

### COMPANY UPDATE

## OM Holdings (OMH MK)

### 3Q21 Production Recovers Post-Lockdown

OMH's 3Q21 production output is within our expectation as operation has recovered after the temporary suspension in June. If ferroalloy prices continue to rise, every US\$100/mt increase in our price assumptions would boost OMH's earnings by about 20% annually. If ferrosilicon price remains high at US\$3,500/mt in 2022, this could result in a 37% potential upside to our target price to RM5.79. Production is expected to improve further in 2022. Maintain BUY with a target price of RM4.21.

### WHAT'S NEW

- Improved ferroalloy production...** 3Q21 production volumes of ferrosilicon (FeSi) and manganese (Mn) alloy have improved to 33,453mt (+45.1% qoq) and 59,307mt (+57.4% qoq) respectively. The improvement is mainly due to the resumption of OM Holdings' (OMH) Sarawak operations in July after being temporarily suspended for five weeks since 28 May due to the pandemic. This brought 9M21 production volumes of FeSi and Mn alloy to 94,925mt and 154,134mt respectively, forming about 80% of our full-year forecasts. OMH continues to operate with 12 out of 16 furnaces (six FeSi and six Mn alloy) currently. The remaining four furnaces are still idle and will only be restarted once manpower constraints have been alleviated.
- ...as lockdown eases.** While Malaysia just recently allowed migrant workers to enter the country, the entry considerations are still reviewed on a case-by-case basis depending on various factors. The applications are expected to be approved by the end of this year, and conversion work on the furnaces may be completed in 1H22. In 4Q21, production volume may slightly decline due to the employee home leave rotations during the quarter. In 3Q21, sales volumes of FeSi and Mn alloys were 23,894mt (-21% qoq) and 43,856mt (-14% qoq) respectively as the recent temporary halt contributed to the lower inventory of finished products available. Despite the challenging operating environment, we believe the drop in production this year will be partially mitigated by the lofty ferroalloy prices.
- Firm prices in the long run.** At the end of 3Q21, FeSi price surged to US\$4,150/mt (+104% mom, +276% yoy) according to S&P Global Platts. Prices of Mn alloy have also hit a record-high of over US\$1,800/mt (+10% mom, +60% yoy). Note that in the first week of October, FeSi price climbed further to reach over US\$4,500/mt. This spike was mainly due to the ongoing power crisis globally, especially in China, which has put further pressure on the current supply constraints for ferroalloys. We believe the prices may have peaked and will gradually ease going forward 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 structural supply issue may persist and the global power crisis may not be alleviated anytime soon, especially in China.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net Turnover	2,976.7	2,275.4	3,123.2	4,238.8	4,443.9
EBITDA	317.0	164.1	344.7	540.9	570.5
Operating Profit	176.2	22.2	224.6	399.7	417.1
Net Profit (Reported/Actual)	164.3	15.5	194.4	348.0	373.2
Net Profit (Adjusted)	185.3	14.0	194.4	348.0	373.2
EPS (sen)	22.3	1.9	26.4	47.2	50.7
PE (x)	15.5	183.0	14.1	7.9	7.3
P/B (x)	1.7	1.9	1.7	1.4	1.2
EV/EBITDA (x)	12.5	22.9	11.3	6.9	5.9
Dividend Yield (%)	0.8	-	0.9	1.7	1.8
Net Margin (%)	6.2	0.6	6.2	8.2	8.4
Net Debt/(Cash) to Equity (%)	55.7	47.8	43.2	38.9	28.2
Interest Cover (x)	1.9	0.3	2.8	5.5	6.7
ROE (%)	15.0	1.2	13.7	20.1	18.0

Source: OMH, Bloomberg, UOB Kay Hian

## BUY

### (Maintained)

Share Price	RM3.67
Target Price	RM4.21
Upside	+14.7%

### 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):	738.6
Market cap (RMm):	2,667.6
Market cap (US\$m):	641.3
3-mth avg daily t'over (US\$m):	

### Price Performance (%)

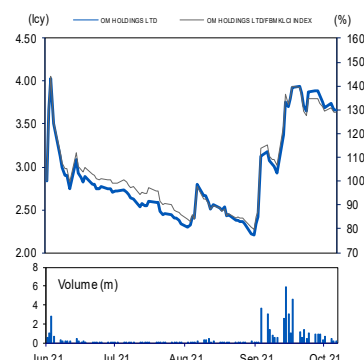
52-week high/low	RM4.69/RM2.18			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
57.0	32.9	31.5	31.5	31.5

### Major Shareholders

Huang Gang	14.0
Amplewood Resourced Ltd	13.6
Low Ngee Tong	9.2

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

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Final push for the mining operation in Australia.** The production volume of Mn ores also increased to 230,566mt in 3Q21 (+13.1% qoq, +13.5% yoy). This brought 9M21 production volume to 645,115mt, forming about 64.5% of our full-year forecast. For 4Q21, we believe OMH will boost production as its last mile strategy since the Bootu's mining operations will be concluded at end-21 as the reserve life is coming to an end. From 2022 onwards, OMH will obtain its Mn ore supply from Element 25 for 365,000mt/year (for at least five years) and another 250,000mt/year from its Ultra Fines Plant (UFP). Production will be further strengthened once its mining explorations with other mining companies bear fruit in the coming years.
- South Africa and China operations continue to support production.** The production volume in South Africa (Mn ore) in 3Q21 rose to 935,401mt (+14.9% qoq, -3.8% yoy). Despite the pandemic and excessive rainfall in the country, Tshipi (OMH's mine in Africa) continues to improve its production output. This brought 9M21 production volume to 2,545,280mt, forming about 72.2% of our full-year forecast. While in China, output of Mn alloy declined to 11,183mt (-30.5% qoq, >+100% yoy) as production was impacted by the power rationing currently happening in the country. This brought 1H21 production volumes to 35,867mt. Note that OM Qinzhou's (OMQ) new furnaces in China have a capacity of 80,000-95,000mt of Mn alloy p.a..
- Expect strong earnings ahead.** Despite the lockdown disruption, OMH posted strong earnings of RM80m for 1H21 (+7.6% yoy). With the improvement in production recovery and higher ferroalloy prices, we can expect stronger results in 2H21. A more meaningful growth will be seen in 2022 when the remaining furnaces are fully restarted once manpower constraints have been alleviated with the border reopening. OMH may also potentially see some increase in demand, benefitting from the spillover effect – filling up the void left by some global producers as they exit the market due to the high power prices.
- Future expansion to ensure long-term earnings growth.** OMH plans to expand smelting capacity by 50%, or an additional 150,000mt/year of Mn alloy (currently: about 300,000 mt), equipped with 2-4 33MVA-furnaces that are much bigger than the existing capacity. The capex funding of RM373m will be from 2022 and is targeted to be completed by end-23. In addition, OMH plans to venture into silicon metal in 2022 with a planned capex of RM93m by converting the two idled FeSi furnaces to produce metallic silicon, a higher value-added product, which offers better margin.

### EARNINGS REVISION/RISK

- None.** Our earnings forecasts remain unchanged with production coming in largely within expectations. Should ferroalloy prices continue to rise, based on our sensitivity analysis, every US\$100/mt increase in our FeSi and Mn alloy price assumptions would boost OMH's earnings by about 20% annually. If FeSi price remains high at US\$3,500/mt in 2022, this could almost double OMH's earnings next year.

### VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM4.21.** Our SOTP-based target price implies 9x 2022F PE (5-year PE mean: 15x). If FeSi price remains at its current high of about US\$3,500/mt in 2022, this could result in 37% upside to our target price of RM4.21 to RM5.79 (6x 2022F PE). As the world's lowest cost quartile manganese smelter, OMH is set to achieve strong 3-year earnings CAGR of 192% for 2020-23 as it benefits from the strong ferroalloy prices, low-cost hydropower and production recovery.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>OMH's smelters in Sarawak are powered by a long-term 300MW of low-cost environmental-friendly hydropower from SESCO, which helps to lower its carbon footprint by reducing carbon dioxide emissions by 2.2m mt p.a..</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li> <b>Social</b> <ul style="list-style-type: none"> <li>OMH offers career opportunities and provides training to the indigenous community in the Northern Territory of Australia where Bootu Creek Mine is located.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>OMH's board comprises of a majority of independent directors (five out of seven independent non-executive directors), coming from various background and industries.</li> </ul> </li> </ul>

### 3Q21 PRODUCTION

	3Q21	2Q21	qoq % chg	yoy % chg
Production ('000 mt)				
<b>Mn Ore</b>				
Australia	230	203	13.1	13.5
S. Africa	935	814	14.9	-3.8
<b>Alloy</b>				
Malaysia - FeSi	33	23	45.1	-9.8
Malaysia - Mn	59	37	57.4	5.6
China - Mn	11	16	-30.5	>100.0

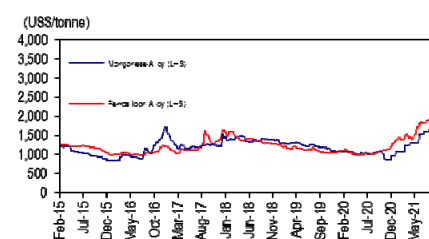
Source: OMH, UOB Kay Hian

### KEY ASSUMPTIONS

	2020	2021F	2022F	2023F
Production ('000 mt)				
<b>Mn Ore</b>				
Australia	738	1,000	615	700
S. Africa	3,359	3,527	3,703	3,888
<b>Alloy</b>				
Malaysia - FeSi	167	115	180	185
Malaysia - Mn	227	170	300	370
China - Mn	10	68	85	90
<b>ASP (US\$/mt)</b>				
Mn ore	4.66	5.15	4.70	4.50
FeSi alloy	1,100	2,000	1,900	1,700
Mn alloy	1,000	1,500	1,400	1,300

Source: OMH, UOB Kay Hian

### ALLOY AND ORE PRICES



Source: Bloomberg, UOB Kay Hian

### 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	3,123	4,239	4,444
EBITDA	164	345	541	570
Deprec. & amort.	(142)	(120)	(141)	(153)
EBIT	22	225	400	417
Associate contributions	48	94	96	99
Net interest income/(expense)	(84)	(81)	(73)	(63)
Pre-tax profit	(14)	238	423	454
Tax	5	(36)	(64)	(68)
Minorities	24	(8)	(12)	(12)
Net profit	16	194	348	373
Net profit (adj.)	14	194	348	373

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	1,777	2,052	2,270	2,445
Other LT assets	502	297	35	-228
Cash/ST investment	183	215	214	421
Other current assets	826	1,128	1,526	1,599
<b>Total assets</b>	<b>3,287</b>	<b>3,693</b>	<b>4,044</b>	<b>4,237</b>
ST debt	368	394	394	394
Other current liabilities	499	643	864	905
LT debt	836	804	648	492
Other LT liabilities	226	226	209	192
Shareholders' equity	1,159	1,420	1,735	2,072
Minority interest	199	206	194	182
<b>Total liabilities &amp; equity</b>	<b>3,287</b>	<b>3,693</b>	<b>4,044</b>	<b>4,237</b>

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	222	215	325	507
Pre-tax profit	(14)	238	423	454
Tax	5	(36)	(64)	(68)
Deprec. & amort.	142	120	141	153
Working capital changes	85	(107)	(176)	(32)
Other operating cashflows	0	0	0	0
Investing	(31)	(33)	(126)	(95)
Capex (growth)	(4)	(2)	(2)	(2)
Investments	0	(31)	(124)	(93)
Proceeds from Sale of Assets	(45)	0	0	0
Others	18	0	0	0
Financing	(192)	(119)	(201)	(204)
Dividend payments	(21)	(25)	(45)	(49)
Issue of shares	0	0	0	0
Proceeds from borrowings	38	0	0	0
Loan repayment	(96)	(93)	(156)	(156)
Others/interest paid	(112)	0	0	0
Net cash inflow (outflow)	0	63	(1)	208
Beginning cash & cash equivalent	142	152	215	214
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	133	215	214	421

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	7.2	11.0	12.8	12.8
Pre-tax margin	(0.6)	7.6	10.0	10.2
Net margin	0.6	6.2	8.2	8.4
ROA	0.4	5.3	8.6	8.8
ROE	1.2	13.7	20.1	18.0
<b>Growth</b>				
Turnover	(23.6)	27.9	35.7	4.8
EBITDA	(48.2)	95.8	56.9	5.5
Pre-tax profit	(107.9)	(1,739.9)	78.2	7.2
Net profit	(92.5)	1,197.9	79.0	7.2
EPS	(91.5)	1,197.9	79.0	7.2
<b>Leverage</b>				
Debt to total capital	(0.4)	(0.3)	(0.3)	(0.2)
Debt to equity	(1.0)	(0.8)	(0.6)	(0.4)
Net debt/(cash) to equity	0.9	0.7	0.5	0.2
Interest cover (x)	0.3	2.8	5.5	6.7

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