

OM Holdings Ltd

(OMH \$0.88) Buy - Re-Initiation of Coverage

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	29 th June 2021	\$1.19/sh

Second derivative on global steel demand.

Event

We re-initiate coverage on OMH. OMH supplies alloys to the steel industry, and hence is a second derivative play on global steel demand. It is a niche market, with its own supply constraints, intricacies and strategic value. Manganese and ferrosilicon are integral to global steel and cannot be substituted.

Impact

OMH is a manganese alloy and ferrosilicon smelter with high financial and operating leverage.

OMH operates in the lowest cost quartile, and hence while earnings leverage is high, it always generated a gross profit. The upside earnings leverage is very high.

The main asset, Sarawak, is currently on care and maintenance due to Malaysian Covid-19 restrictions.

Selling prices for OMH's main products have recently increased significantly – and if they remain high the Company will generate super profits once back in operations.

On spot smelter prices, we estimate CY22 EBITDA of A\$265m (base estimates ~\$135m). Peak recent gross profit excluding mining was A\$244m in CY18, and the lowest was \$82m in CY20, and so these estimates appear very reasonable.

Action

We have a \$1.19/sh price target. If selling prices remain strong once the smelter restarts, then there is significant valuation appeal above our price target. Our recommendation is based on speculating that selling prices will remain very strong, but will dip from current levels. Our spot price valuation is \$2.07.

At spot prices, EBITDA margins and pre-tax ROIC are >25%. These appear unsustainable in the long run, but we are seeing super profits across some other industries, and hence its plausible they remain higher for longer.

The stock currently trades on CY22 EV/EBITDA of 7.4x base case, and only 3.8x on spot prices.

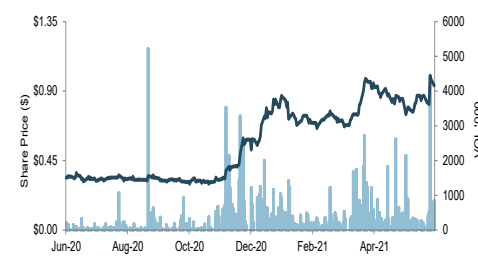
Key Catalyst

- Restart of Sarawak post covid-19 restrictions: July
- Q2 production: July
- Receipt of first offtake product from E25.asx: August
- 1H21 earnings results: August
- Tax free status on Sarawak ends: 30 November
- FID on Sarawak expansion: end CY21
- Bootu Creek Reserve: end CY21
- Bootu Creek moves to tails reprocessing & ultra-fines only: Mar Qtr 2021

OM Holdings Ltd	Year End 30 June	
Share Price	0.88	A\$/sh
Price Target	1.19	A\$/sh
Valuation (DCF)	0.85	A\$/sh
WACC	10%	
Terminal Growth	0%	
Shares on issue	739 m, diluted	
Market Capitalisation	650.0	A\$m
Enterprise Value	1,002.4	A\$m
Cash (31 Dec 20a)	63.0	A\$m
Debt (31 Dec 20a)	415.5	A\$m

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	784.6	765.6	926.6
EBITDA (A\$m)	82.0	104.0	135.1
EBITA (A\$m)	26.6	50.4	82.3
Reported NPAT (A\$m)	-3.8	24.2	40.2
Normalised NPAT (A\$m)	-3.1	16.9	40.2
Op Cashflow (A\$m)	76.6	64.4	44.8
Capex (A\$m)*	-16.9	-13.9	-69.6
Op. Free Cashflow (A\$m)	59.7	50.6	-24.9
Revenue Growth (%)	-24%	-2%	21%
EBITDA Growth (%)	-47%	27%	30%
Norm. NPAT Growth (%)	-74%	90%	63%
Normalised EPS (Ac)	-0.9	2.2	5.4
Norm. EPS growth (%)	nm	nm	143%
PER (x)	nm	39.3	16.2
EV:EBITDA (x)	12.2	9.6	7.4
EV:EBIT (x)	37.7	19.9	12.2
DPS (Ac)	0.0	0.0	2.0
Dividend Yield (%)	0.0%	0.0%	2.3%
Net Debt (A\$m)	352.0	301.4	333.7
Net Debt:Equity (%)	75%	61%	64%
Interest Cover (x)	0.9	1.9	3.3

Share Price Chart



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Financial Statements	2019A	2020A	2021F	2022F	Performance Ratios	2019A	2020A	2021F	2022F
Selling Price FeSi (US\$)	1585	1459	1442	1379	Growth & Margins				
Selling Price HCFMn (US\$)	1447	1295	1380	1300	Revenue Growth		-24%	-2%	21%
Sarawak					EBITDA Growth		-47%	27%	30%
FeSi - 100%	220	172	118	189	EBITA Growth		-74%	90%	63%
Mn Alloys - 100%	240	236	208	300	Reported NPAT Growth		nm	nm	66%
EBITDA - 75%	65.9	50.0	73.2	89.2	Normalized Net Profit Growth		nm	nm	137%
Qinzhou					EBITDA margin		10%	14%	15%
FeSi - 100%	-	-	-	-	EBIT margin		3%	7%	9%
Mn Alloys - 100%	42	10	31	48	Normalized net profit margin		0%	2%	4%
EBITDA	-4.1	-6.1	9.5	12.2	Effective tax rate		37%	0%	30%
Bootu Ck					Liquidity				
Mt	0.62	0.64	0.80	0.40	Capex/depreciation (x)		1.5	0.3	0.3
EBITDA	36.7	1.2	-0.8	5.9	Current ratio (x)		0.7	0.9	1.1
Logistics, marketing and trading					Quick ratio (x)		0.2	0.3	0.5
Volumes pcp %		13.1%	17.6%	0.0%	Receivable days		13.4	29.3	30.0
EBITDA	21.4	32.1	19.3	23.4	Payable days		13.6	15.9	15.0
Tshipi - 13% (Assoc. Income)	30.4	16.5	14.8	18.2	Risk Measures				
Group Revenue	1,026.5	784.6	765.6	926.6	Payout ratio (%)		4%	0%	0%
growth	-23.6%	-2.4%	21.0%	21.0%	Net interest cover (x)			0.9	1.9
EBITDA - Divisions	150.3	93.8	116.0	148.9	Net debt/nd+equity (%)			43%	38%
EBITDA - Group	156.0	82.0	104.0	135.1	Returns				
growth	-47%	27%	30%	30%	ROIC (pre-tax)			0%	4%
EBITDA / Sales	15.2%	10.5%	13.6%	14.6%	Return on Assets			0%	2%
Depreciation/Amortisation	-53.7	-55.4	-53.6	-52.7	Return on Equity			-1%	4%
- depreciation	-53.7	-55.4	-53.6	-52.7					
- amortisation	0.0	0.0	0.0	0.0	Share Data/Valuation				
EBITA	102.3	26.6	50.4	82.3	Share Data				
EBITA / Sales		3.4%	6.6%	8.9%	Issued shares (m)		738.6	738.6	738.6
Net Interest	-32.2	-28.8	-26.3	-25.0	Weighted ave shares (m)		136.7	330.1	738.6
Norm. Pretax Profit pre Amort	70.1	-2.3	24.2	57.4	Fully diluted shares (m)		136.7	330.1	755.0
- margin		-0.3%	3.2%	6.2%	Basic EPS (c)		40.6	-1.2	3.3
Norm Tax	3.4	-0.8	-7.3	-17.2	YoY change (%)			nm	nm
Effective Tax Rate	-4.8%	-36.9%	30.0%	30.0%	Fully diluted EPS (c)		40.6	-1.2	3.2
NPAT Pre Minorities	73.5	-3.1	16.9	40.2	YoY change (%)			nm	nm
Minorities	0.0	0.0	0.0	0.0	Fully diluted normalised EPS (c)		53.8	-0.9	2.2
Normalised NPATA to equity	73.5	-3.1	16.9	40.2	YoY change (%)			nm	nm
Norm. Net Profit / Sales	-0.4%	2.2%	4.3%	4.3%	Dividend/share (c)		2.00	0.00	2.00
Abnormals / discontinued	-18.0	-0.7	7.3	0.0	Franking (%)		100%	0%	0%
Reported Profit to equity	55.5	-3.8	24.2	40.2	Gross cashflow/share (c)		72.2	23.2	8.7
margin		-0.5%	3.2%	4.3%	NBV/share (\$)		0.69	0.63	0.67
					NTA/Share (\$)		0.69	0.63	0.67
Cash flow (A\$m)	2019A	2020A	2021F	2022F	Valuation				
Cash receipts	1,026.5	784.6			PER (Basic) (x)		2.2	nm	26.9
EBITDA	156.0	82.0	104.0	135.1	PER (Fully diluted) (x)		2.2	nm	27.5
Working Capital Change	5.7	30.3	-13.3	-48.1	PER (Fully diluted, normalized) (x)		1.6	nm	39.3
Cash from Operations	161.7	112.3	90.7	87.0	P/CFPS (x)		1.2	3.8	10.1
Net interest Paid	-32.8	-29.3	-26.3	-25.0	Price/NBV (x)		1.3	1.4	1.3
Tax Paid	-30.2	-6.4	0.0	-17.2	Price/NTA (x)		1.3	1.4	1.3
Net Operating Cash Flow	98.7	76.6	64.4	44.8	Dividend Yield (%)		227.3%	0.0%	0.0%
Capex	-82.9	-16.9	-13.9	-69.6	EV/EBITDA (x)		6.4x	12.2x	9.6x
Asset Sales	0.1	0.0	0.0	0.0	EV/EBIT (x)		9.8x	37.7x	19.9x
Other (inc Investments)	0.0	-0.5	0.0	0.0	EV/Revenue (x)		1.0x	1.3x	1.3x
Net Investing Cash Flow	-42.5	-11.3	-13.9	-69.6	Other Information				
Proceeds from Equity Issues	22.5	0.0	0.0	0.0	Estimated free float:				90.8%
Net Change in Debt & Leases	-53.0	-28.7	-20.0	-20.0	12-mth High/Low (A\$/sh)				\$1 - \$0.29
Dividends Paid	-23.3	-7.4	0.0	-7.4	Average daily volume (A\$m)				0.30
Net Financing Cash Flow	-53.8	-36.1	-20.0	-27.4	ASX Code				OMH
Movement in Cash	2.4	29.2	30.6	-52.3	Next result				Aug-21
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	Company Description				
Ratio PPE to deprec. (yrs)	13.8	11.6	11.3	11.8	OMH is a manganese and silicon smelter with high financial and operating leverage.				
Balance Sheet (\$m)	2019A	2020A	2021F	2022F	OMH operates in the lowest cost quartile, and hence while earnings leverage is high, it historically has always been profitable. The upside earnings leverage is very high.				
Cash	63.7	63.0	93.6	41.4					
Receivables	37.8	63.0	62.9	76.2					
Inventories	228.3	216.3	201.2	240.8					
Other	4.8	5.4	5.4	5.4					
Total Current Assets	334.6	347.7	363.1	363.7					
Property, Plant & Equipment	740.4	645.1	605.4	622.3					
Intangibles	0.0	0.0	0.0	0.0					
Other	127.8	140.6	140.6	140.6					
Total Non Current Assets	868.2	785.7	746.0	762.9					
Total Assets	1,202.7	1,133.4	1,109.2	1,126.7					
Accounts Payable	60.2	54.8	26.3	31.1					
Interest Bearing Liabilities	385.5	288.3	288.3	288.3					
Other	29.4	23.2	23.2	23.2					
Total Current Liabilities	475.2	366.3	337.9	342.6					
Accounts Payable	113.2	155.8	155.8	155.8					
Interest Bearing Liabilities	88.4	126.8	106.8	86.8					
Other	18.2	16.4	16.4	16.4					
Total Non Current Liabilities	219.7	298.9	278.9	258.9					
Total Liabilities	694.9	665.2	616.8	601.5					
Net Assets	507.9	468.2	492.4	525.2					
Net Debt (net cash) inc AASB16	417.3	353.7	303.1	335.4					
Net Debt (net cash)	410.2	352.0	301.4	333.7					

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Analysis

OMH is a manganese alloy and ferrosilicon smelter

The main asset is the 75% interest in the large Sarawak smelter in Malaysia.

It also has a (100%) smaller smelter in China (Qinzhou).

OMH owns the Bootu Creek manganese mine in Australia, but this is close to depletion and production will be much lower from CY22 onwards as it moves from primary mining to reprocessing tailings into ultra fines product.

The Company has a 13% interest in the Tshipi manganese mine in South Africa. This is an economic interest, and although the marketing arm of OMH trades the product, it is not purchased to process in its own smelters. Sarawak consumes around 500ktpa of manganese ore pa, and so 13% of Tshipi is around an 80% virtual hedge.

Trading / marketing and logistics for customers and third parties is a large inter-segment contribution to earnings.

The Company also has investments in BYR.asx and the 701 Mile Manganese project which are both advanced exploration assets.

OMH has high financial leverage (net debt A\$352m at 31 December), but at current selling prices free cash flow is very significant. On our base case prices, the Company generates enough free cash flow to repay the debt.

OMH Main Assets

Exploration & Mining	Smelting & Sintering	Marketing & Trading
Bootu Creek - Australia (100%) Manganese ore: 0.8 Mtpa Tshipi Borwa - South Africa (13%*) Manganese ore: 3.0-3.6 Mtpa <small>* Effective interest held via J/V with Ntsimbintle (a BEE group)</small>	Qinzhou - China (100%) Mn alloy: 80ktpa Sinter ore: 300ktpa Sarawak - Malaysia (75%*) Mn alloy: 250-300ktpa Ferrosilicon: 200-210ktpa Sinter ore: 250ktpa (estimated production capacity) <small>* J/V with conglomerate Cahya Mata Sarawak, listed on Bursa Malaysia</small>	Singapore/China (100%) Global sales and procurement Manganese ore, Ferrosilicon, Silicomanganese, Ferromanganese, Quartz, Reductants (coke, coal), Fe units

Source: OMH

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SARAWAK SMELTER (75%)

Sarawak is a 75/25 JV with Cahya Mata Sarawak Berhad (CMSB), a listed industrial conglomerate on Bursa Malaysia.

Sarawak first production was tapped in 2014. The plant consists 16 furnaces, 8 are soon to be allocated for the production of Ferrosilicon, and 8 for the production of manganese alloys (currently 10 are allocated to Ferrosilicon).

The plant is run on renewable hydro-power, making it very low cost. It has a 20-year secure and competitive power supply for an energy intensive industry. The contract is take-or-pay, and OMH has built an inventory of prepaid electricity given it has not used all the allocated power.

It is also in the centre of South East Asia and well sited along global trade routes.

The smelter makes three products - HCFMn (High carbon ferromanganese), SiMn and FeSi. The HCFMn and SiMn products can be switched quickly. To switch production from FeSi though takes several months. The current preference is towards manganese alloys (over FeSi) as the margins are higher despite the lower selling prices (manganese alloys are less energy intensive and hence higher quantities can be made with the same energy input).

The Company intends to expand Sarawak manganese alloy production by 150ktpa. We model A\$150m capex in CY22/23 for expanded production in late CY23.

Sarawak

OM Sarawak – 75% Owned
Location: Sarawak, Malaysia
Product: FeSi, Manganese alloys (SiMn, HCFMn), Sinter ore
Furnaces: 16 x 25.5 MVA furnaces
Capacity: 200-210ktpa of FeSi, 250-300ktpa of manganese alloys, 250ktpa of Sinter ore

75% owned, J/V with Cahya Mata Sarawak Berhad, a leading industrial conglomerate listed on Bursa Malaysia

Source: OMH

Sarawak



Source: OMH

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QINZHOU SMELTER (100%)

Wholly owned smelter in Qinzhou, China. First production was tapped in 2004. Equipment consists of one 25.5 MVA and 16.5 MVA furnaces and two sinter lines.

Qinzhou

OM Qinzhou – 100% Owned
Location: Guangxi, China
Product: Manganese alloys (SiMn, HCFeMn), Sinter ore
Furnaces: 1 x 16.5 and 1 x 25.5 MVA furnaces
Capacity: 80-95ktpa of manganese alloys, 300ktpa of Sinter ore

Source: OMH

Qinzhou



Source: OMH

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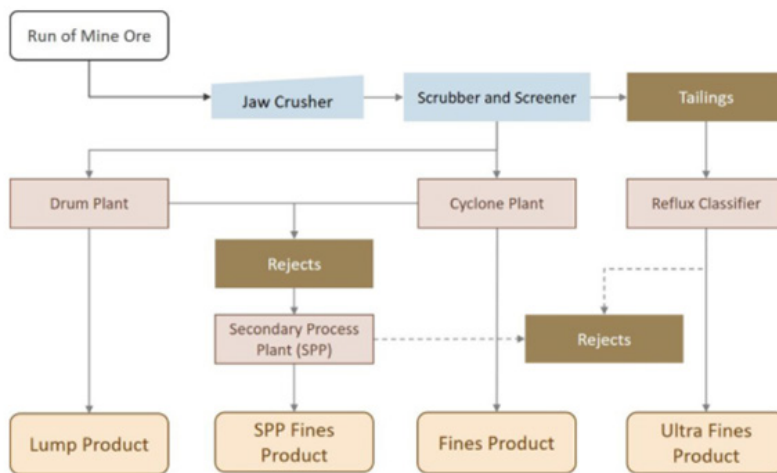
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BOOTU CREEK (100%)

The Bootu Creek manganese ore mine is in Northern Territory, Australia. The mine is located 110km north of Tennant Creek in the Northern Territory of Australia, and exported its first shipment of ore in 2006. Capacity is 800ktpa and produces a siliceous ore particularly suited for use in the production of silico-manganese. The mine is depleting, but reprocessing of tailings to create an ultra fines product is expected to yield 250,000 metric tonnes of fines per annum for another seven years.

Bootu Creek



Source: OMH

Bootu Creek Reserves

Deposit sites	*Proved		*Probable		Combined	
	'million tonnes	% Mn*	'million tonnes	% Mn*	'million tonnes	% Mn*
Chugga Far North	0.23	21.24	0.52	21.17	0.75	21.19
Masai 5	-	-	-	-	-	-
Skekuma	0.10	20.99	0.41	23.11	0.51	22.70
Tourag	0.34	20.97	0.33	21.02	0.67	20.99
ZuluSouth	-	-	-	-	-	-
Renner West	-	-	-	-	-	-
Insitu Reserve	0.67	21.06	1.26	21.76	1.93	21.52
ROM Stocks ⁽¹⁾	0.16	14.31	-	-	0.16	14.31
SPP Stocks ⁽¹⁾	0.47	15.76	-	-	0.47	15.76
UFP Tailings ⁽¹⁾	-	-	3.09	10.99	3.09	10.99
UFP Rejects ⁽¹⁾	-	-	3.18	13.97	3.18	13.97
Total Reserve	1.30	18.33	7.53	14.05	8.83	14.68

(Source: OMH 2020 Annual Report)

Notes:-

- * The terms used in the table above represent the following:-
 - (i) **"Proved"** are restricted to in-situ resources contained within open pit mines plus ore stocks on the surface
 - (ii) **"Probable"** are restricted to indicated resources contained within mines
 - (iii) **"% Mn"** refers to percentage of manganese content
- (1) ROM Stocks refer to raw product of a mine, before treatment of any sort. SPP Stocks, UFP Tailings and UFP Rejects refer to fines and ultra fines which are by-products from the Bootu Creek Mine primary processing plant.

Source: OMH

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TSHIPI BORWA (13%)

OMH has an effective 13% interest in the Tshipi Borwa mine (via 26% interest in NMPL, which owns 50.1% of Tshipi). The JV partner in NMPL is Ntsimbintle, which is also major shareholder of JMS.asx. JMS.asx is the operator of the mine.

TRADING, MARKETING AND LOGISTICS

OMH provides logistics to clients and sourcing and trading of product (for clients and on principal). This is a large earnings contributor. Profitability moves in line with revenue for the other parts of the business.

INDUSTRY EXPOSURE

OMH is a supplier to the steel industry, and hence is exposed to the demand for steel. More specifically, it is exposed to the manganese and Ferrosilicon markets.

OMH smelter products



Manganese Alloys

Main alloying element – **Manganese**

- Deoxidises and desulphurises steel
- Acts as a hardening agent
- No known substitute and cannot be recycled
- 6 manganese alloys furnaces

Products: **Ferro-manganese**,
Silico-manganese



Silicon Alloys

Main alloying element – **Silicon**

- Deoxidises steel
- Used in specialty electrical steels for transformers
- No known substitute and cannot be recycled
- 10 ferrosilicon furnaces

Products: **Ferrosilicon**

Source: OMH

GEOGRAPHIC EXPOSURE

The main asset is located in Malaysia, but it also has economic exposure to Australia, South Africa and China.

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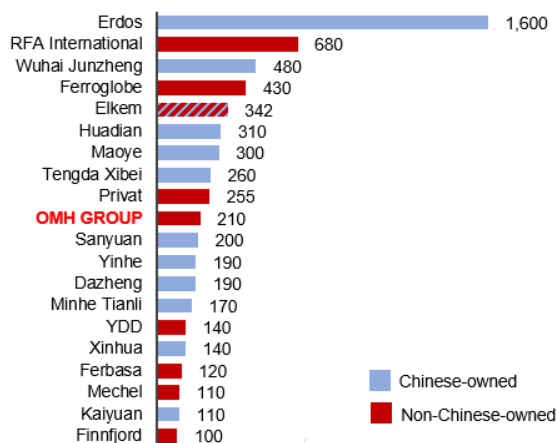
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PEERS AND COMPETITORS

FeSi peers

Largest global FeSi producers by capacity, 2020
(thousand tons per year ("ktpy"))
(basis 75% Si content)

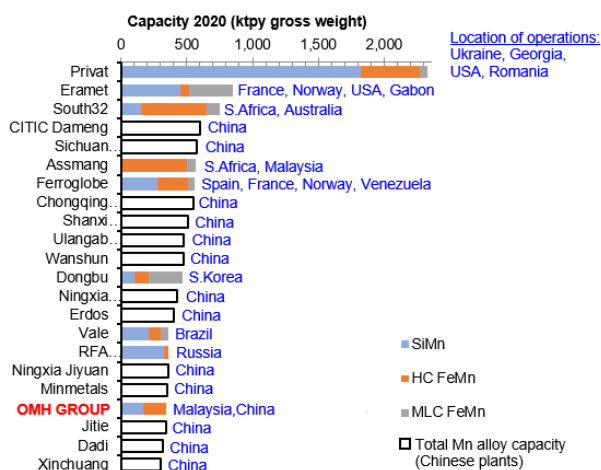


Note: FeSi producers have been ranked by capacity rather than production because capacity utilisation at FeSi plants is often highly variable from year-to-year, especially in China. As such, the actual production figures for many FeSi producers are not available. The data also excludes any capacity judged to be long-term idle.

Source: OMH Prospectus

Mn Alloy peers

Largest global Mn alloy producers by capacity, 2020
(ktpy)



Source: AlloyConsult, Roskill, Ferroalloy.net, Metal Expert, company reports, industry sources

Source: OMH Prospectus

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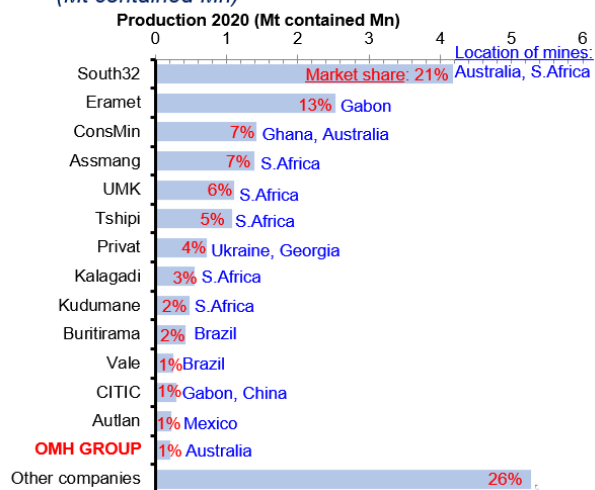
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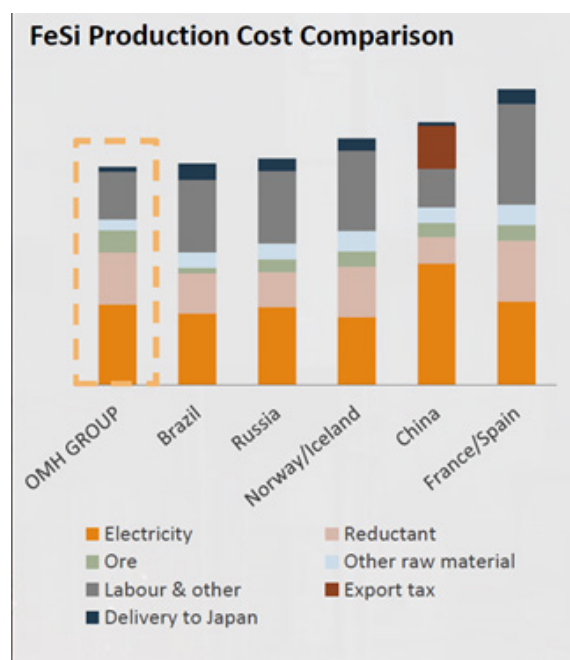
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Manganese Ore peers

Estimated Mn ore production by company, 2020
(Mt contained Mn)

Source: OMH Prospectus

Competitive cost structure



Source: OMH

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KEY SUPPLIERS & CUSTOMERS

Key customers are steel mills and foundries. In CY20, the largest customers were Hanwa Group, JFE Shoji Corp and Posco.

OMH purchases manganese from its Bootu creek mine and from the spot market.



Source: OMH Prospectus

Take or Pay agreement

Sarawak has a take or pay agreement for electricity from SESCO. The agreement is for 350Mw in aggregate, expiring end 2033 (with option to extend to 2053). Both parties have potential for liquidated damages if they do not honour the contract. Sarawak is liable for the full take or pay (350Mw) over the life of contract, unless mutually agreed. The contract is equal to the annual power requirements if Sarawak operates at practical full utilisation, however if it operates below utilisation (unplanned shutdowns, tie-ins, line conversions etc) it will not meet the obligations. So far, Sarawak is behind budget and hence OMH carries value of power inventory (power paid under the take-or-pay agreement which was not used) on the balance sheet. This can only be used (realised) if Sarawak burns through its take-or-pay obligations. The Sarawak expansion (expected to be on-line in 2023) will burn through the power inventory on balance sheet.

Management, Directors and Major Shareholders

Economic Exposure of Board and key management		Total options or LTI potential	Shares #	Total Economic Exposure millions	rank
Position					
Directors					
Low Ngie Tong	Executive Chairman	0	68,110,631	68,110,631	1
Zainul Abidin Rasheed	Non-Executive Director	0	0	0	4
Julie Anne Wolseley	Non-Executive Director	0	5,562,002	5,562,002	2
Peng Chin Tan	Non-Executive Director	0	2,020,000	2,020,000	3
Thomas Teo Liang Huat	Non-Executive Director	0	0	0	4
Abdul Bin Sh Mohamed	Non-Executive Director	0	0	0	4
Liang Huat Teo	Non-Executive Director	0	0	0	4
Ming-Li Tan	Non-Executive Director	0	0	0	4

Source: OMH

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MAJOR SHAREHOLDERS

There are several substantial shareholders.

Substantial S/holders	
Huang Gang	14.0%
Marc Chan, Amplewood Re	13.6%
LowNgee Tong (exec chair)	9.2%
Heng SiowKwee	8.9%

Source: OMH

OPTIONS, CONVERTIBLES AND UNPAID CAPITAL

The capital structure has only ordinary shares.

FINANCIALS

PRODUCTION / PROFIT & LOSS

Fig. 1: Historic Profit and Loss

	Audited			
	FYE 31 December			
	2017	2018	2019	2020
	(A\$'000)	(A\$'000)	(A\$'000)	(A\$'000)
Revenue	988,182	1,510,416	1,026,454	784,633
GP	209,585	353,288	152,453	96,262
Profit/(Loss) from operations	51,479	189,969	28,540	(21,181)
Share of results from associates	21,138	46,958	30,381	16,525
PBT/LBT	72,617	236,927	58,921	(4,656)
Profit/(loss) attributable to:				
Owners of the Company	92,656	161,722	56,641	5,352
Non-controlling interests	(1,282)	22,935	(569)	(8,290)
PAT/LAT	91,374	184,657	56,072	(2,938)
EBITDA ('000) ⁽¹⁾	186,195	339,775	154,602	81,239
GP margin (%)	21.2	23.4	14.9	12.3
PBT margin (%)	7.4	15.7	5.7	N/A
PAT margin (%)	9.3	12.2	5.5	N/A
EBITDA margin (%)	18.8	22.5	15.1	10.4
Basic EPS (cents) ⁽²⁾	12.7	22.1	7.7	0.7
Diluted EPS (cents) ⁽³⁾	12.1	21.8	7.7	0.7
Current ratio (times)	1.5	1.8	1.5	1.2
Gearing (times)	1.8	1.1	0.9	0.9

Notes:-

- (1) The reconciliation of our PBT to EBITDA is set out in **Section 12.1** of this Prospectus.
- (2) Basic EPS is computed based on PAT attributable to the owners of the Company divided by the weighted average number of shares in issue during each financial period under review.
- (3) Diluted EPS is computed based on PAT attributable to the owners of the Company divided by the weighted average number of shares in issue during each financial period under review adjusted for the effects of all dilutive instruments (where applicable).

N/A Not applicable.

Source: OMH

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BALANCE SHEET

Fig. 2: Balance Sheet

Balance Sheet (\$m)	12/19A	6/20A	12/21F	12/22F	12/23F
Cash	63.7	63.0	93.6	41.4	145.8
Receivables	37.8	63.0	62.9	76.2	76.9
Inventories	228.3	216.3	201.2	240.8	245.1
Other	4.8	5.4	5.4	5.4	5.4
Total Current Assets	334.6	347.7	363.1	363.7	473.2
Property, Plant & Equipment	740.4	645.1	605.4	622.3	637.3
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	127.8	140.6	140.6	140.6	140.6
Total Non Current Assets	868.2	785.7	746.0	762.9	778.0
Total Assets	1,202.7	1,133.4	1,109.2	1,126.7	1,251.2
Accounts Payable	60.2	54.8	26.3	31.1	31.7
Interest Bearing Liabilities	385.5	288.3	288.3	288.3	288.3
Other	29.4	23.2	23.2	23.2	23.2
Total Current Liabilities	475.2	366.3	337.9	342.6	343.2
Accounts Payable	113.2	155.8	155.8	155.8	155.8
Interest Bearing Liabilities	88.4	126.8	106.8	86.8	186.8
Other	18.2	16.4	16.4	16.4	16.4
Total Non Current Liabilities	219.7	298.9	278.9	258.9	358.9
Total Liabilities	694.9	665.2	616.8	601.5	702.1
Net Assets	507.9	468.2	492.4	525.2	549.1
Net Debt (net cash) inc AASB16	417.3	353.7	303.1	335.4	330.9
Net Debt (net cash)	410.2	352.0	301.4	333.7	329.2

Source: Hartleys, Euroz Hartleys

Fixed Assets

OMH has substantial fix assets, mainly the Sarawak smelter.

Debt

The borrowings as at 31 December 2020 comprised US\$281.0 million (equivalent to approximately A\$364.9 million) of Sarawak Project Finance loans. The loan is amortising and there were US\$16m or repayments made in CY20. There is an additional -A\$110m of loans bringing the total borrowings to A\$473.9m at December 2020.

Bank Debt

21.2 Bank loans				
The Group	2020 A\$'000	2019 A\$'000	2018 A\$'000	2017 A\$'000
Bank loans, unsecured	3,796	-	-	-
Bank loans, secured [Note (a)]	6,764	2,044	-	7,048
Bank loans, secured [Note (b)]	366,362	435,578	472,246	415,464
Bank loans, secured [Note (c)]	1,622	-	-	41,641
	378,544	437,622	472,246	464,153
Amount repayable not later than one year	103,184	80,573	71,684	36,715
Amount repayable after one year:				
Later than one year and not later than five years	275,360	344,392	212,289	277,235
Later than five years	-	12,657	188,273	150,203
	275,360	357,049	400,562	427,438
	378,544	437,622	472,246	464,153

Source: OMH prospectus

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Hedging

There is no hedging. However, Sarawak consumes around 500ktpa of manganese ore pa, and so the 13% ownership of Tshipi is around an 80% virtual/imperfect hedge. Power prices are almost fixed (there are some limited mechanisms for them to be increased) under the take or pay contract.

CASH FLOW**Fig. 3: Cash Flow Statement**

Cashflow Statement (\$m)	12/19A	12/20A	12/21F	12/22F	12/23F
Cash receipts	1,026.5	784.6			
EBITDA	156.0	82.0	104.0	135.1	137.9
Working Capital Change	5.7	30.3	-13.3	-48.1	-4.5
Cash from Operations	161.7	112.3	90.7	87.0	133.5
Net interest Paid	-32.8	-29.3	-26.3	-25.0	-27.6
Tax Paid	-30.2	-6.4	0.0	-17.2	-16.8
Net Operating Cash Flow	98.7	76.6	64.4	44.8	89.1
Capex	-82.9	-16.9	-13.9	-69.6	-69.4
Asset Sales	0.1	0.0	0.0	0.0	0.0
Other (inc Investments)	0.0	-0.5	0.0	0.0	0.0
Net Investing Cash Flow	-42.5	-11.3	-13.9	-69.6	-69.4
Proceeds from Equity Issues	22.5	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	-53.0	-28.7	-20.0	-20.0	100.0
Dividends Paid	-23.3	-7.4	0.0	-7.4	-15.2
Net Financing Cash Flow	-53.8	-36.1	-20.0	-27.4	84.8
Movement in Cash	2.4	29.2	30.6	-52.3	104.5
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0
Ratio PPE to deprec. (yrs)	13.8	11.6	11.3	11.8	11.7

Source: Hartleys, Euroz Hartleys

Capex requirements

Maintenance capex is modest. However, the expansion of Sarawak requires A\$150m (OMH share ~A\$110m), likely to be spent in CY22.

Free cash flow

We estimate significant free cash flow, although CY22 could be more modest if the expansion of Sarawak occurs. On spot prices, cash flow will be very strong.

Dividends

OMH has a track record of dividends, which we expect to continue in CY22. There is no formal dividend policy.

FX exposure

Costs are in USD, AUD, RMB and MYR. Most of the debt is denominated in USD, with a small proportion in MYR.

Interest Rate exposure

Given the size of the net debt position, OMH free cash flow is sensitive to changes in interest rates.

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Commodity price exposure

Manganese Alloys

Manganese alloys are a group of ferroalloys with manganese as the main alloying element. They are essential for the most basic form of steel making and serve to remove sulphur and oxygen from molten steel, at the same time improving physical properties such as hardness. Beyond crude steel, manganese can be used in high strength industrial manganese steels that contain up to 10-15% manganese. There are no known substitutes of manganese alloys, and manganese alloys cannot be recycled.

High Carbon Ferromanganese (HC FeMn) and Silicomanganese (SiMn) are manganese alloys produced at smelters located in Qinzhou and Sarawak.

- HCFMn is 75% Mn and balance Fe. It is generally favoured by blast furnaces.
- SiMn is 65% Mn, 16% Si and balance is Fe. It is a more liquid market and generally favoured by electric arc furnace mills.

Manganese alloy market

MANGANESE ORE AND ALLOY MARKET REVIEW

Strong demand from steel makers and constrained supply supported prices in Q1



Source: OMH

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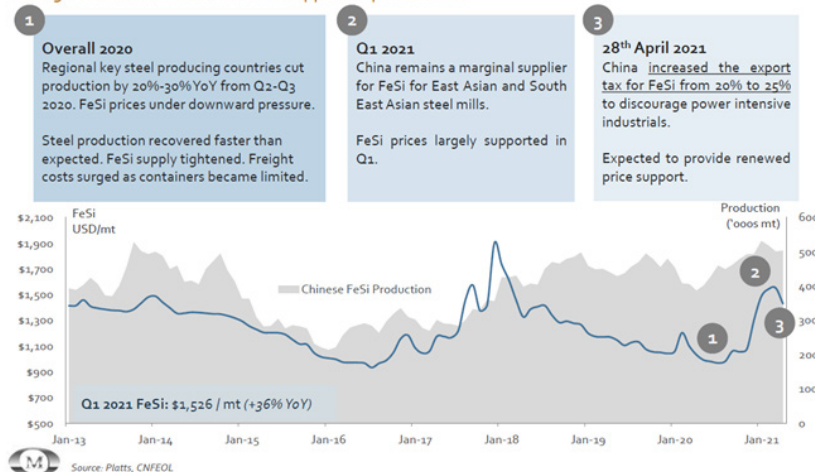
Silicon Alloys

Ferrosilicon (FeSi) and refined grades of FeSi are silicon alloys produced at the Sarawak smelter. Silicon alloys are a group of ferroalloys with silicon as the main alloying element. It is different from manganese alloys in that it consumes quartz (silicon dioxide) as a raw material. It is used to deoxidize molten steel for the production of crude steel. Silicon alloys also have a particular application in electrical steels, where silicon induces magnetic properties required in transformers. FeSi is also used in the industrial production of magnesium, which requires one metric ton of FeSi for every ton of magnesium. There are no known substitutes of silicon alloys, and silicon alloys cannot be recycled.

FeSi market

FERROSILICON MARKET REVIEW

Strong demand from steel makers supported prices in Q1



Source: OMH

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VALUATION

We have a base valuation of \$0.85/sh. This is based on NPV of the smelters and Bootu Creek. The largest contribution is the 75% interest in Sarawak. We assume long run FeSi prices of US\$1,350/t and HCFMn prices of US\$1,050/t. This is well lower than current spot prices of US\$1,700/t and US\$1,500/t respectively. Our spot valuation is \$2.06.

We value marketing at 9x expected EBITDA. Our Tshipi valuation is based on our base DCF for the mine. This is higher than the look through value of JMS.asx. Our Bootu Creek valuation is arguably conservative, and is based on the assumption that costs will be high and there will be minimal exploration success. We assume the operation will continue to be operated if at minimal margins in order to provide feed for the smelters.

Base valuation Price Target

Asset	A\$m	A\$/shr
75% Sarawak	755.9	1.02
100% Qinzhou	55.8	0.08
100% Bootu Ck	101.1	0.14
100% Marketing	217.7	0.29
13% Tshipi	265.7	0.36
Future Tax	-418.8	-0.57
Net Debt	-352.4	-0.48
Total	624.9	0.85

Source: Hartleys Euroz Hartleys

Price Target

Our price target is based on weighted scenarios, including spot valuation.

OMH Price Target Methodology	Weighting	Spot	12 mth out
Sum-of-parts	50%	\$0.85	\$0.87
- at Spot prices	15%	\$2.07	\$2.26
12mth base EV/EBITDA of 12x (high)	8%	\$1.51	\$1.77
12mth base EV/EBITDA of 4x (low)	8%	\$0.21	\$0.29
12mth spot EV/EBITDA of 12x (high)	4%	\$1.79	\$4.36
12mth spot EV/EBITDA of 4x (low)	4%	\$0.36	\$1.27
Net cash	8%	\$0.00	\$0.00
12mth fwd Div Yield of 2.8% (Gross yield=4.0%)	3%	\$0.00	\$0.71
Risk weighted composite		\$0.96	\$1.19
12 Months Price Target		\$1.19	
Shareprice - Last		\$0.880	
12 mth total return (% to 12mth target + dividend)		34.7%	
	<i>P / E (FY22) at price target</i>		21.8x
	<i>P / E (FY23) at price target</i>		22.4x
	<i>EV/EBITDA (FY23F) at price target</i>		8.8x
	<i>EV/EBITA (FY23F) at price target</i>		14.5x

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RISKS

The key risks are earnings disappointments given the industry is volatile and earnings can disappoint due to commodity prices, cost overruns, project delays, environmental regulations, taxation/royalties changes, cost inflation or lower production. Although some earnings disappointments can be short term and only a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example environmental mismanagement). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. High financial leverage (if it exists at that time) would add to the problem. Another key risk for miners is maintaining and extending mine life or making the prudent decision to close a mine, given mines are depleted and many have reasonably short lives and often with reducing economics. For OMH, if its own mines have depleted, sourcing consistent product from the spot market of offtakes becomes a risk.

SIMPLE S.W.O.T. TABLE

Strengths	Low cost electricity Integrated Long history of operating Main asset is outside of China
Weaknesses	Volatile commodities Bootu Creek mine life ending
Opportunities	Expansions New mines New smelting products Very high spot prices
Threats	Debt position Take or pay electricity agreement Covid19 lockdowns

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