

Weekly Informer

1st August 2019

EUROZ

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The Weekly Informer is Euroz Securities' weekly research clearing document. It includes research notes on stocks within the coverage universe published during the preceding week. The Weekly Informer is published mid-week

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Quick Comment

OM Holdings Ltd (OMH \$0.80) Buy

Analyst	Date	Price Target
Michael Emery	30 th July 2019	\$1.80/sh

June'19 Quarterly

Key Points

- OMH has released another strong Q production and sales result, as well as an impressive 23.8% Q on Q improvement in marketing and trading (516kt vs 417kt prev. Q), due to a net increase of third party ores traded;
- Sarawak (OMH 75%) smelting operations continue to perform above nameplate capacity, producing 58kt of FeSi (up 3% vs 56kt Mar Q) and 63kt of Mn alloys (up 6% vs 59kt Mar Q);
- Sales from Sarawak improved with FeSi sales of 58kt (up 14% vs 52kt Mar Q) and Mn alloy sales of 62kt (up 24% vs 51kt Mar Q), mainly due to two shipments that were scheduled for end of Mar being delayed to start of April;
- Mn ore production at Bootu Ck improved 18% (195kt @ 35.73% vs 165kt @ 35.48% prev. Q) despite a process plant yield of 39.8% vs budget 41% due to limited availability of blending material for the highly siliceous Tourag ore;
- Total material movement at Bootu Ck improved 41% Q on Q to 2.6Mbcm, however ore mined reduced 16% from prev. Q (357kt vs 426kt Mar Q) due to completion of Tourag Stage 6 pit and Chugga Far North D pit;
- Tailings Retreatment Plant assembly underway at Bootu Ck, with final on-site commissioning expected within next two weeks;
- While we have limited optics on financials until HY reporting, we expect softer pricing for Mn ore and alloys throughout the June H to be partially offset by higher volumes;
- 44% Mn ore prices have decreased 11% Q on Q (US\$5.74/dmtu vs US\$6.46/dmtu) due to elevated port stock in China, while FeSi prices have decreased 5% Q on Q (US\$1,110/t vs US\$1,170/t) as a result of increased production rates from Chinese FeSi producers;
- OMH's 13% stake in the Tshipi Mn mine delivered a ~US\$10.6m special dividend for the Company in June, with a further dividend expected in H1FY20, subject to Mn prices;
- As previously announced, the significant sustainable turnaround in OMH in CY18 resulted in a final A\$0.02/sh dividend paid to shareholders in May'19 (~A\$15m);
- During the Q OMH entered into a farm-in/JV agreement with Bryah Resources Ltd (ASX:BYH) for the Bryah Basin Manganese Project in WA, with Stage 1 of exploration drilling intersecting mineralisation from surface at Brumby Ck. Stage 2 follow up drilling was completed 3 July'19 with results pending;
- We believe that Mn ore and alloy prices have bottomed and that OMH's moat around Sarawak power pricing will continue to protect financial results. We therefore continue to see good upside from current prices, maintaining our Buy recommendation and PT of \$1.80/sh.

Investment Thesis

Strong production results continue from OMH with operations performing at or above capacity. OMH's flagship Sarawak smelting complex in Malaysia remains a world class low cost producer of ferroalloys (FeSi, SiMn & HCFeMn) and, despite recent weaker commodity prices, we expect financial results to be somewhat protected by Sarawak's attractively priced, long term hydro-electricity supply. Current SP weakness provides an opportunity as we believe Mn ore and alloy prices have bottomed. Buy maintained, with PT of \$1.80/sh.

OM Holdings Ltd (OMH)

Share Price	0.80	A\$/sh	Enterprise Value	903	A\$/m
Price Target	1.80	A\$/sh	Debt (attr)	385	A\$/m
Valuation	1.72	A\$/sh	Cash	92	A\$/m
Shares on issue	751	m(dil)	Largest Shareholder	Huang Gang	12.1%
Market Capitalisation	610	A\$m			

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