoq, -34.7% yoy) respectively. The decline is within expectation due to the 5-week temporary suspension of smelters in Sarawak, which started from 28 May after active COVID-19 cases were detected at the premise. This brought 1H21 production volumes of FeSi and Mn alloy to 61,472mt and 94,827mt respectively, forming about 53.5% and 55.8% of our full-year forecast. As OMH has gradually ramped up production post-lockdown with 12 furnaces operating as of today, we can expect higher production output in the quarters ahead. Despite the challenging operating environment, we believe the drop in production this year will be partially mitigated by the lofty ferroalloy prices.
- Mining (Australia).** The production volume of Mn ores was 203,791mt in 2Q21, down by 14.6% qoq, mainly due to the mining of ores from deeper pits and exposure to substantial groundwater. However, the production is still higher by 7.9% yoy. This brought 1H21 production volume to 414,549mt, forming about 41.5% of our full-year forecast. For 2H21, we believe OMH will boost production as its last mile strategy since the company indicated that Bootu's mining operations will be concluded end-21 as the reserve life is coming to an end. From 2022 onwards, OMH will obtain its Mn ore supply from E25 for 365,000mt/year and another 250,000mt/year from its Ultra Fines Plant (UFP). Production will be further strengthened once its mining exploration with other mining companies bears fruit in the coming years.
- China and South Africa operations remain intact.** The production volume in South Africa (Mn ore) in 2Q21 rose to 814,419mt (2.4% qoq, 54.4% yoy). The yoy jump in China was mainly due to the nationwide lockdown in the country, which resulted in fewer exports in 2Q20. This brought 1H21 production volume to 1,609,879mt, forming about 45.6% of our full-year forecast. While in China (Mn alloy), output jumped to 16,087mt (87.7% qoq, >100% yoy) as production was successfully ramped up with two furnaces in full production in 2Q21. This brought 1H21 production volumes to 24,684mt. Note that OM Qinzhou (OMQ) has just upgraded its furnaces and will have a capacity of 80,000-95,000mt of Mn alloys p.a. moving forward.
- Mining exploration progressing well.** Last month, OMH increased its stake in its JV with Bryah Resources, from 48% to 51% by committing another A\$500k (so far it has spent A\$1.5m) to be used for resource and reconnaissance drilling, mineral resource estimation and beneficiation testwork at its mining exploration in Bryah Basin (central Western Australia). This further signifies that the exploration is showing positive results and can potentially increase OMH's manganese supply in the near future. However, OMH mentioned that it's still too early to indicate the target production as it is still in the exploration stage, which is why we have not factored in our valuation yet. Approximate completion date is in 2-3 years' time.
- Leveraging on growing demand for steel.** Ore and alloy outlook move in tandem with the steel industry as they are considered the primary inputs in steel manufacturing with no comparable substitute. According to International Manganese Institute (IMnI), world crude steel production during April and May 21 was 353.5m mt, up 21.3% yoy, indicating a strong rebound from the low base numbers in 2020. As at 2 August, hot rolled coil prices rose 54% yoy (to RM3,849/mt) while bar prices rose 46% yoy (to RM3,589/mt). Even with potential curbs by China, we believe steel supply-demand dynamics should remain favourable to support lofty prices in the long term, albeit not at the current high. Based on China's official index compiler CFLP Steel Logistics Professional Committee, China's steel demand may pick up in August, while steel mills may cut down on their output, which will further support steel prices.

### EARNINGS REVISION/RISK

- None.** Our earnings forecasts remain unchanged with production coming in within expectations. Should ferroalloy prices continue to rise, based on our sensitivity analysis, every US\$100/mt increase to our FeSi and Mn alloy price assumptions would boost OMH's earnings by about 30% annually.

### VALUATION/RECOMMENDATION

- Maintain BUY with a target price of RM3.27.** Our SOTP-based target price implies 13x 2022F PE, close to its 5-year PE mean of 15x. Strong alloy prices and its low-cost eco-friendly hydropower will provide OMH with a net profit CAGR of 138.6% for 2020-23. We have not incorporated its future capacity expansion into our valuation. The completion of those plans will prompt a valuation re-rating.

### 2Q21 PRODUCTION

	2Q21	1Q21	qoq % chg	yoy % chg
Production ('000 mt)				
Mn Ore				
Australia	203	210	(3.3)	1.1
S. Africa	814	795	2.4	54.4
Alloy				
Malaysia - FeSi	23	38	(40.0)	(47.8)
Malaysia - Mn	37	57	(34.0)	(34.7)
China - Mn	16	8	87.1	>100.0

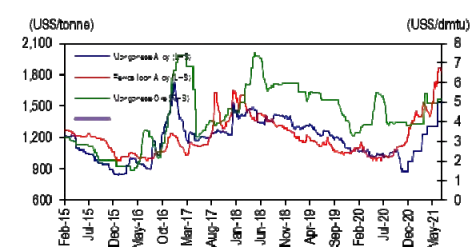
Source: OMH, UOB Kay Hian

### KEY ASSUMPTIONS

	2020	2021F	2022F	2023F
Production ('000 mt)				
Mn Ore				
Australia	738	1,000	615	700
S. Africa	3,359	3,527	3,703	3,888
Alloy				
Malaysia - FeSi	167	115	180	185
Malaysia - Mn	227	170	300	350
China - Mn	10	68	85	90
ASP (US\$/mt)				
Mn ore	4.66	5.15	4.70	4.50
FeSi alloy	1,100	1,500	1,300	1,250
Mn alloy	1,000	1,400	1,200	1,150

Source: OMH, UOB Kay Hian

### ALLOY AND ORE PRICES



Source: Bloomberg

### OMH'S MANGANESE ORE SUPPLY IN THE PIPELINE

Hole No	Mn Intersection
Element 25	Offtake agreement: 365,000 mt/year with grade of 30-35%
Great Sandy	Mining exploration: Rights of 80% over the Mn ore and iron minerals in the area
Bryah	Mining exploration: Entitled to 100% of the Mn ore in the area

Source: OMH

### PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	2,275	2,613	3,240	3,440
EBITDA	164	245	317	344
Deprec. & amort.	(142)	(112)	(132)	(143)
EBIT	22	134	186	201
Associate contributions	48	87	90	92
Net interest income/(expense)	(84)	(75)	(68)	(58)
Pre-tax profit	(14)	146	208	235
Tax	5	(22)	(31)	(35)
Minorities	24	(6)	(9)	(10)
Net profit	16	117	167	190
Net profit (adj.)	14	117	167	190

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	222	183	210	311
Pre-tax profit	(14)	146	208	235
Tax	5	(22)	(31)	(35)
Deprec. & amort.	142	112	132	143
Working capital changes	85	(53)	(99)	(32)
Other operating cashflows	0	-	-	-
Investing	(31)	(30)	(117)	(88)
Capex (growth)	(4)	(30)	(117)	(88)
Investments	0	-	-	-
Proceeds from Sale of Assets	(45)	-	-	-
Others	18	-	-	-
Financing	(192)	(102)	(167)	(170)
Dividend payments	(21)	(15)	(22)	(25)
Issue of shares	0	-	-	-
Proceeds from borrowings	38	-	-	-
Loan repayment	(96)	(87)	(145)	(145)
Others/interest paid	(112)	-	-	-
Net cash inflow (outflow)	0	50	(75)	53
Beginning cash & cash equivalent	142	141	191	117
Changes due to forex impact	0	-	-	-
Ending cash & cash equivalent	133	191	117	169

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	1,777	1,913	2,116	2,279
Other LT assets	502	277	34	(209)
Cash/ST investment	183	191	117	169
Other current assets	826	946	1,169	1,240
<b>Total assets</b>	<b>3,287</b>	<b>3,327</b>	<b>3,436</b>	<b>3,480</b>
ST debt	368	368	368	368
Other current liabilities	499	540	664	704
LT debt	836	749	604	459
Other LT liabilities	226	211	195	179
Shareholders' equity	1,159	1,267	1,422	1,597
Minority interest	199	192	183	173
<b>Total liabilities &amp; equity</b>	<b>3,287</b>	<b>3,327</b>	<b>3,436</b>	<b>3,480</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	7.2	9.4	9.8	10.0
Pre-tax margin	(0.6)	5.6	6.4	6.8
Net margin	0.6	4.5	5.2	5.5
ROA	0.4	3.5	4.9	5.5
ROE	1.2	9.3	11.8	11.9
<b>Growth</b>				
Turnover	(23.6)	14.8	24.0	6.2
EBITDA	(48.2)	49.6	29.3	8.3
Pre-tax profit	(107.9)	(1,178.5)	42.7	13.0
Net profit	(92.5)	740.5	42.6	13.3
EPS	(91.5)	740.5	42.6	13.3
<b>Leverage</b>				
Debt to total capital	(0.4)	(0.3)	(0.3)	(0.2)
Debt to equity	(1.0)	(0.9)	(0.7)	(0.5)
Net debt/(cash) to equity	0.9	0.7	0.6	0.4
Interest cover (x)	0.3	1.8	2.7	3.4

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